Economic Update

NBK Economic Research Department I 29 October 2019

Equity Markets

Global equity markets moderate amid softer data and ongoing trade tensions

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Highlights

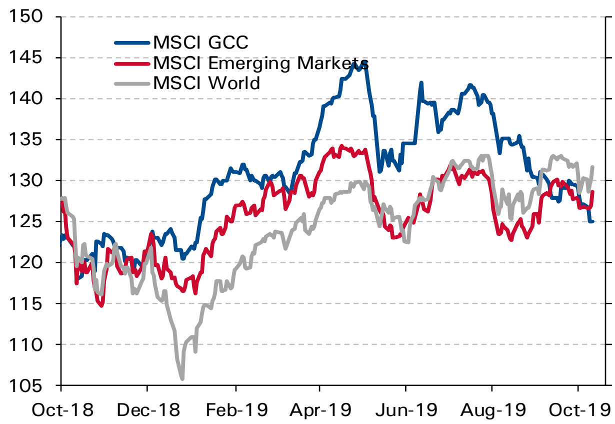
- **Global equity markets lost steam in 3Q19 but still recorded slight positive quarter on quarter returns.**
- **Global equity markets were weighed down by ongoing trade tensions and weaker-than-expected data.**
- **GCC equity markets were mixed but negative overall, affected by geopolitical risk, oil price volatility and profit-booking.**
- **These risks may promote a continued cautious stance by investors going forward into 4Q19.**

Global markets lost steam in 3Q19; EMs underperformed

Global equities recorded modest gains in 3Q19, but at a slower pace than in previous quarters, mainly driven by European and US stocks. Weaker-than-expected economic data, anticipated downward revisions to global growth estimates, and ongoing trade uncertainty have raised investor concerns and diminished risk appetite, with investors turning their attention increasingly to less risky holdings such as fixed income and gold. Indeed, bond yields have continued to fall and gold prices have risen to multi-year highs. This shift in sentiment was even more apparent in emerging market equities, which have underperformed their global peers by a wide margin in 3Q19. GCC markets exhibited a mixed performance, and were negative overall, impacted by adverse geopolitics and oil price volatility, in addition to being affected by the aforementioned global pressures.

Chart 1: Global equity markets

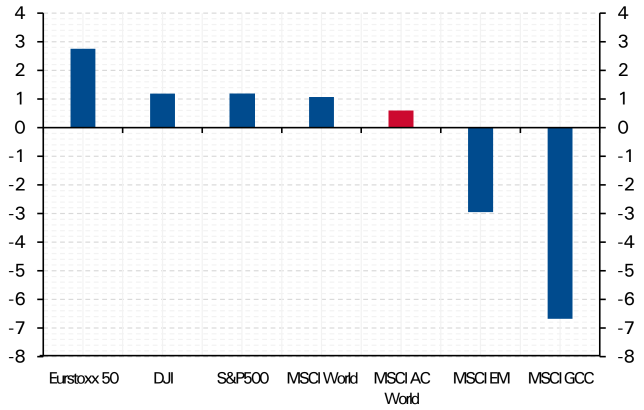
(rebased, 28 December 2017=100)



Source: Refinitiv Datastream

Chart 2: Global equity markets in 3Q19

(% q/q, 3Q19)



Source: Refinitiv Datastream

International markets

International markets rose in 3Q19, lifted by European and American equities, though the gains were less pronounced than in previous quarters. The MSCI World index rose 1.1% q/q led by the Euro Stoxx 50 (2.8%) and the Nikkei 225 (2.3%) while the DJI and S&P500 rose 1.2%. Global stock performance was however hampered by losses in emerging markets, with the MSCI EM index dropping 3% q/q, likely due to weakening investor confidence, giving rise to an increasingly 'risk-off' attitude. Despite the downturn in emerging markets, China's Shenzhen CSI 300 was less affected, ending the quarter almost flat.

The relatively muted equity performance in 3Q19 came amid slower global growth expectations, a prolonged US-China trade dispute, and softer US and European economic data. The softer data included a declining US ISM manufacturing PMI, which fell to a 10-year low in September on declining new orders and employment, and there is a growing concern that manufacturing weakness may spill-over into the consumer sector. The Eurozone economy has suffered from similar weakness, with sluggish growth and slumping manufacturing and exports. Investor concerns were additionally compounded by ongoing uncertainty surrounding Brexit. These headwinds seem to have been only partially alleviated by accommodative global central bank policies.

