EYES ON MARKETS

GLOBAL MARKETS

The outlook for above-trend growth is supported by growth-oriented fiscal and monetary policies in DMs as well as by some adjustment in China's so far tightening stance. However, the global macro cycle has shifted from acceleration to deceleration. Regardless of tapering, Fed's guidance still suggests that rates will not rise until unemployment falls below 5%.

Supply-side price pressures should eventually subside into H1 2022 as economic mobility in US and Europe eventually decouples from the spread of the Delta variant. However, while headline inflation is expected to moderate somewhat, core prices will likely not return to pre-pandemic levels as a result of more fundamental forces at play (mainly wages growth).

The market is moving on from China's crackdown to take a more nuanced view, as strategic sectors (semi-conductors, green energy, etc.) should be relatively insulated. As regulatory risks are progressively priced in, the time for bottom-fishing in the Tech sector might be nearing at a time when monetary policy is turning looser again.

12-month forward S&P 500 EPS are tracking +27% YTD after Q2 numbers came in 15% above consensus, pushing elevated PE multiples slightly down (20.8x). Investors now await commentary from the Jackson Hole conference (Aug. 26-28) and FOMC meeting (Sep. 22).

Some key factors make us believe that the outlook for risky assets has now started to become a bit more challenging as we enter the latter part of the year: 1. DM valuations are already incorporating most good macro and corporate news; 2. China's growth may be stalling for a while still; 3. Despite all recent earnings upgrades, the inflation debate is likely to keep the market preoccupied about policy uncertainty, making it more vulnerable to negative surprises. As a consequence, our positioning – while still mildly pro-risk – has recently shifted to a downsizing of the outstanding active bets to reduce ex-ante tracking error.

REGIONAL MARKETS

YTD S&P Sharia GCC Total Return Index (SPSHGT) was up 33.7% wherein Saudi Arabia and UAE were the outperformers i.e. up by 37.42% and 36.03% respectively. Oman, Qatar, Bahrain and KUWAIT were the under-performers generating returns of by 5.74%, 7.45%, 21.95% and 32.55% respectively.

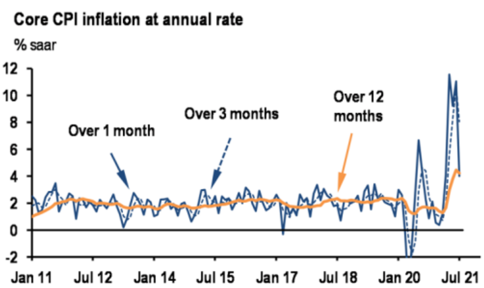
S&P Saudi Shariah SAR Total Return Index (SPSHSART Index) increased YTD by 37.42% as cumulative inflows in the Net Foreign Portfolio Investment (NFPI) exceeded at USD3.8bn. Local cement sales recorded 7.3% YoY growth YTD, PMI for July 2021 was 55.8 vs 56.4 in June, banking deposits grew 10.2% YoY in June 2021 vs 7.5% in May 2021, inflation increased to 6.2% in June vs 5.7% in May and value of POS + ATM transactions per terminal decreased by 34.5% YoY in June vs 3.6% YoY increase in May. 1Q 2021 unemployment fell to 11.8% vs 12.6% in 4Q 2020, IMF estimate for KSA 2021 real GDP growth came out to be 2.4% and Fitch upgraded KSA outlook to Stable from Negative. KSA 2Q 2021 fiscal data was announced depicting 96% improvement in deficit and 3.8% rise in expenditure while 2Q 2021 GDP rose by 1.5% on the back of 10% rise in non-oil GDP. The real estate price index rose by 0.4% YoY in 2Q 2021 while retail pharma market value increased c7% YoY in 1H 2021.

YTD GCC markets mainly UAE, Qatar and Kuwait registered USD2,398mn worth of inflows from NFPI. To begin with World Bank released its GDP growth projection for GCC at 2.2% vs contraction of 4.8% last year. In UAE PMI for July rose to 54.0 from 52.2 in June while Dubai's non-oil private sector created jobs at faster pace for the same period. Dubai consumer confidence rose by 20.8% YoY for June, hospitality sector in UAE depicted improved occupancy / performance for the same period and ValuStrat Price Index (VPI) for Dubai grew 3.8% QoQ for 2Q 2021. Abu Dhabi launched professional license allowing full ownership across 604 business to boost growth. In Kuwait S&P cut rating by one notch to A+ from AA- and kept outlook negative, fiscal deficit of USD35.5bn for 2021 was recorded and the Sovereign Fund (USD580bn) posted 33% YoY growth as of March 31, 2021. Oman's non-oil economy increased by 5.7% during 1Q 2021, Central bank announced 8.1% increase in foreign assets for the month of April, Moody's forecast budget deficit at -3.6% (2021) vs -18% (2020) and June inflation rose 1.25% YoY. Qatar recorded budget surplus of USD1bn in 2Q21 while its Communications Regulatory Authority (CRA) implemented wholesale tariff for 2021 – 2023.

