Global Investment House presents on 2nd Islamic Wealth Management Event regarding the GCC stock market and its current situation

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GCC stock markets had a phenomenal bull run over the last 3 years, with many witnessing steep appreciation in stock prices. This was mainly due to rising economic growth, rising government surpluses and increased investments in infrastructure development in the GCC countries. The main beneficiaries of this are the listed companies and family owned business groups who benefit from the trickle down effect leading to strong corporate earnings growth. The rising per capita income coupled with positive demographic is likely to usher more investments in the riskier asset classes such as stocks and mutual funds.

GCC stock markets came under a strong correction phase since the beginning of the year as regional valuations were stretched. While economic fundaments continue to be positive in the region, the market participants seem worried about the liquidity squeeze due to the issuance of rights shares by many companies and formation of several new companies. However, this will create a multiplier effect and generate further liquidity in the system, thus leading to a virtuous cycle of growth. Overall, the past few weeks has seen increased volatility in stock prices with a bearish mode in many of the regional stock markets due to growing concerns about expected slowdown in corporate earnings this year and a possible liquidity squeeze.

But liquidity is only one of the factors, which has been driving the markets, but important thing is the overall fundamentals and structural changes in the economy which is keeping this liquidity in the economy and is going to be the key factor in driving the stock markets further. There seems to be a gradual domination in the financial markets by the institutions. In the GCC region, we are increasingly witnessing the growth in the mutual funds industry with investment banking firms taking a lead in introducing funds catering to both the domestic and international markets. Investment Funds in the GCC region have become a major institutional player in the capital markets. The institutionalization in the capital markets in the GCC region will experience further growth on the back of investment funds combined with the growth in venture capital industry and increase in penetration levels by the insurance sector and pension funds.

The financial infrastructure of the GCC markets is undergoing a sea change with new regulatory mechanisms. One of the most important developments in the GCC stock markets is the start of the active investment intermediaries such as investment banks and investment companies that have helped in the development of capital market by making available diverse, customized product-mix to the investors. Through quality research provided by these investment banks, transparency has increased and now investors can make a more informed decision, boosting confidence in regional capital markets. In terms of informational infrastructure, there is increased transparency in disclosure norms leading to better investor relations. Accounting rules and regulations are being amended so that they better convey the financial position of the company.

Apart from these fundamental factors, we expect the market to get a much-needed leg-up from a more stable geopolitical situation. GCC Union and common market is providing and will provide more trading opportunities. In the long-run the market is expected to stabilize but this is high time that investors should have a careful look at each stock in their portfolio rather than getting panicky at the overall downturn seen by the markets. We believe that with the capital expansions and new issues, the free float is likely to increase in the market making the market more liquid and deep.

We reiterate that the fundamentals of GCC economies and particularly that of the corporates remain strong. The volatility in the markets are the part and parcel of capital market growth but it is the ability to absorb these shocks which will determine the strength of the GCC markets. The strong corporate performance has also given the financial flexibility to the companies in the region to look for investments outside the region. The investment funds and private equity players are getting strong support from the investors in terms of increased investment in both Islamic as well as conventional funds to fund the deal flow. Apart from looking at the interesting opportunities in the region, the investment companies/corporates are looking at other promising markets outside the MENA region to diversify their investment base/revenues. This is crucial as it will hedge their risk of operating in a single market.

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