



# EYES ON MARKETS

## GLOBAL MARKETS

July was marked by significant volatility as markets responded to various economic and political developments. Early in the month, a weaker-than-expected US Consumer Price Index (CPI) reading, along with soft labor market data, reassured bond investors that the Federal Reserve (Fed) would soon begin cutting interest rates. As a result, investors now anticipate the first Fed rate cut in September and are pricing in nearly three rate cuts this year. The month concluded with a flurry of corporate earnings releases and central bank meetings for investors to digest. Amid the eventfulness of the month, both global equities and fixed income generated mostly positive returns.

A key theme throughout the month was the shift from large caps to small caps, leading to the largest one-month outperformance of the Russell 2000 versus the Nasdaq 100 in over 20 years. Growth stocks were particularly weak, falling by 1.0%, as investors grew more skeptical about the potential returns from artificial intelligence (AI) investments.

Overall, the S&P 500 gained 1.2% for the month. With over half of S&P companies reporting, more than two-thirds have exceeded analysts' expectations, indicating a resilient US economy and broadening earnings. However, the "Magnificent Seven" struggled as investors tempered their expectations regarding the near-term impact of AI on these companies. Disappointing earnings from Tesla (-12.3%) and Alphabet (-5.0%) led to notable declines, despite overall optimism for S&P earnings. Upcoming quarterly reports from Apple, Microsoft, Amazon, and Meta will shape the August outlook and could confirm a sector rotation.

The Japanese TOPIX index underperformed last month, decreasing by 0.5%. This decline was influenced by the weakness in global tech stocks and the appreciation of the yen. Expectations of earlier Fed interest rate cuts, along with an interest rate hike from the Bank of Japan, led to a 6.5% increase in the yen against the US dollar, marking its strongest monthly move since June 2016.

After starting the month at \$82 per barrel, oil prices fell to \$77 per barrel, marking a third consecutive weekly decline. Weak Chinese demand, despite positive US inventory data, drove this drop. Concerns over China's economic growth and reduced oil imports and refinery activity also pressured prices.

July was a volatile month in the markets. Softer US inflation and labor market data increased expectations of rate cuts, leading to a rotation into small-cap stocks and interest-rate-sensitive assets. Geopolitical tensions and AI added complexity, highlighting the need for flexible investment

strategies, diversification into non-traditional assets, and risk management for long-term success.

## REGIONAL MARKETS

SPSHDSLTL rose 3.9% in July despite cumulative outflows from the Net Foreign Portfolio Investment (NFPI) exceeding USD 225 million. The IMF revised the 2024 economic growth forecast down by nearly 1 percentage point due to oil production cuts, projecting 2024 GDP growth at 1.7% and 2025 GDP growth at 4.7%, a 1.3 percentage point decrease from April.

The 2Q24 budget deficit widened 191% YoY and 24% QoQ to SAR 15.3 billion due to elevated expenditures (+15.3% YoY) and 12.3% YoY revenue growth. Real GDP shrank 0.4% annually in 2Q24 due to oil production cuts, while non-oil activities grew 4.4% versus 3.4% in 1Q24. The General Authority for Statistics (GASTAT) reported a 1.7% YoY increase in the real estate price index in 2Q24, driven by a 2.8% rise in residential real estate prices, while commercial real estate saw a 0.4% decline. The General Organization for Social Insurance (GOSI) clarified that the new Social Insurance Law gradually increases the retirement age from 58 to 65 years for new employees, with no change for current subscribers.

The Energy Ministry expects gas production to increase by 63% by 2030, with seven new oil and gas discoveries announced. Tourist spending grew 23% YoY in 1Q24, and new logistics business registrations increased 76% YoY in 2Q24. Saudi home ownership reached 64% against a target of 63%, and the PIF created 762,000 direct and indirect jobs. Thailand announced the opening of its Board of Investment office in Riyadh. Saudi Arabia will host the 2025 Esports Olympics, and Saudi Arabian Military Industries Company (SAMI) signed agreements with Lockheed Martin and Airbus Helicopters. The National Water Co. (NWC) initiated 14 projects worth USD 150 million, Flynas ordered 160 Airbus aircraft, and Equinox Hotels announced Triam Resort in Neom's Magna destination. Crown Prince Mohammed bin Salman endorsed a bid for five host cities for the FIFA World Cup 2034, launched a 92,000-seat King Salman Stadium to be completed by 2029, and ROSHN Group announced a 45,000-seat stadium in southwest Riyadh.

