

Global equities rally extends into 3Q20 on stimulus, vaccine and recovery hopes

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Highlights

- Global equity markets remained bullish in the third quarter of 2020, building on the gains seen in 2Q20.
- The rally was helped by vaccine and stimulus hopes, improving US economic data and accommodative US monetary policy.
- Regional markets outperformed in 3Q20 on higher oil prices, improved business activity, and recovery optimism.
- A sustained rally is subject to a high degree of uncertainty, given its dependence on a broader economic recovery and an uncertain US elections outcome

Global equity rally extends into the third quarter

Global equity markets remained bullish in the third quarter of 2020, building on the gains seen in the second quarter of the year. Positive sentiment and strong momentum were maintained thanks to a combination of optimism about an imminent vaccine, hopes for additional stimulus, an improvement in US economic data, and accommodative monetary policy (the adoption of a flexible inflation target by the Federal Reserve implying that interest rates will remain low for longer than previously expected). Meanwhile, GCC markets tracked their global peers higher, helped by stronger oil prices.

Currently, equity markets face multiple headwinds, including a rising number of coronavirus cases in Europe and the US and in turn the threat of renewed restrictions. Further, the slowing improvement in macro data globally suggests that the economic recovery is losing steam. Additional risks arise from stimulus uncertainty, with the US facing some challenges in passing additional stimulus measures as well as ongoing partisan bickering, raising the possibility of falling off a fiscal cliff. We are already seeing signs of weak economic data as the pickup in consumer and business activity indicators have started to diminish. Finally, the uncertainty about the outcome of the November US elections is a major risk factor for equity markets, especially if that election is contested.

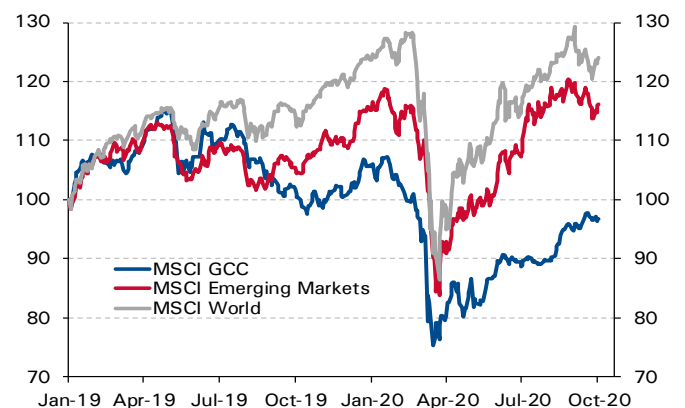
Global markets mostly positive on recovery optimism

Global equity markets, with the exception of European markets, recorded solid gains in the third quarter of 2020. The AC world index gained 6.5% q/q led by GCC markets, boosted by improved business activity and recovery optimism, trailed closely by US markets, with the SP500 and DJIA up around 8.5% and 7.6% respectively, though gains were curbed by a steep

selloff in tech stocks in September on concerns of overvaluation. Emerging markets also fared well, with the MSCI EM up around 8% q/q driven mostly by gains in the GCC and China which is witnessing a rebound in economic activity after successfully controlling the spread of the virus. Meanwhile, European markets underperformed, with the Euro Stoxx 50 down 1.3% q/q, burdened by spiking virus infections, challenges in passing new stimulus measures, and as Eurozone economic activity continues to falter.

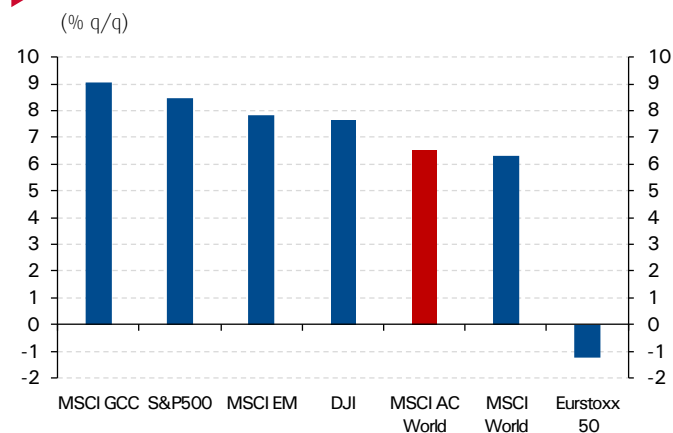
Chart 1: Global equity markets

(rebased, 28 December 2018=100)



