

EYES ON MARKETS

GLOBAL MARKETS

US Leading indicators are now anticipating a marked slowdown. And global spillovers from a US growth shock are larger than those from China. A 1% shock to US GDP spills over into a 0.7% impact on RoW GDP, with a larger impact on DM ex-US (0.9%) than EM (0.5%). A 1% China shock dampens RoW GDP by just 0.2% and it's concentrated in the EM (DM GDP -0.1% vs EM ex-China GDP -0.6%).

Global consensus EPS downgrades (led by US Tech) continue to outnumber upgrades (driven by Energy). Accelerating downgrades rarely support a rise in stock prices when: 1. bond yields are high; 2. oil prices are rising; 3. USD is strong, and 4. Central Banks keep hiking rates. For a greater probability of a trough and subsequent upside in EPS expectations to happen, the Fed would need to change course.

US equities' fall has been entirely driven by multiple contraction, whereas 12-m forward EPS have gone up by a healthy +7.5%. While stock prices have declined steadily, Q1 earnings have in fact beaten expectations and EPS estimates have been revised higher. However, US net earnings revisions have recently started to turn negative, and this trend is likely to accelerate.

The real question now is whether an upcoming profits recession drags equity markets down further. As the global cycle continues to deteriorate, earnings are likely to decline rather than just grow more slowly, especially in real terms. This creates additional downside risk for equities, where better opportunities will be found.

REGIONAL MARKETS

YTD 2022 S&P Sharia GCC Total Return Index (SPSHGT) is down 10.96% wherein Oman, Qatar, Kuwait, Bahrain and UAE are the outperformers i.e. down by 0.4%, 6.7%, 7.4%, 7.8% and 8.8% respectively. Saudi Arabia is the only underperformer generating -12.1% return.

SPSHDSLTL decreased by 12.2% although cumulative inflows in the Net Foreign Portfolio Investment (NFPI) for the month were more than USD133mn. Local cement sales recorded 4% YoY increase in May after 11 consecutive months of decline due to lower base effect. PMI for May 2022 remained unchanged at 55.7, banking deposits also grew 8.9% YoY in May vs 9.4% in April, inflation remained stable at 2.2% in May 2022 vs 2.3% in April. Value of POS + ATM transactions per terminal decreased by 25.6% YoY in May vs 10.5% in April. Mortgages sales amounted to SAR8.8bn in May, down slightly from SAR9.2bn in April. Moody's Investors Service affirmed Saudi Arabia's rating at 'A' with a stable outlook, driven by the government's fiscal policy effectiveness. General Authority of Statistics released 1Q 2022 GDP growth stats depicting 9.9% wherein oil second added 20% on

the back of higher production while non-oil GDP grew 3.7%. As per OECD forecast Saudi Arabia is expected to experience significantly higher growth vs G20 countries while inflation would remain significantly below the expected average of G20 countries. Oil exports hit 25-month high in April at 7.38MBPD and Central bank took cognizance of local-global interest rate spread anomaly and raised rates half of FED increase while injecting USD13bn in banking sector.

Reform focus remained diverse whereby Cabinet approved amendments in civil, insurance and pension laws while USD100mn government spend was announced to train locals in tourism sector as Kingdom aims to attract 30mn tourists per annum by 2030. Six Saudization decisions were taken creating 33,000 local jobs and Saudization rate in cinema sector was raised to 50%. USD4.3bn government investment in vaccine/biomedical sectors was announced and growth in fintech was targeted to be three-fold. Tadawul announced launch of single stock futures from July 2022 and Finance ministry requested OPEC to increase funding for green projects.

In terms of key developments, Hilton announced to open more than 59 hotels across Kingdom over the next 10 years, 2 new IPOs got listed while 3rd one is at bidding stage and PIF announced buying 24% stake in Jordan's Capital Bank for USD185mn and also got shortlisted for a stake in Starbucks middle east. Neom awarded 2 transportation project contracts while DP world entered into an agreement to develop Jeddah as a logistics hub. Last but not the least, all COVID-19 related precautionary measures were rolled back.