Brent increased by 1.2% in July, while MSCI Emerging Market Index declined up by 5.8% and MSCI World Index registered +2.4% return. Regional markets operated for shortened period during the month on account of annual Muslim pilgrimage, companies were allowed time until August 22, 2021 for announcing 2Q 2021 results by Capital market Authority of Saudi Arabia and that's why result season remained slow during the month.

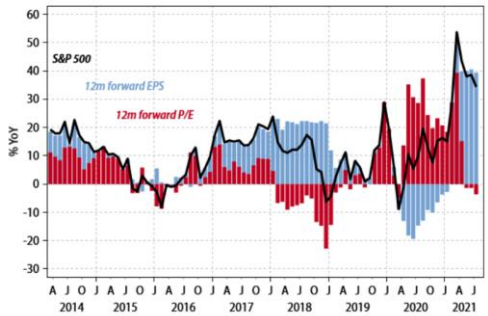
We maintain the view that 3rd wave of COVID-19 has affected global recovery negatively and 2Q 2021 numbers are already depicting that. As a result, a corrective phase has been witnessed whereby range bound movement was witnessed for most part of the month. Significantly high oil prices improve the possibility of fiscal loosening and probably that is holding the market at current levels. 2Q 2021 result season is going to dominate the coming month and is likely to keep the range bound market behavior. Towards the end of 3Q 2021 we might witness another uptick in the market subject to the then prevailing global economic reverberations.

US Inflation – Easing At The Margin



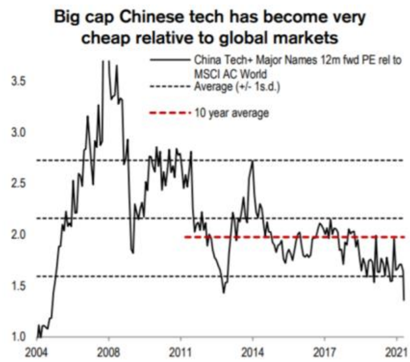
Source: (JPMorgan)

US Equities – Only A Bit Choppier Ahead



Source: Gavekal

Chinese Equities – Bottom-Fishing



Source: Credit Suisse

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GLOBAL MARKET INDICES

Region/sector	Index	Quote	MTD (%)	YTD (%)	1Y (%)	2Y (%)	3Y (%)	5Y (%)	10Y (%)	2018 (%)	2019 (%)	2020 (%)
World	DJIM World TR	9215.6	1.3	14.8	30.4	28.6	19.8	17.2	13.4	(7.0)	30.9	28.2
Developed	DJIDEV TR	5158.1	1.4	16.9	32.4	29.2	20.5	17.7	14.1	(6.1)	31.6	27.4
Emerging Markets	DJIEMG TR	5986.6	(0.0)	(1.1)	15.7	25.3	13.8	13.4	7.6	(15.0)	22.7	35.3
Saudi	TASI	11351.6	3.1	29.6	47.3	15.2	13.0	12.3	6.3	8.3	7.2	4.4
NAREIT	All REITS (EM Inc) TR	3375.5	1.0	18.5	30.6	7.8	8.1	5.9	8.4	(5.5)	23.6	(9.2)
GSCI	All Commodities	524.7	(3.0)	28.2	49.1	13.8	4.9	8.2	(2.0)	(15.4)	16.5	(6.1)
Currencies	Euro	1.1797	(0.6)	(3.4)	(0.1)	2.8	1.1	1.1	(1.9)	(4.5)	(2.2)	8.9
	Yen	109.59	0.1	(5.8)	(2.4)	(1.3)	0.3	(1.6)	(3.5)	2.7	1.0	5.2
	GBP	1.3866	(0.3)	1.4	6.1	7.2	2.8	1.3	(1.6)	(5.6)	3.9	3.1

Source: Global Data as end of 13 Aug 2021. Saudi Market Data as end of 15 Aug 2021.

** All values beyond 1 year are annualized*

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