PUBLIC

Economic Update

NBK Economic Research Department I 17 January 2022

Equity Markets

Global stocks end year on a high note as strong earnings outweigh Omicron and inflation fears

> Saqer Al-Zayed
Economist
+965 2259 5655
SaqerAlZayed@nbk.com

Highlights

- **Developed market equities regained traction in 4Q21, reversing the losses of the previous quarter on strong earnings.**
- **The MSCI AC World index gained 6.7% q/q, led by strong gains in the US, with the S&P500 up a solid 11% q/q.**
- **With the exception of KSA, GCC markets were up in 4Q21 with the strongest gains in Dubai and Abu Dhabi.**
- **Kuwait All-Share gained 2.6% q/q, pushing annual gains to 26% and ending the year near record highs.**
- **Markets face increased downside risks in 2022 amid tighter monetary policy and lower fiscal stimulus.**

Developed markets lead pack in 4Q on solid earnings

Global equity markets were mixed in 4Q21, with developed markets (US and Europe) ending the year on a high note, supported by solid earnings. The rally came despite a multitude of headwinds, including Delta/Omicron concerns, surging inflation, and ongoing supply chain disruptions, which continue to pose a risk to the economic outlook. Gains in GCC markets were more modest, affected by bouts of virus and oil market uncertainty, yet ended the year in the lead, thanks to elevated oil prices, solid investor confidence and recovery optimism. Meanwhile emerging markets underperformed, as virus concerns mounted in India and regulatory pressures weighed in China.

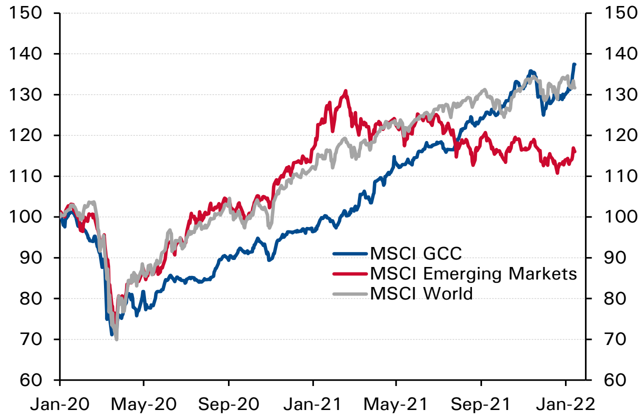
A tightening labor market and persistently high inflation prompted a more hawkish stance by the Fed recently, which dented sentiment and led to the S&P500 posting the weakest start to the year since 2016. Looking ahead, equity markets could continue to gain in 2022, but given the above headwinds in addition to the winding down of fiscal stimulus in the US, and tighter monetary policy, the exceptional momentum from the past several years may ease, as risks mount and the investment landscape becomes increasingly challenging to navigate.

US equities outperformed global peers in 4Q21

Developed market equities regained traction in 4Q21, reversing the losses of the previous quarter thanks in large part to strong earnings growth, which outweighed various risk factors over the quarter. The emergence of Omicron led to increased volatility at the end of November and December but investor concerns quickly eased as data pointed to lower mortality and hospitalization risks. The MSCI AC World index gained a solid 6.7% q/q, led by strong gains in the US, with the S&P500 and DJIA up 11% and 7% respectively, trailed by European markets (Euro Stoxx 50 +6%). Emerging markets underperformed significantly, with the MSCI EM down 1.3% q/q, weighed down mostly by China on continued regulatory pressures. However, looser policy by the People's Bank of China, with the possibility of further cuts to its reserve ratio requirement and loan prime rates in 2022, coupled with much lower valuations is supportive of Chinese equities this year. Looking forward, the direction of global stocks will continue to depend largely on Fed policy, inflation, pandemic uncertainty, and the pace of the economic recovery. The Fed faces the challenging task of curbing 40-year high inflation without hindering economic growth. Very recently, Federal Reserve Chair Jerome Powell struck a slightly less hawkish stance (especially in terms of the balance sheet reduction) than what the Fed's December meeting minutes had indicated, which the market responded to positively. However, a rapidly tightening labor market is a key downside risk, with the potential to lead to a typical wage/price inflationary spiral. This could result in a more aggressive policy action, potentially stalling the economic recovery and the equity rally.

