

Global equities advance in Q2 amid stronger data, recovery optimism and bullish sentiment

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

Daniel Kaye
Head of Economic Research
+965 2259 3136
Danielkaye@nbk.com

Highlights

- Global equity markets continued to rally in 2Q21, with several indices reaching fresh all-time highs.
- The MSCI AC World index rose 6.6% q/q, with US markets leading developed market gains.
- The MSCI GCC outperformed global peers (8.7% q/q), helped by higher oil prices, vaccine rollouts, and a better fiscal outlook.
- Downside risks to a sustained rally include record stock prices and steep valuations, inflation worries, tighter policy ahead, and the ongoing Covid uncertainty.

Bullish sentiment lifts global equities to new highs in 2Q

Global equity markets continued to rally in 2Q21, with several indices reaching fresh all-time highs. The bullish sentiment was supported by continued economic recovery optimism amid stronger macroeconomic data, vaccine progress and lowered restrictions, despite rising inflation uncertainty, resurging Covid concerns, and a hawkish Fed shift towards the end of the quarter and in early July (in line with a positive outlook and rising inflation). Meanwhile, GCC markets outperformed, supported by higher oil prices and in turn reduced fiscal pressures, improving economic data, and positive sentiment.

While the equity market trend and outlook remains fairly positive, downside risks include record stock prices and steep valuations, in addition to the possibility of high US inflation triggering early Fed tapering which would likely raise the risk-free rate of return and squeeze equity risk premiums. Covid uncertainty also continues to be a key underlying factor, with the potential to hamper the economic recovery and dent sentiment, especially amid the spread of the new Delta strain. More recently, in July, weaker than expected US macroeconomic data has raised concerns of a slowdown in the pace of economic growth. The possible combination of slower growth and high inflation is one of special concern, as it leaves policy makers with difficult decisions (QE tapering/rate hike signals may control inflation but may also weigh on growth).

Global equities continue to advance on recovery hopes

The bullish global sentiment for equities is reflected in the MSCI AC World index, which rose a solid 6.6% q/q, with US markets outperforming their peers, as the S&P500 and DJIA rose 8.2% and 4.6% respectively. Strong earnings expectations for 2Q may have been supportive of higher prices in late June/ early July. The performance disparity between the DJI and S&P can be owed to shifting investor preferences, in favor of cyclical stocks that

stand to benefit the most from an economic recovery, which the SP500 is heavier with (i.e. financial, energy stocks). Meanwhile, European and emerging market stocks trailed behind, but were still up a decent 3.7% and 3.2% for the MSCI EM and Euro Stoxx 50 respectively. With that said, stock gains in Europe, usually lagging, were roughly on par with US stocks this year (15% year to end-June), helped by improved economic prospects, low inflation, continued monetary and fiscal support, and much lower valuations. For these reasons, there is a growing consensus that European stocks are to outperform peer markets in 2021. In contrast, emerging markets continue to be severely weighed down by pandemic woes mainly in Asia, hindering growth and denting sentiment.

Chart 1: Global equity markets

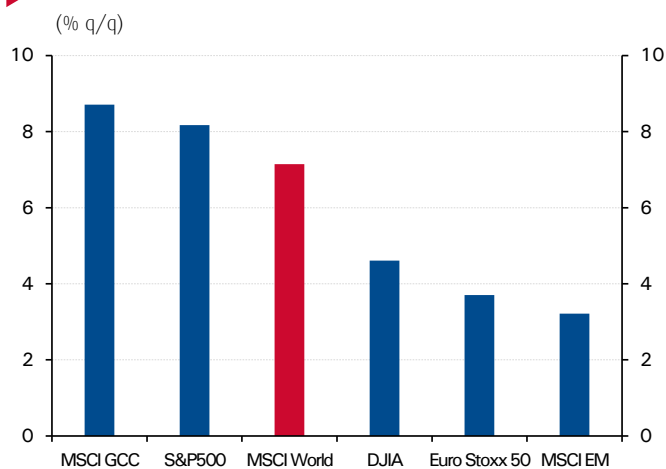
(rebased, 31 December 2019=100)



Source: Refinitiv DataStream

Finally, virus uncertainty, rising inflation, planned QE tapering and record high valuations in the US continue to be key downside risks for equities in the near-to-medium term.