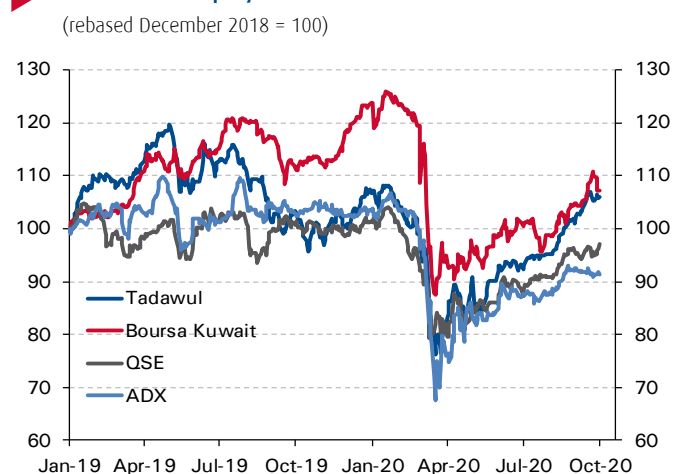
Source: Refinitiv Datastream

Chart 2: Global equity markets in 3Q20



Source: Refinitiv Datastream

Chart 3: GCC equity markets



Source: Refinitiv Datastream

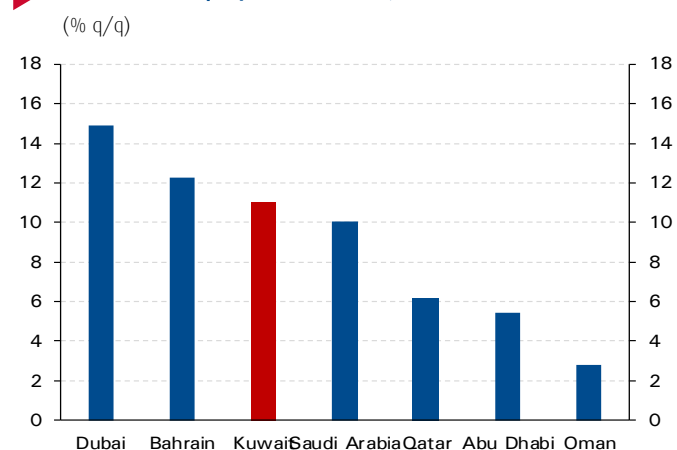
Regional markets outperformed global peers in 3Q20

3Q20 saw strong gains in regional markets, which tracked their global peers upwards on higher oil prices, better business activity after the lifting of coronavirus restrictions, and recovery optimism. The MSCI GCC index outperformed its global counterparts, rising by 9% q/q in 3Q20, lifted by strong gains in Dubai, Bahrain, Kuwait and Saudi Arabia. The other markets (Qatar, Abu Dhabi, and Oman) trailed behind, but still made decent gains on good overall sentiment.

Kuwait's rally was also helped by good sentiment ahead of the upcoming MSCI-EM inclusion in November, expected to generate about \$2 billion in passive inflows and more than that in active inflows. Indeed, foreign net inflows have risen since the lows of the pandemic, reaching a monthly average of KD 27 million in 3Q compared to a monthly average net outflow of KD 19 million in 2Q. The rally was also supported by the successful debut of two major stocks in the premier market, Al-Zour North and

Bursa Kuwait, which rallied by more than three and ten-fold respectively, thereby lifting the premier market index and contributing to the rally. Market confidence was also boosted by the smooth and swift transition of power to the new Amir HH. Sheikh Nawaf Al-Ahmad and the appointment of a new Crown Prince, helping bolster investors' confidence in a stable political outlook.

Chart 4: GCC equity markets in 3Q20



Source: Refinitiv Datastream

Uptrend in equities could continue but downside risks are high

Global markets have in some cases reversed the steep losses following the onset of the coronavirus in February/March. However, the rally is subject to a high degree of uncertainty, given its dependence on a sustainable economic recovery, which in turn is dependent on how quickly the coronavirus will be contained or how soon a vaccine will be available. While there has been important progress in terms of the vaccine, the approval of one in the short term is still not a certainty. Improved economic data, which lent support to markets in recent months, may revert to weakness (as is already happening in some countries), thereby denting market confidence. As mentioned before, important risk factors include uncertainty about additional stimulus measures and a possible dispute over the outcome of US elections especially in case the results come in close. For GCC markets, downside risks remain elevated given the additional factor of oil prices, uncertainty surrounding the control of the coronavirus, in addition to the relatively high impact that global equity markets usually have on regional markets.

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