

January 2020

# GCC Market Outlook 2020

Rank	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	10Y Returns (CAGR)
1	Qatar 24.8%	Oil 13.3%	Dubai 19.9%	Dubai 107.7%	Qatar 18.4%	Abu Dhabi -4.9%	Oil 52.4%	Oil 17.7%	Qatar 20.8%	Kuwait 23.7%	Kuwait 1.2%
2	Oil 21.6%	Qatar 1.1%	Abu Dhabi 9.5%	Abu Dhabi 63.1%	Bahrain 14.2%	Kuwait -14.1%	Dubai 12.1%	Bahrain 9.1%	Abu Dhabi 11.7%	Oil 22.7%	Abu Dhabi 0.7%
3	S&P GCC 12.8%	KSA -3.1%	KSA 6.0%	Kuwait 27.2%	Dubai 12.0%	Bahrain -14.8%	Oman 7.0%	Kuwait 5.6%	S&P GCC 8.4%	Bahrain 20.4%	Qatar 0.7%
4	KSA 8.2%	S&P GCC -8.2%	Oil 3.5%	KSA 25.5%	Abu Dhabi 5.6%	Oman -14.8%	Abu Dhabi 5.6%	KSA 0.2%	KSA 8.3%	Dubai 9.3%	KSA -3.1%
5	Oman 6.1%	Abu Dhabi -11.7%	S&P GCC 3.2%	S&P GCC 25.0%	KSA -2.4%	Qatar -15.1%	KSA 4.3%	S&P GCC -0.5%	Kuwait 5.2%	S&P GCC 8.3%	S&P GCC -4.3%
6	Kuwait -0.7%	Oman -15.7%	Kuwait 2.1%	Qatar 24.2%	S&P GCC -2.5%	Dubai -16.5%	S&P GCC 4.2%	Abu Dhabi -3.3%	Bahrain 0.4%	KSA 7.2%	Oil -4.9%
7	Abu Dhabi -0.9%	Kuwait -16.4%	Oman 1.2%	Oman 18.6%	Oman -7.2%	KSA -17.1%	Kuwait 2.3%	Dubai -4.6%	Oman -15.2%	Abu Dhabi 3.3%	Bahrain -6.4%
8	Bahrain -1.8%	Dubai -17.0%	Qatar -4.8%	Bahrain 17.2%	Kuwait -13.4%	S&P GCC -17.4%	Bahrain 0.4%	Oman -11.8%	Oil -19.5%	Qatar 1.2%	Oman -6.5%
9	Dubai -9.6%	Bahrain -20.1%	Bahrain -6.8%	Oil -0.3%	Oil -48.3%	Oil -35.0%	Qatar 0.1%	Qatar -18.3%	Dubai -24.9%	Oman -7.9%	Dubai -7.5%



# Table of Contents

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## CHAPTER 1

### Executive Summary

## CHAPTER 2

### How our 2019 predictions fared?

## CHAPTER 3

### Looking Back at the Most Significant Events of 2019

Regional Events

Global Events

## CHAPTER 4

### GCC country-wise Performance Analysis - 2019

Saudi Arabia

United Arab Emirates

Qatar

Kuwait

## CHAPTER 5

### GCC Stock Market Outlook 2020

Economic Parameters

Earnings Potential

Valuation Attractiveness

Market Liquidity

## CHAPTER 6

# GCC Fixed Income Outlook 2020

Key Themes

What to expect in 2020?

Final Word

## CHAPTER 7

# Insights

GCC Capital Market Reforms in 2019

Saudi Aramco IPO Overview

## CHAPTER 8

# Five Key Questions to ponder upon as we move into 2020

1. How did all Asset Classes have double-digit returns despite the doom and gloom in 2019?
2. How far can Central Banks go before monetary policy becomes ineffective?
3. Is technology actually boosting productivity?
4. Climate Change, Push for clean energy, EVs – Will Oil demand ever pickup?
5. Is the global economy truly in late cycle?

## CHAPTER 9

# Appendix

# List of Tables

Table 1.1	GCC Stock Market Expectations 2020
Table 2.1	Stock Market Predictions in 2019 vs. Actual Performance
Table 4.1	Saudi Arabia – Snapshot
Table 4.2	United Arab Emirates (UAE) – Snapshot
Table 4.3	Qatar – Snapshot
Table 4.4	Kuwait – Snapshot
Table 5.1	Real GDP Growth (in %)
Table 5.2	Real Oil GDP Growth Rates (in %)
Table 5.3	Real Non-Oil GDP Growth Rates (in %)
Table 5.4	Inflation
Table 5.5	Fiscal Balance
Table 5.6	Current Account Balance
Table 5.7	Gross Debt
Table 5.8	Economic Parameters Summary 2020
Table 5.9	Earnings Growth Summary
Table 5.10	Valuation Parameters Summary
Table 5.11	Stock Market Turnover Ratio (value traded/market cap)
Table 5.12	Overall Market View for GCC region
Table 6.1	GCC Bonds offer the highest risk-adjusted returns
Table 7.1	Saudi Aramco Income Statement
Table 7.2	Largest International IPOs
Table 9.1	Yearly Asset Class Returns in the past decade
Table 9.2	Blue Chips Performance
Table 9.3	Mid Cap Performance
Table 9.4	Small Cap Performance

