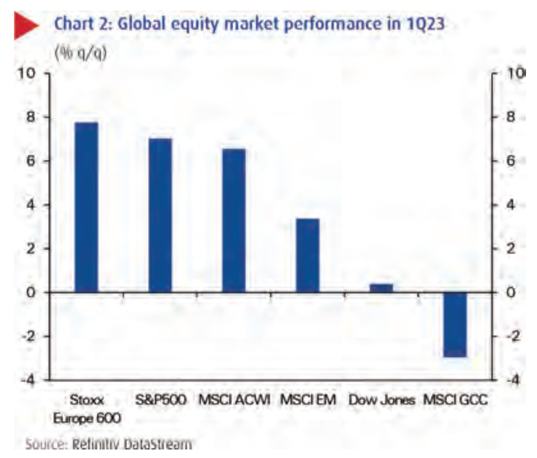
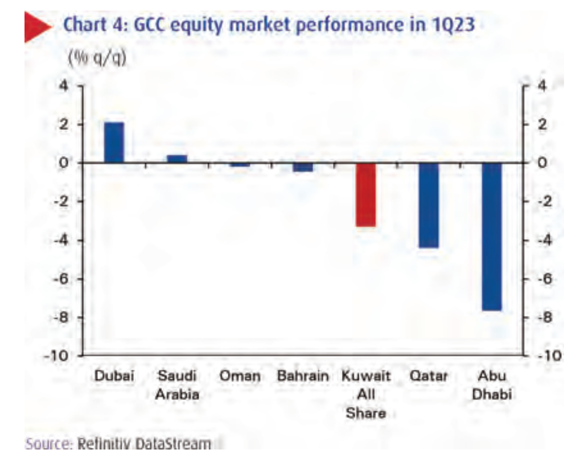
NBK EQUITY MARKETS REPORT

Global equities gain in 1Q23 despite ongoing uncertainty

GCC growth outlook to support market sentiment in 2023





KUWAIT: Global equities ended 1Q23 on a positive note despite heightened volatility and uncertainty. Markets gained as the Fed slowed down its pace of rate hikes from 50 to 25 bps increments in February, and on investor bets that the end of the rate hike cycle may be near as inflation continued to ease. The gains came despite various headwinds including higher bond yields, softer economic data and turmoil in the banking sector which stoked recession fears. In contrast, GCC markets underperformed, with most countries posting moderate losses as an anticipated slowdown in the global economy prompted oil demand concerns. In addition, regional stocks (especially banking stocks) were pressured by fears of contagion from the global banking sector, as well as the drag from monetary tightening with most regional central banks moving in lockstep with the Fed in its current tightening cycle.

US and Europe lead gains in Q1

US and European markets outperformed their EM counterparts, building on the gains of the previous quarter. Gradually softening inflation in the US, which slowed to 6 percent y/y in February, the lowest since September 2021, and in turn increased expectations of the rate-hike cycle nearing its end, lent support to sentiment, despite ongoing recession concerns, compounded by the banking crisis highlighted by the collapse of Silicon Valley Bank in March.

The MSCI ACWI gained 6.6 percent led by European equities, with the Stoxx Europe 600 up 7.8 percent (the narrower Euro Stoxx 50 gained 14 percent), followed by US markets, with the S&P 500 up 7 percent q/q in the second consecutive quarter of gains. Emerging markets lagged behind (MSCI EM +3.4 percent) on a slower than expected post-lockdown economic recovery in China as well as losses in GCC markets. The Chinese CSI 300 rose a relatively modest 4.6 percent q/q.

