

EYES ON MARKETS

GLOBAL MARKETS

Policy easing, supportive credit conditions, and decent retail sales numbers against a backdrop of softening growth suggest that the cycle is not yet come to an end. Global growth should continue for now, albeit still below trend and with large tail risks. Recent data out of the US and China have tempered some of the negatives, however, hinting at a bottoming of the recent growth downshift.

Although markets have priced in a 20% chance of a 50bp cut, we believe the Fed will only announce a 25bps "insurance" cut on July 31, 2019 with the ECB sticking to its recent dovishness later this week. A limited downward adjustment with a commitment to react quickly if concerns build is a more reasoned response to current circumstances. Also, a number of FOMC members are not convinced of the need for insurance and/or active measures to lift inflation. The US doesn't currently suffer from any of the major imbalances that have historically heralded recessions: rapid private-sector debt growth; excessive spending in cyclical sectors such as housing, consumer durables, and business capex; or accelerating inflation.

With Central Banks turning decisively more dovish, the soft patch will likely prove transitory, driven by trade and tighter financial conditions earlier this year. We expect a compromise on trade, particularly with the US heading into elections in 2020, but we acknowledge that this remains the largest source of risk to our outlook, making us keep our risk-off positioning in place for the time being.

REGIONAL MARKETS

YTD S&P Sharia GCC Total Return Index was up 14.4% wherein Kuwait and Saudi Arabia were the best performers up 22% and 17% respectively while Oman was the worst performer down 10%. Kuwait has been moving up on the MSCI Emerging Market Index inclusion news according to which the upgrade is conditional upon meeting certain requirements.

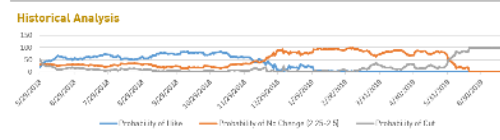
Saudi Arabia has witnessed inflows into Net Foreign Portfolio Investment (NFPI) in excess of USD15bn YTD as the inclusion into FTSEI Emerging Market Indices is taking place. Over the last four weeks positive economic sentiment prevailed in the region as PMIs in Saudi Arabia and UAE reached all-time highs. Retail spending in Saudi Arabia seems to have come out of the VAT implementation impact and is growing in double digit YoY. Both UAE and Saudi Arabia have revised down 2019 GDP growth estimates amidst deflation and reduced crude exports. Reforms linked initiatives were announced both in UAE reflecting the urgency to diversify the GDP growth contributors.

Considering the requirements of further accumulation by active foreign investors to accommodate the passive MSCI buyer on August 28, 2019 the Saudi listed equities will witness further buying of approximately USD4bn. However, that may be the point of inflection for this liquidity driven rally. We maintain cautious stance on Saudi and Kuwait being the biggest beneficiary of this liquidity driven rally while we shift to UAE and Qatar as they may be the beneficiary of any reverse liquidity flows.

MARKET FORECASTS

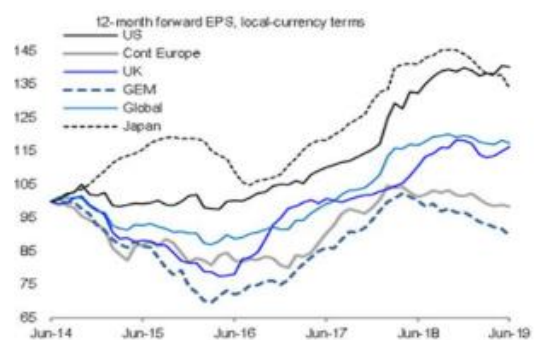
Implied probabilities of Fed actions:
Current Fed Funds rate range:
2.25%-2.50%

| United States | Futures: Fed Funds Effective | | | | | Fed Effective Rate 2.41 | |
|-------------------------------|------------------------------|----------|--------|----------|----------|-------------------------|-----------------|
| | Calculated: 07/22/2019 | | | | | Based on rate 2.25-2.50 | |
| Current Implied Probabilities | | | | | | | |
| Meeting | Hike Prob | Cut Prob | 1-1.25 | 1.25-1.5 | 1.5-1.75 | 1.75-2 | 2-2.25 Fwd Rate |
| 7/31/2019 | 0.0% | 100.0% | 0.0% | 0.0% | 0.0% | 20.5% | 79.5% |
| 9/18/2019 | 0.0% | 100.0% | 0.0% | 0.0% | 14.4% | 61.9% | 23.7% |
| 10/30/2019 | 0.0% | 100.0% | 0.0% | 6.9% | 37.1% | 43.7% | 12.4% |
| 12/11/2019 | 0.0% | 100.0% | 2.8% | 19.3% | 39.8% | 30.7% | 7.3% |
| 1/29/2020 | 0.0% | 100.0% | 7.6% | 25.2% | 37.2% | 24.0% | 5.2% |
| 3/18/2020 | 0.0% | 100.0% | 12.3% | 28.4% | 33.7% | 18.9% | 3.8% |
| 4/29/2020 | 0.0% | 100.0% | 14.8% | 29.2% | 31.4% | 16.6% | 3.2% |
| 6/10/2020 | 0.0% | 100.0% | 18.0% | 29.7% | 28.2% | 13.7% | 2.5% |
| 7/29/2020 | 0.0% | 100.0% | 19.4% | 29.5% | 26.4% | 12.3% | 2.2% |



Source: Bloomberg

EQUITY VALUATIONS - EPS



Source: Thomson Reuters

GLOBAL MARKET INDICES

| Region/sector | Index | Quote | MTD | YTD | 1Y | 2Y | 3Y | 5Y | 10Y | 2016 | 2017 | 2018 |
|-------------------------|--------------------|--------|-------|-------|-------|-------|-------|-------|-------|--------|------|--------|
| World | DJIM World | 5,696 | 0.8 | 19.0 | 5.7 | 9.9 | 12.0 | 7.9 | 10.9 | 5.5 | 27.0 | (7.0) |
| Developed | DJIDEV | | 0.8 | 19.8 | 6.5 | 10.5 | 12.2 | 10.2 | 11.4 | 5.5 | 25.6 | (6.2) |
| Emerging Markets | DJIEMG | | 1.2 | 11.2 | (2.3) | 3.5 | 10.0 | 3.7 | 6.5 | 6.6 | 43.3 | (15.0) |
| Saudi | TASI | 9,034 | 2.4 | 15.4 | 6.9 | 11.8 | 10.9 | (1.5) | 4.7 | 4.4 | 0.2 | 8.3 |
| NAREIT | ALL REITS (EM Inc) | | 1.1 | 16.6 | 10.5 | 7.7 | 5.9 | 5.9 | 11.1 | 4.6 | 15.0 | (5.5) |
| GSCI | ALL Commodities | | (2.2) | 11.1 | (8.6) | 4.9 | 5.4 | (8.0) | (0.3) | 27.8 | 11.1 | (15.4) |
| Currencies | Euro | 1.12 | (1.3) | (2.1) | (3.6) | (1.3) | 0.6 | (3.7) | (2.3) | (3.2) | 14.1 | (4.5) |
| | Yen | 107.71 | 0.1 | 1.8 | 4.4 | 2.0 | (0.5) | (1.2) | (1.3) | 2.8 | 3.8 | 2.7 |
| | GBP | 1.25 | (1.5) | (2.0) | (3.9) | (2.0) | (1.6) | (1.8) | 0.9 | (16.3) | 9.5 | (5.6) |

Source: Bloomberg / Dow Jones Data as of 19 July 19. Saudi Market Data as of 20 July 19

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