SHUAA

SHUAA 2024 Outlook

Content

01 **Key Themes for 2024**

02 **Global Economy**
Aarthi chandrasekaran
Director, Investments

03 **Global Equity Markets**
Jacob Robbins
Senior VP, Global Equities

04 **GCC Economy and Markets**
Mohammad Kamal
VP, GCC & KSA Funds

Key Themes for 2024

Key themes for 2024

Lower yields, and steeper curve by end of 2024

With the Federal Reserve expected to maintain rates at a steady level until mid-year and economic growth projected to significantly slow down, fixed income appears to offer a substantial advantage over alternative investment opportunities in the coming year. We anticipate the 10-year yield to range between 3.5% to 3.75% by the end of 2024. However, we foresee rates undergoing a reversal in the first quarter of 2024 due to the current disparity between the US economic landscape and the near-term inflation outlook.

In anticipation of moderated growth, we anticipate spread decompression and, therefore, advocate trading with a long duration and a preference for higher-quality credits. We anticipate a 50 basis points widening in High Yield spreads, driven by inflated valuations and spreads not factoring in the potential for increased defaults amid reduced growth. On the other hand, we expect Investment Grade spreads to remain relatively steady or slightly tighten.

Fed May Lead Rate Cuts in Developed Markets

We believe that the Fed and the ECB may exhibit different inclinations toward initiating easing measures. Despite the macro-outlook and weaker growth potentially prompting the ECB to consider easing sooner, we anticipate that concerns about persistent inflation and uncertainties surrounding wage dynamics will lead the ECB to delay easing. Our perspective is that the ECB is unlikely to commence the easing process unless there is a reasonable conviction that rates can be brought back sustainably closer to 2%.

Conversely, we posit that the Fed could initiate the easing process earlier, possibly by summer, given the higher policy rate and be the first to tighten rates. We expect the Bank of England (BOE) to be the last among the major central banks, as the UK lags behind the US and Eurozone in terms of inflation reduction.

Dollar likely to be the king, in all scenarios in 2024

We anticipate the USD to emerge as a more favorable trade option for the year, irrespective of whether economic times are prosperous or challenging. While the dollar might rally if the US sustains its current growth trajectory—though not our primary assumption—if there's anticipated economic weakness in the US, we foresee a more pronounced slowdown in growth outside the country. This scenario suggests a more favorable outlook for the dollar.

For a notable depreciation of the dollar, the Federal Reserve would need to execute more substantial rate cuts compared to its counterparts in the Eurozone. Moreover, non-US growth would need to outperform, which currently seems improbable in the near term, given the stagnant Eurozone growth and poor data from China. Consequently, the near-term direction of the dollar will probably hinge primarily on US growth and inflation data. That being said, another promising trade prospect for 2024 might be the JPY, given its weakness observed in 2023. This trend could potentially reverse if the Bank of Japan ventures beyond its conventional approach.

Oil outlook remains weak

Brent was down 10% last year, pressured by rising non-OPEC supply, the bleak demand outlook and uncertainty around OPEC+ compliance with pledged cuts. The IEA lowered oil demand growth forecast for 2024, while fossil fuel phase-out obligations under COP 28 add medium term demand growth pressure. Continued downgrades to growth expectations in China, coupled with very transitory geopolitical risk premia in oil prices in October/November, suggest that upside risks to oil prices are modest. The front end of the oil futures remains in contango, signaling weak near-term demand growth. Given this backdrop, we expect OPEC+ to extend its output cuts -- and even deepen them -- until the end of 2024 to support prices above $70 a barrel.

US Equity markets to outperform DM/EM in 2024

Although the valuation in the US appears expensive (S&P trading at 19.7x), we believe the setup into 2024 seems balanced. The benefits of falling yields and potentially multiple rate cuts (in 2H24) from central banks will likely offset a possible deterioration in the operating environment as economic growth slows.

We continue to favor quality growth names, particularly technology companies in software and semiconductors, along with weight loss drug companies. However, our expectation of falling yields and a more defensive mindset should also lead to staples and healthcare names performing well, especially after being out of favour last year. Valuations in non-US equities (Eurozone) are now much more reasonable compared to history as we enter 2024, but weaker economic growth relative to the US could keep valuations subdued.

Equities in China and the EM wider region appear to offer good value at current levels but require fundamental improvements for outperformance.

Saudi equities offer the best growth potential in GCC

The outlook for GCC markets in 2024 is moderately positive, as the macroeconomic picture remains robust in KSA and UAE, despite a weak oil outlook, whereas growth catalysts remain less convincing in Qatar, Oman, and Kuwait.

Strong fiscal buffers in KSA suggest that 2024 may be the year that large project Capex finally ripples through into tangible corporate earnings growth in key sectors. Petrochemicals continue to face weak global fundamentals in 2024, but hydrogen energy applications and feedstock advantages can position regional producers as long-term winners.

Nevertheless, lower rates, weaker oil, and a preexisting valuation premium will render it difficult for KSA equities to outperform broader EM in 2024. In the UAE, at the fiscal level, Abu Dhabi continues to enjoy substantial buffers, even with oil at sub-USD75/barrel, while Dubai has also indicated an expansionary stance for 2024. The key downside risks in our view emanate from the UAE's sensitivity to the global growth outlook, where a slower world economy would directly impact trade, tourism and property demand. We are positive on infrastructure plays in the utilities space, secular growth themes in healthcare and education, and key plays on mobility, travel, and tourism in KSA and the UAE.

Global Economy

> "It always looks like soft landing, until it isn't. We foresee an impending economic reset, with larger uncertainties looming. History consistently reminds us that challenges often arise unexpectedly, lurking in the areas we least expect."
>
> \- Aarthi Chandrasekaran

Something needs to give in ...

