

EYES ON MARKETS

GLOBAL MARKETS

Expanded multiples have driven this year's advance in equities as a consequence of Central Banks' policy easing. Stocks now discount a "Phase One" trade deal, but we are still cautious about the prospect of an agreement. With Chinese growth moderating, global trade volumes are unlikely to expand rapidly.

Some EM markets in particular are showing signs of complacency as changes in South-East Asian exports lead changes in global export volumes. Nevertheless, the rapid pick-up in global trade implied by the recent rally in EM is somewhat inconsistent with hard data. Although our proprietary Global and EM Monitoring indicators show signs of improvement, EM stocks may be getting ahead of themselves by betting on a more significant recovery as the final outcome of the trade dispute is still unpredictable.

US and Europe Q3 earnings were above consensus against moderately positive guidance. However, despite an improvement in the US ISM manufacturing last month, the correlation between manufacturing activity and earnings expectations suggests there are still downside risks to earnings, further straining valuations.

The balance of risks for markets may not be tilted to the upside as we enter into 2020, so leaving little room for further re-rating. If the FED was to cut more in 2020, it would not be on the back of good news. But if the FED is in fact done easing because of good news, then multiples should contract. Therefore, further equity gains must rely on improving fundamentals.

REGIONAL MARKETS

YTD S&P Sharia GCC Total Return Index was up 4.96% wherein Kuwait and Saudi Arabia were the best performers up 11% and 6% respectively while Qatar and Bahrain were the worst performers

down 3.2% and 1.7%. Saudi Arabia on the back of Index inclusion + ARAMCO IPO developments and Kuwait scheduled for MSCI Emerging Market Index inclusion showed this performance while others succumbed to regional political and global economic headwinds.

Saudi Arabia has witnessed inflows into Net Foreign Portfolio Investment (NFPI) in excess of USD22bn YTD as the inclusion story culminated. Another factor that helped Saudi and Kuwaiti stocks during the last month was +6.2% Brent movement. 3Q 2019 corporate results also included and the entire region recorded -10% YoY movement while showing +5.4% QoQ. Saudi Arabia depicted worst performance down 19% YoY while the best performance came from Kuwait down 1.2% YoY. Construction Materials topped with 381% YoY growth for 3Q 2019 while Chemicals came last with 59% drop.

UAE posted a mixed bag of news while Kuwait came out with the most positive news flow amongst all. Qatar news flow remained thin and insignificant while Oman and Bahrain could not inspire with their news flow as well. Saudi cement manufacturers posted fifth month of consecutive YoY increase and the PMI also clocked 57.8 vs 57.4 last month. The most significant development during the last month is the ARAMCO IPO whereby Saudi government is arising USD26bn at company valuation of USD1.7 trillion. Being a local IPO the foreign participation is likely to be mostly limited to strategic buyers and passive EM trackers.

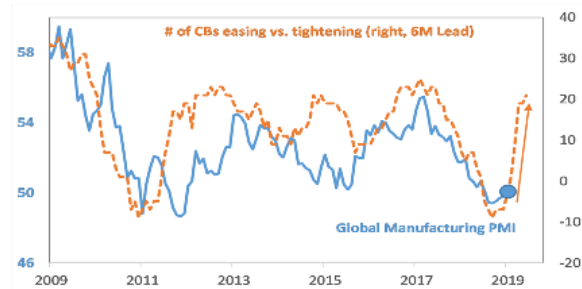
Going forward our expectation is lackluster till the close of year as UAE remains the cheapest, Kuwait remains on the toes with MSCI Emerging Market Index announcement and Qatar speculates over possible reconciliation within the region. In terms of valuations KSA is the most expensive and adds to the uncertain part in terms of a possible southwards movement probably beginning of the year.

Emerging Markets and the Dollar



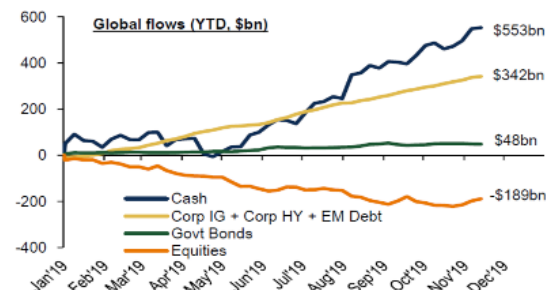
Source: TSLombard

Expected impact of Central Banks' easing



Source: J.P.Morgan

Fund Flows



Source: Bank of America Merrill Lynch

GLOBAL MARKET INDICES

Region/sector	Index	Quote	MTD	YTD	1Y	2Y	3Y	5Y	10Y	2016	2017	2018
World	DJIM World TR	5990.6	2.4	25.2	17.6	9.8	14.5	9.0	9.7	5.5	27.0	(7.0)
Developed	DJIDEV TR	3320.7	2.5	26.2	18.1	10.7	14.8	9.4	10.3	5.5	25.6	(6.2)
Emerging Markets	DJIEMG TR	4162.4	0.8	14.2	12.7	0.6	12.0	4.8	4.7	6.6	43.3	15.0)
Saudi	TASI	7928.0	2.4	1.3	3.5	7.1	6.0	3.1)	2.3	4.4	0.2	8.3
NAREIT	ALL REITS (EM Inc) TR	3059.8	(1.8)	20.5	16.8	8.2	10.8	6.7	8.8	4.6	15.0	(5.5)
GSCI	ALL Commodities	420.5	3.2	12.3	(2.2)	(0.0)	5.4	4.2)	1.8)	27.8	11.1	15.4)
Currencies	Euro	1.1	(0.9)	(3.6)	(2.4)	(3.2)	1.0	(2.5)	(2.9)	(3.2)	14.1	(4.5)
	Yen	108.8	(0.7)	0.8	4.4	1.9	0.1	1.3	(1.9)	2.8	3.8	2.7
	GBP	1.3	(0.3)	1.1	1.0	(1.0)	1.2	(0.6)	0.2	(16.3)	9.5	(5.6)

Source: Bloomberg / Dow Jones Data as of 15 November 19. Saudi Market Data as of 17 November 19

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