



# EYES ON MARKETS

## GLOBAL MARKETS

Despite the positive revisions, growth anticipations remain low with most of the world economies positioned at the edge of the contraction phase of the business cycle, except for India, Mexico, and Japan, which appear to be at a mid/late expansion phase. Meanwhile, China faces challenges that hinder its economic recovery after the long-awaited reopening post COVID-19. On another note, lower but above-target inflation is expected in most developed countries over the medium term, affecting various asset classes and guiding investment decisions and asset allocation strategies. In this environment, a prudent approach is to maintain a neutral stance on public equities, constructing a cost-effective portfolio that balances defensive components overweighting specific sectors and countries with a concentrated stock portfolio to capture short-term positive trends.

Higher interest rates pose complexity for Private Equity, but overweighting this asset class with a long-term perspective can yield higher performance, provided it follows a selective approach with high-quality investments and managers. A similar quality-driven, selective approach is advisable for Direct Private Real Estate investments, avoiding office and commercial real estate while focusing on niche segments and geographies. Diversifying into uncorrelated non-traditional asset classes like Private Infrastructure, Farmland, Timberland, and Insurance Linked Strategies should also be considered for long-term investment portfolios.

## REGIONAL MARKETS

SPSHSLT decreased by 3.65% as cumulative outflows from the Net Foreign Portfolio Investment (NFPI) for the month exceeded USD150mn. Local cement sales recorded a 8% YoY decrease in September 2023 vs 10% decrease in August 2023 despite mortgages recording 33% MoM increase but fell 43% YoY due to high interest rate environment. PMI for September 2023 increased to 57.2 vs 56.6 in August 2023, while banking deposits grew 10% YoY in August 2023 vs 9.8% in July 2023, inflation dipped to 1.95% in August 2023 vs 2.31% in July 2023. Value of POS + ATM transactions per terminal decreased by 17% YoY in August 2023 vs 19% decline in July 2023. Mortgages sales amounted to SAR7.4bn in August 2023 vs SAR5.6bn in July 2023. Industrial Production

Index dropped 9.5% YoY in July 2023 vs. July 2022 due to decline in mining and quarrying activities.

S&P confirmed the credit rating of Saudi Arabia for both its domestic and foreign currency at "A/A-1", with a stable outlook and size of GDP reached USD1trillion wherein private sector contributed 41%. The Government revised down fiscal and macro projections whereby real GDP is expected to grow 0.03% vs. earlier forecast of 3.1% and a budget deficit of 2% of GDP against earlier projection of 0.4% surplus.

In terms of reforms, Ministry of Human Resources and Social Development (HRSD), in partnership with the Ministry of Health (MoH), decided to localize private sector dentistry professions by 35% starting from 10 March 2024, while government is planning to raise USD11billion from a syndicated loan to finance its investment plans. Simultaneously, it also signed a start-up ecosystem agreement with India.

In terms of key developments, KSA extended its voluntary oil production cut of 1mn barrels per day until the end of the year, resultantly, crude oil exports in July fell to their lowest for more than two years i.e., 6.01 million Barrels Per Day down 11.6% MoM. KSA signed a MoU for an economic corridor project connecting India with the Middle East and Europe, while also executing 47 MoUs in relation to trade ties with India. Domestically, National Development Fund and its affiliates and banks, pumped SAR14.1bn (USD3.8bn) in financing, while National Housing Co. announced delivery of over 30,000 units up to September 2023 along with upcoming Riyadh Season setting target to create 200k new jobs.

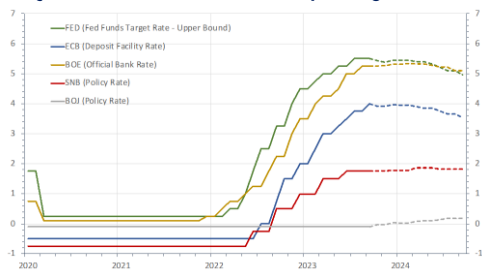
Electric Vehicles maker Lucid Group (Backed by PIF) opened its first international manufacturing plant in Saudi Arabia bearing 155,000 units / year capacity, while initial talks are underway with U.S. electric automaker Tesla to set up a manufacturing facility in the kingdom. Last but not the least, Crown Prince Mohammed bin Salman launched "Soudah Peaks" project envisaging luxury mountain tourism destination at 3,015 meters above sea level.

