EYES ON MARKETS

GLOBAL MARKETS

A material drop in inflation is likely to begin this quarter as the Fed's approach will likely require at least a mild recession to get closer to its 2% target. So long as the stabilization process is a reflection of easing supply shocks which supports the health of the private sector against the headwinds of tighter financial conditions, the slowdown in the business cycle will find at least a temporary bottom in the first half of 2023 in the face of further hikes.

Until then, continued tightening will generate financial stress. Sharply rising rates can spell trouble even in liquid sovereign debt markets and beyond high-risk corporate credit and Emerging debt. On top of the UK and Italy, also the US and German sovereign markets are experiencing the highest levels of liquidity stress in a decade outside the 2020 pandemic spike. The important lesson to take from the UK is the potential for liquidity stress to build up as volatility in bond and currency markets aligns with tightening financial conditions. The biggest risk remains a policy-induced global recession that is narrowly avoided today only to materialize in 12 months from now.

While a "pivot" in the near term is wishful thinking, this will change as a recession becomes more imminent during 2023. If rates expectations fall because of slower growth, then earnings expectations decline, too. From a valuations' perspective, historically the total impact of these two contrasting effects has been driven by the earnings growth component outweighing the discount rate factor - regardless of whether interest rates are rising or falling. As a result, even a "pivot" motivated by recession fears is likely to be bad for stocks until the deleveraging is over and valuations at rock-bottom levels.

REGIONAL MARKETS

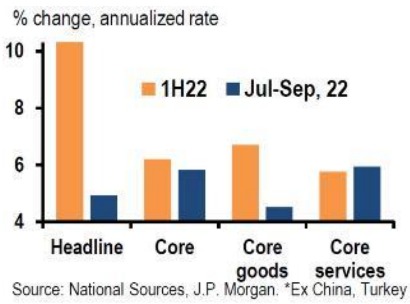
YTD 2022 (October 18) S&P Sharia GCC Total Return Index (SPSHGT Index) is up 3.2% with Qatar (+11.8%) and Saudi (+4.2%) outperforming the broader GCC index. Oman (+3.1%), Kuwait (-1.4%), UAE (-2.0%), and Bahrain (-13.7%) have underperformed.

YTD Brent is up 22.7%, while MSCI Emerging Market Index is down 28.7% and MSCI World Index registered 24% decline. Bloomberg Commodity TR Index increased by 14.1% YTD driven by supply side issues, though it has remained flat since end of September, and has come down 17.4% from its peak in early June as supply crunch eased.

October has been a volatile month so far, to say the least, for Saudi and the broader GCC equities. TASI gained 3.1% during the first week of the month, lost 2.9% during the second week, only to regain 3.4% during the first half of the third week! Widespread uncertainty and volatility in global markets has been the main driver of volatility locally. Markets continue to be swayed by the inflation vs. growth debate. Meanwhile, OPEC+ agreed to cut oil production by 2 million bpd from November 2022 until December 2023, marking the biggest reduction since 2020, in response to reduced demand.

3Q-2022 earnings season is full swing and while it will play an important role in influencing the performance of individual stocks, direction of the TASI will be dictated by global markets, oil price, and interest rates. We continue to expect moderation in US Fed's hawkish tone in the months to come as inflation subsides. Meanwhile, oil price supported by OPEC+ cuts will continue to provide a backstop for the market.

Global Inflation - You Want Good or Bad News First...? (Yet)

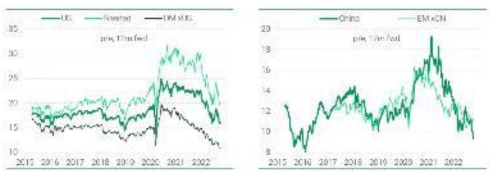


Source: JPMorgan

Global Yields - Stress Is in The Making

Source: JPMorgan

Global Equities - Looking Cheap, Trading Rich



Source: (Tslombard)

GLOBAL MARKET INDICES

Region/sector	Index	Quote	MTD (%)	YTD (%)	1Y (%)	2Y (%)	3Y (%)	5Y (%)	10Y (%)	2019 (%)	2020 (%)	2021 (%)
World	DJIM World TR	6,722.10	(1)	(30)	(25.8)	(5.1)	5.7	6.3	8.6	30.9	28.2	19.7
Developed	DJIDEV TR	3,805.21	(0.8)	(29.9)	(24.8)	(3.6)	6.5	7.1	9.2	31.6	27.4	23
Emerging Markets	DJIEMG TR	3,935.00	(2.9)	(31.8)	(33.9)	(16.6)	(0.8)	(0.9)	2.9	22.7	35.3	(4.7)
Saudi	TASI	11,405.88	0	1.8	(2.5)	15.2	14.9	10.3	5.4	7.2	4.4	27.9
NAREIT	All REITS (EM Inc) TR	2,404.86	(3.5)	(31.4)	(27.8)	(3.5)	(7.7)	(1.8)	2.9	23.6	(9.2)	23
GSCI	All Commodities	631.89	4	12.6	7.8	32.1	16	9.4	(0.5)	23.6	(9.2)	37.1
Currencies	Euro	0.97	(0.8)	(14.5)	(16.2)	(9)	(4.1)	(3.8)	(2.8)	(2.2)	8.9	(6.9)
	Yen	148.67	(2.6)	(22.6)	(23.5)	(15.9)	(10)	(5.5)	(6.2)	1	5.2	(10.3)
	GBP	1.12	0	(17.4)	(18.3)	(7.3)	(4)	(0.6)	(0.7)	3.9	3.1	(1)

Source: Global Data as end of 14 October 2022. Saudi Market Data as end of 16 October 2022

** All values beyond 1 year are annualized*