

# Mashreq Capital

Outlook on MENA Fixed Income  
& Equity Markets

Q4 2025



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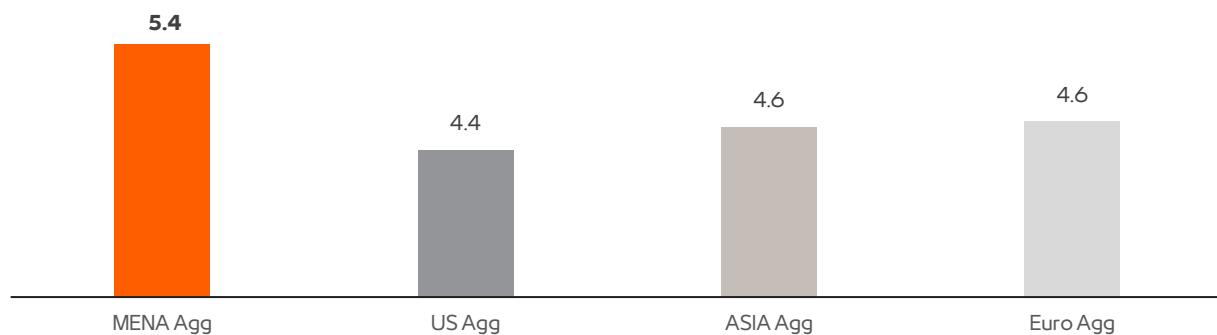
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## MENA Fixed Income Compared to Other Regional Aggregates

MENA Fixed Income continues to offer a compelling yield premium, currently around 80 to 100 basis points versus other regional aggregate benchmarks. This structural advantage has translated into consistent outperformance across one-, three-, and five-year horizons. With fundamentals intact and spreads still attractive, we believe the case for continued relative strength remains robust.

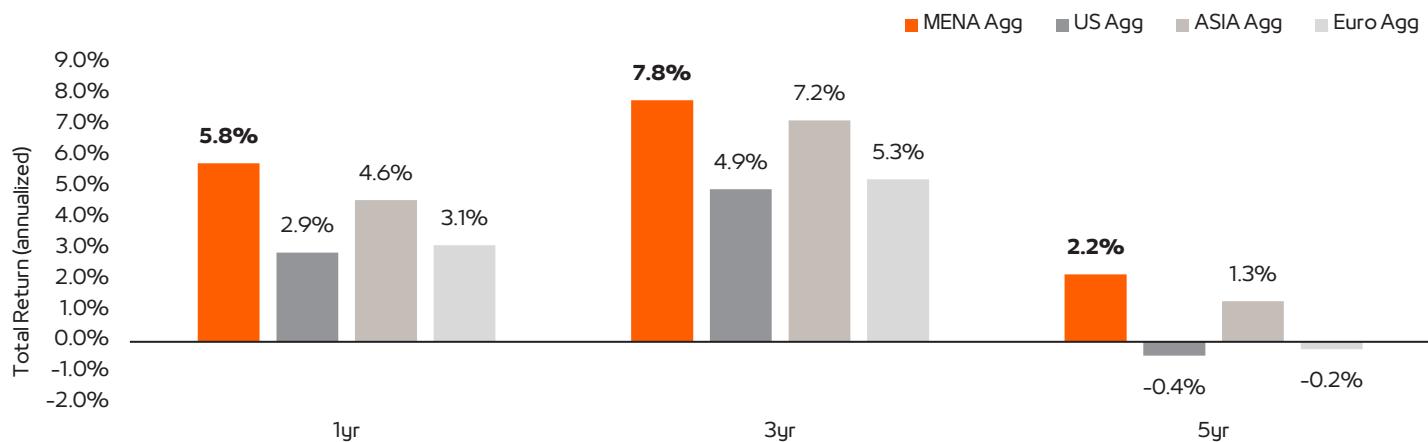
### USD Hedged Yields (%)



	MENA Agg	US Agg	ASIA Agg	Euro Agg
Yield (%)	5.4	4.4	4.6	4.6
OAS (bps)	133	28	62	48
Duration (yrs)	6.2	6.0	5.8	6.3
Bloomberg Composite Rating	A2/A3	AA2/AA3	A3/BAA1	AA3/A1

MENA fixed income represents a high-quality segment within the broader global bond universe, yet remains underrepresented in investor portfolios, particularly when viewed through the lens of risk-adjusted returns. With an average credit rating of A2/A3 and a duration of 6.2 years, the asset class aligns closely with other regional aggregate benchmarks, offering comparable profile but differentiated value.

### MENA Fixed Income Has Consistently Outperformed



MENA Agg has consistently outperformed its global peers across all major time horizons, underscoring its resilience and relative value. With annualized returns of 5.8% (1Y), 7.8% (3Y), and 2.2% (5Y), it has not only outpaced the US, Euro, and Asia aggregates but also maintained positive performance where others have faltered.

Data as of 30 September 2025.

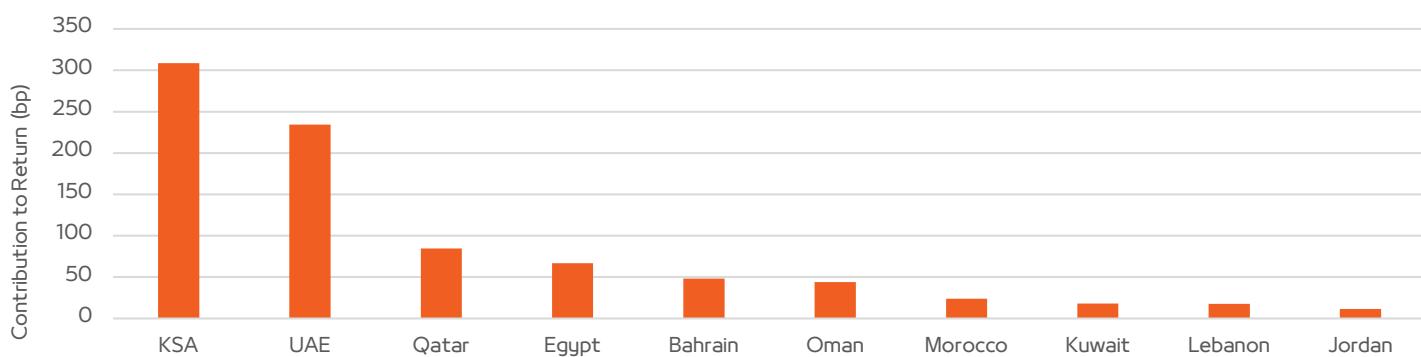
Indices referenced: Bloomberg EM USD Agg: MENA (MENA Agg); Bloomberg US Aggregate (US Agg); Bloomberg EM USD Agg: ASIA (ASIA Agg); Bloomberg Euro-Aggregate (Euro Agg). Hedged yields calculated using FX forwards. Past performance is not indicative of future results.

# MENA Fixed Income

## Market Overview

The MENA fixed income market delivered strong performance in the first nine months of 2025, with the Bloomberg MENA USD Aggregate Index rising 8.6%, supported by consistent gains across all quarters. After a solid +4.4% in the first half, returns accelerated in Q3, adding +4.0%. In 1H, performance was largely driven by carry and lower U.S. Treasury yields at short and intermediate maturities, even as credit spreads widened. By Q3, improving flows into EM hard currency assets led to meaningful spread tightening, which, combined with strong carry and further decline of benchmark yield, delivered robust quarterly and year-to-date returns. Sovereigns and GRES led sectoral performance, contributing 495 bps and 244 bps to YTD returns, respectively, while Saudi Arabia (309 bps), the UAE (234 bps), and Qatar (85 bps) were the top country contributors. At the issuer level, gains were dominated by Saudi (131 bps), Egypt (66 bps), and Qatar (55 bps) sovereigns.

### Contribution to Total Return by Country – Q325<sup>1</sup>



## Market Outlook

We maintain a constructive stance on MENA fixed income, supported by the Fed's dovish pivot and anticipated easing cycle, which should continue to underpin EM assets. Regional fundamentals remain strong, anchored by robust sovereign balance sheets and a predominantly high-grade ratings mix. Resilient demand from local and Asian investors has been supportive to absorb new supply. Despite bouts of global and regional volatility and a heavy primary pipeline, MENA IG spreads remain near historic tights as strong technicals absorb supply, while solid issuer fundamentals and macro stability sustain confidence in the region.

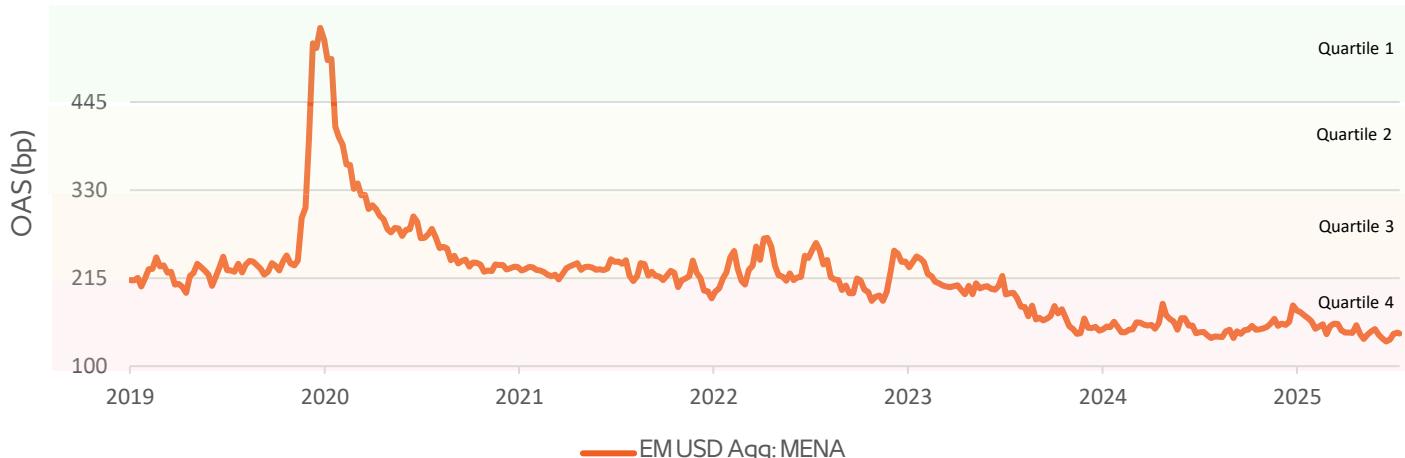
While spreads are tight, the Bloomberg MENA Bond Index continues to offer attractive carry—yielding approximately 5.4%, about 10bps above its 5-year average and nearly 220bps above the lows of December 2020. As such, we expect carry to remain the primary driver of returns, with limited contribution from spread compression, and benchmark yield movements likely to offset one another. This should support full-year total returns close to double digits.

At the country level, we see continued outperformance from Egypt, supported by macroeconomic stabilization, high real interest rates, and a narrowing current account deficit. While Suez Canal revenues remain a watchpoint, resilient FX inflows and fiscal prudence have helped anchor investor confidence. We also find Jordan's bonds attractive amid the potential negotiations between Israel and Hamas. In Saudi Arabia, we continue to like the belly and front-end of the curve, where valuations remain compelling. UAE and Qatari bonds continue to offer defensive value, providing stability and liquidity in diversified portfolios.

We expect default rates in the MENA region to stay lower than those in the broader emerging markets (EM), supported by the region's strong investment-grade profile and relatively low corporate debt issuance. Over the past five years, the average default rate for MENA corporates has been just 0.4%, significantly below the estimated 1.5% average for EM corporates. On the sovereign side, Lebanon's 2020 default is the only case in the region during this period, resulting in an average sovereign default rate of 2.2%, which is also lower than the 4–5% average for EM sovereigns.