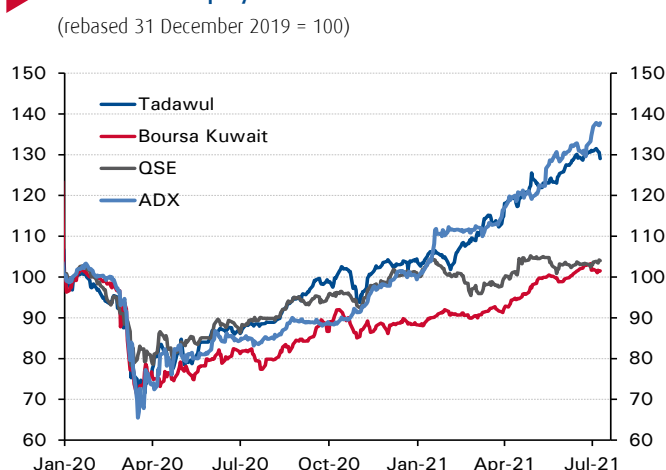
▶ **Chart 2: Global equity markets in 2021**



GCC markets lead global equity gains on higher oil prices

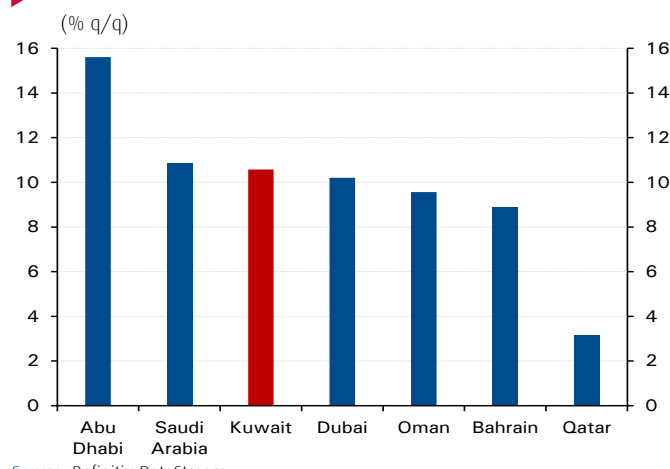
GCC markets outperformed their global counterparts in 2Q21, building on the strong gains of 1Q, with the MSCI GCC up a solid 8.7% q/q helped by higher oil prices, vaccine rollouts, and a better fiscal outlook. In the lead were Abu Dhabi, Kuwait, and Saudi Arabia up 16% 11% and 11% respectively, with investor confidence in the latter boosted by improving macro data and the announcement of a series of large investment plans as part of a major economic diversification push. Solid gains were also seen in Dubai, Oman and Bahrain (9-10% q/q).

▶ **Chart 3: GCC equity markets**



Kuwait's strong performance was led once again by the main market (13.4% q/q), with the strongest gains coming from the technology, oil and gas, real estate, and industrial sectors. Market capitalization in turn rose to KD 37 billion, the highest since 2010, while average daily turnover was an elevated KD 59 million/day, reflecting a well-endowed, liquid and active market. Kuwait's All-Share was up an impressive 15% in the year to end-June, trailing Abu Dhabi and Saudi Arabia.

▶ **Chart 4: GCC equity markets in 2Q21**



A positive but uncertain outlook for equities in 2H2021

Accommodative central bank policies and economic recovery expectations will likely continue to lend support to markets in 2H21. This bullish sentiment is reflected in global stocks continuing to set all-time highs, versus softer demand for some safe-haven assets such as gold and the US dollar, which despite recent increases remain relatively subdued. With that said, near-to-medium term market prospects are subject to notable downside risks stemming from pandemic, inflation, and policy-related uncertainty (tapering soon and rate hikes on the medium-term horizon), factors which have led to softer market momentum as of late. Steep valuations, especially in US markets, are an additional source of concern. The possibility of higher bond yields in line with the expected unwinding of stimulus, higher inflation, and planned US policy rate hikes in 2023, may also prove to be a drag on equity market sentiment. Moreover, GCC markets will continue to be influenced by oil prices, the pace of structural reforms, geopolitics, and pandemic-related developments.

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

National Bank of Kuwait
(International) Plc
Portman Square Branch
7 Portman Square
London W1H 6NA, UK
Tel: +44 20 7224 2277
Fax: +44 20 7486 3877

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