Chart 1: Global equity markets

(rebased, 31 December 2019=100)

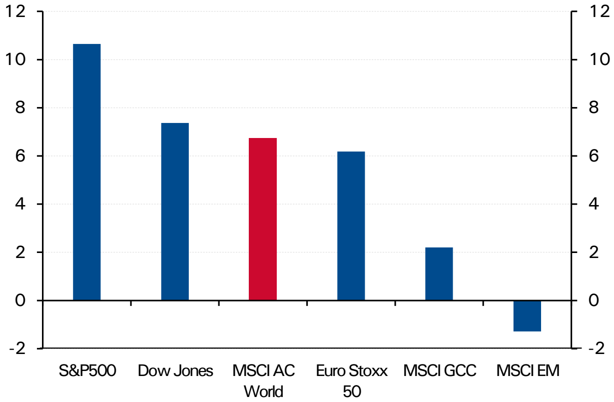


Source: Refinitiv DataStream, as of January 14

On the other hand, should supply bottlenecks and Omicron risks prove short-lived, equity markets could continue to perform well in 2022, even as the Fed tightens policy.

Chart 2: Global equity markets in 4Q21

(% q/q)



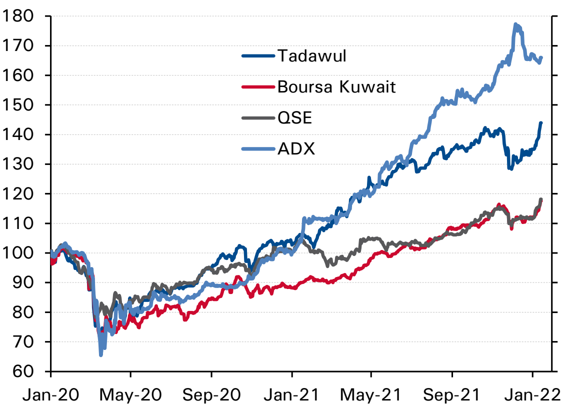
Source: Refinitiv DataStream

GCC equity markets lag behind global peers in 4Q21

GCC markets underperformed their global counterparts in 4Q21, but were mostly positive, supported by elevated oil prices, easing virus fears, and an improving economic outlook. The MSCI GCC index gained a relatively modest 2.2% q/q, with Dubai and Abu Dhabi posting the largest quarterly gains of 12% and 10%, respectively, boosted by a surge in IPO activity and good sentiment, with Abu Dhabi ending the year up an exceptional 68%, its strongest performance in 16 years, significantly outperforming regional and global peers. In November, Dubai announced plans to list 10 state-backed companies, alongside creating an AED 2 billion ($545 million) market maker fund aimed at boosting liquidity and competitiveness, moves that were received positively by investors.

Chart 3: GCC equity markets

(rebased 31 December 2019 = 100)

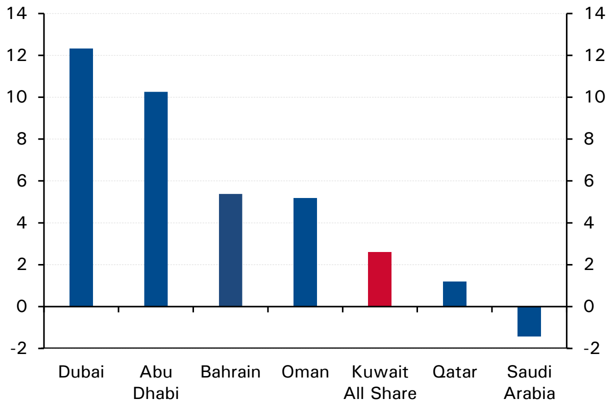


Source: Refinitiv DataStream, as of January 14

In contrast, GCC quarterly performance was weighed down by the region's largest market Saudi Arabia, which lost 1.4% following a strong rally in 9M2021, adversely affected by Omicron concerns and some oil market uncertainty, a key regional catalyst, earlier in the quarter. Still, the market gained a solid 30% in 2021, buoyed by elevated oil prices, pre-Omicron waning virus fears, and an improving economic and fiscal outlook. Meanwhile the Kuwait All-Share index gained 2.6% q/q, pushing annual gains to 26% and ending the year near record highs. Gains in the All-Share were led by the main market (4.8% q/q) as investors continued to favor stocks with relatively lower valuations. Sector-wise, consumer services came out on top, gaining an exceptional 20% q/q, followed by financial services (8%) and insurance (6%). The higher prices pushed market capitalization to an elevated KD 41.2 billion, while turnover averaged KD 59 million per day over the quarter, the highest since 4Q20, reflecting strong investor interest.

Chart 4: GCC equity markets in 4Q21

(% q/q)



Source: Refinitiv DataStream

A still positive but risky outlook for equities in 2022

Although most markets outside the US have started the year on a good note on recovery optimism and vaccine progress, near-to-medium term market prospects are subject to notable downside risks stemming from the pandemic, inflation, and tighter monetary policy. It is uncertain whether the upcoming Fed tightening will succeed in curbing inflation without hindering economic growth, especially with the potential for labor market tightness to add further impetus to inflation. Continued supply chain constraints, softer growth prospects, and the recent surge in Treasury bond yields, and steep US stock valuations are further sources of concern. These factors, coupled with a lower fiscal stimulus, have left investors in search of a fresh catalyst to justify a continued rally. Finally, GCC markets, in addition to their typical correlation with global markets, will continue to be driven by oil prices and the pace of structural reforms, which currently appear to be on a sound footing, auguring well for regional equities in 2022.