## MENA Fixed Income

### Relative Valuation: MENA USD Spreads in the Lowest Quartile Zone



MENA credit markets continued to show resilience over the first nine months of 2025, delivering solid performance despite a gradual softening in oil prices, as both GCC IG and HY spreads compressed across primary and secondary markets. HY led the move, tightening more decisively and pushing valuations toward multi-year tights even as regional geopolitical tensions persisted. Notably, spreads have firmed from pre-Liberation Day levels, underscoring investor confidence in the region's macro and credit fundamentals.

The global backdrop has also been supportive, as investors diversify away from concentrated USD exposure, capital has rotated into EM fixed income—a trend that has extended to MENA credits despite the region's USD pegs.

At the sovereign level, we remain selective:

- **UAE and Qatar** continue to offer stability, supported by low fiscal breakeven oil prices and diversified economies. These fundamental factors have helped maintain steady credit spreads and attract long-term investor demand.
- **Saudi Arabia** remains underpinned by solid credit fundamentals, though its long-dated bonds have faced modest pressure due to increased supply. We remain constructive, especially at the front and intermediate segments of the curve.
- **Oman** has tightened following its recent upgrade to investment grade by all three rating agencies. Nevertheless, we expect the sovereign to maintain fiscal prudence while continuing to offer attractive and stable carry. We remain constructive despite having trimmed our position recently.
- **Morocco** continues to benefit from its structural reform agenda, economic diversification efforts, and fiscal discipline, all of which are contributing to tighter spreads.
- **Egypt** benefits from strong financial support from GCC countries, policy support from the ongoing IMF program, narrowing current account deficit, and expected de-escalation in the regional conflict.

While regional spreads remain tight relative to historical averages, the credit narrative across MENA remains compelling. Reform momentum, sound fiscal frameworks, and increasing global allocations to EM assets continue to underpin the region's appeal among investors.

## MENA Fixed Income

### Relative Valuations

As of the end of 9M 2025, spreads have compressed significantly and are now near all-time lows. Despite tight valuations, income-seeking investors continue to find appeal in the region's mid-single-digit yields, which supports demand. The market's resilience was evident during this year's geopolitical flare-ups, as spreads held firm amid heightened headline risk.

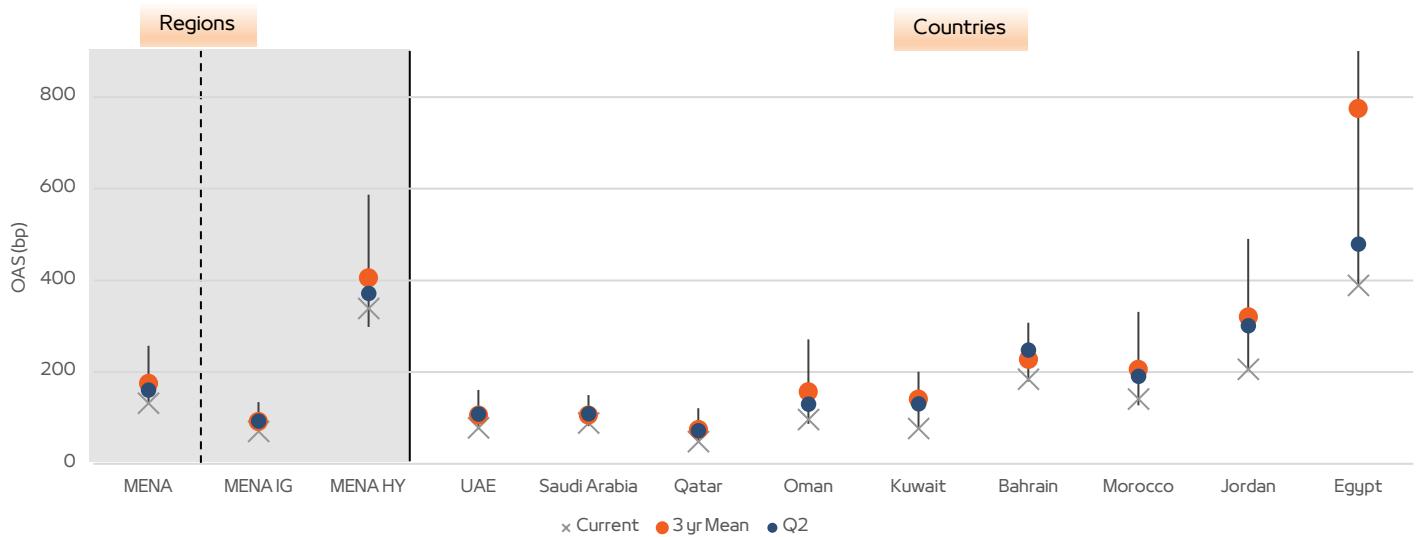
Regional technical remain strong, supported by domestic demand from bank treasuries—particularly in Saudi Arabia and the UAE—which continue to favor high-quality sovereign and public-sector bonds. This institutional demand for High Quality Liquid Assets (HQLA) underpins spread stability.

From a relative value perspective, we see opportunities in:

- **Saudi Arabia** (short-end and belly): The cheapest A-rated sovereign in global EMs, with positive structural reforms underway.
- **Egypt**: A supportive macro environment—weakening USD, declining inflation, and lower oil prices—could drive further spread tightening.
- **Jordan**: Broad-based recovery, improving current account dynamics, and robust donor support underpin medium-term growth potential.

Though we remain cautious on Bahrain and Sharjah due to limited fiscal reform momentum and challenging debt dynamics, we maintain selective exposure given the strong backing from GCC countries.

### OAS Dispersion by Country<sup>1</sup>



All in yields on the other hand remain attractive compared to history, the yield on the Bloomberg USD EM Agg: MENA index is c.5.4% while its 10-year averages c.5.0%. Therefore, even with relatively tight spreads, MENA fixed income looks attractive on an all-in yield basis.

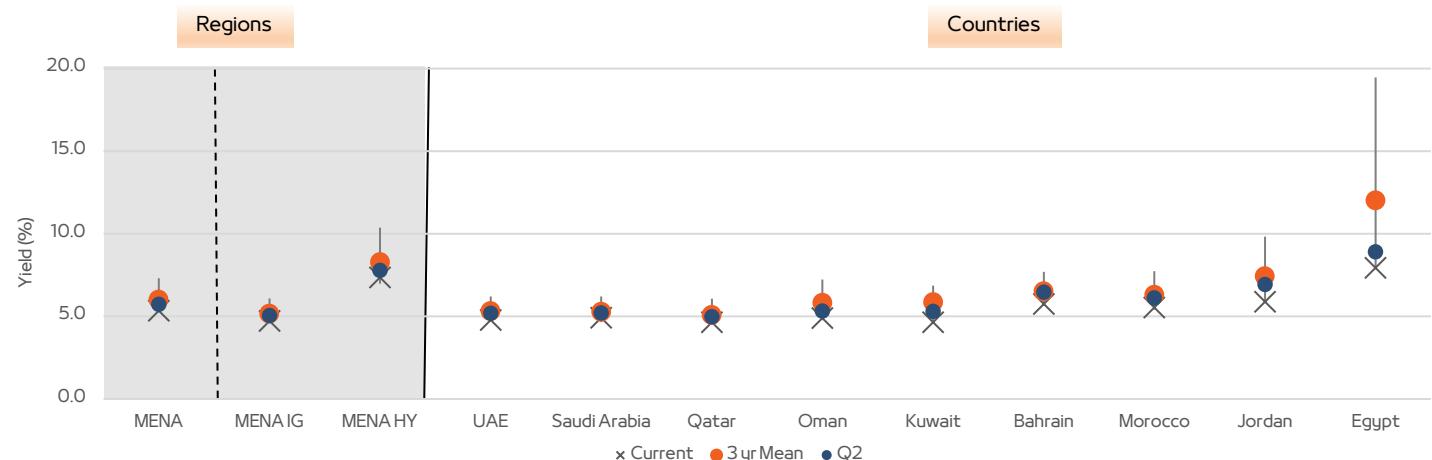
<sup>1</sup>Source: Bloomberg. Indices referenced are detailed in the appendix.

Current OAS dispersion data is as of 21 October 2025; Q2 OAS dispersion is as of 30 June 2025.

**Indices used:** Bloomberg EM USD Agg: **UAE (UAE)**, Bloomberg EM USD Agg: **Saudi Arabia (KSA)**, Bloomberg EM USD Agg: **Qatar (Qatar)**, Bloomberg EM USD Agg: **Oman (Oman)**, Bloomberg EM USD Agg: **Kuwait (Kuwait)**, Bloomberg EM USD Agg: **Bahrain (Bahrain)**, Bloomberg EM USD Agg: **Morocco (Morocco)**, Bloomberg EM USD Agg: **Jordan (Jordan)**, Bloomberg EM USD Agg: **Egypt (Egypt)**, Bloomberg EM USD Agg: **Iraq (Iraq)**, Bloomberg EM USD Agg: **Lebanon (Lebanon)**.

## MENA Fixed Income

### Yield Dispersion by Country<sup>1</sup>



### Supply Outlook

The MENA bond market has witnessed record issuance in 2025, with year-to-date (YTD) issuance reaching USD 128 billion, already surpassing the USD 109 billion issued in all of 2024. Sovereigns and government-related entities (GREs) continue to dominate as the largest issuers, while banks and real estate companies lead among corporates. This surge has been supported by favorable market conditions and rising external funding needs, driven by the GCC's infrastructure capex push. Based on the current pipeline and investor sentiment, we expect full-year issuance to reach USD 147 billion.

Saudi Arabia remains the largest issuer, accounting for approximately 45 percent of regional supply, reflecting its Vision 2030 funding requirements. The country's debt-to-GDP ratio has increased from 22 percent in 2019 to 30 percent in 2024 and is projected to reach around 39 percent by 2026. Its share of regional issuance has grown from 22 percent during 2016–2018 to approximately 45 percent today.

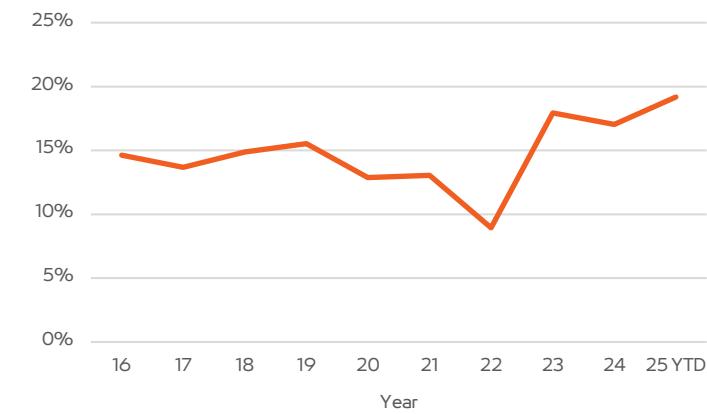
Sukuk volumes are also robust, with Islamic bonds totaling around USD 74 billion YTD, representing 58 percent of total issuance. This underscores the depth of regional Islamic liquidity and a broadening investor base.

In October 2025, Kuwait completed its first international bond issuance since 2017, raising USD 11.25 billion across three tranches under the new public debt law, which allows for up to KWD 30 billion (approximately USD 98 billion) over 50 years. Combined with USD 5.2 billion in domestic issuance, Kuwait's total debt stands near 10 percent of GDP, providing ample fiscal space to meet funding needs. We expect Saudi Arabia, the UAE, and Kuwait to continue leading regional supply.

### MENA Issuance Trends<sup>2</sup>



### MENA as a share of Global EM Issuance<sup>2</sup>



<sup>1</sup>Source: Bloomberg used can be found in the back of the document.

<sup>2</sup>Source: JP Morgan, Mashreq Capital calculations. Issuance data including securities denominated in USD, GBP, and EUR. YTD data is as of 21<sup>st</sup> October 2025. Current Yield dispersion is as of 21<sup>st</sup> October 2025, Q2 Yield dispersion is as of 30<sup>th</sup> June 2025

# MENA Fixed Income

## Strategy and Top Ideas

### Sovereigns

#### Rising Stars on the Radar: Morocco Poised for Investment Grade

While we have trimmed some exposure to Oman following its upgrade to IG, we remain constructive on Morocco, which is still rated HY by two of the three major agencies. We believe the sovereign is well positioned for further upgrades to IG within the next 12–18 months. Our preference remains Moroccan GRES, given their attractive spread pickup versus the sovereign.