In July 2024, Brent crude fell 6.8%, while the Bloomberg Commodity Index decreased 4.8%. Conversely, the Dow Jones Islamic World Index remained flat, and the MSCI World Index rose 1.5%. Q2 2024 results trickled in slowly, with a highlight being the annual US inflation slowing to below 3%.

Large Saudi-listed sectors are pivoting around global interest rate expectations and will likely continue this trend.

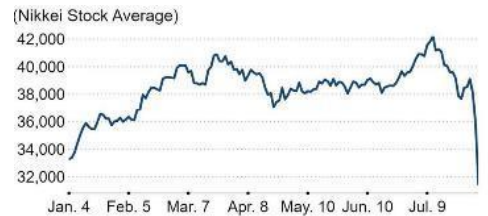
National-level project announcements and updates will keep the local market focused on mid to small caps, while large sectors will show clear trends post-Q3 2024. We maintain our year-end TASI target at 13,800, anticipating significant developments in 4Q2024.

## S&P 500 Earnings Season Scorecard

Sector (No. Of Firms)	% Reported	% Beat	% Met	% Missed
Health Care (63)	48%	93%	0%	7%
Materials (28)	46%	92%	0%	8%
Financials (70)	79%	82%	4%	15%
Industrials (78)	68%	81%	8%	11%
IT (67)	49%	79%	3%	18%
<b>All Sectors (502)</b>	<b>57%</b>	<b>79%</b>	<b>7%</b>	<b>15%</b>
Real Estate (31)	58%	78%	17%	6%
Energy (22)	36%	75%	13%	13%
Cons. Stap. (38)	53%	70%	5%	25%
Utilities (31)	32%	70%	20%	10%
Cons. Disc. (52)	60%	65%	6%	29%
Comms. (22)	59%	62%	23%	15%

Source: Refinitiv, Capital Economics

## Recent fall wipes off gains since New Year



Source: QUICK, Nikkei Asia



## GLOBAL MARKET INDICES

Region/sector	Index	Quote	MTD (%)	YTD (%)	1Y (%)	2Y (%)	3Y (%)	5Y (%)	10Y (%)	2021 (%)	2022 (%)	2023 (%)	2024 (%)
World	DJIM World TR	10,345.89	(1.6)	11.9	20.0	12.9	3.9	13.2	10.4	19.7	(24.2)	27.0	11.9
Developed	DJIDEV TR	5,974.89	(1.7)	12.4	21.0	13.9	5.0	14.1	11.1	23.0	(24.2)	29.4	12.4
Emerging Markets	DJIEMG TR	4,968.97	(0.9)	6.9	10.3	3.3	(6.0)	5.4	3.8	(4.7)	(24.2)	6.4	6.9
Saudi	TASI	11,796.84	(2.6)	(1.4)	2.2	(3.0)	1.4	6.6	1.1	27.9	(6.4)	14.2	(1.4)
NAREIT	All REITS (EM Inc) TR	3,040.34	1.1	3.4	11.0	(0.5)	(3.4)	0.9	3.2	23.0	(23.6)	9.8	3.4
GSCI	All Commodities	544.41	(1.3)	1.6	(7.8)	(10.0)	1.2	6.1	(1.2)	37.1	8.7	(12.2)	1.6
Currencies	Euro	1.10	1.5	(0.4)	0.4	3.5	(2.3)	(0.3)	(1.9)	(6.9)	(5.8)	3.1	(0.4)
	Yen	146.84	2.1	(3.9)	(1.3)	(4.7)	(9.3)	(6.2)	(3.5)	(10.3)	(12.2)	(7.0)	(3.9)
	GBP	1.29	0.0	1.0	1.3	2.9	(2.5)	2.5	0.5	(1.0)	(10.7)	5.4	1.0

Source: Global Data as end of 13 August 2024. Saudi Market Data as end of 13 August 2024.

\*All values beyond 1 year are annualized

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