In 2023, the US economy defied earlier recession predictions, demonstrating remarkable resilience and robust growth that exceeded expectations. This resilience was driven by vigorous consumer spending, supported by sustained job expansion and rising real wages. Notably, despite tighter monetary policy, easy fiscal policy countered its impact, leading to the federal deficit on a cash-flow basis expanding from 3.7% of GDP in FY 22 to 7.4% in FY 23.

Last year marked historical milestones, particularly in real private manufacturing construction investment, reaching its highest level since 1958. Furthermore, manufacturing construction made its most substantial contribution to year-on-year real GDP growth on record. Despite a decline in inflation, the job market maintained a stable growth pace with low unemployment rates. Additionally, a noteworthy trend in 2023 was the deceleration of inflation, largely attributed to improving dynamics within supply chains.

The global economy echoed this resilience throughout 2023, setting the stage for a promising 2024. Looking ahead, it's crucial to analyze the key factors underpinning this resilience, shaping the much-anticipated soft landing in the coming year.

Is consumer spending sustainable in 2024?

The spending habits of US consumers, buoyed by a robust job market, positive real disposable income growth, and strengthened household balance sheets, are showing signs of strain.

The slowdown in credit card spending during the latter half of 2023 is notable, yet default rates have not significantly surpassed pre-pandemic levels. However, concerning figures from the Federal Reserve reveal a substantial increase in non-housing loan balances, reaching around $4.8 trillion, with over $500 billion amassed in just the last two years—the most significant leap recorded since 2003.

Furthermore, credit card balances have surged by approximately one-third over this period, with an average annual interest rate soaring to over 22% by the end of 2023, suggesting a potential $40 billion increase in interest payments on these balances in the coming year. Going forward, we expect that consumers will prioritize paying off historically high outstanding balances over making new purchases.

This shift might be exacerbated as the surplus savings accumulated during the COVID years are nearing depletion. According to the Federal Reserve Bank of San Francisco, out of an excess savings pool of $2.1 trillion, nearly $1.9 trillion has already been spent. Overall, we anticipate a potential downturn in consumer spending as consumers grapple with balancing their financial obligations amidst escalating debt burdens and diminishing savings.

Can business investments continue at same pace ?

In the third quarter of 2023, real GDP growth surged to 3.0% year-over-year, driven by substantial increases in government spending, resilient investment expenditure, inventory restocking, and improvements in international trade.

However, we anticipate a potential slowdown in these areas in the near to medium term. This projection arises from significant pressure on the Federal government to address the fiscal deficit and an expected cautious approach by businesses in their investment decisions. We foresee a more selective approach in business capital spending, with a notable focus on areas such as artificial intelligence and semiconductor manufacturing, rather than widespread investment across sectors. Concurrently, certain sectors may experience a decline as businesses respond to rising interest expenses and a deceleration in revenue growth.

Considering the combined impact of reduced government spending and selective corporate investments, we anticipate potential challenges to sustained economic expansion in the foreseeable future.

How long can Labor market remain hot?

The US labor market is displaying signs of a slowdown influenced by two primary factors. Firstly, there's a notable decline in job vacancies, often an early indicator preceding an economic downturn. Despite an apparently low unemployment rate of 3.7%, the weakness in the labor market arises more from reduced job openings rather than an increase in the number of unemployed individuals. Analysis from the US Bureau of Labor Statistics reveals a substantial drop in available jobs, plunging to 8.7 million by the end of November, marking the lowest level since March 2021 and signaling a departure from the previously robust labor market cycle.

Second, job creation, particularly outside the government sector, hospitality, and healthcare, is showing weakening trends, notably amongst private sector jobs and white-collar professionals Additionally, we might witness reduced job creation due to weakness in consumer spending, which could impact the demand for goods and services. This could lead to decreased production needs and potentially result in layoffs or a slowdown in hiring, subsequently increasing unemployment rates.

Disinflation, will it last?

The prospect of continued disinflation, particularly concerning goods prices, appears to have peaked. It's important to acknowledge that much of the previous surge in inflation (observed from 2021 to 2022) was a result of adverse supply-side impacts, which are now diminishing. We believe that a significant additional decline in inflation during the first half of 2024 is unlikely.

Recent observations indicate that core inflation (responsible for driving disinflation last year), excluding volatile energy and food prices and is slowing down at a more gradual pace than previously expected. This slowdown reinforces the expectation that the downward pressure on core good prices will soon stabilize. Regarding service inflation, the core service Consumer Price Index (CPI) moderated around the middle of last year and has since remained relatively stable, hovering around 4.5%, approximately 2% higher than pre-pandemic levels.

While we anticipate a slight deceleration in service inflation, it is likely to persist at elevated levels. We are further seeing cost push inflation in the pipeline, driven by ongoing tensions around the redsea, that is going to keep the lid on the disinflationary trends we have been seeing in last few months

In summary, while the intense disinflationary trends in goods may begin to ease, service price inflation is expected to remain relatively high, while the ongoing geopolitical tensions around the redsea could contribute to sustained inflationary environment.

Why sharp economic downturn can't be ruled out?

The resilience demonstrated by the economy in 2023 has sparked hopes for a soft landing in 2024. However, doubts about the likelihood of such a smooth transition arise from several critical factors. Firstly, the substantial global tightening of 384 basis points (bps) between 2022 and 2023 is expected to exert considerable pressure on corporate and consumer balance sheets. Anticipated slowdowns in global GDP are foreseen due to tighter monetary policies and heightened yields.

Furthermore, the growth momentum in the US service sector, which initially benefited from normalization after the COVID-induced downturn, has now slowed. Meanwhile, the manufacturing sector has remained relatively subdued over the past three quarters. Additionally, a significant 141% year-on-year spike in U.S. commercial Chapter 11 filings to 842 in November 2023 (compared to 1400 during the Global Financial Crisis) indicating mounting challenges driven by higher interest rates and stricter lending standards.