#### Reform Backed Carry: Egypt & Turkey

Turkey remains our largest off-benchmark position and continues to provide diversification. While political risks persist, the central bank's orthodox stance and disinflation efforts have helped stabilize markets. Alongside this, we stay constructive on Egypt despite notable spread tightening, supported by improving macro stability and ongoing IMF engagement.

#### Defensive Duration: Quality IG Exposure via UAE & Qatar

In a volatile rate environment, we like quality duration via AA-rated sovereigns. UAE and Qatar offer efficient vehicles to express long-duration views. Both UAE and Qatari bonds are relatively cheap compared to similarly rated global EM peers.

#### Caution on the Curve: Saudi Long-End Faces Pressure from Supply & Deficits

Elevated fiscal breakeven oil prices and increased supply could lead to short-term underperformance versus UAE and Qatar. While valuations appear attractive compared to other A-rated EM sovereigns, Saudi remains high beta within the GCC IG complex due to its fiscal profile and issuance pipeline.

#### Weighing Credit Risks Against Regional Support: Bahrain & Sharjah

We've turned neutral on Bahrain and Sharjah, reflecting a more balanced view supported by expected GCC backing. Bahrain's spreads remain tight despite elevated breakeven oil prices and limited reforms. However, regional support continues to anchor stability. Sharjah's outlook was revised to negative due to rising deficits and debt service costs, but its integration within the UAE and access to sukuk markets offer funding flexibility. While structural challenges persist, we believe GCC support provides a buffer, justifying a neutral stance at current levels.

### Corporates

#### Strong Sponsors and Attractive Yields: Opportunities in Saudi & UAE Pipeline Debt

We are constructive on select infrastructure-linked bonds in Saudi Arabia and the UAE. These deals offer attractive yield premiums versus sovereigns, backed by strong sponsors, predictable cash flows, and sound structures.

#### AT1s Still Attractive: GCC AT1s & Tier 2s Offer Compelling Risk-Reward

This sector has historically demonstrated resilience, accounting for about 5% of the MENA index. Issued mainly by well-capitalized, often government-linked GCC banks, these instruments offer attractive carry. We remain overweight versus benchmarks given strong repayment behavior and robust capital buffers. However, Saudi-based subordinated bonds are likely to keep trading wider than the rest of the region, reflecting those banks' growing reliance on external debt and the resulting steady supply of subordinated issuance.

# MENA Fixed Income

## Fixed Income Country Views



● Mashreq Capital's current views

### Saudi Arabia - NEUTRAL

Moody's	S&P	Fitch
Aa3 stable	A+ stable	A+ stable

We maintain a neutral sovereign credit outlook for Saudi Arabia, balancing its strong financial position against emerging external pressures. Non-oil GDP growth is projected at 4.4% in 2025, driven by robust domestic demand, Vision 2030 diversification, and increased Public Investment Fund (PIF) spending, rising from \$40 billion to \$70 billion annually. Overall GDP growth is forecast at 4.4%, supported by government-led project demand and OPEC+ production plans. The 2025 budget projects a 5.3% GDP deficit, with spending at \$360 billion (up 4.0% from target) to sustain Vision 2030 projects, though Neom's funding is reduced. Revenues are expected to fall 10.7% year-on-year, based on conservative oil price assumptions (IMF breakeven at \$92/barrel vs. current Brent at \$65/barrel), risking a wider deficit amid oil price weakness and global trade tensions. Strong external buffers, including \$457 billion in foreign reserves and \$950 billion in PIF assets, provide resilience, but bond spread performance will hinge on oil market dynamics and global trade developments.

### UAE - NEUTRAL

Moody's	S&P	Fitch
Aa2 stable	NR	AA-stable

We maintain a neutral sovereign credit view on the United Arab Emirates (UAE), reflecting a balance between strong non-oil sector growth and fiscal resilience on one hand, and moderating hydrocarbon revenues and regional geopolitical risks on the other. The UAE's credit profile is supported by substantial financial buffers—particularly Abu Dhabi's sovereign wealth funds, which manage approximately USD 1.7 trillion in assets as of late 2024—providing a robust cushion against external shocks and underpinning long-term economic stability. The economy expanded by 3.9% during the first quarter of 2025, driven largely by a 5.3% rise in non-oil sectors such as tourism, real estate, and construction, which accounted for 77% of real GDP. Anticipated oil production increases under OPEC+ agreements in 2025 are likely to offer moderate support to growth. The 2025 federal budget is expansionary, with around 40% allocated to social development and pensions, prioritizing education and healthcare in line with the UAE's economic diversification strategy. Structural reforms—including the introduction of corporate tax, labor market integration, and investment facilitation—should enhance long-term competitiveness. However, downside risks persist from oil price volatility, geopolitical tensions, and the uncertain pace of reform implementation.

## MENA Fixed Income

### **Qatar - NEUTRAL**

Qatar's sovereign credit outlook remains neutral, underpinned by strong macroeconomic fundamentals, ample fiscal buffers, and disciplined debt management. The country's debt-to-GDP ratio has improved markedly—falling from 72% in 2020 to an estimated 40% in 2025—driven by elevated hydrocarbon revenues and a prudent fiscal stance. While hydrocarbons continue to account for nearly 80% of government revenue, making the fiscal outlook sensitive to commodity price swings, Qatar remains well-insulated against external shocks, including those from ongoing global trade tensions and tariff-related disruptions, due to its sizeable sovereign reserves and one of the lowest fiscal breakeven oil prices in the region—estimated at just under USD 47/bbl for 2024 and projected to fall further. Economic activity strengthened in Q2 2025, with real GDP growing by 1.9%, supported by a robust 3.4% expansion in non-hydrocarbon sectors such as manufacturing, logistics, and services. These sectors now make up close to 66% of total output, reflecting meaningful progress in diversification. Medium-term growth prospects are anchored by the North Field LNG expansion, which will increase production capacity from 77 to 142mn tonnes per annum by 2030. The project is expected to significantly boost export earnings and fiscal surpluses, with the IMF projecting the primary surplus to rise from 0.0% in 2025 to over 1.6% by 2026.

Moody's	S&P	Fitch
Aa2 stable	AA stable	AA stable

### **Oman - POSITIVE**

Oman's credit profile has strengthened significantly since the pandemic, driven by prudent fiscal management, declining debt levels, and solid hydrocarbon revenues. The debt-to-GDP ratio fell to 35% in 2024, down from 37.5% in 2023 and a peak of 68% in 2020, reflecting disciplined debt repayment and favorable oil prices. Fiscal surpluses continued in 2024 (2.9% of GDP), supported by conservative budgeting and structural reforms such as VAT implementation and subsidy rationalization. The interest expense-to-revenue ratio improved from 10.6% in 2020 to 7.3% in 2024, signaling effective fiscal consolidation. On the revenue side, stronger momentum in the non-oil sector (which grew 3.9% in 2024 and 4.0% in Q2-2025) and improved tax administration should be supportive; a personal income tax is to be introduced in 2028, albeit initially at a low rate and a high-income threshold. External resilience was bolstered by rising foreign exchange reserves, which reached USD 17.1 billion by March 2025, covering over four months of imports. Based on baseline oil price assumptions, we expect Oman's current account to shift to a deficit of about 1.3% of GDP in 2025 from an estimated surplus of 2.1% of GDP in 2024. Overall, Oman's debt reduction, reform momentum, and diversification progress support a constructive outlook, with the potential for third upgrade to IG (from Fitch).

Moody's	S&P	Fitch
Baa3 stable	BBB- stable	BB+ positive

### **Bahrain - NEGATIVE**

We maintain a negative outlook on Bahrain's sovereign credit profile, which remains under significant strain due to persistent fiscal deficits, unsustainable debt levels, and limited progress on structural reforms. Despite high per-capita income and continued GCC support, the government's reluctance to implement meaningful fiscal consolidation—evident in the reversal of VAT hikes and subsidy cuts—has deepened fiscal vulnerabilities. The 2025-26 budget forecasts deficits of 8% and 6% of GDP, though these likely underestimate the true fiscal gap given ongoing off-budget expenditures. Public debt stands at around 130% of GDP, with interest payments consuming 29% of government revenue, underscoring an unsustainable debt trajectory that depends heavily on recurring GCC assistance. Bahrain's fiscal outlook is further undermined by its reliance on oil, which accounts for 70% of government revenue, and by weak non-oil revenue generation. Although tourism and FDI offer some diversification, structural challenges persist, including oil production shocks and sluggish private investment. The central bank's foreign exchange reserves cover only about two months of imports, while the country's reliance on short-term external borrowing heightens exposure to global liquidity shocks. The 2025 budget signals a focus on structural transformation, with increased spending on education, healthcare, and infrastructure to support private sector-led growth. However, without decisive reforms, Bahrain risks slipping into a debt trap.

Moody's	S&P	Fitch
B2 stable	B+ negative	B+ negative

## MENA Fixed Income

### Egypt - POSITIVE

Moody's	S&P	Fitch
Caa1 positive	B- stable	B stable

We hold a positive outlook on Egypt, underpinned by recent reforms, declining inflation, renewed investor confidence, and strong external support. The March 2024 policy reset—including currency devaluation, adoption of a flexible exchange rate, and tighter monetary policy—has helped restore the Central Bank's credibility. Inflation fell to 12% in August 2025 from over 30% in 2023, driven by policy tightening and subsidy reforms, with further moderation expected. External liquidity pressures have eased, with foreign reserves rising to USD 49 billion—covering nearly six months of imports. Recent announcements of progress on a USD 7.5bn investment by Qatar have added to positive sentiment. Backed by IMF programs—including the Extended Fund Facility and Resilience and Sustainability Facility—Egypt's external financing outlook has strengthened. Fiscal consolidation is on track, and the C/A balance is improving, likely reducing the debt-to-GDP ratio to 87% in 2025 from 91% in 2024. While interest payments are expected to consume 67% of revenue in 2025, this burden should ease gradually as rates decline. Real GDP growth is projected to rebound to 3.8% in FY2025, supported by tourism, logistics, and recovering private investment. Although external debt service remains high and regional risks persist, the overall risk balance is improving.

### Kuwait - NEUTRAL

Moody's	S&P	Fitch
A1 stable	A+ stable	AA- stable

We maintain a neutral fundamental view on Kuwait, reflecting its strong economic and fiscal position, tempered by limited progress on diversification and ongoing institutional challenges. Kuwait's debt-to-GDP ratio remains among the lowest globally, estimated at just 3% in 2024. This exceptionally low level is partly the result of the government's inability to pass a new debt law between 2017 and early 2024, which forced reliance on reserve fund drawdowns to finance deficits. The recent passage of the debt law marks a turning point, enabling the government to raise up to USD 97 billion, or 60% GDP through bond issuance over the next 50 years. While this will gradually increase debt levels, it should improve fiscal flexibility and liquidity management. The market is eager for new issuance, and we expect upcoming bonds—likely front-loaded over the next decade—to be well received by investors. However, progress on structural reforms and economic diversification remains modest, limiting upside potential in the near term.

### Morocco - POSITIVE

Moody's	S&P	Fitch
Ba1 stable	BBB- stable	BB+ stable

We hold a positive fundamental outlook on Morocco, driven by socioeconomic reforms and robust economic growth, bolstered by the 2030 World Cup. The 2021 New Development Model advances economic diversification, female labor-force participation, and education, supporting Morocco's growth and fiscal trajectory. Despite persistent fiscal deficits, disciplined policies, including fuel subsidy elimination, reduced the deficit from 7.1% of GDP in 2020 to 4.1% in 2024, targeting 3.5% in 2025. Strong tourism (17.4 million visitors in 2024 vs. 14.5 million in 2023), phosphate, and automotive exports narrowed the current account deficit. A \$4.5 billion IMF 2-year flexible credit line enhances resilience against external shocks, while declining oil prices (\$65/barrel Brent) benefit Morocco as an oil importer. S&P last month upgraded Morocco to BBB- on sound macroeconomic policies.