Looking forward, equity market performance will continue to depend largely on Fed policy and recession prospects. Although the Fed maintains that rates will 'remain higher for longer' until inflation falls back down to its 2 percent target, signs of weakness in economic data (recent examples being labor market and manufacturing data), indicative of a slowing economy, could raise concerns over its resilience and pressure the Fed to moderate its stance, which is positive for markets. Additional risks include energy market volatility and geopolitical risk between the US and the likes of China and Russia, which could disrupt prices and supply chains, and is generally detrimental to market sentiment. Moreover, the prospect of a weaker dollar in the event of looser Fed policy or a recovery in European and Asian economies, is generally positive for emerging markets. For the GCC, oil demand and prices, as well as global sentiment remain key market drivers. Finally, while easing inflation, a looser labor market, and recession risks would support a faster end to monetary tightening, which is positive for markets, Fed hawkishness could persist should the economy and the labor market especially show signs of strength against higher interest rates, with adverse implications for economic growth and equity markets. However, the former scenario appears more likely at this juncture as suggested by interest rate futures markets.

GCC equity markets lagged behind their global counterparts in 1Q23, sinking further into bear territory following the equally lackluster performance of the previous quarter, weighed down by headwinds including rising borrowing costs, softer outlooks for growth and the oil market and fears of banking crisis contagion. The MSCI GCC fell 3 percent q/q, with losses led by Abu Dhabi (-7.6 percent) and Qatar (-4.4 percent), while Kuwait's All-Share lost 3.3 percent amid relatively thin liquidity. Losses in the MSCI GCC were curbed by a small gain in heavy weight Saudi Arabia (+0.4 percent), while Dubai led the pack, up 2.1 percent.

Looking ahead, GCC equities will continue to be influenced by international market developments, including oil, economic growth, and Fed policy. Generally improved fiscal positions thanks to large hydrocarbon windfalls in 2022 and still favorable though moderating growth outlooks in 2023 are supportive of market sentiment. A buoyant IPO market should help maintain investor interest after a record 48 listings and $23 billion in capitalization in 2022, 34 from Saudi Arabia linked to its private sector reform and investment plans. Lastly, oil market volatility and rising borrowing costs are additional regional headwinds, though at the time of writing, risks from the former appear modest given OPEC's preemptive production policies, sometimes moving ahead of the market.

Headwinds ease

Fed policy and the economic backdrop are more favorable for equities compared to last quarter, with inflation now clearly trending downwards and the Fed slowing its pace of tightening considerably. However, the risk of a recession in the US and Europe, the possibility of an uptick in inflation or a further loosening of the labor market, as well as an uncertain earnings trajectory, are notable downside risks. Further risks stem from uncertain geopolitics, given that US – Russian/Chinese tensions are largely unresolved, with surprises having the potential to disrupt the global economy and the supply chain. Additionally, apparent and recent shifts in Middle Eastern relations and politics add to the complication. Still elevated bond yields, as well as dollar strength which has pressured other markets and currencies are further risks, though the latter could potentially depreciate as EM economies recover and central banks expectedly pause the current tightening cycle.

While GCC markets will continue to be influenced by global sentiment, the reopening of China and its implications for commodity demand, including oil, will potentially be very positive. EM equities in particular could perform well later in the year as its largest market, China, stands to benefit from the reopening catalyst (though the effect has been slower than anticipated) and a potentially weaker US dollar.

Glencore, Teck Resources seek exit from coal

ZURICH: Swiss commodities giant Glencore has come under heavy fire over its coal strategy but is trying to exit this business as part of its takeover bid for Canada's Teck Resources. But Teck Resources isn't biting, twice this month rebuffing Glencore's proposals to focus instead on its own plans already in the works to spin off its coal division into an independent company.

Teck coal split

In February, the Canadian group, which employs 11,000 people, proposed to spin off its activities in metallurgical or coking coal, used to produce steel, into a new company called Elk Valley Resources (EVR) that would be listed separately on the Toronto Stock Exchange. Teck Resources would hold onto zinc and copper mines and become Teck Metals. Metals have significant growth potential since they are in high demand for the transition to clean energy, the company explained, even though coal accounted for 60 percent of its Can$17.3 billion ($12.9 billion) in revenues in 2022, due to a surge in the price of coal following Russia's invasion of Ukraine.

