SEDCO CAPITAL

EYES ON MARKETS

GLOBAL MARKETS

Despite recent data pointing to solid but moderating growth globally, regional concerns are large. The virus is surging in parts of Europe, while the US seems unlikely to deliver additional fiscal stimulus until after the election, assuming a Democratic sweep. EM Asia and Japan are instead expected to deliver stronger growth, with the main near-term risk coming from a disappointment in recoveries elsewhere.

The near-term outlook shows a notable divergence. For Europe it has darkened as a result of the resurgence in caseloads, but fiscal plans for 2021 look considerably more supportive, pointing to only a marginal tightening. In the US, the scenario of a "blue wave" (Democrats winning the presidency and controlling both houses of Congress) is expected to deliver a sizable fiscal stimulus. But if Republicans maintain their Senate majority despite a Biden victory, the prospects for stimulus will be very limited.

Technicals and sentiment have improved after the recent correction. However, while the market could remain in a consolidation mode until the elections are out of the way, a Biden victory may end up being a net positive for the market, with likely better trading thereafter. A potential Biden victory – even in the case of a Democratic clean sweep – is likely to only deliver watered-down tax increases, and additionally there could be a greater focus on increased spending and consumer & unemployment support.

With the probability of a clear US election result rising, an increased market participation might trigger a rotation trade. A Biden victory could help support a rotation from Growth to Value, from Defensives to Cyclicals, and from the US to other regions while the USD remains relatively weak and rates low for even longer. The catalyst for a rotation might be the more reflationary backdrop once the event risk is settled as markets start pricing in a more positive cyclical outlook into 2021. A clear risk remains on the vaccine front, where the timing of implementation (logistics, take-up and efficacy) is key.

REGIONAL MARKETS

YTD S&P Sharia GCC Total Return Index (SPSHGT) was up 5.57% wherein Saudi Arabia and Qatar were up by 7.5% and 3.9% respectively. Bahrain and UAE were the worst performers down 22.4% and 8.7% respectively. Last 30 days positive read across the region as SPSHGT rose 5.6% led by Kuwait (+12.7%), Saudi Arabia (+6.4%) and Qatar (+1.3%).

S&P Saudi Shariah SAR Total Return Index (SPSHSART Index) increased YTD by 7.5% as cumulative inflows in the Net Foreign Portfolio Investment (NFPI) stood at USD3.6bn.

Local cement sales recorded 41% YoY growth in August vs. 26% in July and automobile sales in 1H 2020 recorded 7% YoY growth. Apart from that all the leads were negative i.e. 7% YoY decline in banks' profitability for August 2020, PMI at 48.8 in August vs. 50 in July, 4% YoY decline in per terminal POS+ATM transactions' value for August, YoY Inflation rising to 6.2% in August vs. 6.1% in July, outbound remittances increased 9% MoM in July and slowdown in FDI.

YTD GCC markets mainly UAE, Qatar and Kuwait registered USD739mn worth of inflows into NFPI. UAE's PMI decreased to 49.4 in August from 50.8 in July, while Oxford Economics expects Middle East economies to shrink by 7.6% this year, much deeper than the previous estimated 3.9% contraction. It is however positive on the long term as it forecasts growth to return to 4% in 2021 and 2022. Furthermore, UAE central bank estimated that real GDP shrank 8% and non-energy sector shrank 9% YoY in 2Q20. Kuwait cut KWD945mn (USD3.09bn) from expenditure in its budget for the 2020/2021 fiscal year as it was downgraded two levels to A1, the fifth highest investment-grade level and on par with China and Saudi Arabia for the first time by Moody's Investors Service due to increase in the government's "liquidity risks." The sovereign credit rating was cut two levels to A1, the fifth highest investment-grade level and on par with China and Saudi Arabia. In Qatar August statistics for banks reflected 6% increase in credit YTD driven by private sector. Oman followed the regional trend and announced to impose VAT from 2022 and introduced tax on sweetened drinks from October.

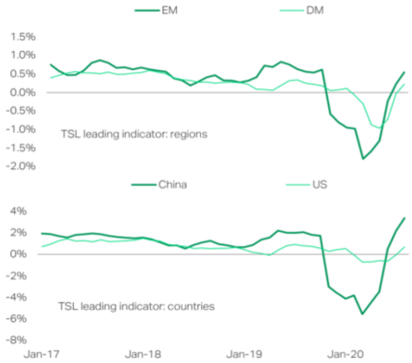
Saudi CMA allowed resident and non-resident foreigners to invest directly in listed and non-listed debt instruments, privatization transactions were recorded in the milling sector, petrochemical sector oversight was handed over to Ministry of Industries and partial exemption was granted from municipality rent. ARAMCO discovered two new oil fields, completed Hawiyah natural gas plant and slowed down diversification activities in response to deteriorated sector macros and SAMA extended deferred payment program by three months.