# List of Figures

---

Figure 1.1	3-Yr Risk-Return Profile of Equity Indices (2016 - 2019)
Figure 4.1	Asset Classes: Risk-Return Profile 2019
Figure 5.1	Four – Forces Framework
Figure 5.2	Earnings and Growth in GCC region, 2012- 2020 (USD Mn)
Figure 5.3	Value traded (in USD bn) and Turnover Ratio (in %), 2005-2019
Figure 6.1	GCC bonds outperforms other fixed income categories in 2019
Figure 6.2	Sovereigns dominated the Eurobond Issuance from GCC region
Figure 6.3	Debt trumps equity in garnering capital, GCC non-resident capital inflows
Figure 6.4	Saudi Arabia and UAE, Debt level (as GDP per cent)
Figure 6.5	Upcoming bond redemption and loan maturities
Figure 6.6	Aramco inaugural debt offering turned out to be the most oversubscribed EM issue
Figure 6.7	Reserves & Expenditure Coverage
Figure 6.8	Risk as measured by Credit Default Swap (CDS) spreads for the year have fallen
Figure 7.1	Saudi Aramco Stock Performance
Figure 8.1	Labor Productivity growth in Major economies by GDP per hour worked (in %)

# Executive Summary

**Table 1.1: GCC Stock Market Expectations 2020**

Title	KSA	Kuwait	Abu Dhabi	Dubai	Qatar	Oman	Bahrain
Economic Factors	Neutral	Positive	Positive	Positive	Positive	Neutral	Negative
Valuation Attraction	Neutral	Neutral	Positive	Positive	Neutral	Positive	Positive
Earnings Growth Potential	Neutral	Neutral	Neutral	Positive	Neutral	Negative	Neutral
Market Liquidity	Positive	Neutral	Negative	Negative	Negative	Negative	Negative
<b>Overall Market View</b>	Neutral	Neutral	Neutral	Positive	Neutral	Negative	Negative

*Source: Marmore Research; Economic factors have been considered for UAE as a whole*

Our outlook for GCC Equity market for 2020 is neutral amidst expectation of oil prices remaining around 2019 levels, in the range of USD 61-65 per barrel<sup>1</sup> and moderate improvement in corporate earnings and non-oil sector growth supported by government spending. The outlook is based on evaluation of the countries across four key parameters – economic factors, valuation attraction, corporate earnings growth potential and market liquidity.

Economic conditions in the Gulf region are expected to moderately improve in 2020. As muted oil price outlook indicates lower oil GDP growth, GCC governments' expansionary spending is expected to aid non-oil economic growth while global economic conditions also seem conducive. Government finances are expected to be strained given the lower oil price outlook and proposed government spending plans. Fiscal position has weighed on the economic outlook for Saudi Arabia, Oman and Bahrain.

