



# EYES ON MARKETS

## GLOBAL MARKETS

The trajectory of interest rates is proving less linear than market forecasts. Futures indicate a reduction in the likelihood of an initial rate cut in March 2024. ECB officials anticipate persistent services inflation and wages continuing to surpass the long-term equilibrium rate, influencing futures markets to now project the first ECB rate cut around summer 2024.

Similarly, expectations for early rate cuts in the US have tempered, with the first anticipated in May. We maintain a favorable view on Developed market equities, particularly in the US. However, exercising caution is recommended, with a focus on prioritizing quality stocks. We perceive renewed vulnerability in the European equity market, prompting a careful monitoring of European equity allocation. Nevertheless, the potential of active management in this geographical area remains an additional advantage.

We consider that China, Emerging Markets, REITS, listed infra, Low Vol and Small Caps should remain underweighted. With the delay in rate cuts and the weakening of the JPY, we favor Japanese and Indian exposures within the Asia Pacific equity markets. A progressive allocation increase would allow to capitalize on the ongoing positive perspectives. We still support an overweight in sukuk that allow to lock-in interesting yields, while benefiting from decreasing US rates in a later stage.

## REGIONAL MARKETS

SPSHSLT decreased by 1.4% as cumulative outflows from the Net Foreign Portfolio Investment (NFPI) for the month exceeded USD94mn. Local cement sales recorded flat performance YoY in December 2023 vs 5% decrease in November 2023 as mortgages recorded a 6.5% MoM decrease and reduced YoY fall to 2% vs 9% last month as interest rate outlook stabilized. PMI for January 2024 declined to 55.4 vs. 57.5 in December 2023, while banking deposits grew 7.8% YoY in December 2023 vs 7.5% in November 2023, inflation dipped to 1.49% in December 2023 vs 1.67% in November 2023. Value of POS + ATM transactions per terminal decreased by 11.2% YoY in December 2023 vs 7.5% decline in November 2023. Mortgages sales amounted to SAR6.5bn in December 2023 vs SAR6.9bn in November 2023. The World Bank released its 2024 real GDP growth forecast for KSA at 4.1% and 4.2% for 2025.

In terms of reforms, subsidy to petrochemical industry was reduced as methane and ethane prices were increased by USD0.5/MMBTU. A new residency program was launched aimed at attracting skilled professionals and investment,

while Finance Minister announced that there are no intentions of imposing income tax on individuals. The Ministry of Environment, Water and Agriculture unveiled a plan to recycle up to 95% of the country's waste, contributing USD32bn to GDP. SAMA issued licenses to two additional payment service providers i.e., Network International Arabia and Barraq, increasing the number of companies authorized to provide payment services to 27. It also licensed Thara to provide debt-based crowdfunding solutions. Moreover, the Ministry of Human Resources and Social Development decided to Saudis 25% of engineering professions in the private sector effective from 21 July and first alcohol store was opened in Riyadh to serve exclusively non-Muslim diplomats.

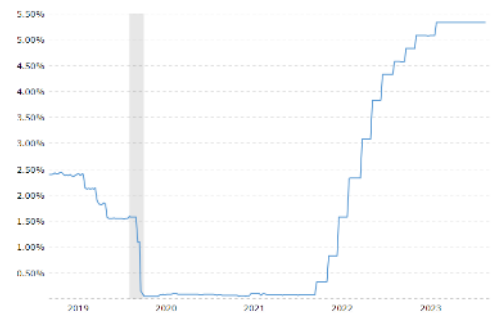
In terms of key developments, Jeddah Airport served 42.5mn passengers in 2023 +36% YoY, while Saudia witnessed 21% YoY growth in passenger traffic for 2023. Moreover, 156% increase in international arrivals was reported in 2023 vs. 2019, as per World Tourism Organization's (UNWTO) and Umrah pilgrims in 2023 reached a record 13.55mn representing 58% increased from 2019 levels. KSA was added to BRICs along with UAE, Egypt, Iran and Ethiopia. Estimates of untapped mineral resources were revised up to USD2.5trn vs. USD1.3trn in 2016, while MOUs with Egypt, Morocco, Congo, and Russia were signed for the development of the mining sector. Google, Microsoft, and Amazon were amongst several multinational giants to obtain licenses for regional headquarters in Saudi Arabia in time to qualify for government contracts. The National Debt Management Centre issued USD12bn worth of international bonds and PIF raised USD5bn through sale of high-grade bonds internationally. During 2023 KSA secured 52% of the total VC funding in the MENA region vs. 31% in 2022 and Colliers International estimated that demand for higher education is expected to increase to c.275mn seats by 2030 vs. c.197mn in 2022. The World Economic Forum (WEF) meeting in April will be hosted by Saudi Arabia and it lodged bid to host the 11th World Water Forum in 2027. Saudi Arabia Railways (SAR) and Italian Arsenale Group announced launch of Dream of the Desert luxury train service by 2025 Financial Sector Development Program signed an MoU with Hong Kong's Financial Services Development Council at the 17th Asian Financial Forum.