### Jordan - NEUTRAL

Moody's	S&P	Fitch
Ba3 stable	BB- stable	BB- stable

Our neutral view on Jordan balances the country's strong policy institutions and sustained international support against persistent structural challenges, including low growth, high debt, and socio-economic pressures. Jordan's effective governance has secured continued access to foreign assistance—amounting to around 12% of GDP in 2024—with the U.S. as the largest contributor. While the temporary freeze in USAID disbursements earlier this year raised concerns, funding has since resumed. Jordan also benefits from a \$1.2 billion IMF program and a newly announced EUR 3 billion EU aid package for 2025–2027. The fiscal deficit stood at 5.7% of GDP (annualized) in 6M-2025. Still-low growth has kept debt-to-GDP on an upward path, expected to remain elevated at around 90% for 2025. While tourism has been relatively unaffected so far, but given Jordan's already high unemployment and social strain, this poses downside risks to both economic performance and fiscal stability.

## MENA Fixed Income

### Turkey - POSITIVE

Moody's	S&P	Fitch
Ba3 stable	BB- stable	BB- stable

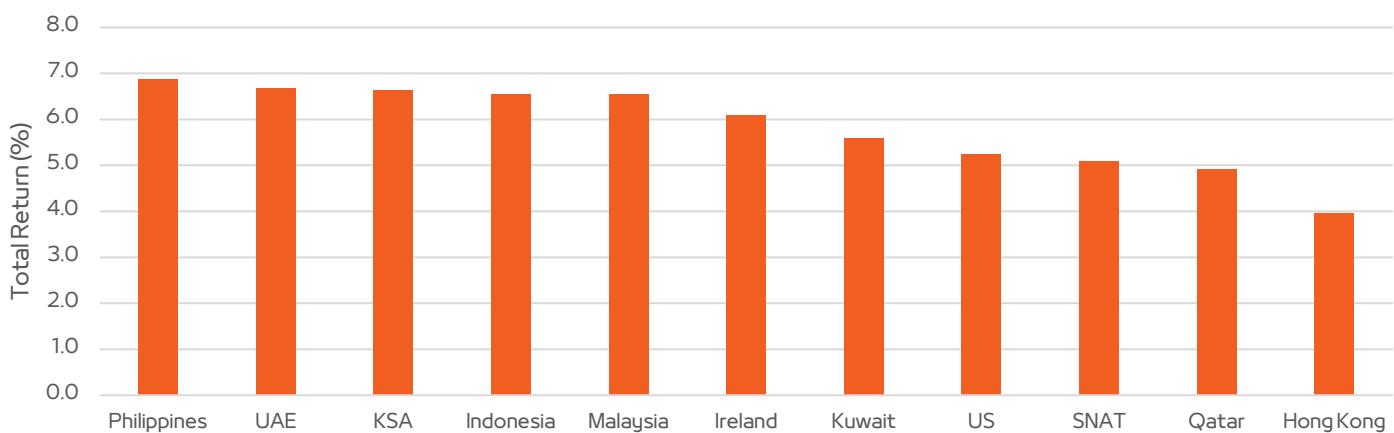
We are positive on Turkey and expect it to be a potential rating upgrade story, as its macroeconomic outlook is improving, supported by disinflation progress, tighter monetary policy, and fiscal consolidation, signaling a return to orthodoxy after years of volatility. CBRT's commitment to maintaining restrictive policy has bolstered lira stability and reduced dollarization, while foreign reserves have improved to USD 87bn. Currently Turkey's FX import cover remains at 3 months, posing a vulnerability, but structural improvements are underway. The current account deficit narrowed sharply to 0.8% of GDP in late 2024 (from 3.6% in 2023), driven by reduced energy and gold imports and rising confidence in the lira. The 2025 budget targets a fiscal deficit of 3% of GDP, down from nearly 5% in 2024, supported by the phase-out of earthquake-related spending and new tax measures, including a 10% minimum corporate tax. Structural reforms—such as wage moderation and banking sector deleveraging—are enhancing economic resilience. Government debt remains low at an estimated 25% of GDP in 2024, well below the 'BB' peer median of 54%, though interest costs are expected to rise slightly to 11.7% of revenue in 2025 due to higher domestic borrowing rates. While risks from lira volatility and energy dependence persist, Turkey's credible policy shift, resilient private sector, and strong tourism inflows (up 7.6% YoY in 1H2025) support a constructive outlook. If reform momentum continues, further disinflation and growth stabilization around 2% could pave the way for rating upgrades.

# Global Sukuk

## Market Overview

The sukuk market posted strong gains in Q3 2025, with the Bloomberg Global Aggregate USD Sukuk Index returning 2.3% for the quarter and 6.4% year-to-date. This was driven by a pronounced outperformance in the belly of the curve (3–10 years) which benefited from the US Treasury bull steepening, while long duration (10+ years) lagged as the steepening yield curve penalized extended duration. Emerging market geographies, particularly the UAE, Saudi Arabia, Indonesia and Malaysia, forming majority index weight posted returns above 6.5%, driven by constructive local factors. Core GCC markets maintained solid performance amid stable macro backdrops and robust issuance tied to transformation and infrastructure agendas. In contrast, developed markets (Ireland, US) and supranational sukuk lagged, facing headwinds from historically tight spreads and less scope for spread compression.

### Total Return by Country<sup>1</sup>



## Market Outlook

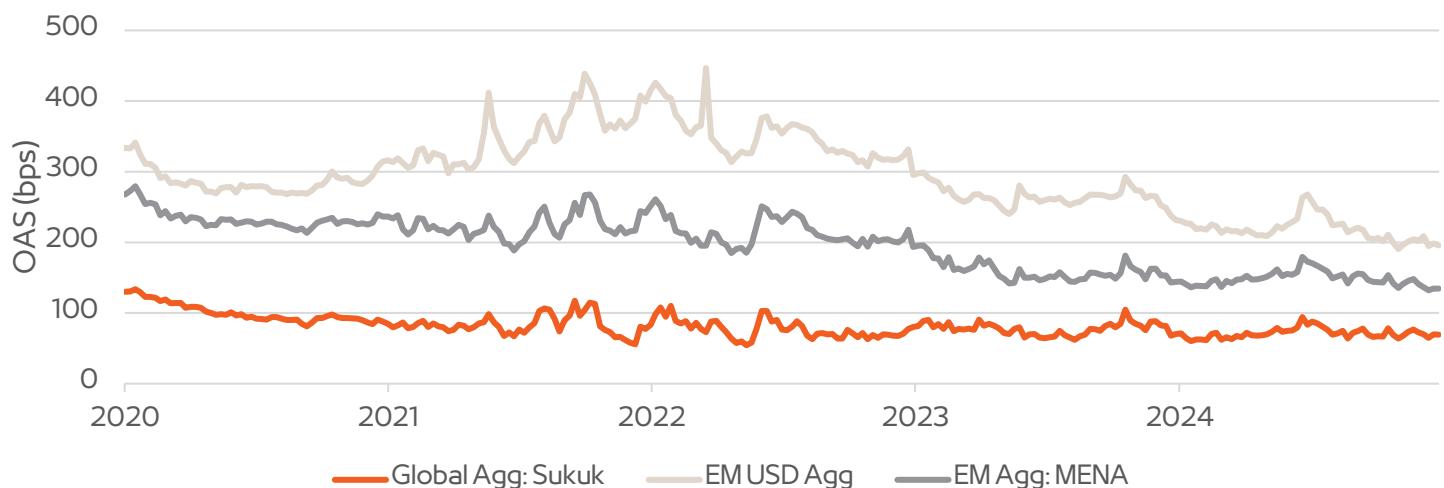
The sukuk market is expected to remain resilient and well-positioned for the remainder of 2025, driven by robust demand from both traditional Islamic finance hubs and increasingly diverse global investors seeking stable, ethical carry through Sharia-compliant instruments. Overall issuance is forecasted to surpass previous years, with total market value continuing its double-digit growth trajectory. Demand is underpinned by infrastructure investment needs in the Middle East and Southeast Asia, alongside growing appetite for ESG-linked sukuk as regulatory frameworks and standardization improve global access. Market sentiment continues to trend positively, with expectations for high-single digit total returns by year-end, building on the strong performance delivered year to date. Sukuk index spreads have stayed stable compared to the start of the year, they remain tighter than their five-year historical average, reflecting continued investor confidence in the asset class.

Looking ahead, the sukuk market will remain sensitive to broader macroeconomic headwinds, particularly the impact of escalating global trade tensions and tariff regimes, which could weigh on global growth. In addition, geopolitical uncertainty in the Middle East may add episodic volatility, although the sukuk asset class has historically shown resilience during periods of regional stress. Overall, the sukuk market is well positioned for steady performance through year-end, supported by high-quality carry, ongoing issuance, and resilient demand across regional and global investors despite localized geopolitical headwinds.

<sup>1</sup>**Source:** Bloomberg. Index: Bloomberg Global Agg USD Sukuk Index.

## Global Sukuk

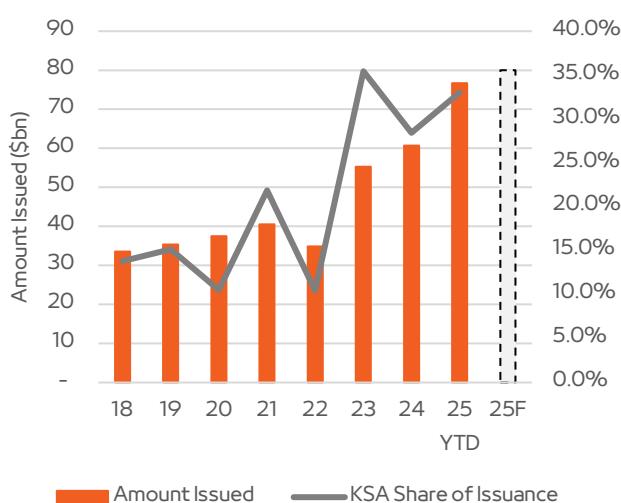
### Sukuk Spreads



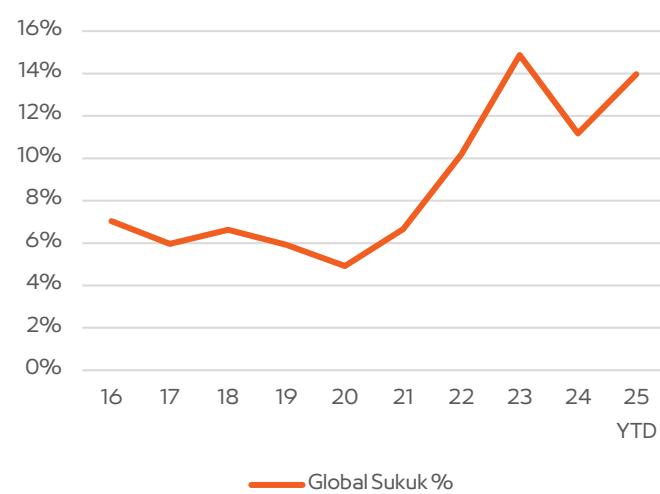
### Supply Outlook

Global sukuk issuance for the remainder of 2025 is projected to remain robust, with total volumes likely to surpass those of 2024, driven by steady Islamic investor demand, issuer funding needs, and more accommodative rates amid expected US rate cuts. USD-denominated issuance momentum is set to continue, buoyed by significant funding requirements for Saudi Arabia's Vision 2030 projects and broader economic diversification initiatives, as well as sustained activity from Malaysia and Indonesia. The outlook also points to a pickup in supply during Q4 2025 following a seasonal summer lull, with a growing share of issuance from financial institutions seeking to bridge deposit gaps and fund infrastructure and budgetary needs. While the local currency sukuk market in the GCC may see slight moderation, the overall global supply is healthy, and oversubscription in recent deals highlights strong investor confidence and appetite for Sharia-compliant assets.

