Equity markets

GCC: Gulf outperforms in 1Q18 while developed markets dip amid fresh volatility

> Chaker El Mostafa
Economist
+965 2259 5356, chakermostafa@nbk.com

> Daniel Kaye
Head of Macroeconomic Research
+965 2259 3136, DanielKaye@nbk.com

Most GCC equity markets outperformed their global peers in 1Q18, while developed markets registered their first quarterly decline in two years. Global investor sentiment has become more attuned to monetary policy normalization and geopolitics in recent months. However, given strong expected global growth and still easy financial conditions, equity markets may be set for solid, albeit more moderate, growth in 2018.

Volatility returned to global markets in 1Q18 following the unusual calm that presided over them in 2017. The fluctuations were initially triggered by signs that the world economy may be shifting to a high-growth/high-inflation dynamic (Chart 1), which could push up interest rates faster and further than expected. This was followed by concerns over the departure of key US government personnel and protectionist trade rhetoric. Markets have remained on edge since.

Global equities weighed down by monetary policy and trade fears

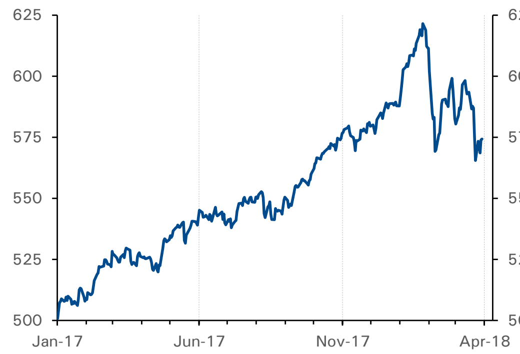
Global equities suffered their first quarterly loss in two years, with the MSCI AC world index down 2.3% in 1Q18, driven by falls in developed markets. The S&P 500 and the DJI were down 1.2% and 2.5% q/q respectively, while the pan-European Euro Stoxx 600 index retreated by 4.7%. Emerging markets fared better, with the MSCI EM index up 0.4% helped by strong underlying economic fundamentals, while the MSCI GCC index outperformed, adding 7% q/q. (Charts 2 & 3.)

US equities were affected by changes in inflationary expectations and President Trump's trade policy initiatives. Fears of a faster pace of monetary tightening by the Fed driven by rising inflation and a tight labor market initially pushed interest rate expectations higher. Markets were then hit by the announcement of new US trade tariffs and escalating trade war rhetoric. US markets see-sawed late in the quarter as they struggled to gauge the severity of the trade measures, which often ended up milder than expected.

In Europe, a strong euro and trade fears weighed heavily on sentiment, including its export-driven conglomerates. Easing PMI and confidence indicators also pointed to some softening of economic growth, while the return of some political uncertainty – with two core Eurozone economies undergoing governmental elections – also added to investors' reservations during the quarter.

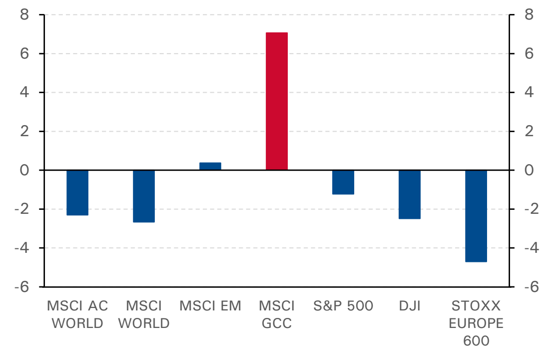
Emerging equity markets performed better, benefitting from a weaker dollar and strong economic growth, but were also affected by trade war concerns. Investor appetite towards these markets remains healthy, however, with the IIF expecting non-resident investment in emerging equities to increase to $495 billion in 2018 from $444 billion in 2017, driven by a strong pick-up in portfolio investments.

Chart 1: MSCI AC World
(index)



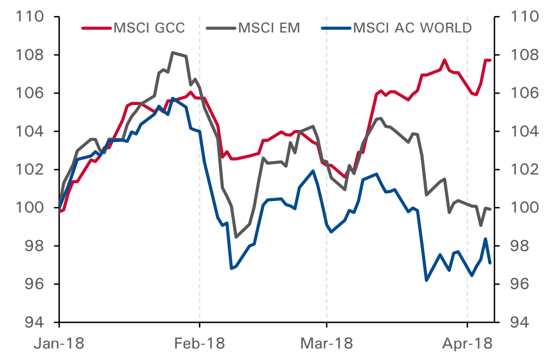
Source: Thomson Reuters Datastream

Chart 2: Global equity markets
(% q/q)



Source: Thomson Reuters Datastream

Chart 3: Global equity markets
(rebased, 28 December 2017=100)



Source: Thomson Reuters Datastream

GCC equities mixed, but Saudi outperforms

GCC markets tracked global equities for most of 1Q18 though some eventually diverged on index reclassifications and firmer oil prices. (Charts 4 & 5.) Saudi's upgrade to FTSE's emerging market index saw it outperform its peers, up 8.9% q/q driven by foreign investor appetite (Chart 6), while the announcement of Kuwait's phase-in plan to the index – and the indicative list of potential stocks to be included – helped lift its market 3.6% q/q. Abu Dhabi performed well (+4.3% q/q), supported by strong oil-related earnings, while Qatar was little changed – although recent increases in foreign ownership caps at several key listed Qatari institutions look to boost that market's attractiveness. Dubai was the worst performer, down 7.8%, on a soft economic backdrop and weak domestic real estate market.