Moreover, indicators such as GDP growth surpassing Money supply (M2) growth for an extended period, coupled with Net Saving as a percentage of Gross National Income turning negative in the US, historically align with U.S. recessionary environment. Similarly, the US Leading Economic Index (LEI) witnessed a 0.5% fall in November 2023, marking an unprecedented 8% contraction this year, suggesting an increased likelihood of a sharp slowdown in 2024.

The overall assessment points towards a higher likelihood of an economic downturn characterized by more significant and adverse outcomes, contrasting with the milder impact associated with a soft-landing scenario.

A steeper slowdown could entail deeper economic contractions, elevated unemployment rates, decreased consumer spending, weakened business investments, and potentially more severe disruptions across various sectors of the economy. Addressing such a scenario would demand substantial efforts from policymakers to mitigate its impact. Brace for potential challenges ahead. Buckle-up for a ride!

Global Equity Markets

> *We favour the quality growth names, namely the usual technology names in software and semiconductors, along with the weight loss drug companies.*
>
> \- Jacob Robbins

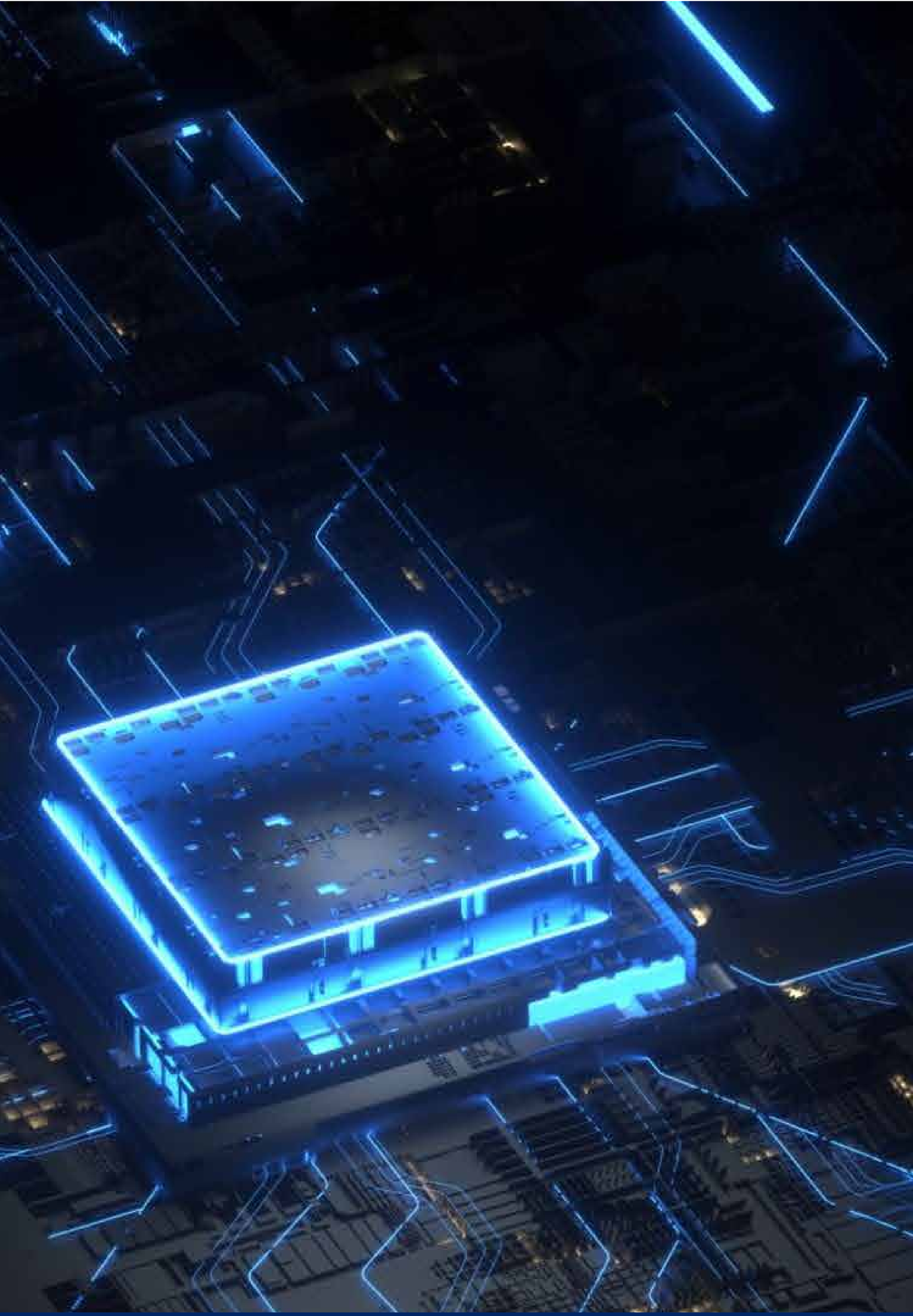
Equity market performance over 2023 surprised many with its strength despite the headwinds of higher yields and slowing economic data. Admittedly performance was very narrow, centred on the Magnificent 7 which include large cap US tech stocks such as Microsoft and Apple. A sudden surge in demand for AI hardware and subsequent demand for cloud services and generative AI enabled software did see the rally broaden out later in the year into the wider technology sector, particularly into software.

After a very weak 2022 the technology sector entered the year with valuations that were much more reasonable than during the pandemic bubble. Most large cap stocks have subsequently rerated and now sit above their long-term averages, although with very strong earnings upgrades Nvidia has actually derated despite its 239% performance last year.

Outside of technology related sectors however markets have generally struggled, with all other sectors underperforming. High quality defensive names were unloved despite strong earnings due to the market preferring to focus on higher growth tech. Cyclicals were held back by the generally lacklustre economic growth in most parts of the world outside of the US.

Non-US equities were much less buoyant due to weaker economic fundamentals and a general lack of large technology names within their indices. Valuations in non-US equities are now much more reasonable compared to history as we enter 2024 with the potential for sentiment to improve if economic growth turns a corner over the year.