### Global USD Sukuk Issuance Trends<sup>1</sup>



### Global USD Sukuk as a share of USD EM issuance<sup>1</sup>



<sup>1</sup>Source: Bloomberg. Index: Bloomberg Global Agg USD Sukuk Index. YTD data is as of 21<sup>st</sup> October 2025

# Global Sukuk

## Strategy and Top Ideas

### **Yield Curve & Duration:**

With most of the bull steepening in global yield curves already priced in, we maintain a neutral to moderately long duration stance. This positioning offers flexibility to capture potential upside in rates while avoiding undue interest rate risk in a still-uncertain macro environment.

### **Regional Allocation:**

As geopolitical tensions in the Middle East ease, we are turning incrementally constructive on GCC sukuk, shifting allocation away from Asian names. The GCC continues to offer a compelling combination of improving credit fundamentals, strong sovereign support, and relative value opportunities in USD-denominated sukuk markets.

### **Credit Quality & High Yield:**

Improved macro visibility and greater clarity around global trade policy support a more selective approach to high yield sukuk. We are increasing exposure to credits in Turkey and Egypt, where policy reforms and economic stabilization are gaining traction. These markets present opportunities for credit spread compression and total return enhancement.

### **Key Takeaways:**

- Maintain a neutral to slightly long duration bias.
- Increase exposure to GCC sukuk as geopolitical risks recede.
- Selectively add high yield sukuk where fundamentals are improving.
- This balanced strategy is designed to capture yield and capital appreciation opportunities while maintaining prudent risk management across the sukuk portfolio for the remainder of 2025.

<sup>1</sup>**Source:** Bloomberg, JP Morgan, Mashreq Capital Calculations.

# Emerging Markets Fixed Income

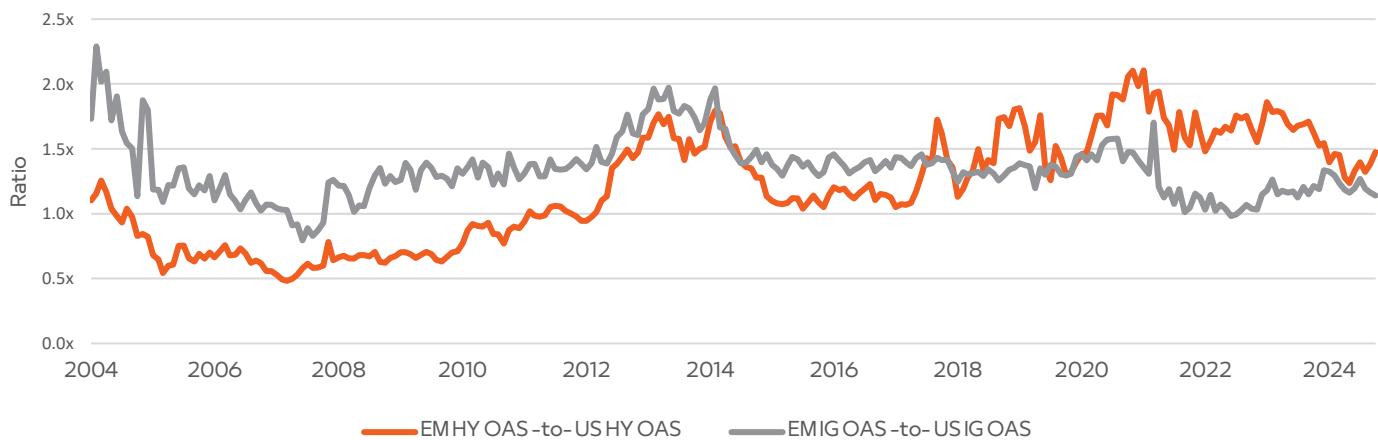
## Market Overview

Emerging market debt delivered a strong performance in the third quarter, with the Bloomberg EM USD Aggregate Index gaining 3.4%. The rally was fueled by a broad decline in U.S. Treasury yields and tightening credit spreads. Supportive technicals and resilient fundamentals underpinned the move, while continued inflows and higher commodity prices, particularly gold, provided additional tailwinds.

Performance dispersion across countries remained pronounced. Lebanon was the standout performer, returning +19% as political normalization and improved fiscal prospects drove a sharp rally. In contrast, Argentina underperformed, returning -15% amid renewed investor concerns following disappointing local election results and persistent macro uncertainty. Notably, the quarter also saw several positive sovereign rating actions. Oman and Azerbaijan both regained investment grade status from two agencies, while Morocco was upgraded to investment grade by one, with further upgrades likely in the near term.

Looking ahead, while valuations are tight and policy divergence is increasing, the overall backdrop for EM debt remains constructive. However, selectivity will be key, as idiosyncratic risks and country-specific developments continue to drive significant return differentials across the asset class.

## Spread Differentials: EM vs US High Yield and Investment Grade



## Market Outlook

We remain neutral on emerging market debt for the next 12 months, with returns expected to be broadly in line with the strong performance of the past 12 months. Although the macro backdrop remains constructive, supported by resilient fundamentals, positive rating actions, and renewed inflows, spreads are now at post-GFC tights, limiting further outperformance. However, with the Fed shifting to an easing bias and U.S. Treasury yields still elevated, lower rates should provide meaningful support for the asset class. The carry therefore gives us comfort as in this environment, spreads would need to widen significantly before total returns turn negative, as declining yields are likely to cushion any impact.

Fundamental and technical tailwinds should persist into year-end, supported by ongoing inflows as EM allocations expand within investor portfolios, a weaker USD, and continued positive rating momentum. However, with valuations stretched and policy divergence rising, we expect volatility to remain elevated and see an increased need for selectivity. Against this backdrop, we continue to favor carry and focus on issuers with clear idiosyncratic catalysts for outperformance.

<sup>1</sup>Source: Bloomberg, Indices used: Bloomberg EM USD Agg Index

# Emerging Markets Fixed Income

Default rates are expected to remain subdued in 2025 for both sovereign and corporate issuers, as many of the most vulnerable names have already restructured or are under active IMF programs. On the corporate side, the EM high-yield default rate stands at 2.3% year-to-date, in line with expectations, and our full-year forecast remains at 3–4%, with risks skewed towards Asia and CEEMEA expected to remain more stable—well below the long-term average.

## Strategy and Top Ideas

### Investment Grade Sovereigns

Within the investment grade sovereign space, we remain overweight Abu Dhabi, Chile, and Romania. Abu Dhabi and Chile continue to stand out as high-quality defensive allocations, benefiting from strong external buffers, stable policy frameworks, and moderate debt loads. Recent post-election developments in Romania have reinforced political stability, reaffirming commitment to fiscal consolidation and EU alignment. The prospect of further progress on fiscal execution could see Romania's bonds reprice closer to other IG sovereigns in the region. Conversely, we remain underweight Saudi Arabia and Indonesia. In Saudi Arabia, continued fiscal expansion and tight valuations leave little room for spread compression, even with supportive oil dynamics. In Indonesia, recent political developments—including the replacement of the finance minister and ongoing protests—have increased uncertainty, while additional supply and tight spreads bias us toward further underperformance.

### High Yield Sovereigns

Within the High Yield space, we continue to emphasize quality, maintaining a clear preference for BB-rated sovereigns over lower-rated credits. Our favored overweights are Morocco, Armenia, and Uzbekistan and Colombia. Morocco stands out for its positive rating momentum and positive reforms, while Armenia and Uzbekistan benefit from constructive regional developments. Among lower-rated sovereigns, we see selective value in Pakistan and Angola. Pakistan's ongoing IMF engagement and recent political developments have helped stabilize the macro-outlook domestically, while Angola's commitment to fiscal consolidation and the prospect of an IMF program provide a supportive backdrop. Conversely, we remain underweight lower-rated names, where we see deteriorating debt metrics, reliance on external funding, and weaker market access raise concern. We see risks of underperformance in names such as Senegal, where debt sustainability remains fragile and global shocks could renew stress.

### Corporates

We remain Neutral on EM corporates, as spreads are tight, but fundamentals remain steady, and defaults continue to run below average. Our preference is to focus on GReEs and select corporates in countries with improving macro backdrops, particularly Uzbekistan and Morocco, where the spread pickup over sovereigns remains attractive. We also see value in Pemex, where recent policy support and improved funding access have helped stabilize the credit profile. While valuations are rich relative to history, EM corporates are supported by balanced technicals, stable leverage metrics, and a broad investor base. We expect a selective grind tighter in spreads, but the uncertain macro backdrop limits the scope for indiscriminate risk-taking. In contrast, we remain underweight Asia as a region, where spreads are tight and we are cautious on segments sensitive to commodity prices or China-linked demand, such as smaller oil & gas issuers and parts of Asian real estate. Overall, we continue to emphasize quality and selectivity, favoring GReEs and resilient corporates in markets with improving fundamentals, while remaining cautious on areas where valuations are stretched and macro risks are elevated.

**Indices used on page 5 & 6:** MENA represented by the Bloomberg EM USD Agg: MENA index, Bloomberg GCC USD Credit index (MENA IG), Bloomberg EM USD Agg: MENA HY (MENA HY), Bloomberg EM USD Agg: UAE (UAE), Bloomberg EM USD Agg: Saudi Arabia (KSA), Bloomberg EM USD Agg: Qatar (Qatar), Bloomberg EM USD Agg: Oman (Oman), Bloomberg EM USD Agg: Kuwait (Kuwait), Bloomberg EM USD Agg: Bahrain (Bahrain), Bloomberg EM USD Agg: Morocco (Morocco), Bloomberg EM USD Agg: Jordan (Jordan), Bloomberg EM USD Agg: Egypt (Egypt), Bloomberg EM USD Agg: Iraq (Iraq), Bloomberg EM USD Agg: Lebanon (Lebanon).

# MENA Equity

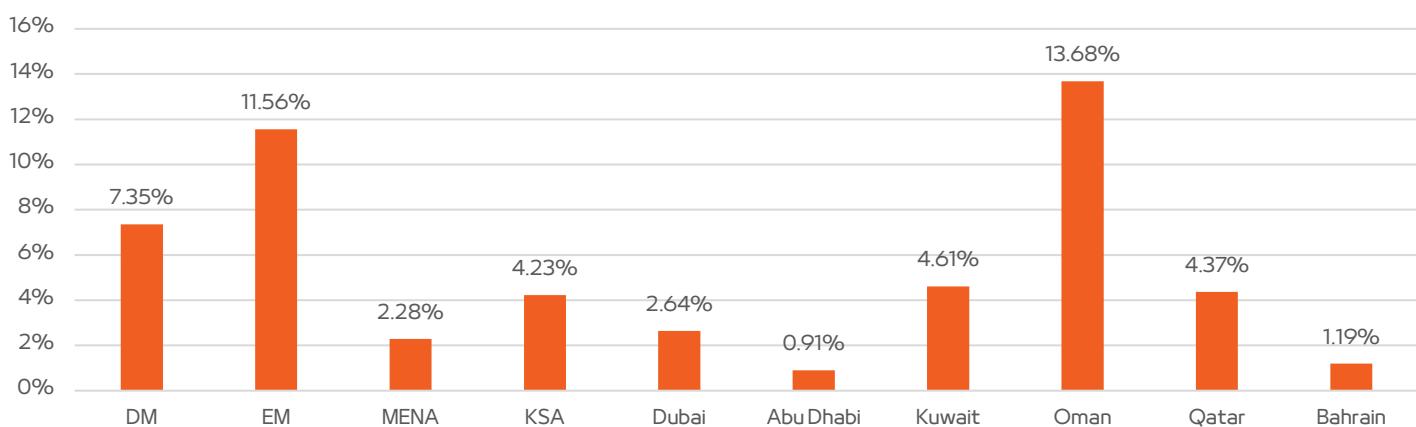
## Market Overview

The MENA region posted modest gains in Q3, underperforming Emerging Markets, which rose 11.56%, while MENA advanced 2.28%. Performance across GCC markets was mixed, with significant intra-quarter shifts driven by Saudi Arabia's announcement of Foreign Ownership Limit (FOL) easing late in September. Saudi Arabia (Tadawul All Share Index) gained 4.23% in Q3, reversing early weakness after the FOL announcement triggered strong inflows. The index rallied 5.8% between September 22 and 30, led by banks such as Al Rajhi Bank and Saudi National Bank, which benefited from increased foreign interest. Earlier concerns around oil prices and fiscal spending were overshadowed by this structural reform.