Brent recorded a +9.8% movement in September 2023, MSCI Emerging Market Index decreased by 3.7%, MSCI World Index registered 4.4% decline, and Bloomberg Commodity Index flat. US inflation data for August further increased to 3.7% YoY basis and monthly run rate also increased to 44bps vs 19bps in July and 46bps YTD average. At the same time core

inflation came down confirming the commodity price especially energy price upward impact.

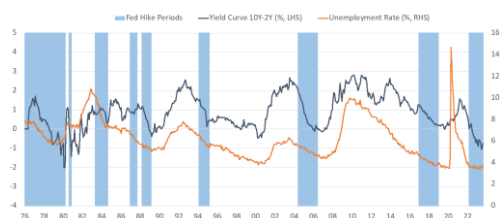
Going forward, we believe that both global and local markets know that a major decline in inflation is recorded and journey towards 2% target will be slow and more painful than rewarding. Unless the FED changes its course rapidly the softer landing can easily be transformed into a painful recession needing another round of QEs to come out of the pit. In Saudi also we are amidst a correction before the index tests 12,000 levels towards the end of 4<sup>th</sup> quarter.

### Major central banks hesitate on pausing rate hikes



Source: BERG Capital Management and Bloomberg L.P.

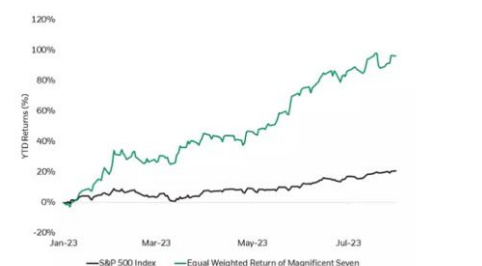
### Fed hiking cycles, US yield curve and US unemployment rate



Source: BERG Capital Management and Bloomberg L.P.

### Apple, Microsoft, Amazon, Google, Nvidia, Tesla, and Meta lead the US equity market

Exhibit 1: YTD Returns of the "Magnificent Seven" vs. the Market



Source: Morningstar Direct as of 7/21/23. Equal weighted return takes simple average of returns of AAPL, MSFT, AMZN, NVDA, GOOGL, TSLA, and META. Proceed for Google using A-class line (more liquid line). Past performance does not guarantee future results.

Source: BERG Capital Management and Bloomberg L.P.



## GLOBAL MARKET

Region/sector	Index	Quote	MTD (%)	YTD (%)	1Y (%)	2Y (%)	3Y (%)	5Y (%)	10Y (%)	2019 (%)	2020 (%)	2021 (%)	2022 (%)
World	DJIM World TR	5,789.73	(1.0)	12.9	15.2	(3.0)	4.9	8.6	9.3	(5.0)	28.2	19.7	(24.2)
Developed	DJIDEV TR	5,677.77	(0.9)	14.7	16.4	16.4	6.3	6.3	9.9	(5.2)	27.4	23.0	(24.2)
Emerging Markets	DJIEMG TR	4,712.71	(1.9)	(2.5)	3.2	(14.0)	(7.2)	2.1	3.3	4.4	35.3	(4.7)	(24.2)
Saudi	TASI	6,831.16	(2.0)	3.5	(8.0)	(2.8)	9.9	6.2	3.1	(4.5)	4.4	27.9	(6.4)
NAREIT	All REITS (EM Inc) TR	6,066.20	(2.9)	(7.6)	(4.4)	(13.2)	(1.3)	(1.2)	1.8	(6.1)	(9.2)	23.0	(23.6)
GSCI	All Commodities	2,377.17	(4.9)	(5.0)	(9.7)	0.7	19.8	3.2	(0.9)	3.1	(6.1)	37.1	8.7
Currencies	Euro	1.21	0.2	(12.1)	(3.3)	(13.8)	(11.0)	(5.2)	(4.2)	(2.6)	5.2	(10.3)	(12.2)
	Yen	1.05	(0.5)	0.4	5.7	(5.6)	(2.1)	1.6	(0.1)	(3.5)	3.1	(1.0)	(10.7)
	GBP	0.92	0.0	(5.5)	(2.5)	(6.0)	(2.4)	(1.2)	(1.7)	(0.5)	6.7	2.7	(7.9)

Source: Global Data as end of 04 October 2023. Saudi Market Data as end of 04 October 2023.

\*All values beyond 1 year are annualized

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