Foreign investor interest in the GCC is expected to be significant following the index reclassifications. Saudi Arabia is expected to account for 2.7% of the FTSE emerging market index when included in March 2019 – 4.6%, if Saudi ARAMCO's IPO is added – possibly attracting close to $5 billion in initial passive inflows. A possible upgrade to MSCI's emerging market index this June may add another $10 billion in passive funds with total inflows (including active flows) projected at up to $30 billion over the next few years. Kuwait's inclusion in the FTSE index will be phased in over two stages in September and December 2018, with a target country weight of 0.4%. It could generate passive inflows of $800 million.

In April, Boursa Kuwait began implementing its new exchange structure, with a one-year phase-in period for some listings. The move is expected to boost the market's liquidity and attractiveness, particularly to foreign investors. Combined with Kuwait's inclusion in the FTSE Russell index, the changes should provide for improved foreign interest given the solid economic fundamentals Kuwait enjoys.

Going forward, global equities are expected to be supported by robust global growth and still easy financial conditions. Global growth is projected at 3.9% in 2018, while global interest rates remain low (if rising), providing a solid backdrop for equities. (Chart 7.) However, some risks remain: although decent, global growth may be softening; concern over increased global trade barriers could intensify; and more abrupt monetary policy normalization could threaten further market corrections.

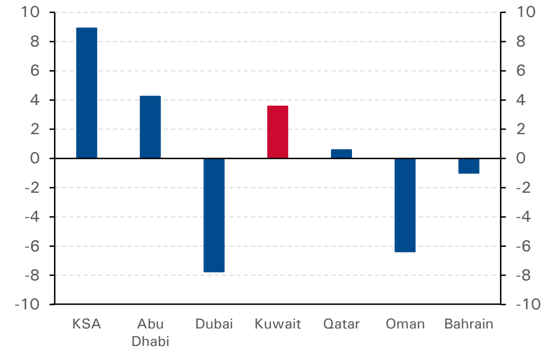
Table 1: GCC markets indicators for 1Q18

	Market capitalization (USD billion)	Average daily turnover (USD million)	Growth in 2017 profits (% y/y)	Price/ earnings per share
Bahrain (Bourse)	21	3	-2	9.5
Kuwait (Boursa)	97	41	17	15.3
Oman (MSM)	20	8	-21	11.7
Qatar (QSE)	129	69	-11	12.3
Saudi (Tadawul)	495	975	11	17.2
Abu Dhabi (ADX) & Dubai (DFM)	242	118	51	12.7
GCC	1,013	921	14	-

Source: Thomson Reuters Datastream, Thomson Reuters Eikon

Chart 4: GCC equity markets

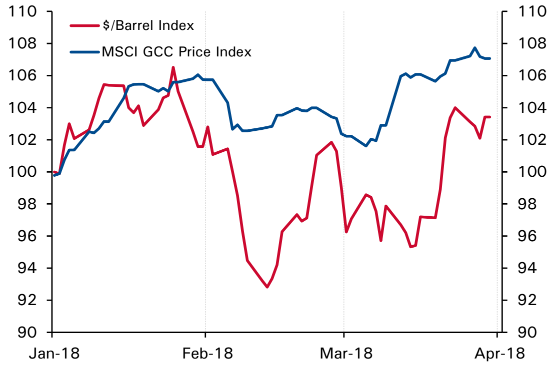
(% q/q)



Source: Thomson Reuters Datastream

Chart 5: Brent vs GCC equities

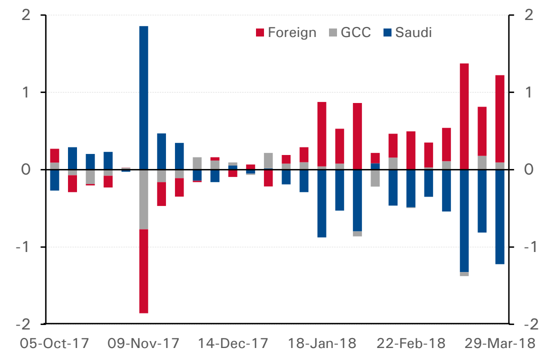
(rebased, 28 December 2017=100)



Source: Thomson Reuters Datastream

Chart 6: Saudi Tadawul's trading by nationality

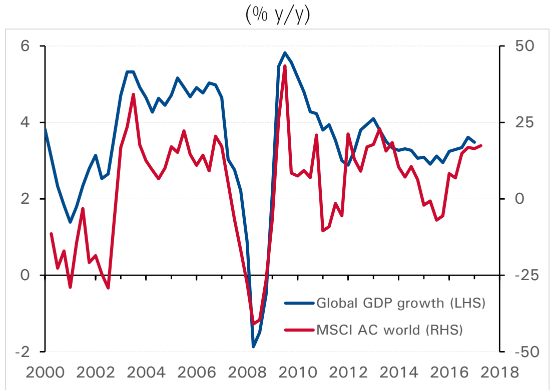
(SAR billion, weekly)



Source: Saudi Tadawul

Chart 7: Global growth and financial markets

(% y/y)



Source: Thomson Reuters Datastream, IMF

Head Office

Kuwait
National Bank of Kuwait SAKP
Abdullah Al-Ahmed Street
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
(International) Plc
Paris Branch
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 Representative 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
38th Floor, Arraya II Building, Block 6
Shuhada'a street, Sharq
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