Economic Update

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Equity Markets

Global equities rallied in 4Q19 on Fed support and easing trade tensions

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Highlights

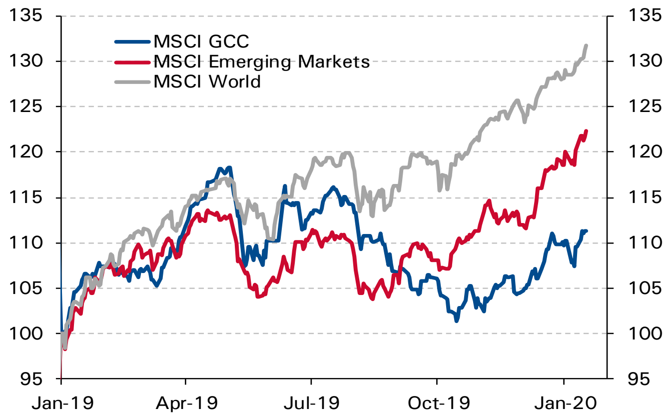
- **Global markets rallied in 4Q19, helped by strong sentiment amid easing trade tensions and good corporate profits.**
- **GCC markets were generally positive in 4Q19; Kuwait outperformed ahead of the May 2020 MSCI EM upgrade.**
- **A maturing business cycle, elevated valuations, lack of further progress on trade, and geopolitics are risks for 2020.**

Global markets recorded strong gains in 4Q19

After losing momentum in the third quarter, global equities rallied in the fourth quarter, rounding off a strong year for equities. Easing trade tensions, positive corporate earnings, lower interest rates, and signs of improvement in macroeconomic data have led to a restoration of investor confidence and in a return of bull markets. Emerging markets led quarterly gains, trailed closely by US and other developed markets; GCC markets, somewhat weighed down by geopolitics, underperformed but still booked decent gains in 4Q2019. The strong fourth quarter performance ended the year with strong gains where the MSCI World Index recorded a remarkable 24% y/y, led by the S&P500 which rose by a solid 29% y/y, extending the record-long US bull-market into its tenth year.

Chart 1: Global equity markets

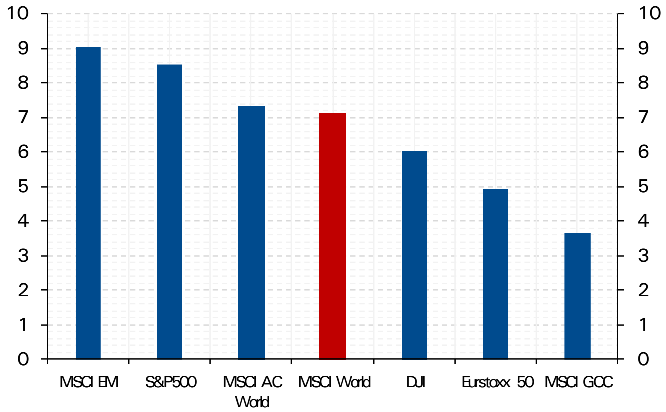
(rebased, 28 December 2018=100)



Source: Refinitiv Datastream

Chart 2: Global equity markets in 4Q19

(% q/q)



Source: Refinitiv Datastream

Global markets

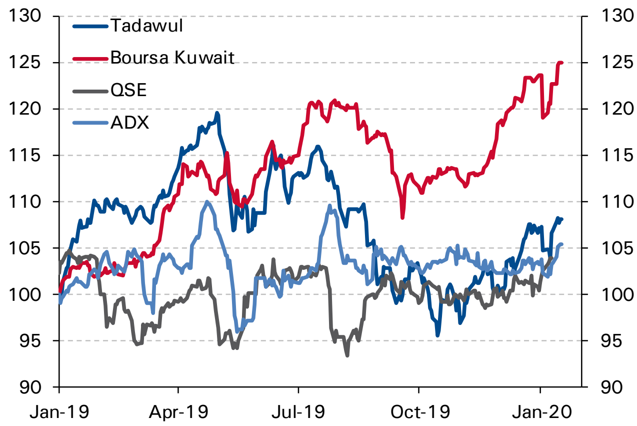
Global equities performed well in the fourth quarter, with the MSCI World up a solid 7.1% q/q led by the emerging markets and the S&P500, which gained 9.1% and 8.5% q/q, respectively.