Its shareholders would get one EVR share for 10 Teck Resources shares as well as a cash payment of 0.39 Canadian dollars per share, for a total of Can$200 million. They must decide at an extraordinary general meeting on April 26. Japanese steel giant Nippon Steel Corporation, which has a minority stake in a Teck Resources site in British Columbia, plans to invest more than Can$1 billion to secure a 10 percent stake in EVR. Its South Korean competitor Posco plans to take a 2.5 percent stake.

Glencore's counter proposal

But in early April, Glencore presented an offer valuing Teck Resources at more than US$22.5 billion, a more than 20 percent premium to its March 24 closing price. Glencore proposes to combine their activities and simultaneously carve them up to create a company specialized in metals called MetalsCo and another specialized in coal, called CoalCo. Together, they would have a broader base, argues the Swiss group, which points out that MetalsCo would also rely on its activities in cobalt and nickel. Teck Resources immediately refused, warning that such a merger would bring Glencore's thermal coal into its business. Used to produce electricity and heat, thermal coal is attracting much more criticism because of its CO2 emissions that contribute to climate change. — AFP

Gulf Bank raises awareness on banking security

KUWAIT: As part of its keenness to promote financial literacy in society, Gulf Bank continues to support the Diraya "Let's Be Aware" campaign for the third consecutive year by broadcasting and disseminating awareness and educational materials through social media, the Bank's website, and other channels.

The Diraya campaign is an awareness campaign initiated by the Central Bank of Kuwait and the Kuwait Banking Association. The campaign aims to spread financial literacy in society, raise awareness of the role of the banking sector, and promote the various services that banks offer to their customers.

Corporate Communications Officer at Gulf Bank, AbdulMohsen Al-Nassar, indicated that the bank spares no effort in supporting the goals of the Diraya campaign, by spreading awareness messages to customers and the public through its channels: especially when banking information and data protection is at stake. Al-Nassar warned of the potential risks of not following security and safety instructions when processing banking transactions, advising customers not to provide any personal information about their accounts and transactions to unknown parties. He also recommended to avoid responding to anonymous messages from unknown origins, as they may violate data confidentiality and banking protection measures.

Furthermore, he advised customers not to share their banking data with anyone, pointing out that there are many tricks followed by the occupiers to deceive customers, in order to obtain their banking data or OTP codes. Al-Nassar also advised customers not to interact with anonymous emails in order to avoid fraud. In addition to ensuring that the websites being used are safe, and that the electronic payment gateway is approved.

Gulf Bank's vision is to be the leading Kuwaiti Bank of the Future. The Bank is constantly engaging and empowering its employees as part of an inclusive and diversified workplace in recognition of every employee's role in delivering customer excellence and serving the community at large. With its extensive network of branches and innovative digital services, Gulf Bank is able to give its customers the choice of how and where to conduct their banking transactions, all while ensuring a simple and seamless banking experience.

AbdulMohsen Al-Nassar

Gulf Bank is committed to maintaining robust developments in sustainability at environmental, social and governance levels through diverse sustainability initiatives, strategically selected to benefit the Bank both internally and externally. Gulf Bank supports Kuwait Vision 2035 "New Kuwait" and works with various parties to achieve it.

Malabar Gold & Diamonds appoints Alia Bhatt as its new brand ambassador

KUWAIT: Malabar Gold & Diamonds, the 6th largest jewelry retailer globally with 312 showrooms across 10 countries, has signed Indian actress Alia Bhatt as its new brand ambassador. After making her debut in 2012, Alia Bhatt has quickly transformed into one of the most sought-after actresses in India, with a score of blockbuster movies under the belt. She has garnered praise for her versatility as an actress, her humble persona and stunning looks, representative of a new era of super talented actors hailing from India. She is also set to make her Hollywood debut in the movie, Heart of Stone, which is slated to be released soon.

