

Global equities end year on a strong note, aided by stimulus and vaccine optimism

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

> Raja Ghousseub
Senior Economist
+965 2259 5356
RajaGhousseub@nbk.com

Highlights

- Global equity markets remained bullish in the fourth quarter of 2020, building on previous gains and reaching all-time highs.
- The rally in 4Q20 was driven in large part by positive vaccine news and larger US fiscal stimulus expectations.
- Regional markets' performance lagged behind their global counterparts but still managed to record decent gains in 4Q20.
- The rollout of vaccines raises the prospects of a sustained economic recovery, though steep valuations, rising inflation, and virus-related headwinds remain important downside risks.

A good year for global equities, despite the pandemic

Despite a year marred by elevated uncertainty and volatility due to the pandemic, global markets have performed remarkably well, mostly reversing the steep losses seen in March/April and in many cases eking out considerable annual gains. Major US indices reached all-time highs in 4Q20 building on the strong gains seen in the previous quarter. The rally in 4Q20 was driven in large part by positive vaccine news flow, and optimism about additional fiscal stimulus in the US, and historically low interest rates. This good performance was marked though by high volatility mainly due to soaring virus infections and renewed lockdowns in many countries. Meanwhile, regional equities underperformed in 4Q20 but still made decent gains, helped by higher oil prices and an improved geopolitical scene.

Looking forward, a sustained equity rally remains hinged on economic recovery expectations, which depend in large part on additional economic stimulus, continued central bank dovishness, and the successful containment of the virus, given the recent rollout of several vaccines.

Global markets positive in 4Q20 on recovery optimism

Global markets were positive in 4Q20 despite renewed restrictions in Europe, the UK and some major US states. Investor sentiment nevertheless remained strong, supported by economic recovery and stimulus optimism, bolstered by signs of improvement in macroeconomic data. The MSCI World index gained a solid 12% q/q, led by emerging markets (MSCI EM +15.7%) likely helped by a weakening USD in line with an improving global outlook, thereby reducing its safe-haven appeal, and making EM portfolios more attractive to investors due to the potential appreciation of the EM currency versus the dollar. US markets also rose strongly, with the S&P500 up 11.7% in the third consecutive quarter of gains, helped by the approval

of a \$900 billion pandemic relief package in December (in addition to a \$1.4 trillion spending bill that will keep the government funded until late 2021) curbing market fears of another economic downturn due to a sharp increase in virus infections. European and UK markets trailed those of the US and were also lifted by finally reaching a post-Brexit trade deal, which has been the source of much uncertainty and weaker sentiment throughout the year.

Chart 1: Global equity markets

(rebased, 28 December 2018=100)

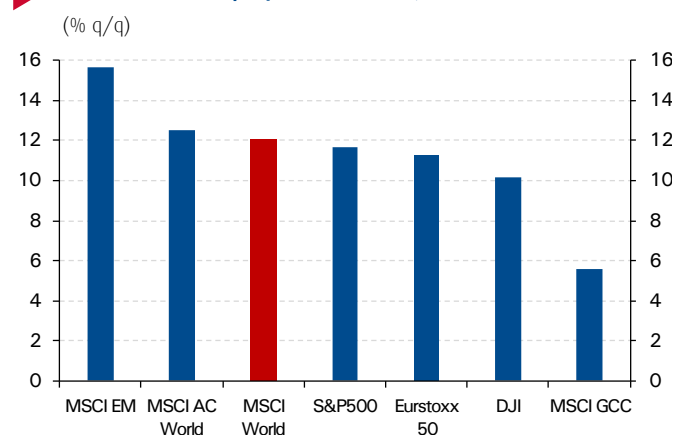


Source: Refinitiv DataStream

As we stand now, 2021 seems to be a promising year for global equities as virus risks gradually wane, monetary policy remains highly accommodative, and additional US fiscal stimulus materializes given the recent Democratic party wins in the Georgia Senate runoffs, which effectively resulted in a Democratic-controlled Senate. Despite these promising signs, several downside risks are present, including steep valuations especially in the US. The prospect of rising inflation or inflation expectations due to higher liquidity and recovering demand may lead to a further increase in yields, which may weigh down on

