



EYES ON MARKETS

GLOBAL MARKETS

US economy continues to surprise on the positive side while most other regions, most notably the Euro zone and China, continues to disappoint investors with weaker data. Inflationary pressures remain on the decline across the globe as supply chain constraints are easing and global demand is weakening pushing central banks to consider ending their tightening cycle soon. In the US, Investors seems to have embraced the Fed's narrative of rates staying "high for longer" as the strong resilience of the US labor market combined with inflation rates that are still above the Fed's target paved the road for the Fed to keep interest rates at their current levels.

We advise investors to remain cautious, we think that some weakness in the US economy is still likely under the heavy weight of the current monetary policy. Across the Pacific Ocean, optimism on the reopening of the Chinese economy have faded away as growth rates slowed down. Consumer spending didn't pick up as expected following the abandonment of zero-covid policy, leading CPI to dip into negative territory.

Furthermore, an ongoing crisis in the Chinese real estate sector since 2021 had a new chapter with another major developer defaulting. Investors have had high hopes for a strong and swift action from the Chinese government to support the economy, but so far, fiscal and monetary response have been underwhelming. Valuations remain attractive in China as it reflects the current challenging economic scene. There might be potential for a strong recovery in the Chinese markets if -and only if- sizable stimulus packages are rolled out by the government.

REGIONAL MARKETS

SPSHDSLTL decreased by 1.51% despite cumulative inflows into the Net Foreign Portfolio Investment (NFPI) for the month being more than USD216mn. Local cement sales recorded a 10% YoY decrease in July 2023 vs 4.98% increase in June 2023 as new mortgages recorded 9% MoM and 24% YoY decrease due to unfavorable interest rate environment. PMI for August 2023 decreased to 56.6 vs 57.7 in July 2023, while banking deposits grew 9.8% YoY in July 2023 vs 9.3% in June 2023, inflation dipped to 2.3% in July 2023 vs 2.7% in June 2023. Value of POS + ATM transactions per terminal decreased

by 19% YoY in July 2023 vs 15% decline in June 2023. Mortgages sales amounted to SAR5.6bn in July 2023 vs SAR6.2bn in June 2023.

2Q 2023 GDP grew by 1.1%, slowing from 3.8% in 1Q 2023 following a relatively sharp 4.2% contraction in the oil sector due to production cuts. Simultaneously, budget deficit of SAR5.3bn was posted for 2Q 2023 due to reduced oil revenues. Moreover, plans were announced to issue new sukuk valued at cSAR35.9bn after completing the early purchase of outstanding debt worth SAR35.7bn.

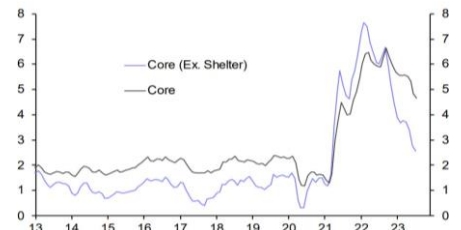
In terms of reforms, the Central Bank approved laws to provide fintech firms with the flexibility to operate under an innovative regulatory framework and issued a new license to Loan, a fintech company, to provide consumer microfinance solutions in the Kingdom. The transport authority launched the second phase of localizing freight activities to improve shipping efficiency. Crown Prince launched a SAR750mn fund for early investment in local and international high-tech companies and National Center for Privatization signed an agreement with Al-Rajhi Bank for enhancement of privatization as well as public-private partnership. The Saudi General Department of Traffic announced that all drivers must have a valid motor insurance starting from 1 Oct 2023; otherwise, they will be fined electronically. A new Real Estate Market Platform was launched that aims to enhance the management of property transactions, spanning ownership transfers, purchases, sales, and mortgages. Lastly, a master plan was unveiled to develop 59 logistics centers across the Kingdom to become a global logistics hub.

In terms of key developments, Shipping traffic rose 8.06% YoY in 2022, while ports witnessed 18.8% YoY growth in cargo operations in July 2023. More than 425,000 establishments entered the labor market in 2022, number of SMEs rose 2.6% QoQ in 2Q23 and Social Development Bank provided SAR6.4bn financing during 1H23 for SMEs. Real Estate Development Fund and Saudi National Bank signed an agreement to finance housing support programs, while Off-plan property sales grew 52% in 1H23 YoY. Air traffic increased 26% YoY in 1H23, while net tourism balance swung into a surplus of SAR23bn in 1Q23, from a SAR1.6bn deficit in 1Q22. Last but not the least, Crown Prince met Irani Foreign Minister and Public Investment Fund established a new sports investment company.