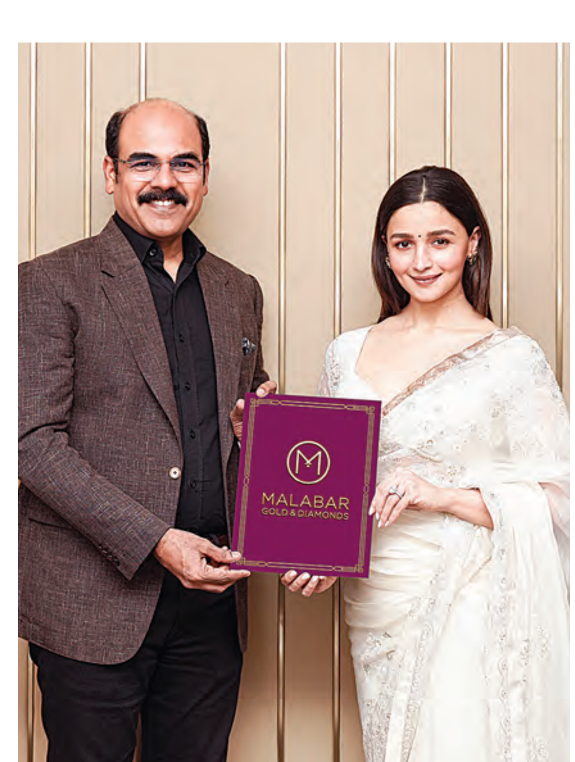
The announcements come in the wake of the 30th anniversary of Malabar group, which began their operations in 1993. With an extensive retail network in India, UAE, KSA, Qatar, Bahrain, Oman, Kuwait, Malaysia, Singapore and the USA, the signing of Alia Bhatt as the brand ambassador will bring a new global outlook to the brand as they set their eyes on new markets such as the UK, Australia, Canada, South Africa, Egypt, Bangladesh, Turkey and New Zealand, as well as strengthen their presence in existing markets.

"I am delighted to be the face of a global brand such as Malabar Gold & Diamonds. Having witnessed first-hand their acceptance amongst Indians and Indian sub-continental audience, the immense success they have reaped abroad should be a source of great pride for us and I am humbled to be a part of the Malabar family. As Malabar Gold & Diamonds gears up to execute their ambitious expansion plan, I earnestly look forward to working closely with them to further their reach amongst jewelry lovers worldwide over", commented Alia Bhatt.

"We are very excited to welcome Alia Bhatt into the Malabar Family. Over the years, our brand ambassadors have played an instrumental role in elevating our brand's status in the eyes of our customers and we are looking forward to taking Malabar Gold & Diamonds to new heights with Alia Bhatt as the face of the brand. Our goal is to be crowned as the world's largest jewelry retailer by crafting, promoting and selling jewelry that is an intersection of Indian art, culture, tradition, heritage and Alia Bhatt, both as an actor and as a person, perfectly represents what we are striving to achieve. Her impressive career in the highly competitive film industry resonates with our brand's journey and ambition as a brand. As Malabar Gold & Diamonds celebrates its 30th anniversary, we are reaffirming our commitment to providing our loyal customers with the best jewelry shopping experience", commented Malabar Group Chairman M P Ahammed.

Malabar Gold & Diamonds is globally renowned for providing an exceptional jewelry shopping experience with convenience and customer-friendly policies, known as the 'Malabar Promise.' This promise assures customers of unmatched quality, transparency, and service assurance. With more than 12 exclusive brands in gold, diamond, and precious gems, Malabar Gold & Diamonds presents the latest designs curated from 20 countries, catering to the diverse tastes and preferences of their vast, multicultural customer base.


Celebrated Bollywood actress Alia Bhatt is the new brand ambassador of Malabar Gold & Diamonds.



Alia Bhatt with Malabar Gold & Diamonds (India) Managing Director Asher O.