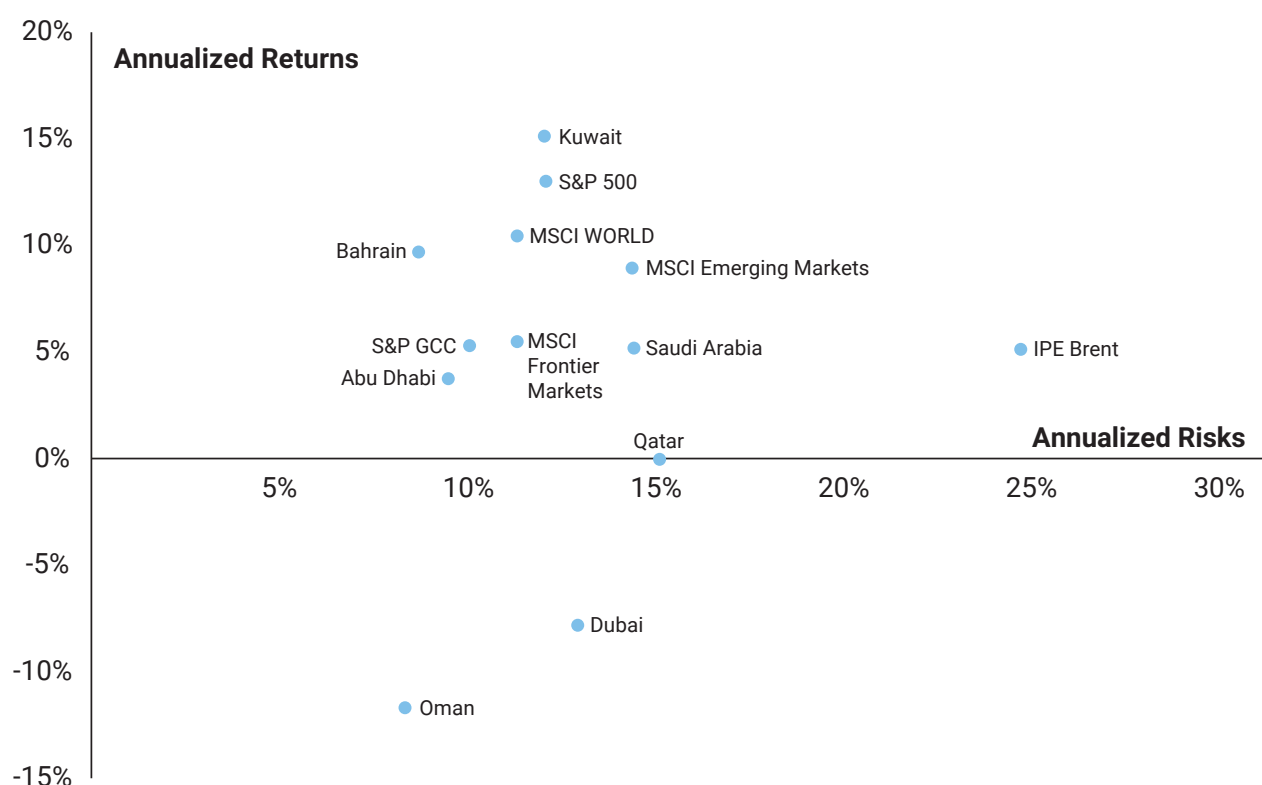
Growth in the overall corporate earnings for GCC countries is expected to be modest for 2020. Banking sector is well placed to support corporate earnings growth. While expectations of profit realization and credit growth remain, profitability might be under slight pressure because of lower interest rates. Real estate and construction could perform slightly better in 2020 given the measures taken by different stakeholders and the proposed government spending. Commodities are expected to perform moderately better with phase one of U.S-China trade deal agreed upon and decisive U.K elections supporting quicker resolution of Brexit issue.

<sup>1</sup> Source: Estimations by U.S. Energy Information Administration (EIA), Goldman Sachs, JP Morgan and S&P Global

From a valuation perspective, apart from Saudi Arabia, Kuwait and Qatar, rest of the GCC markets seem attractive. For Saudi Arabia, with earnings growth tending towards negative in 2019, higher P/E seems to be mainly because of fund inflows following index inclusions and market activity around listing of Saudi Aramco despite. Following Kuwait's MSCI upgrade scheduled for May 2020, it is also expected to post a higher P/E with increased fund inflows. Liquidity levels in Kuwait have increased while Saudi Arabia, which boasts of higher liquidity levels compared to its GCC peers, was able to maintain its liquidity at 2018 levels. Liquidity in other markets are low, and almost flat from 2018 values.

At the start of 2019, we were positive on Kuwait and UAE and neutral on Saudi Arabia and Qatar. Except UAE, other markets had moved in line with our expectations. Kuwait markets have gained 23.7%. This strong performance was mainly because of the capital market reforms, S&P index inclusion and expectation of inclusion in the MSCI Emerging Markets Index. UAE's performance has been neutral with Dubai posting higher gains than Abu Dhabi. Banking sector has supported gains in Dubai markets. Despite the government's stimulus package of USD 13.61 billion, Abu Dhabi markets have realized modest gains at 3.3% and an earnings growth of 1.7% for the first nine months of 2019. Saudi Arabia has gained 7.2%. This seems to be mainly because of fund inflows following index inclusions and market activity around listing of Saudi Aramco despite weaker earnings. Qatar has gained modestly in line with our expectation on the back of weak earnings growth. This low growth has followed gains of 20.7% in 2018.

**Figure 1.1: 3-Yr Risk-Return Profile of Equity Indices (2016 - 2019)**



Source: Reuters Eikon, Marmore Research

As we step into 2020, the outlook for GCC fixed income asset class looks promising. High positive yields, better risk-adjusted returns, currencies that are pegged to USD and improving credit quality on back of rising oil prices augur well for their improving stance. On the other hand, investors are wary if the increasing oil prices could lead to a sense of complacency on the reforms front. Alternatively, prudent fiscal management measures for Oman and Bahrain would be watched keenly. The region is geopolitically volatile and continues to witness attacks and counterattacks, on key targets including oil infrastructure and facilities. The recent air strikes by U.S has further escalated the prevailing tensions in the region and has ratcheted up geopolitical premiums.

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