Brent recorded a +1.5% movement in August 2023, MSCI Emerging Market Index decreased by 6.4%, MSCI World Index registered 2.6% decline, and Bloomberg Commodity Index reduced by 1.2%. US inflation data for July slightly increased to 3.2% YoY basis but monthly run rate declined to 19bps vs 32bps in June and 46bps YTD average. Moreover, FED propagated a neutral stance depending on the data coming through. 2Q 2023 corporate results concluded with 35.3% YoY decline, confirming the delayed impact of elevated interest rates across the board.

Going forward, we believe that both global and local markets know that major decline in inflation is recorded and journey towards 2% target will be slow and more painful than rewarding. Unless the FED changes its course rapidly the softer landing can easily be transformed into a painful recession needing another round of QE to come out of the pit. In Saudi also we are amidst a correction before the index tests 12,000 levels towards 4th quarter.

US Core CPI Inflation (%)



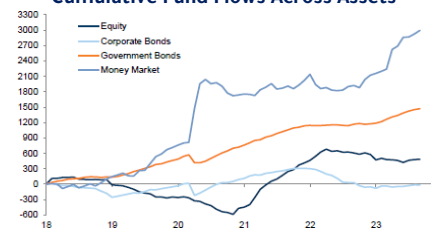
Source: Capital Economics, Refinitiv

Service Production and Retail Sales Growth YoY in %



Source: Capital Economics

Cumulative Fund Flows Across Assets



Source: Goldman Sachs



GLOBAL MARKET

| Region/sector | Index | Quote | MTD (%) | YTD (%) | 1Y (%) | 2Y (%) | 3Y (%) | 5Y (%) | 10Y (%) | 2019 (%) | 2020 (%) | 2021 (%) | 2022 (%) |
|------------------|-----------------------|----------|---------|---------|--------|--------|--------|--------|---------|----------|----------|----------|----------|
| World | DJIM World TR | 6,170.52 | (0.8) | 19.0 | 17.6 | (4.3) | 6.6 | 9.9 | 10.2 | (2.3) | 28.2 | 19.7 | (24.2) |
| Developed | DJIDEV TR | 6,076.60 | (1.0) | 20.8 | 19.5 | 19.5 | 8.1 | 8.1 | 10.8 | (2.0) | 27.4 | 23.0 | (24.2) |
| Emerging Markets | DJIEMG TR | 4,964.95 | 0.4 | 2.5 | 0.7 | (15.0) | (5.8) | 2.6 | 4.4 | 4.4 | 35.3 | (4.7) | (24.2) |
| Saudi | TASI | 6,967.48 | (1.7) | 7.8 | (5.8) | (0.5) | 12.1 | 7.9 | 4.0 | (1.7) | 4.4 | 27.9 | (6.4) |
| NAREIT | All REITS (EM Inc) TR | 6,599.91 | (1.1) | 0.2 | (5.4) | (12.3) | 1.4 | (0.5) | 3.0 | (3.4) | (9.2) | 23.0 | (23.6) |
| GSCI | All Commodities | 2,529.87 | 2.3 | (0.8) | (6.6) | 6.7 | 20.4 | 5.6 | (0.9) | (0.3) | (6.1) | 37.1 | 8.7 |
| Currencies | Euro | 1.25 | (1.4) | (11.2) | (3.3) | (13.7) | (10.4) | (5.6) | (3.9) | (2.2) | 5.2 | (10.3) | (12.2) |
| | Yen | 1.07 | (1.3) | 3.5 | 8.6 | (4.9) | (2.0) | 1.6 | 0.5 | (1.3) | 3.1 | (1.0) | (10.7) |
| | GBP | 0.89 | (0.8) | (5.7) | (5.0) | (6.1) | (2.2) | (1.4) | (1.8) | (1.6) | 6.7 | 2.7 | (7.9) |

Source: Global Data as end of 06 September 2023. Saudi Market Data as end of 06 September 2023.

*All values beyond 1 year are annualized

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