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GCC Stock Market Outlook 2020
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GCC Fixed Income Outlook 2020
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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%

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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	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
Overall Market View	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[1] 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.

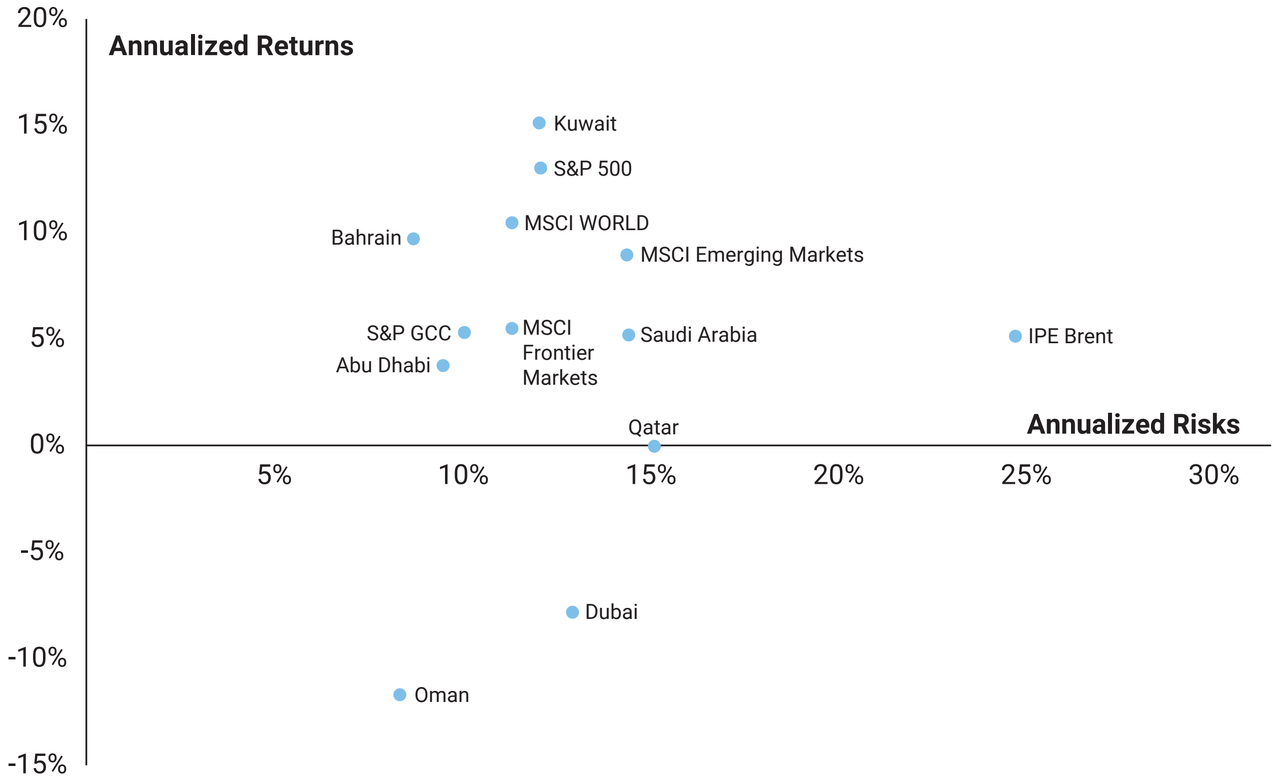
Growth in the overall corporate earnings for GCC countries is expected to be modest for 2020. Banking sector is well placed to support corporate earnings growth. While expectations of profit realization and credit growth remain, profitability might be under slight pressure because of lower interest rates. 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.

[1] 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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