Brent recorded 6.5% decline in June, while MSCI Emerging Market Index decreased by 7.1% and MSCI World Index registered 8.8% decline. Bloomberg Commodity TR Index also decreased 10.5% reflecting easing of supply side issues. The month was marred by FED action pursuant to US inflation data confirming an induced recession to fight inflation. Markets responded with heightened volatility as VIX rose by 10% and investors remained bearish on the back of uncertainty on quantum of recession.

Going forward we believe that arrival of US GDP stats for 2Q 2022 in July 2022 would determine the course of global markets along with Saudi Tadawul. Oil prices are unlikely to provide the kind of impetus to local investors as they did in 1H2022 so alignment with global markets would be stronger. We expect that by mid of 3Q 2022 FED would dilute its hawkish stance as supply side issues resolve and headline inflation starts coming down because core inflation already started tapering down in May.

US Macro – Leading The Way Down

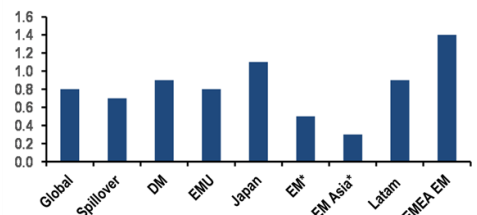


Source: (Credit Suisse)

Global Macro – When America Sneezes

US shock spillover to rest of world

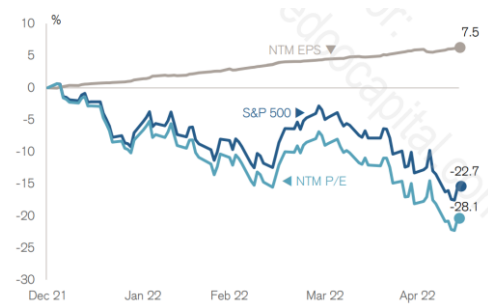
% impact on GDP from a 1% sustained shock to US GDP



Source: J.P. Morgan, Sample 1Q00 to 4Q19, *Excludes China

Source: (J.P.Morgan)

US Equities – Disconnected Realities?



Note: Price as of 11:30 am ET June 16, 2022. Source: Standard & Poor's, Refinitiv, FactSet and Credit Suisse

Source: (Credit Suisse)

GLOBAL MARKET INDICES

Region/Sector	Index	Quote	MTD [%]	YTD [%]	1Y [%]	2Y [%]	3Y [%]	5Y [%]	10Y [%]	2019 [%]	2020 [%]	2021 [%]
World	DJIM World TR	7,486.91	(4.9)	(22.1)	(15.5)	8.3	9.8	10	10.7	30.9	28.2	19.7
Developed	DJIDEV TR	4,205.20	(5.2)	(22.5)	(14.1)	9.3	10.4	10.5	11.2	31.6	27.4	23
Emerging Markets	DJIEMG TR	4,706.08	(2.3)	(18.4)	(26.6)	0.5	5.7	5.4	5.8	22.7	35.3	(4.7)
Saudi	TASI	11,513.01	(10.9)	2.8	5.4	26.3	9.8	9.2	5.6	7.2	4.4	27.9
NAREIT	ALL REITS (EM Inc) TR	2,866.20	(6.8)	(18.3)	(13.1)	7.7	(1)	2.6	5.8	23.6	(9.2)	23
GSCI	All Commodities	735.03	(6.5)	31	39	51.8	20.2	15.7	2.7	23.6	(9.2)	37.1
Currencies	Euro	1.06	(1.7)	(7.2)	(11.6)	(3.2)	(2.5)	(1.2)	(1.7)	(2.2)	8.9	(6.9)
	Yen	135.23	(4.9)	(14.9)	(18)	(11)	(7.4)	(3.8)	(5.1)	1	5.2	(10.3)
	GBP	1.23	(2.7)	(9.3)	(11.9)	(0.6)	(1.3)	0.2	0	3.9	3.1	(1)

Source: Global Data as end of 24 June 2022. Saudi Market Data as end of 26 June 2022.

* All values beyond 1 year are annualized

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