China had an extremely poor year, underperforming substantially as an anticipated strong economic recovery post their prolonged covid lockdown failed to materialise. China is suffering a property crisis as years of over supply and huge debt levels is resulting in falling prices and low consumer confidence. As of yet the government has also failed to meaningfully stimulate the economy, a necessary action to restore investor sentiment.



Outlook

Going into 2024 it is hard to ignore the technology sector due to strong secular growth trends of AI, cloud computing and digitalisation. The outsized returns that we have had this year seem unlikely to be repeated however. Valuations have a higher starting base and expectations have risen, but revenue and earnings growth should continue to be robust enabling solid performance from the sector.

More cyclical end markets in technology like memory chips are showing signs of stabilising and are beginning to improve. The inventory built up post pandemic looks to have been worked through so the likes of Samsung Electronics and TSMC should begin to see a much better demand backdrop for their broad range of semiconductor products.

AI beneficiaries should continue to experience strong tailwinds to revenues and earnings, albeit the shock factor that we saw from Nvidia's first quarter results and subsequent forecast is unlikely to be repeated. The outlook for the data centre providers such as Microsoft, Google and Amazon remains strong, and the software sector has begun offering generative AI enabled products that demand significant premiums to their existing fees. Adobe, ServiceNow, Salesforce and Elastic are examples of software makers seeing growth accelerate around their AI products.

Elsewhere weight loss drug makers Novo Nordisk and Eli Lilly will likely continue to attract attention as they boost capacity to meet large expected demand. However, the rest of the health sector has largely been disappointing over worries that the populations health will be much improved and require less medication for existing illnesses. This seems a little unlikely, at least in the short term. As the economy slows then the relative defensiveness and attractive valuations should see this sectors performance improve.

Stocks such as Pfizer have been particularly punished as their covid products run off but the market currently gives no credit for their improved pipeline. Merck has also done little despite continued strong growth in their oncology and vaccine divisions. Demand for medical instruments should also improve after a poor 2023 helping Thermo Fisher and Danaher. Demand was weak due to lack of funding for Biotechs as yields rose, a situation that is now improving.

Similarly the consumer staples sector has lagged despite good results as higher yields weigh on the sector that can be seen as a bond proxy. If rates continue to fall then this could act as a tailwind for the sector. Also if the economic news deteriorates then the relative defensiveness of the sector should benefit companies such as Pepsi, Coke and P&G.

Outlook

Businesses involved in the transition to sustainable energy may be in focus after a relatively disappointing 2023 as higher rates and weaker economic activity dragged on growth. The medium and long term outlook for the sector remains strong though and with much more attractive valuations EV battery makers such as Samsung SDI and LG Chem should see sentiment improve. Silicon Carbide manufacturers like Fuji Electric and Infineon should see continued strong demand, and wind turbine maker Vestas will see their order book grow on the back of the IRA programme in the US and similar funding from the EU in Europe.

Recently cyclical equities have rallied as yields have fallen. However, whilst several price cuts are now priced into expectations, this implies a significant deterioration in economic growth which would be negative for their earnings outlook. It feels too soon to be buying cyclicals given the earnings downgrade cycle is only just beginning. As the economy approaches an inflection point as central banks actually cut rates then that would prove to be a more attractive time to buy value and rotate out of the quality and growth sectors.

Energy and Basic Materials have struggled of late due to weakness in commodity prices as China continues to suffer due to their large and indebted property sector and the rest of the global economy slows. Again, an improvement in the economic outlook is probably needed for this to reverse.

Chinese equities have been very weak last year and require a much more forceful response from the government to reverse their poor economic performance. Equities in China and the wider region look very good value at current levels but really need the fundamentals to improve for shares to begin to outperform.

