INVESTING IN THE GCC MARKET
IS A BEACON FOR INVESTORS

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A well-developed financial market plays a very important role in nation building. The key role of the financial market is to provide an optimum platform, whereby capital seekers can raise funds at a lower cost, and simultaneously capital providers can easily invest their funds to generate higher returns. The Gulf Corporation Council (GCC) market is evolving very fast, despite its fledging history as compared to well established global markets, sweeping reforms combined with resolute implementation has led to GCC markets now aligning themselves with their more established peers. In this article, we have analyzed the key changes that are shaping both the GCC equity and fixed income markets.

The key trends that are driving the GCC equities

Strong IPO pipeline

Over the past three years, 97 companies have come to the primary market and got listed, raising USD 36 billion of capital. Looking back into the history of IPOs in the region, it is the strongest flow of IPOs ever seen in the market. Despite the higher volatility in the secondary market, the investor response to these IPOs has been overwhelming. Many IPOs were oversubscribed by more than a hundred times, resulting in an upbeat listing. The IPO pipeline remains quite strong, thus indicating that the IPO market is expected to remain quite buoyant over the next two years.

List of IPOs in the GCC

Year	IPO Size (USD mn)	No. of IPOs
2021	7,714	21
2022	22,854	48
2023 (Till Q3 2023)	5,514	28
Total	**36,082**	**97**

Source: Bloomberg/PWC

New listings offer diversification

In the GCC market, banking, and petrochemical sector accounts for a major part of the index, however the landscape is changing as half of the deal value of new listings of companies is now derived from the technology, consumer, healthcare, industrial and service sector. These listings not only gave investors an opportunity to diversify their exposure in the GCC market but also gave investors an opportunity to invest in high-growth companies. Post listing, share performance of these companies was quite good.

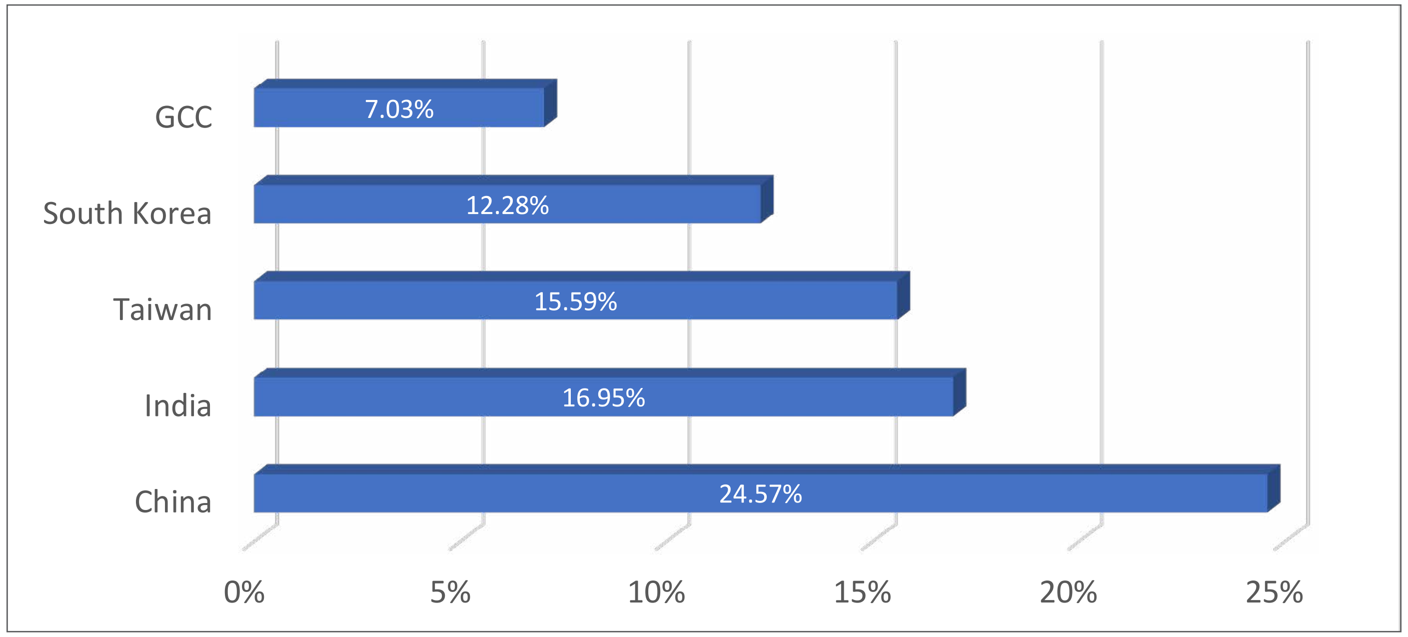
Higher weight in MSCI/FTSE Emerging Market index

The weight of the GCC countries in the MSCI Emerging Market (EM) index stands at 7.03%. The GCC market now represents the 5th highest weight in the index next only to China, Taiwan, India, and South Korea.