Brent declined 9.6% during the month, while MSCI Emerging Market Index went down by 1.8% and MSCI World Index registered 3.6% decrease. IAEA announced expectation of a weaker 2H 2020 in terms of oil prices and SAMA maintained the economic uncertainty stance. Throughout the month regional markets reacted to chatter amongst the retailers and to some extent the MSCI + FTSE rebalancing related possible outcomes.

Going forward, 3Q 2020 shows QoQ improvement but YoY configuration remains negative. Global petrochemical prices have shown improvement but still not up to the mark for justifying prevailing stock prices.

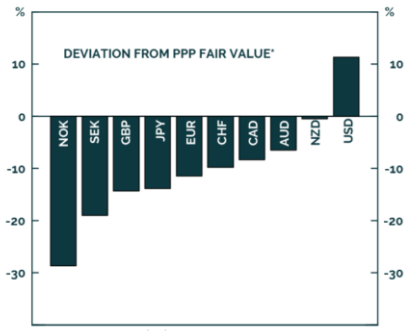
Retail sector may surprise on the positive side as individuals remained within the country and displayed an unusual buying pattern during 3Q 2020. However, retail is less than 5% of total market while banking at best will show flattish YoY trends for 3Q 2020. Therefore, we maintain cautious stance on the market as the possibility of a 10%-13% dip is very much on the cards.

Global Growth – Beat It



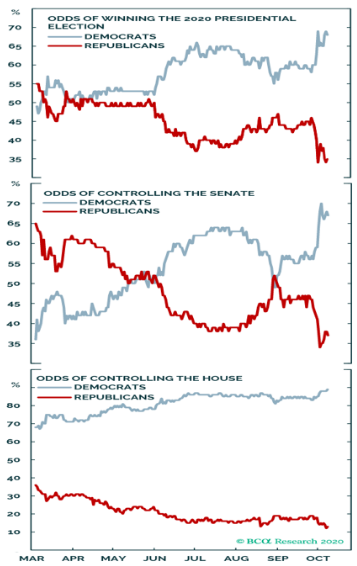
Source: TSLombard

The US Dollar – My Dearest Friend



Source: BCA Research

US Election – Against the Odds



Source: BCA Research

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GLOBAL MARKET INDICES

Region/sector	Index	Quote	MTD (%)	YTD (%)	1Y (%)	2Y (%)	3Y (%)	5Y (%)	10Y (%)	2016 (%)	2017 (%)	2018 (%)
World	DJIM World TR	7398.4	3.3	18.1	32.0	17.6	14.8	14.1	11.1	27.0	(7.0)	30.9
Developed	DJIDEV TR	4065.7	3.2	17.4	31.1	17.1	15.1	14.1	11.7	25.6	(6.2)	31.6
Emerging Markets	DJIEMG TR	5566.6	6.1	24.5	41.2	22.4	11.1	14.3	6.1	43.3	(15.0)	22.7
Saudi	TASI	8412.6	1.4	0.3	9.0	3.6	6.1	1.8	2.7	0.2	8.3	7.2
NAREIT	All REITS (EM Inc) TR	2626.5	4.0	(16.3)	(13.4)	0.4	0.3	3.3	5.2	15.0	(5.5)	23.6
GSCI	All Commodities	360.6	3.0	(17.3)	(9.9)	(14.8)	(2.8)	(1.0)	(4.4)	11.1	(15.4)	16.5
Currencies	Euro	1.1826	0.9	5.5	7.8	1.4	0.2	0.8	(1.6)	14.1	(4.5)	(2.2)
	Yen	105.62	(0.1)	2.8	1.8	3.4	2.2	2.6	(2.5)	3.8	2.7	1.0
	GBP	1.3036	0.9	(1.7)	6.8	(0.4)	(0.3)	1.1	0.6	9.5	(5.6)	3.9

Source: Global Data as end of 09 Oct 20. Saudi Market Data as end of 10 Oct 20

** All values beyond 1 year are annualized*

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