UAE markets saw early strength but lost momentum post-September 22 as investors rotated into Saudi equities. Dubai ended the quarter up 2.64%, down from 5.91% before the shift. Gains were supported by Emirates NBD, which remains operationally robust, and Dubai Investments Company (DIC) following news of a planned IPO of a 25% stake in Dubai Investment Park. Laggards included Talabat, pressured by competitive threats from Keeta. Abu Dhabi closed the quarter with muted gains of 0.91%, down from 2.14% before the late-September rotation into Saudi equities. Performance was weighed down by First Abu Dhabi Bank and Alpha Dhabi, which acted as key drags. However, ADNOC names provided some support. ADNOC Logistics and Services saw strong momentum following a \$317M institutional placement that increased its free float to 22%, unlocking potential passive inflows ahead of MSCI and FTSE EM index inclusions. Similarly, ADNOC Gas benefited from its inclusion in the FTSE Emerging Index effective September 22, reinforcing investor confidence in ADNOC-linked plays. Despite these positive developments, overall market returns remained subdued.

Oman emerged as the top performer, surging 13.68% on improving macro fundamentals and liquidity. Investor sentiment strengthened as reforms and fiscal consolidation gained traction, positioning Oman as an emerging opportunity in the region. Kuwait advanced 4.61%, supported by optimism around ongoing economic reforms. Gains were primarily driven by the banking sector, with strong contributions from National Bank of Kuwait and Commercial Bank of Kuwait. Qatar rose 4.37%, led by Qatar National Bank and Qatar Islamic Bank, reflecting resilience in the banking sector.

## Performance of Key Markets – 3Q25

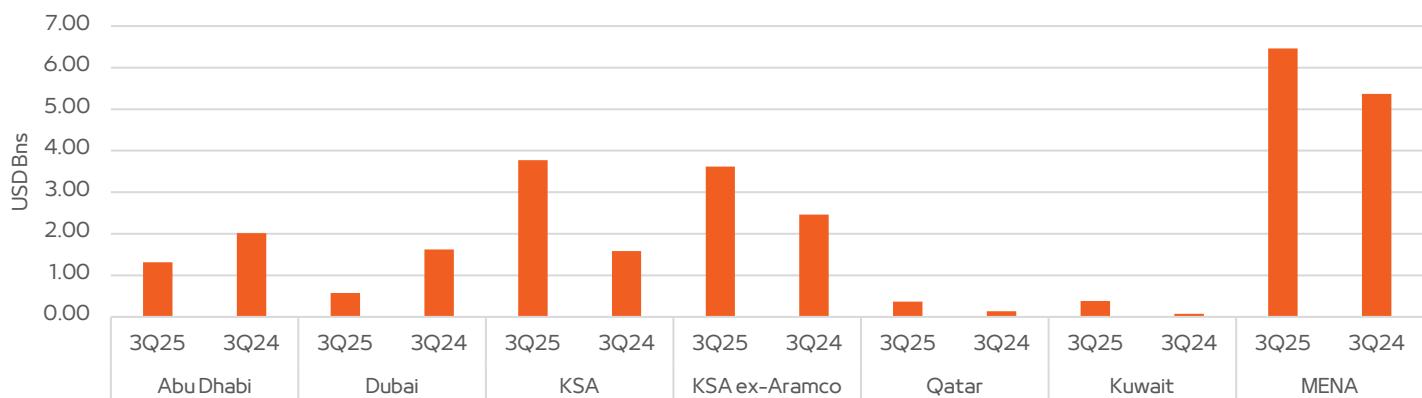


MENA's Qualified Foreign Investor (QFI) inflows in Q3 2025 surpassed those in Q3 2024 by approximately \$1.1 billion, signaling strong foreign interest despite regional volatility. Inflows were concentrated in Financials, Materials, and Real Estate, while Consumer Discretionary, Consumer Staples, and Healthcare experienced outflows. Saudi Arabia dominated QFI flows, driven by banks and mining names, particularly Saudi Arabian Mining Co, Al Rajhi Bank, and Saudi National Bank. Expectations around easing of foreign ownership limits were a key catalyst, attracting \$1.45 billion between September 22 and 30 alone. During this short period, inflows were led by Al Rajhi Bank (\$608mn), Saudi National Bank (\$121mn), and Alinma Bank (\$95.2mn). Kuwait also recorded positive QFI flows, led by National Bank of Kuwait, Kuwait Finance House, and Warba Bank.

## MENA Equity

Qatar saw steady inflows into its banking sector. Flows into Dubai and Abu Dhabi were subdued in third quarter. Dubai saw notable inflows into Emirates Integrated Telecommunications Co off the back of the secondary offering, though these gains were overshadowed by outflows from Dubai Islamic Bank, Aramex, and Talabat. Abu Dhabi recorded inflows into ADNOC Logistics following its secondary offering, however these gains were largely offset by outflows from IHC, Pure Health, and Americana.

### Est. QFI Net Flows



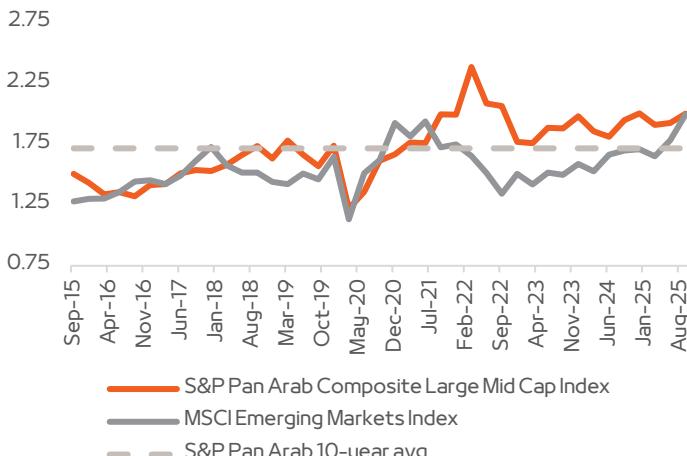
Source: Bloomberg

### Market Valuations

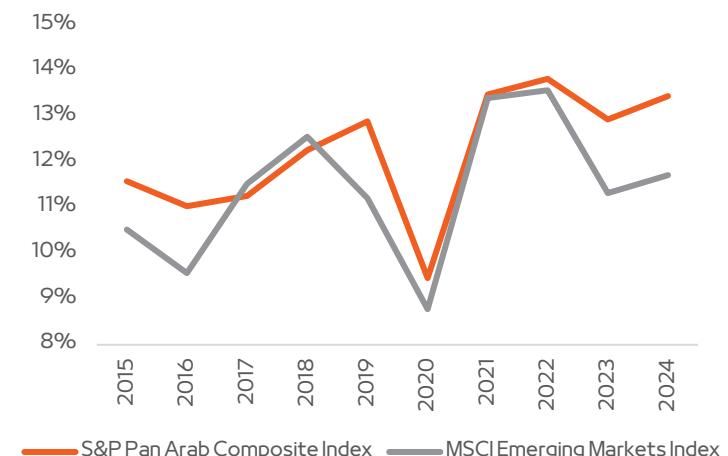
As of the end of Q3 2025, MENA's forward Price/Book ratio was 2.0x, above its 10-year average of 1.71x. However, it is 16% below the high in 2022. While the P/B spread between the MSCI EM Index and the S&P Pan Arab Composite Index has recently converged, historically MENA has traded at a premium to EM. This narrowing reflects strong momentum in broader EM markets, driven by improving global risk appetite, attractive earnings growth, and rotation toward higher-beta markets.

Despite this, MENA's structural strengths continue to justify its long-term premium. Over the past three years, the S&P Pan Arab Index had an average ROE of 13.4%, approximately 120 basis points higher than EM. This higher ROE was achieved while maintaining lower leverage. The three-year average Total Debt to Total Assets ratio was 16.76% for the S&P Pan Arab Index, compared to 19.98% for EM.

### Forward Price/Book ratio



### ROE %



Source: Bloomberg

Mashreq Capital: Market Outlook and Product Strategy

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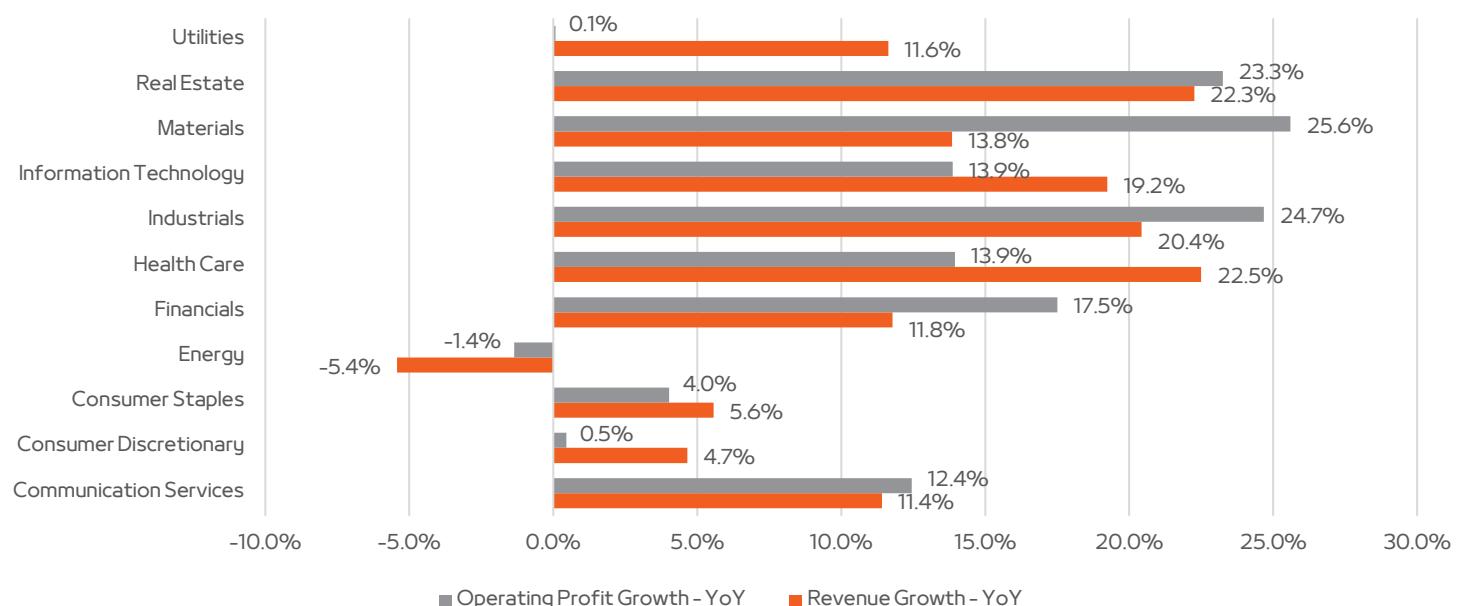
# MENA Equity