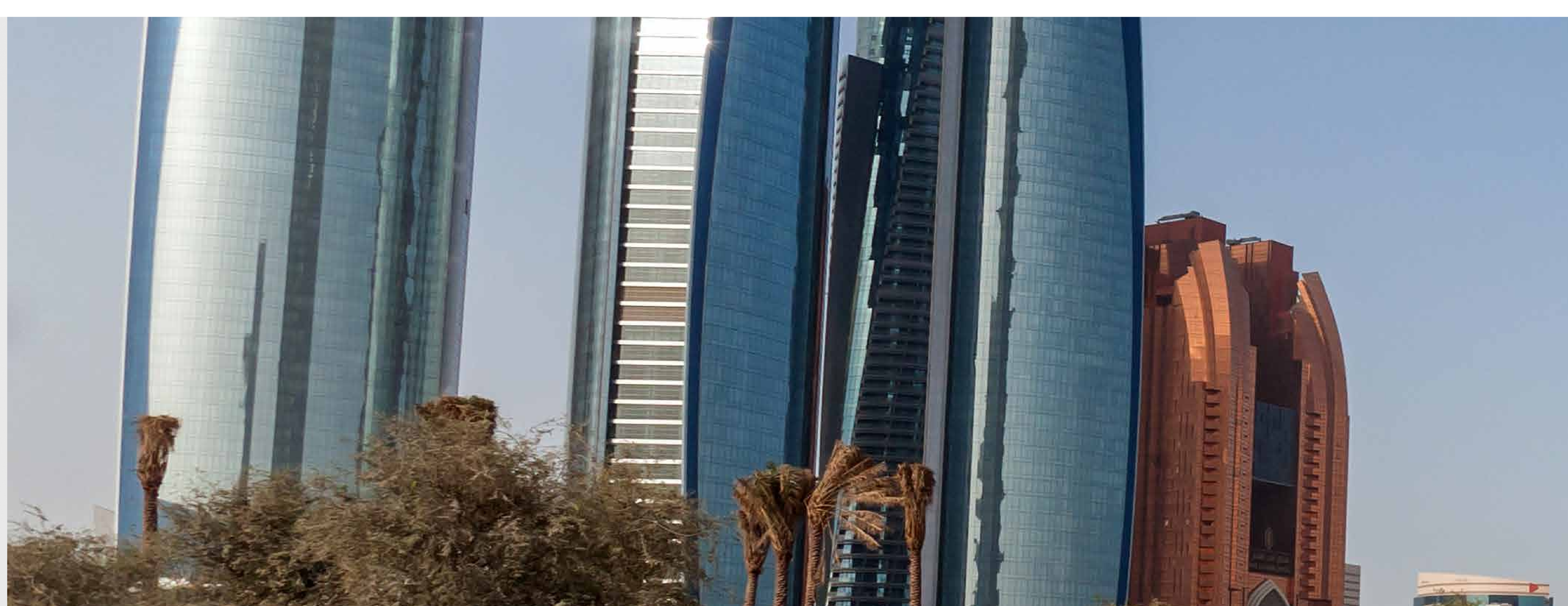
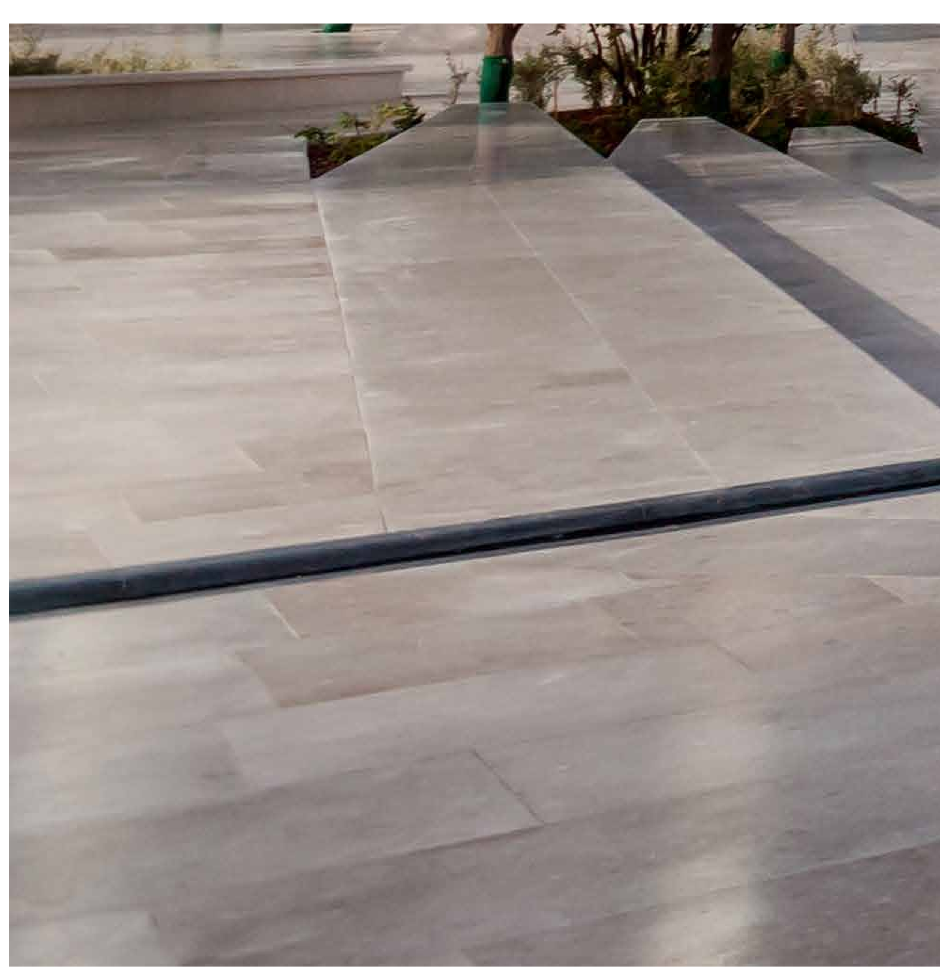
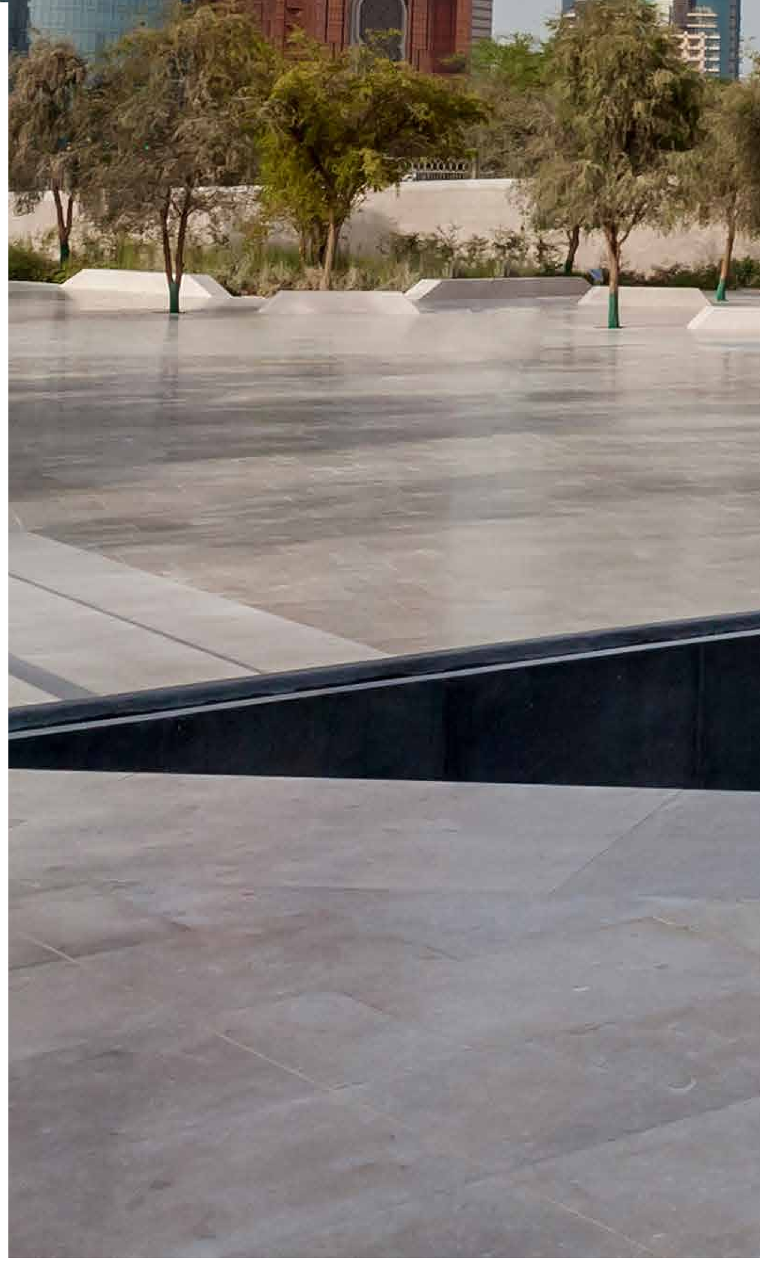
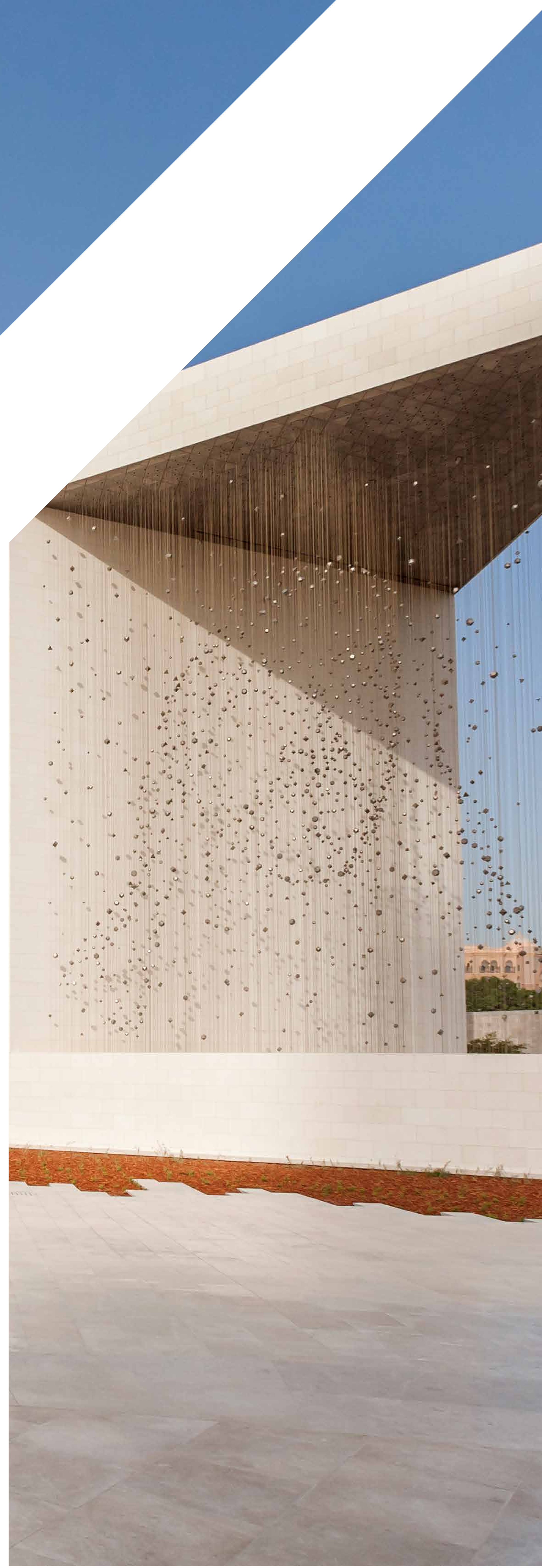
Summary