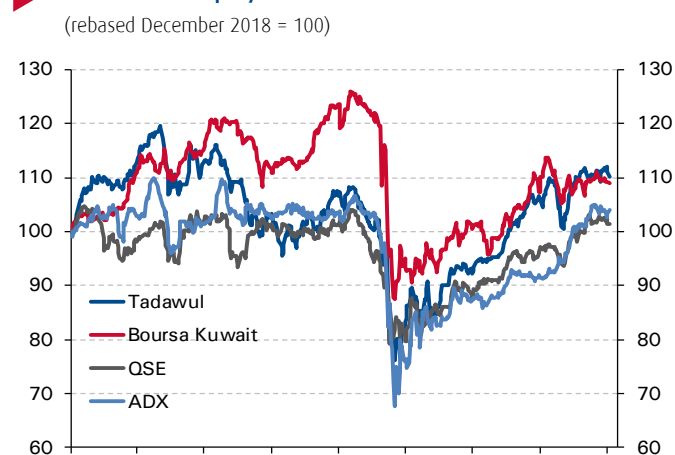
markets. Furthermore, several virus-related headwinds could materialize, and finally, a possible resurgence of trade tensions, especially between the US and China will be negative for markets.

► **Chart 2: Global equity markets in 4Q20**



Source: Refinitiv DataStream

► **Chart 3: GCC equity markets**



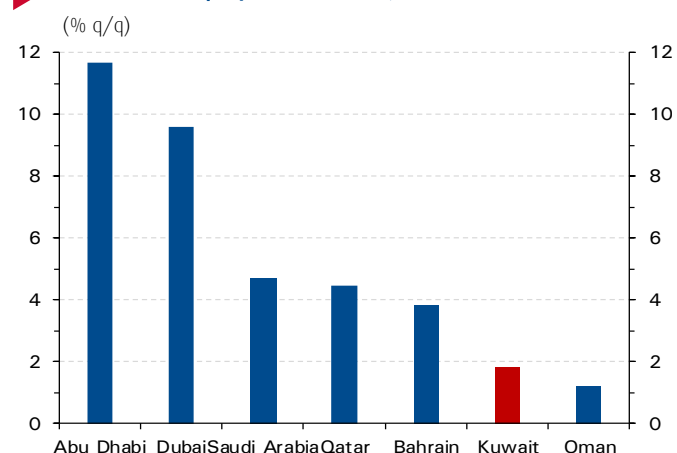
Source: Refinitiv DataStream

Regional markets lag behind global counterparts

Regional equities lagged behind their global counterparts but still managed to eke out decent gains in 4Q20. GCC markets were helped by higher oil prices later in the year, giving rise to a better economic and fiscal outlook. On the geopolitical front, early signs of improvement were seen in December to end the rift with Qatar, which materialized in early January during the GCC summit in Saudi Arabia. The MSCI GCC index rose by 5.6% q/q, reducing the year-to-date decrease to -3.6%. Among the top gainers were Abu Dhabi and Dubai, as the UAE is considered a recovery play given its high exposure to tourism, trade, and services in general, benefitting as well from relatively depressed valuations during the year. Dubai, for example, has been one of the few destinations globally that has been open for tourism recently

with hotel occupancy rates at relatively high levels. The region's largest market, Saudi Arabia, gained a decent 4.7% q/q (and was the only market in the GCC to post material gains in 2020 as a whole at 3.6%), helped by a relatively robust economic rebound in the second half the year. Meanwhile, Kuwait's all-share index underperformed, weighed down by factors including steep valuations relative to peers, the lagging pace of reforms, and perhaps more importantly, the end of a series of market classification upgrades, which were a major boost behind Kuwait's exceptional two-year (2018-2019) rally (+30%), leaving investors in search of a fresh catalyst. Looking forward, GCC equity markets will likely continue to be influenced by their global peers, geopolitical factors, oil market stability, the implementation of structural reforms and ultimately the pace of the economic recovery in the GCC.

► **Chart 4: GCC equity markets in 4Q20**



Source: Refinitiv DataStream

An improved equity outlook amid the rollout of vaccines

The recent rollout of vaccines is a key milestone in what has been a truly uncertain and risky year for equities, lending a much improved outlook for equities in 2021. This development lowers the chances of renewed restrictions and lockdowns (a major drag on markets this year) thereby raising the prospects of a sustained economic recovery. Record-low interest rates, continued central bank dovishness, as well as expectations of additional fiscal stimulus in the US, will likely continue to lend support to markets going into 2021. This bullish sentiment is reflected in global stocks reaching all-time highs in December, in tandem with softer demand for safe-haven assets such as gold and the USD, suggesting a risk-on investor attitude. The conclusion of the post-Brexit trade deal, and the end of the three year rift Qatar should also be positive for markets. However, as previously mentioned, downside risks are present in the form of steep valuations, rising inflation expectations, the possibility of renewed US-China trade tensions, and other vaccine related risks.

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