Regional markets

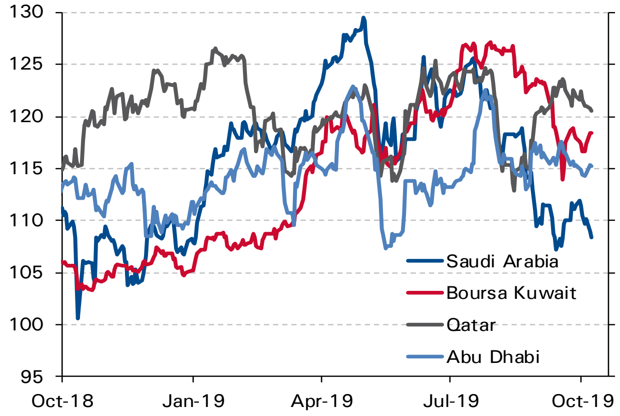
GCC equity markets generally underperformed their global peers in 3Q19.The MSCI GCC lost 6.7% q/q, weighed down mostly by Saudi Arabia (-8.3%) and to a lesser extent Kuwait (-2.6%) and Qatar (-1%). The decline came amid elevated geopolitical risks and oil price volatility, despite support (passive flows) from the S&P-Dow Jones EM inclusion of Kuwait in September, the fourth tranche of the FTSE-EM inclusion of Saudi Arabia also in September, and the second phase of the MSCI-EM inclusion of Saudi Arabia in August. Additional downward pressure likely came from profit-taking, after the Kuwaiti and Saudi markets rallied in the first half of the year, thereby driving up valuation metrics.

Going forward, GCC markets may suffer from downward pressure on banking stocks as the recent interest rate cuts (except for Kuwait) will likely impact banks' profitability. Further, with the major index inclusions mostly complete, fresh catalysts will be needed to support the Saudi market. The MSCI EM inclusion is still pending for Kuwait, and a final decision by MSCI will be announced by the end of December 2019 (with high likelihood) for implementation in May 2020. Moreover, Boursa Kuwait may receive a boost to liquidity and market capitalization from two large IPOs scheduled for the latter part of 4Q19, (Boursa Kuwait and North Zour IWPP), with subscription now open for both future listings. It is therefore reasonable to expect the Kuwaiti market to reap some benefits in the short term from these expected developments. Further, additional quality listings can typically be a longer term benefit to a stock exchange, as it usually promotes the scope and size of the marketplace.

Other GCC markets fared relatively well in 3Q19, with Dubai, Oman and Bahrain up by 4.6%, 3.4% and 3.1% q/q respectively. These markets saw weaker performance in 2018 and were relatively undervalued at the start of the year, making them attractive to investors seeking to rotate capital to markets with perceived upside potential.

Chart 3: Select GCC markets

(rebased, 28 December 2017=100)

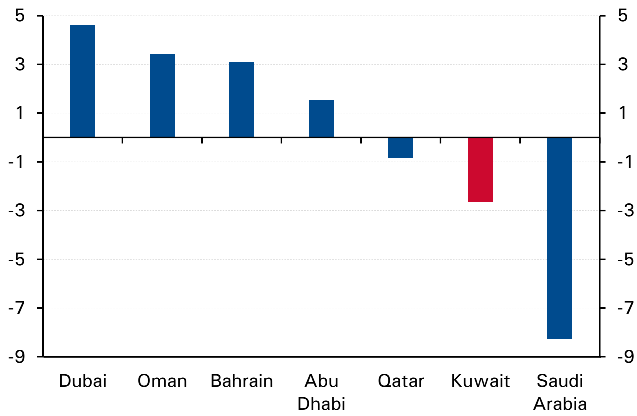


Source: Refinitiv Datastream

The risks that we had highlighted in our 2Q19 equity brief became more visible in 3Q19. With the ongoing trade issues, geopolitical risks, oil price volatility, and now confirmed downbeat growth forecasts for the global economy and the GCC region we expect more of the same in terms of uncertainty and volatility in regional equity markets in 4Q19. Investors will then likely continue with their cautious stance globally, and more so in emerging markets.

Chart 4: GCC equity markets in 3Q19

(% q/q, 3Q19)



Source: Refinitiv Datastream

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