Overall, the set up into 2024 appears balanced with the benefits of falling yields and potentially multiple rate cuts from central banks offset by a likely deterioration in the operating environment as the economy slows.

Initially we would favour the quality growth names, namely the usual technology names in software and semiconductors, along with the weight loss drug companies. Falling yields and a more defensive mindset should also see staples and healthcare names perform after being out of favour last year. Cyclicals feel too early given likely significant downgrades to their earnings expectations.

However, they do offer good value both in absolute and relative terms, so I would look to pick up the better-quality cyclicals in industrials, materials and energy when central bank easing appears to be stabilising the global economy.

GCC Economy and Markets

> "KSA holds the strongest set of growth catalysts in MENA: strong fiscal buffers, a commitment to reforms along the Vision 2030 plan, massive project Capex mobilization and continued social evolution drive a long-term domestic demand growth story."
>
> \- Mohammad Kamal

The DFM and TASI outperformed MXEF in 2023, emerging relatively unscathed from a year characterized by seismic shifts in macroeconomic and geopolitical risks, weak commodity markets, and cyclical swings in key sectors. The next 12 months however hold further uncertainty, dictated by (i) the course that Fed rates will take, (ii) the oil outlook, (iii) the dissipation/escalation of regional war risks, and (iv) the resilience of domestic spending targets.

KSA holds the strongest set of growth catalysts in MENA: strong fiscal buffers and commitment to reforms along the Vision 2030 plan (despite implied fiscal deficits), massive project Capex being mobilized (via PIF and public entities) and continued social evolution that has driven a long-term domestic demand story. At an estimated breakeven oil price of USD 85-87/barrel, the KSA budget remains in a comfortable position vis-à-vis oil volatility in 2024.