## MENA Earnings Review - Q1 2025

### Executive Summary

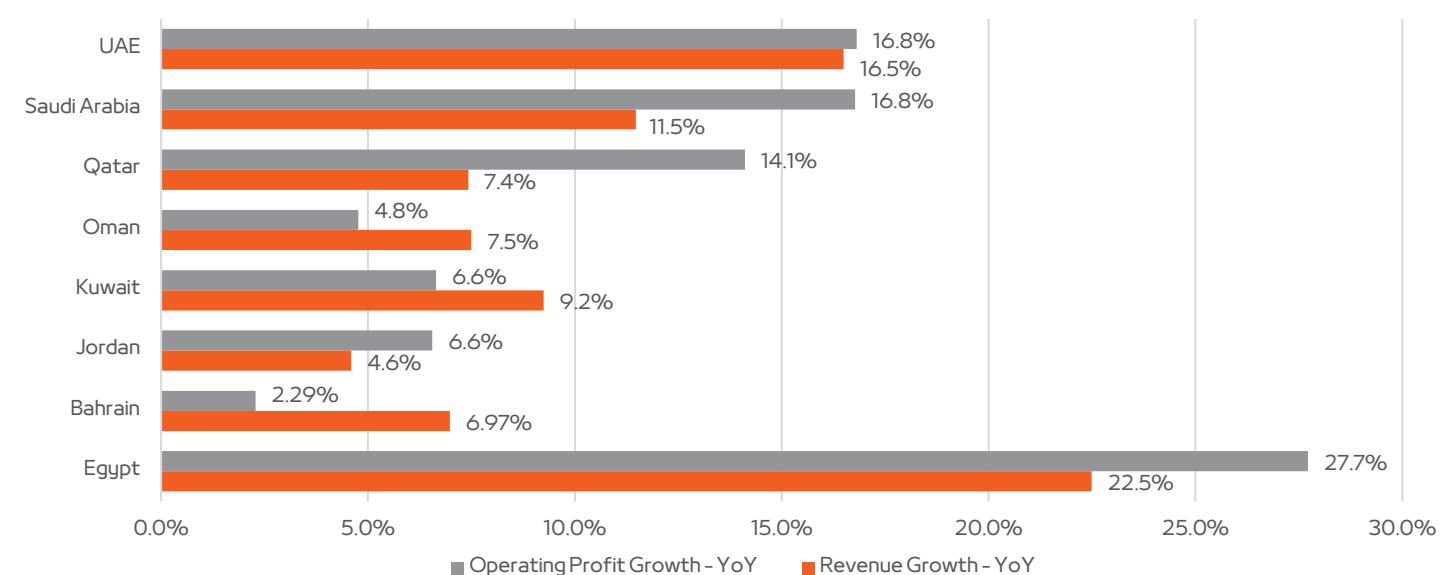
MENA earnings grew 15.6% YoY in 2Q25, accelerating from 4.89% YoY in 1Q25. Despite continued headwinds from the energy sector, overall earnings strength reflects broad based growth supported by ongoing economic diversification and the effectiveness of structural reforms across key markets. Sector leaders included Real Estate, Industrials, and Healthcare.

### Sector wise growth



Source: Bloomberg

### Country wise growth



Source: Bloomberg

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# MENA Equity

## Sector Performance Analysis

### Financial Services – Sustained Momentum

Financials remained resilient, with the UAE continuing to outperform. Loan growth exceeded expectations, supported by a favorable macro backdrop and robust balance sheet expansion. Non interest income at banks such as DIB and FAB provided additional support. In Saudi Arabia, NIMs stayed under pressure amid tight liquidity, and loan growth lagged regional peers in 2Q25. Kuwaiti banks also delivered strong results, underpinned by a rebound in economic activity and progress on economic reforms (both implemented and in progress).

### Healthcare – Capacity Ramp Driving Outperformance

The Healthcare sector—largely Saudi led—posted revenue/earnings growth of 22.5%/13.9% YoY. Ongoing capacity expansion was a key driver, with Sulaiman Al Habib at the forefront. The group was the largest contributor to sector growth as the ramp up of new hospitals proceeded faster than expected. Dallah Healthcare also reported solid results, reflecting strength in existing assets and the consolidation of the Al Khobar and Al Ahsa hospitals.

### Real Estate – Demand Remains Buoyant

UAE real estate remained buoyant, propelling earnings for listed developers as strong backlog were recognized alongside healthy new launches. Aldar and Emaar were major contributors, helping deliver sector revenue/earnings growth of 22.3%/23.3% YoY. Backlogs continued to grow, with Emaar's backlog up 62% YoY and Aldar's nearly doubling.

### Information Technology – AI and Digital at the Forefront

Technology remains a structural theme in the region, underpinned by AI adoption, data centre buildouts, and accelerating digitization across multiple government agendas. The sector was among the top performers, led by Elm, supported by strong growth in BPO and Digital Business. Presight also stood out, driven by robust backlog execution, international expansion, and a meaningful contribution from AIQ, provider of AI solutions in the energy sector (30.1% of revenue in 2Q25) as deployments of ENERGYai (AI for energy companies) continued to scale.

### Energy – Headwinds Persist

Lower oil prices weighed on the sector, with Aramco's revenue down 7.9% YoY despite higher volumes. ADNOC linked names were the notable standouts: ADNOC Drilling delivered strong result, driven by incremental activity from the unconventional business. The unconventional business contributed around USD192mn to revenue in the second quarter, an increase of 26% sequentially, spread between USD143mn in OFS and USD49mn in the Onshore segment. ADNOC reported an increase of 39.9%/23.3% YoY in revenue/net income, supported by improved utilization and strengthening charter rates on Jack-Up Barges (JUBs) and first-time consolidation of Navig8 Tankers' revenues.

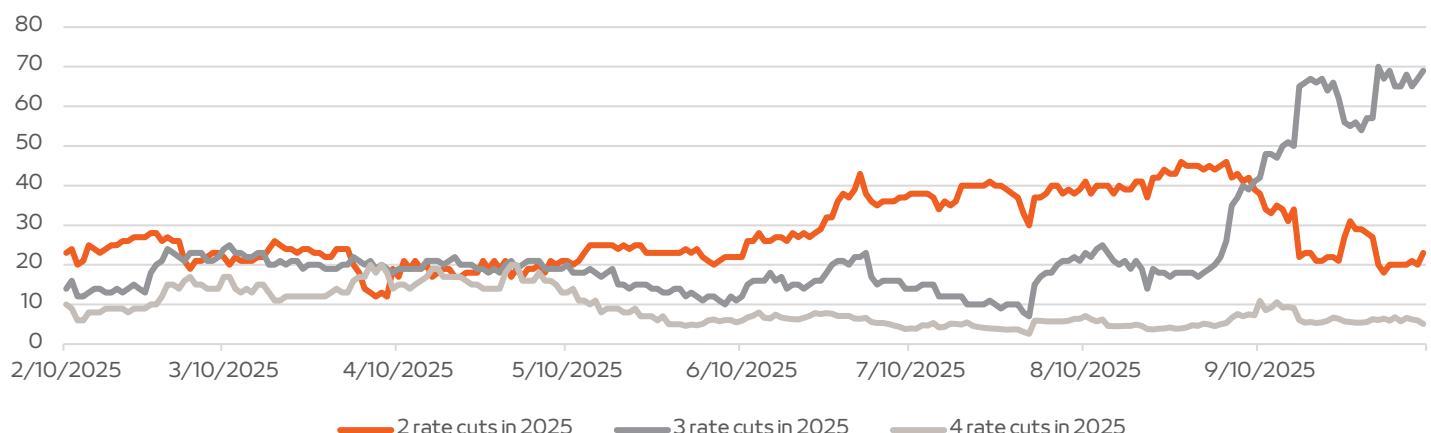
## Market Outlook

### Trade Policy Landscape

Global macroeconomic conditions have remained volatile, but recent economic indicators from the US suggest emerging weakness in the labor market, increasing expectations for rate cuts, with the market now anticipating 2 additional cuts this year. US has implemented tariffs though negotiations with major trade partners such as China are ongoing. Although inflation data to date has not shown a material increase in prices, we do not rule out the possibility of rising inflation as the effects of tariffs begin to filter through. Overall, the MENA region—and the GCC in particular—remains largely insulated from these tariff measures. However, anticipated rate cuts are expected to benefit select banks' net interest margins and should help reduce funding costs in Saudi Arabia, where liquidity has been tight. Additionally, lower rates could support real estate demand by decreasing mortgage costs.

## MENA Equity

### Expectations of rate cut - Polymarket

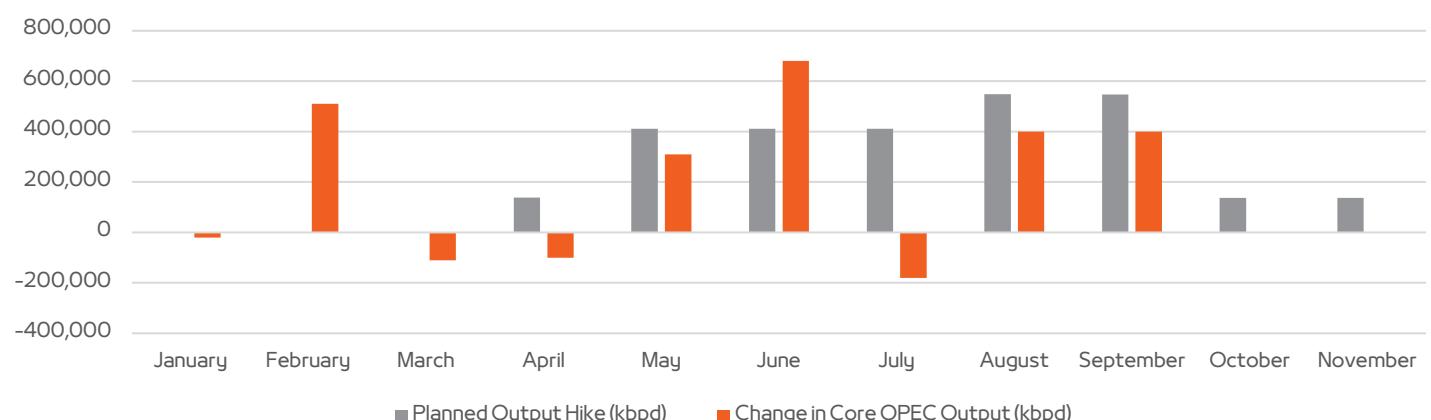


### Oil Price Dynamics

Oil prices have remained relatively strong in the USD 65–70/bbl. range over the last quarter, despite OPEC's gradual increase in their output ceiling, including a recent increase of 137k bbl./day for November. Market consensus is for a potential oversupply in 2025, which has kept prices under pressure. However, robust demand from China and India, coupled with healthy consumption in developed markets, is expected to help absorb the additional supply. Evidence so far supports this view: even with Iran's production rising by 120k bbl/day during past year, prices have held firm. Our focus remains on global growth as the key determinant of oil price direction over the next 12 months. Any weakness in economic activity could significantly impact prices. So far, growth has been resilient across both developed and emerging markets, and current data suggests this trend will continue.

China will play a pivotal role for GCC economies, as oil exports to China account for roughly 8% of GCC GDP. Additionally, China is expanding its strategic reserves by 169 million barrels—equivalent to two weeks of its crude oil imports.

### Planned vs actual change in OPEC output



# MENA Equity

## Strategic Positioning

### Geographic Focus

We maintain a constructive bottom up outlook for Saudi Arabia, the UAE, and increasingly Oman. We prefer markets where policymakers have demonstrated clear economic development strategies with proven execution capabilities. The UAE and Saudi Arabia excel on this metric, while Oman has delivered an impressive macroeconomic turnaround, presenting emerging opportunities as sentiment and liquidity improve.

Our outlook for Kuwait has improved with the anticipated passage of the mortgage law. As valuations in the financial sector appear stretched, we prefer to wait for more clarity on the mortgage law before making additional investment decisions. In the meantime, we have established a position in Boursa Kuwait as a proxy to benefit from increased trading activity, which is expected to be driven by upcoming government spending and structural reforms.

