

# EYES ON MARKETS

## GLOBAL MARKETS

Despite easier monetary policy across all regions, sharply declining business sentiment and weakening consumer confidence have been recently weighing heavily on global growth prospects, with the risk that historically low levels of unemployment begin to rise again. One and half year past the cycle's peak in 2018, the current 18-month-long slowdown only takes two months before reaching the longest on record. More policy stimulus may therefore be needed before the cycle bottoms out, providing the necessary catalyst for a cyclical rotation.

Volatile as they may be, geopolitical tail risks appear to have slightly receded of late. No-deal Brexit may not gain further traction after the new UK/EU agreement, but uncertainties remain, as an extension still has to be officially granted while an early election looms large. And although the jury is still out as to whether an agreement between US and China may be reached, a temporary truce in the escalation in the trade conflict is also a positive development.

Such improvements, however, may not immediately cause a swift reversal of the damage already inflicted to business confidence by the past intensification of political conflicts. As a result, a material drag on global growth still remains on the cards. Uncertainties that will linger into 2020 - absent any extreme market action - suggest that any peace dividend will probably be smaller than expected. The bigger rotation into regional assets geared to growth (EM, Europe) on a broad basis may require more than just a tariffs freeze and an orderly Brexit. We stay the course

for now and wait for fundamentals to markedly turn around before stepping back into an unlikely reflation trade.

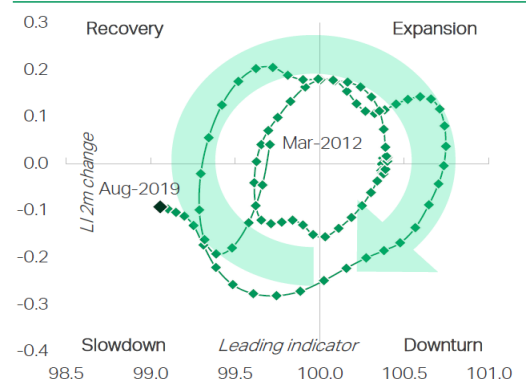
## REGIONAL MARKETS

The S&P GCC Composite Sharia Total Return Index is up 4.1% YTD. Kuwait, up 12.8%, remains by far the best performing market in the region given superior macroeconomic fundamentals, corporate earnings growth, and expected inclusion in MSCI Emerging Markets Index in May 2020. UAE, being the relatively the cheapest amongst peers, is maintaining its second position with returns of 5.9%. The worst performer is Qatar followed by Oman with returns of -2.6% and -0.5%, respectively. In terms of valuation, UAE is the cheapest with a trailing P/E of 10.1x while Saudi Arabia is the most expensive at 21.0x. Overall, the GCC region is trading at a 30% premium to emerging markets, which is in line with the 10-year average.

3Q-2019 corporate result announcements are underway but the pace is very slow with only 15% of companies in the region having announced.

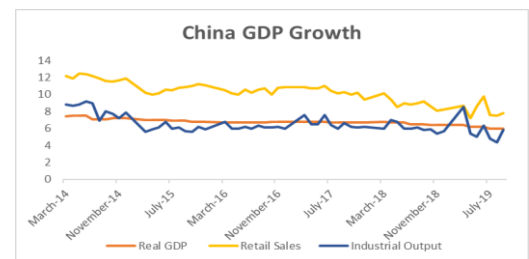
Passive foreign flows story in Saudi is almost over, with only one small tranche of the FTSE EM due in March 2020, and the focus is now shifted toward valuations and 3Q-2019 results. We expect decent results from the banking sector to be offset by disappointing numbers from the petrochemical sector. While overall market valuation is rich, selected stocks still offer attractive valuation and dividend yield. Meanwhile, news flow on the stop-start ARAMCO IPO is going to keep investors on their toes.

## CYCLE CLOCK



Source: TSLombard

## CHINA'S SLOWDOWN



Source: Bloomberg

## ASIA'S LEAD ON EUROPE



Source: Credit Suisse

## GLOBAL MARKET INDICES

Region/sector	Index	Quote	MTD	YTD	1Y	2Y	3Y	5Y	10Y	2016	2017	2018
World	DJIM World TR	5726.3	0.76	19.6	10.9	7.5	12.1	9.5	9.2	5.5	27.0	(7.0)
Developed	DJDEV TR	3167.6	0.6	20.4	10.8	8.3	12.5	9.9	9.8	5.5	25.6	(6.2)
Emerging Markets	DJIEMG TR	4061.6	2.5	11.4	11.9	(0.7)	8.2	5.0	4.3	6.6	43.3	(15.0)
Saudi	TASI	7784.9	(3.8)	(0.5)	1.8	5.9	12.1	(4.7)	1.8	4.4	0.2	8.3
NAREIT	All REITS (EM Inc) TR	3099.9	2.3	22.1	20.9	8.5	9.2	8.1	9.0	4.6	15.0	(5.5)
GSCI	All Commodities	406.7	0.8	8.6	(14.0)	0.4	2.7	(5.5)	(2.2)	27.8	11.1	(15.4)
Currencies	Euro	1.1	2.5	(2.6)	(2.5)	(2.7)	0.6	(2.6)	(2.8)	(3.2)	14.1	(4.5)
	Yen	108.5	(0.3)	1.1	3.5	2.0	(1.4)	(0.3)	(1.8)	2.8	3.8	2.7
	GBP	1.3	5.7	1.8	(0.3)	(0.8)	1.8	(0.8)	0.3	(16.3)	9.5	(5.6)

Source: Bloomberg / Dow Jones Data as of 18 October 19. Saudi Market Data as of 20 October 19

## IMPORTANT INFORMATION

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