Over the past couple of years, the weight of GCC in the MSCI EM Index has been consistently increasing, partially driven by new listings (for e.g., Aramco, ADNOC companies) and due to increase in the free float of many companies. Governments are looking to further reduce their stakes in majority government-owned companies, thus increasing the free float of the companies. This trend is expected to continue, and the weight of the GCC equities in the MSCI/FTSE EM index will increase.

Higher index weight results in increased capital inflows and participation of global financial institutions. It enhances disclosure, better management, and corporate governance of companies. As a result, investors benefit from a higher valuation multiple being assigned to the companies by the market.

Weight of GCC in the MSCI EM Index



Source: Bloomberg/FAB

Lower market capitalization to GDP ratio

With all these positive developments in the GCC market, the key question remains whether there is any further scope for these markets to develop and grow. The ratio of aggregate market capitalization to GDP ratio for the GCC market stands at 42%, compared to 50% for emerging markets and 90% for developed markets. The lower ratio for the GCC market indicates that there is further room for the GCC market to grow its market capitalization. This can be achieved through either new listings or increase in market capitalization of already listed companies.

Higher returns

Over the past ten years , GCC equities have delivered good returns for investors, delivering 6% per annum returns over a 10-year period, 8.2% per annum returns over a 5-year period, and 12.5% per annum returns over a 3-year period as highlighted in the table below. The outperformance as evidenced over the past three years for GCC markets reflects the impact of the positive market developments discussed in this note.

Annualized Rate of Returns in USD

	3-Years	5-Years	10-Years
GCC Equities	**12.5%**	**8.2%**	**6.0%**
MSCI Emerging Market	-1.4%	0.9%	2.4%
US - S&P 500 Index	10.1%	9.9%	11.9%

Source: Bloomberg

The key trends in the GCC bonds market

GCC bonds markets are a force to be reckoned with

Over the past 10 years, the GCC /MENA bond market has developed dramatically maturing in both size and stature becoming an integral asset class for global investors. The representation of the Middle East bonds in the major indices continues to rise, allowing greater exposure to the global investment community. Indeed, GCC bond market now accounts for more than 20% of the JPM EMBI global diversified index and 10% of the JPM CEMBI index.