Markets were supported by a de-escalation of trade tensions following the announcement of a phase one US-China trade deal in November 2019, which was signed on 15 January. Markets were supported by three Federal Reserve rate cuts between August and October, and more importantly by signs of improvement in economic data, alleviating previous economic slowdown concerns; the US labor market remains robust and the slowdown in quarterly growth appears to have stabilized. Additional support came from mostly good US corporate earnings, which helped bolster investor confidence during the quarter. Chinese stocks were helped by the inclusion of Chinese A-shares in the MSCI-EM Index, raising the weight of the country in that index.

Meanwhile, European stocks posted decent gains with the Euro Stoxx 50 up 5% q/q partly supported by ECB expansionary monetary policy, despite continued sluggishness in economic growth.

Chart 3: GCC equity markets

(rebased December 2018 = 100)



Source: Refinitiv Datastream

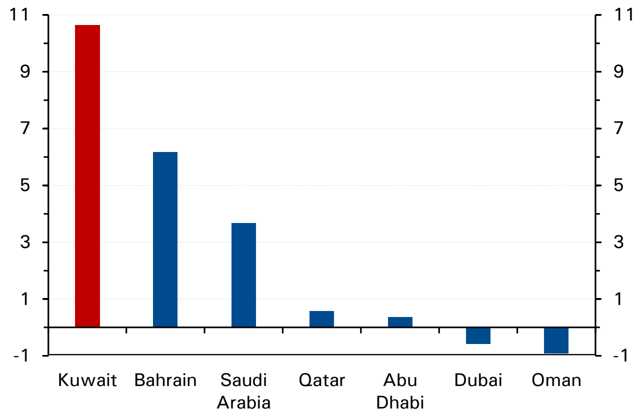
Regional markets

GCC markets' performance was generally positive in 4Q2019 with the MSCI GCC up 3.7% q/q, lifted by Kuwait (+11%), Bahrain (+6%) and Saudi Arabia (+4%). Meanwhile, Qatar and Abu Dhabi posted minimal gains, while Dubai and Oman were slightly negative. While escalating geopolitical risk and oil price volatility impacted most regional markets, Kuwaiti equities benefitted from strong sentiment and capital inflows ahead of the recently confirmed MSCI EM inclusion, which will be implemented in May 2020. This inclusion is expected to generate sizeable passive and active inflows, which will support the market going forward into 2020. The fourth quarter also saw the successful conclusion of two large IPOs in Kuwait: the Boursa Kuwait IPO and the North Al-Zour one, whereby both were oversubscribed and to be listed in the official market later this year, with the Boursa Kuwait stock already trading on the OTC market.

The positive expectation for Kuwaiti equities was reflected in the record net foreign inflows recorded in 2019, at about KD 600 million ($2bn). Bahraini equities on the other hand were supported by good progress towards economic reforms and fiscal consolidation, which may have helped restore economic stability and in turn investor confidence. The Saudi market performed decently, up 3.7% q/q as investors shrugged off some concerns following the (largely contested and perhaps unwarranted) downgrade of its sovereign credit rating by Fitch in October. The weakest performers, Dubai and Oman were likely hindered by the absence of market catalysts and economic challenges.

Chart 4: GCC equity markets in 4Q19

(% q/q)



Source: Refinitiv Datastream

A cautiously optimistic outlook for equities in 2020

With the slowdown in global growth appearing to stabilize, and with trade tensions easing, the outlook for equities in 2020 appears good. The consensus view is that the US equity rally will moderate but continue to be positive in 2020. With that said, it is prudent to bear in mind certain risk factors, first of which is the possibility of no further progress in US-China trade negotiations (only phase one has been struck, with most tariffs still in place) and even the likelihood that this deal may be unwound (unilaterally) given any future disagreement or lack of compliance. Secondly, a maturing business cycle and elevated valuations (especially in the US) resulting from a record-long rally may lead to the unwinding of positions (profit taking) by investors. Thirdly, no further support is expected from a reduction in the interest rates by the Fed and if anything, the rates might increase especially if there are signs that inflation is inching upward, and last but not least geopolitical risk and oil price volatility continue to loom, especially for the GCC region. For Kuwait specifically, given that the past two year rally was driven in large part by multiple benchmark index inclusions, a fresh catalyst may be needed to fuel the market beyond the May 2020 MSCI upgrade. Our equities outlook in 2020 is therefore one of cautious optimism.

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