PUBLIC

Head Office

Kuwait
National Bank of Kuwait SAKP
Shuhada Street,
Sharq Area, NBK Tower
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
Tel: +965 2242 2011
Fax: +965 2259 5804
Telex: 22043-22451 NATBANK
www.nbk.com

International Network

Bahrain
National Bank of Kuwait SAKP
Zain Branch
Zain Tower, Building 401, Road 2806
Seef Area 428, P. O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

National Bank of Kuwait SAKP
Bahrain Head Office
GB Corp Tower
Block 346, Road 4626
Building 1411
P.O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

United Arab Emirates
National Bank of Kuwait SAKP
Dubai Branch
Latifa Tower, Sheikh Zayed Road
Next to Crown Plaza
P.O.Box 9293, Dubai, U.A.E
Tel: +971 4 3161600
Fax: +971 4 3888588

National Bank of Kuwait SAKP
Abu Dhabi Branch
Sheikh Rashed Bin Saeed
Al Maktoom, (Old Airport Road)
P.O.Box 113567,Abu Dhabi, U.A.E
Tel: +971 2 4199 555
Fax: +971 2 2222 477

Saudi Arabia
National Bank of Kuwait SAKP
Jeddah Branch
Al Khalidiah District,
Al Mukmal Tower, Jeddah
P.O Box: 15385 Jeddah 21444
Kingdom of Saudi Arabia
Tel: +966 2 603 6300
Fax: +966 2 603 6318

Jordan
National Bank of Kuwait SAKP
Amman Branch
Shareef Abdul Hamid Sharaf St
P.O. Box 941297, Shmeisani,
Amman 11194, Jordan
Tel: +962 6 580 0400
Fax: +962 6 580 0441

Lebanon
National Bank of Kuwait
(Lebanon) SAL
BAC Building, Justinien Street, Sanayeh
P.O. Box 11-5727, Riad El-Solh
Beirut 1107 2200, Lebanon
Tel: +961 1 759700
Fax: +961 1 747866

Iraq
Credit Bank of Iraq
Street 9, Building 187
Sadoon Street, District 102
P.O. Box 3420, Baghdad, Iraq
Tel: +964 1 7182198/7191944
+964 1 7188406/7171673
Fax: +964 1 7170156

Egypt
National Bank of Kuwait - Egypt
Plot 155, City Center, First Sector
5th Settlement, New Cairo
Egypt
Tel: +20 2 26149300
Fax: +20 2 26133978

United States of America
National Bank of Kuwait SAKP
New York Branch
299 Park Avenue
New York, NY 10171
USA
Tel: +1 212 303 9800
Fax: +1 212 319 8269

United Kingdom
National Bank of Kuwait
(International) Plc
Head Office
13 George Street
London W1U 3QJ
UK
Tel: +44 20 7224 2277
Fax: +44 20 7224 2101

France
National Bank of Kuwait France SA
90 Avenue des Champs-Elysees
75008 Paris
France
Tel: +33 1 5659 8600
Fax: +33 1 5659 8623

Singapore
National Bank of Kuwait SAKP
Singapore Branch
9 Raffles Place # 44-01
Republic Plaza
Singapore 048619
Tel: +65 6222 5348
Fax: +65 6224 5438

China
National Bank of Kuwait SAKP
Shanghai Office
Suite 1003, 10th Floor, Azia Center
1233 Lujiazui Ring Road
Shanghai 200120, China
Tel: +86 21 6888 1092
Fax: +86 21 5047 1011

NBK Capital

Kuwait
NBK Capital
34h Floor, NBK Tower
Shuhada'a street, Sharq Area
PO Box 4950, Safat, 13050
Kuwait
Tel: +965 2224 6900
Fax: +965 2224 6904 / 5

United Arab Emirates
NBK Capital Limited - UAE
Precinct Building 3, Office 404
Dubai International Financial Center
Sheikh Zayed Road
P.O. Box 506506, Dubai
UAE
Tel: +971 4 365 2800
Fax: +971 4 365 2805

Associates

Turkey
Turkish Bank
Valikonagl CAD. 7
Nisantasi, P.O. Box. 34371
Istanbul, Turkey
Tel: +90 212 373 6373
Fax: +90 212 225 0353