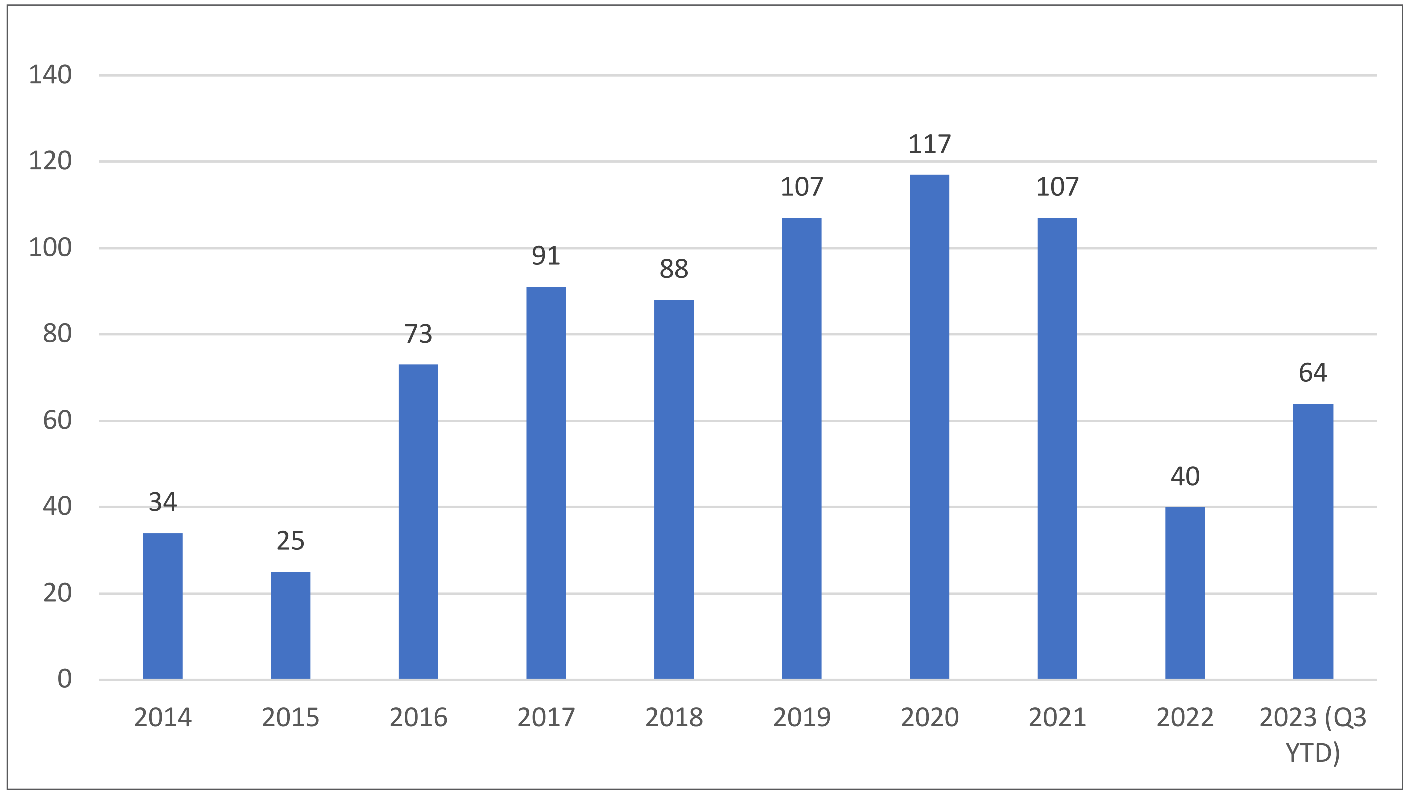
Better quality, liquidity, and duration

The global allure of highly rated GCC bonds (75% of GCC bonds are rated single A-or above) is very much reflected in the growth and efficiency of the GCC primary market. The region's syndication desks can now price and launch multibillion-dollar deals, in very short time periods reflecting the efficiency of the local capital markets and their ability to appease global investor demand often leading to deals being multiple times oversubscribed.

A major factor that has attracted some of the world's largest investors in fixed income to the GCC markets is that issuers are now offering duration, many borrowers now find it easy to issue maturities that can range from 10 years to 30 years or longer. This is particularly relevant to the likes of sovereign wealth funds, pension funds, and international insurance companies as they seek to match their liabilities.

The USD value of hard currency bonds and sukuks that are currently outstanding in GCC/MENA is approximately USD 600 billion. The major issuers are from the UAE, Saudi Arabia, and Qatar, accounting for 33%, 33%, and 14% of the total issuance respectively.

GCC & Egypt Bond and Sukuk Issuances (USD billion)



Source: Bloomberg/FAB

Issuance of sustainable bonds and sukuk are on the rise

The GCC sustainable finance ecosystem is growing exponentially as the governments of both UAE and Saudi Arabia, in particular, have become global trailblazers in the development of sustainable finance frameworks.

Much attention and focus has been given to promoting sustainable investments, supporting green projects, and encouraging green finance solutions. As a result, sustainable bond issuance from these countries is gaining at a significant pace. Issuers are aligning their borrowing framework and requirements with their respective government's future net-carbon-zero commitment.

Sukuk issuance, which complements sustainable finance initiatives, has come to the fore through 2023, witnessing a significant uptick in demand from global investors. This appetite for the paper has been reflected in the sukuk's primary market which currently accounts for 45% of the total issuance through 2023 as compared to 30% in 2022. Through 2024, we expect the asset class will continue to gain popularity.

GCC bonds are credit-positive and offer real returns

GCC bonds now offer significant real returns, as both the coupon and yield provide protection against inflation (the current yield on GCC IG and HY bond Index is 6.32%). We believe that the strong economic fundamentals of the GCC bond market will be the major differentiator for global bond investors when it comes to evaluating credit risk.

In conclusion, with time, the GCC financial market has evolved for both asset classes - equities and fixed income. We see that there is further scope for these markets to expand with new listings and bond issuances, along with the addition of new investors. With all these positive developments, it makes a much stronger case for investors to invest in the GCC markets, making investing in GCC is a beacon for investors.