A declining rate environment favors retail banks, but the bulk of lending growth potential remains squarely in the corporate space, rendering no major KSA bank perfectly positioned. Petrochemicals continue to face weak global fundamentals in 2024, but ammonia and hydrogen energy applications and feedstock advantages can position regional producers as long-term winners. Lower rates, weaker oil, and a preexisting valuation premium will render it difficult for KSA equities to outperform broader EM in 2024. Foreigners, despite overall net buying in 2023, remain underweight KSA.

In the UAE, the DFM strongly outperformed the ADX in 2023, building on cyclical growth in key sectors (property, tourism, financials), a rotation in foreign buying interest from ADX heavyweights to Dubai growth proxies, and a resultant deleveraging at the government level. However, we do not see the next growth catalyst on the horizon for 2024, aside from the perpetuation and potential exhaustion of current themes. UAE property and financials may soon find growth out of reach.

Qatar post-FIFA World Cup year was to some, an anticipated disappointment. As of the time of writing, the DSM is on track to close the year -1.6%, while market ADTV has receded y/y. Foreign interest has been weakened by weak corporate earnings growth.

The market's lack of depth and the small relative size of the non-oil sector may impede a resurgence of foreign buying interest in 2024. Valuations are however undemanding on aggregate, but discounts to MENA can be accepted on the absence of meaningful growth catalysts for corporate earnings in 2024. This is turn was a function of weak product spreads and declining chemicals prices for IQCD, and rising costs of risk for mid-sized financials.

Given the most recent state budget figures that project an 11% revenue drop and reduced Capex spending, do not bode particularly well for lending growth in 2024. The promised USD 19bn post-World Cup spending package, intended to boost non-hydrocarbon growth, does not seem to feature in the new budget. Consequently, we see an absence of growth catalysts in Qatar in 2024, despite a surplus of 4-5% of GDP and significant sovereign deleveraging.

Kuwait's new Emir, Sheikh Mishal al-Ahmad al-Sabah, may push forward a reform agenda and help the country overcome parliamentary inertia vis-à-vis much needed and long-delayed infrastructure spending.

The country's strong fiscal position should remain unchanged in 2024, barring oil shocks. Strong SWF investment income should bolster state coffers and mitigate the impact of potentially lower oil prices in 2024. Kuwait ran an considerable surplus of 12% of GDP in 2023 (excluding investment income), and modest deficits can be readily offset by the General Reserve Fund, which in turn would benefit from fiscal reforms and a new debt law.

At an equities markets level, Kuwait has considerably underperformed the GCC peer set in 2023, due in no small part to a y/y decline in market turnover and an absence of foreign buying interest. On forward multiples, the market has de-rated and continues to trade at a discount to KSA and UAE. As is typical at the outset of the year, yield-seeking should precipitate a seasonal outperformance of dividend play in Q1 2024.

Key themes and questions for 2024

KSA project spending

On paper, the USD 1.5tn in project Capex over the next 15 years in KSA remains subject to modest execution activity in the next 12 months. Nevertheless, preparation for highly publicized global events (Expo 2030, FIFA World Cup 2034) should ensure greater adherence to completion timelines than was previously the case. KSA's megaproject program, through a series of geographically dispersed projects (16 in total) designed to stimulate and diversify the economy, are mostly owned and financed by PIF from its own balance sheet.

Even a small quotient (5%) is sufficient to substantially engage several sectors that are well represented on equity markets, and the levers for accelerated execution are increasing. We watch closely for PIF tenders in the residential, leisure, and hospitality, and public works segments going into 2024, and play the usual suspects (cements and building materials) in addition to power grid suppliers (cables and wires).

The recently announced delays to projects by 3-4 years are a welcome acknowledgement of the capacity limitations in both materials and labor, as this would avert supply bottlenecks, inflation and cost overruns, all of which are hallmarks of previous disappointments in the construction story in KSA. We note that a declining rate outlook can reinvigorate KSA's housing and mortgage lending sectors.

UAE Property and Tourism

The UAE economy enjoyed a thorough post-pandemic recovery, capitalizing on external sources of demand, including waves of new residents and tourism, a strong fiscal position, and pro-business policymaking. There are no indications that these drivers are likely to disappear soon, though we have expressed our concerns over residential property prices and yields in our recently published commentary. Though transaction volumes and value continue to reach new heights, we note that previous downturns were preceded by similar price dynamics.

Dubai's commercial real estate sector, however, is likely to remain on firm footing, given supportive macroeconomic and existing office supply figures. On the tourism front, current visitation numbers modestly exceed pre-pandemic levels, and feeder markets have become diversified. All in, the outlook for Dubai remains positive, though catalysts that would drive the story beyond the existing status quo are not currently visible.

At the fiscal level, Abu Dhabi continues to enjoy substantial buffers, even with oil at sub-USD75/barrel, while Dubai has also indicated an expansionary stance for 2024. The key downside risks in our view emanate from the UAE's sensitivity to the global growth outlook, where a slower world economy would directly impact trade, tourism and property demand.

GCC Banks are vulnerable in 2024

We see moderate credit demand growth in 2024, primarily in KSA, via corporate and GRE lending. This is negatively impacted by a high base, and weaker prospects for retail credit growth. Consumer loans hold medium growth prospects as rates recalibrate downwards and boost retail and housing loan demand. In the UAE, excess liquidity may increasingly find its way towards cross-border lending (as was the case in Q4 2023), into KSA.

In Qatar, we expect to see muted LNG Capex and weak demand across the remainder of the economy due to overcapacity, while fiscal spending should remain limited despite budget surpluses, precipitating low loan growth. Nevertheless, Qatari and Kuwaiti banks remain relatively insular to rates. We see a base case of NIM compression and slight deterioration in asset quality across the board, though select banks in KSA remain resilient to rates, while others are beneficiaries as the cost of funds falls faster than asset yields.