Brent recorded a +8% movement in January 2024, MSCI Emerging Market Index registered a 4% decrease, MSCI World Index jumped up 1.9% and Bloomberg Commodity Index remained flat. US inflation data for December increased to 3.3% YoY vs 3.1% in November while monthly run rate increased to -10bps vs -20bps in November and 31bps YTD average. Core inflation came down to 3.15% vs 3.39% last month. Domestic market

remained volatile owing to expectation adjustments from petrochemical subsidy related announcement and oil prices.

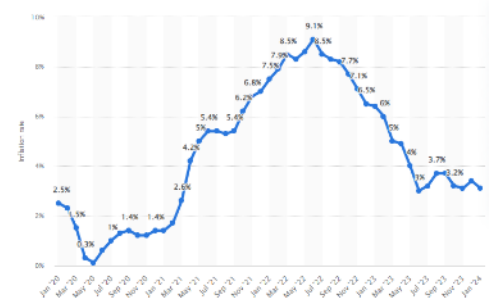
Going forward, we believe that both global and local markets know that interest rate decline in 2024 is forgone conclusion. Key differential the quantum estimation ranging from 75-100bps. We subscribe to the 150bps reduction in expected 12-month rate forward. TASI is likely to register a 13% YoY increase in earnings so by December 2024 we might see TASI close to 14,100.

### Fed Fund Rates



Source: Macrotrends

### Consumer Price US



Source: Statista



## GLOBAL MARKET INDICES

Region/sector	Index	Quote	MTD (%)	YTD (%)	1Y (%)	2Y (%)	3Y (%)	5Y (%)	10Y (%)	2021 (%)	2022 (%)	2023 (%)
World	DJIM World TR	9,648.89	3.7	4.3	22.3	3.6	4.5	13.3	10.6	19.7	(24.2)	27.0
Developed	DJIDEV TR	5,587.66	3.9	5.1	25.4	5.3	6.7	14.5	11.2	23.0	(24.2)	29.4
Emerging Markets	DJIEMG TR	4,501.33	2.0	(3.2)	(4.4)	(11.2)	(12.9)	3.0	4.3	(4.7)	(24.2)	6.4
Saudi	TASI	12,209.06	3.5	2.0	17.3	0.0	11.1	7.4	3.3	27.9	(6.4)	14.2
NAREIT	All REITS (EM Inc) TR	2,801.03	(0.7)	(4.8)	(3.1)	(8.4)	(1.2)	(0.1)	3.6	23.0	(23.6)	9.8
GSCI	All Commodities	558.99	0.7	4.4	(5.1)	(6.3)	6.7	6.5	(1.3)	37.1	8.7	(12.2)
Currencies	Euro	1.08	(0.3)	(2.3)	0.4	(2.8)	(3.8)	(1.0)	(2.3)	(6.9)	(5.8)	3.1
	Yen	149.29	(1.6)	(5.5)	(11.9)	(12.0)	(11.2)	(6.0)	(3.7)	(10.3)	(12.2)	(7.0)
	GBP	1.26	(0.5)	(0.8)	4.2	(3.4)	(3.0)	2.7	0.3	(1.0)	(10.7)	5.4

Source: Global Data as end of 09 February 2024. Saudi Market Data as end of 11 February 2024.

\* All values beyond 1 year are annualized

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