Capital ratios remain strong in GCC banks, while cost of risk may tick upwards. Incoming corporate taxes in the UAE bring into question the sustainability of dividend payouts, and any surprises will likely impact valuations.

Structural barriers to growth in Chemicals

The petrochemicals sector continues to face structural oversupply in the long run, with near term product spreads impacted further by global demand weakness.

The outlook remains dire for polypropylene and MEG. Commodity cycle indicators, particularly in the manufacturing sector, continue to signal contraction. Supply growth over the medium-term render margin upside in the event of a recovery limited.

Fertilizer producers appear exposed to demand-supply imbalances, but deeper value can be found in select petrochemical names in KSA.

Evolving Consumer sector dynamics

Both consumer staples and discretionary names should benefit from the combined impact of lower commodity prices and pricing increases, benefitting from the strong macroeconomic backdrop and growth outlook. Outside of the base thesis of increasing household income and spending in KSA, two key short- and long-term developments should impact our risk allocation in 2024.

Firstly, the impact of consumer boycotts in the context of ongoing regional geopolitical instability should not be underestimated, at least in the next 2-3 quarters, and particularly if hostilities continue into the year or expand in scope. Several discretionary consumer names that are linked to global brands impacted by boycotts trade at historical multiples that price in growth and RoE sustainability. That thesis should be tested in the first half of the year, in our view.

Secondly, we note the reversal of some resource management policies in KSA that impact the agricultural and animal feed supply chain, in turn changing the relative operating advantages of key consumer product manufacturers. As such, the consumer space in MENA is facing several push and pull factors that may continuously reshuffle the top picks of the year.

Secular growth in Healthcare, weak medical Insurance catalysts

KSA insurers have traded at rich valuations for much of the outgoing year, against a backdrop of decelerating GWP growth, a slowdown in the growth of insured lives, slowing medical cost inflation, and delays in the release of updated medical benefits by regulators. This renders the outlook for medical insurers devoid of visible catalysts.

Motor insurers should experience a slowdown in growth, due to base effects. Property and Casualty insurers remain positively exposed to the growth in GWPs linked to Vision 2030 projects. KSA healthcare names remain supported by volume drivers (employment, deferred elective treatments, increased insurance coverage) and public healthcare infrastructure that has largely supported the transfer of healthcare burden onto private operators.

M&A and balance sheet streamlining in Telecommunications, media, and tech

Growth continues to be driven by FinTech rollout, enterprise business solutions, IT services and M&A across GCC Telco operators.

In addition, the rollout of tower company deals can streamline balance sheets and release cash towards accretive M&A and organic growth across participating operators. In the UAE, A key development in 2024 will be the enforcement of the new royalty regime, which we think will have asymmetrical impact within the existing duopoly of operators.

This coincides with the implementation of corporate taxes (9%), for which royalties are deductible. Overall, the market should continue to seek and reward dividend yield within the sector, despite multiple levers for RoE expansion in the medium term.

Utilities are key beneficiaries of infrastructure spending in KSA

Among the strongest sectors through which to play the KSA urban development theme is via the utilities space, in our view. Beyond the key capacity growth themes via power generation and water, sizeable renewable energy projects should gather pace in 2024. Furthermore, shifts in the US yield curves imply potentially lower project costs and tariffs for utility projects.

By 2035, KSA intends to roll out ~60GW of renewable energy capacity and develop ~USD 80bn worth of water and wastewater treatment projects. KSA's listed utilities sector has improved in depth, allowing for select exposure to key provinces or subsectors, while valuation should benefit in the incoming rate environment.

Disclaimer

The opinions presented herein are based on general information at the time of writing and are subject to change without notice. SHUAA GMC Limited ("SHUAA"), SHUAA Capital psc ("SHUAA Capital"), and/or affiliate companies (together with SHUAA and SHUAA Capital, the "Group") does not and do not guarantee its accuracy or completeness. Shuaa GMC Limited is the "Investment Manager" (IM) which is a prudential category 2 licensed firm regulated by Abu Dhabi Global Market ("ADGM") Financial Services Regulatory Authority ("FSRA"). This information is intended only for qualified institutional investors that are professional clients or market counterparties, not an individual natural person. The content is provided within the UAE by SHUAA Capital. SHUAA Capital is regulated by the UAE Securities and Commodities Authority ("SCA"). Neither SCA nor any other regulatory authority have reviewed or approved this content. This report is provided for informational purposes only.

It is not an offer to sell or issue, or any solicitation of any offer to purchase, subscribe for or otherwise acquire, any securities, and nothing contained herein shall form the basis of any contract or commitment. Any offering related to the subject matter of this communication will be made pursuant to separate documentation. This outlook may contain statements about future events and expectations that are forward-looking statements. Such statements typically contain words such as "expects" and "anticipates" and similar words. Any statement in this material that is not a statement of historical fact is a forward-looking statement that involves known and unknown risks and none of the information should be taken as forecasts or promises nor as implying any indication, assurance or guarantee that the assumptions on which the content has been prepared are correct or exhaustive. Past performance is not necessarily indicative of future results. The information in this report are provided at the date of writing and are subject to change without notice.

There is no obligation to update or modify this information if there are changes. No representation or warranty, express or implied, is made or given by or on behalf of SHUAA, the Group, or any of their shareholders, affiliates, directors, employees, agents or advisers or any other person as to the accuracy, completeness or fairness of the information or opinions contained in this presentation. Neither SHUAA nor the Group nor any of their respective shareholders, affiliates, directors, employees, agents or advisers or any other person accepts any liability (in negligence or otherwise) whatsoever for any arising from any use of this contents or otherwise arising in connection herewith. This presentation does not constitute a recommendation regarding the purchase of any financial instrument.

The recipient is strongly advised to seek their own independent advice in relation to any investment, financial, legal, tax, accounting or regulatory issues discussed herein.

SHUAA