**Demographic Advantage:** Regional demographics remain favourable, with young populations and rapidly expanding workforces. Policymakers recognize the imperative to create employment opportunities for this demographic cohort, which has spurred rapid social change and economic development. Saudi Arabia exemplifies this transformation, achieving remarkable milestones including private sector job creation and exponential growth in female labor force participation.

### Sector Preferences

Our investment thesis centres on three core themes: domestic demand, infrastructure, and financials. These policy priorities will persist, providing sustained momentum for our preferred sectors.

## Sector Allocation:

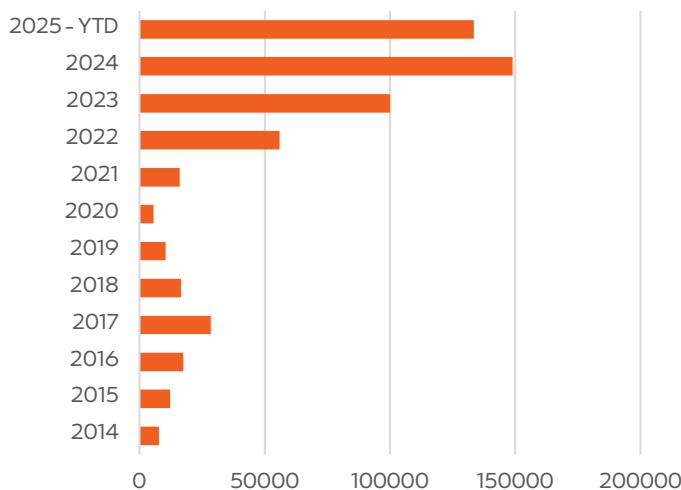
- In UAE, we continued to add to Talabat during the last quarter, given its strong alignment with the country's economic growth. The recent weakness in the stock, driven by the entry of Keeta in the UAE, provides an attractive entry point. We believe Talabat is well-positioned to withstand short-term margin pressures. We also continued to add to Presight AI Holding, as it offers a unique value proposition in artificial intelligence and maintains critical government-to-government (G2G) relationships, which provide a significant competitive edge.
- We believe commercial real estate remains an underappreciated segment within the overall UAE property market. Current occupancy levels stand at 95%, and rents have increased 45% YoY YTD. The market continues to be undersupplied, with strong demand. We expect this strength to persist and have therefore added Dubai Investments Company and TECOM Group to our portfolio.
- We subscribed to Emirates Integrated Telecom (DU)'s secondary offering based on two key factors: i) The company serves as a proxy for tourism growth and population inflows into the UAE, and ii) potential index inclusion following improved liquidity.
- In KSA, we slightly increased our weight in RETAL to increase exposure to Saudi real estate, given its role as a key player in the government's affordable housing initiatives. Additionally, we added Sulaiman Al Habib to our portfolio, as the company leads healthcare expansion in Saudi Arabia. With full capacity now online, higher utilization should support margin improvement.
- We exited DEWA as we do not see major catalysts ahead and believe growth potential in the stock is limited. There are more attractive opportunities to capture the Dubai population growth theme. We also exited Borouge, a cyclical and long-held position, taking advantage of the recent buyback offer. Additionally, FAB was right-sized, given other banking names offer stronger growth prospects.
- We exited Oman Telecommunications following the recent run-up in stock prices, as we believe the full investment story has played out and see no significant catalysts going forward.

## MENA Equity

### Key factors to look at

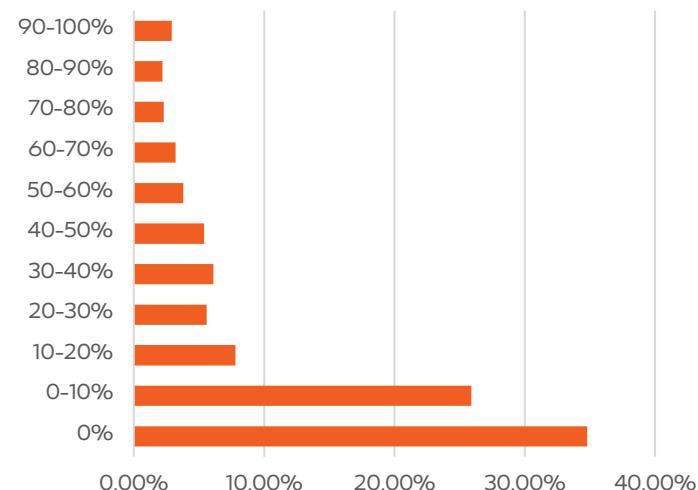
- UAE real estate:** Softening rents over the past three months have raised concerns about the UAE, particularly Dubai's real estate sector, with secondary apartment transactions declining in both value and volume for the past two months. The expected handover of 40–45k units in 2026 has added to oversupply worries. We remain constructive on the sector given successful new launches by developers, which are on track to surpass last year's figures and indicate strong demand; end-users accounting for roughly 60% of demand hence mitigating speculative risk; and the fact that 61% of the total 413k units under construction have less than 10% construction progress, signalling supply discipline and mitigating oversupply risk. Overall, we do not anticipate a significant downturn in the real estate sector over the next 12 months and continue to favor the theme.

#### Unit Launches in Dubai



Source: Dubai Land Department

#### Construction progress for launched units and units under construction



Source: Dubai Land Department

- Start of tourist season for UAE:** Post-summer, the UAE is entering its peak tourist season as temperatures cool. We will closely monitor tourist arrivals, which are expected to drive demand for names linked to telecommunications (DU, e&), infrastructure (SALIK, DTC, PARKIN), and real estate (EMAAR, ALDAR). From January to July 2025, hotel occupancy in Dubai rose to 79.1%, up from 77.1% in 2024, despite a slight increase in the number of available rooms, underscoring strong tourism momentum.

#### Occupied Room Nights (Mn)



Source: Dubai Department of Economy and Tourism

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#### Guests Length of stay - Jan to Jul (Night)



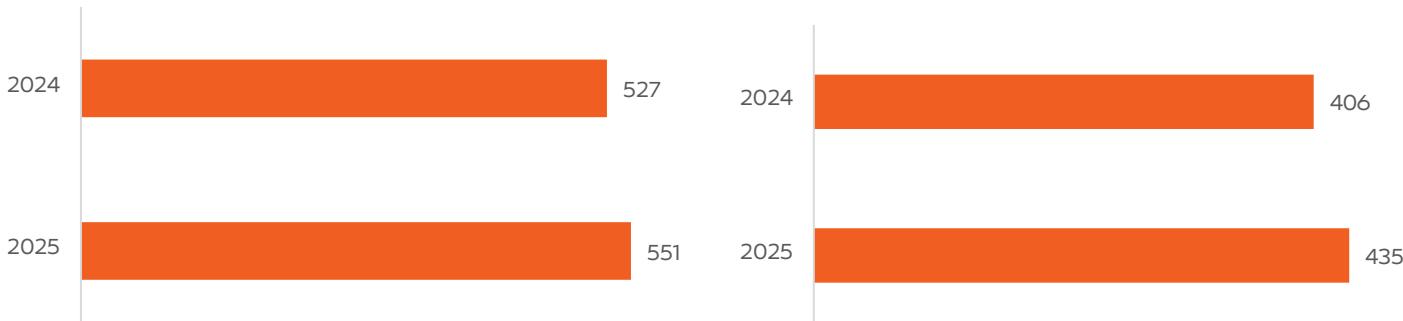
Classification: Public

## MENA Equity

### Average Daily Rate - Jan to Jul (AED)



### Revenue per available room - Jan to Jul (AED)



Source: Dubai Department of Economy and Tourism

- Saudi Arabia's spending reprioritization:** The Saudi Ministry of Finance has revised its 2025 fiscal deficit estimate to 5.3% of GDP (approximately \$65 billion), a notable increase from the previous target of 2.3%, primarily reflecting lower-than-expected revenues and higher expenditures. Revenues are now projected at 23.7% of GDP, while expenditures are forecast at 29.0%. For 2026, the government's pre-budget proposal targets a reduced deficit of 3.3% of GDP, underpinned by expectations of robust nominal GDP growth, higher revenues, and stable expenditure levels. We will closely monitor forthcoming government releases for further clarity on expenditure reallocation. The forecast of flat expenditure for the coming year is encouraging, suggesting that the Saudi government is reprioritizing projects rather than implementing significant cutbacks. We continue to favor sectors aligned with the Kingdom's strategic priorities and believe that the current expenditure trajectory will support themes such as gas infrastructure and domestic demand-driven sectors.

Projections (SAR bn)	2024	2025 Budget	2025 Estimate	2026F	2027F	2028F
<b>Total Revenues</b>	1,259	1,184	1,091	1,147	1,230	1,294
<b>Total Expenditures</b>	1,375	1,285	1,336	1,313	1,350	1,419
<b>Budget Balance</b>	-116	-101	-245	-165	-120	-125
<b>As a % of GDP</b>	-2.50%	-2.30%	-5.30%	-3.30%	-2.30%	-2.20%

Source: Ministry of Finance, Saudi Arabia

- Evolving real estate sector of Saudi Arabia:** Several new regulations have been introduced in Saudi Arabia's real estate sector, particularly in Riyadh. The government clarified the implementation of the White Land tax, with fees reaching up to 10% in certain areas of the city. Additionally, authorities have decided to freeze rents in Riyadh for a five-year period. These measures are aimed at stimulating construction activity amid a shortage of apartments. Cement offtake in the central region has improved, and if these initiatives prove successful, they are expected to further boost demand. We are actively evaluating Saudi cement companies that stand to benefit from this policy shift. While a potential secondary effect could be a reduction in rent inflation and some relief for consumers, this outcome remains uncertain and is not a primary focus of our current analysis.
- Increase in foreign ownership limit by Saudi Arabia:** Recent reports indicate that Saudi Arabia may increase foreign ownership limits in listed stocks, although no formal announcement has been made. Subsequently, the Capital Market Authority (CMA) invited public comments on proposals to remove the qualification requirements for becoming a Qualified Foreign Investor (QFI) in the country. This initiative could represent an initial step toward eventually increasing or removing foreign ownership limits and is expected to enhance market liquidity. We are monitoring these developments, as higher foreign ownership limits could unlock significant inflows into index-heavyweights such as Al Rajhi Bank, Saudi National Bank, and Alinma Bank.

## MENA Equity

- **Kuwait's mortgage law and other reforms:** Following the recent passage of the debt law, Kuwait has successfully returned to the bond market after an eight-year hiatus, issuing a USD 11.25 billion transaction. The government is expected to undertake further borrowing as it increases infrastructure spending across the country, which should boost economic activity. Meanwhile, the passage of the mortgage law is still pending; its approval would provide a significant boost to Kuwait's financial sector as well as real estate companies. We will continue to monitor developments regarding government spending and await the passage of the mortgage law to better assess the impact and potentially increase our exposure to Kuwait.
- **Protests in Morocco acted as breaks to the rally:** Ongoing protests in Morocco have disrupted the recent market rally, with the MSCI Morocco Index declining nearly 4% over the past month. Although the intensity of the protests has decreased, the government's response will be closely monitored. The current market dip may present selective entry opportunities; however, for now, we are adopting a wait-and-see approach.
- **Inflation in Egypt easing; room to decrease interest rates:** Inflation has been moderating, prompting the central bank to cut interest rates by 100 basis points recently. Despite this, real interest rates remain elevated at 9%, among the highest in emerging markets. While there are potential upside risks to inflation if the government reverses fuel subsidies, we believe there is ample room for further monetary easing, particularly if inflation remains contained following any fuel price adjustments. This environment could create an attractive entry point into the Egyptian market, as additional rate cuts are likely to stimulate activity in the stock market.

### Risk Assessment

#### Oil Price Sensitivity

Sustained energy price movements (beyond three months) represent the primary driver of fiscal outcomes for both energy exporters and importers. In a weak oil price scenario, the UAE and Qatar will emerge as relative winners due to their lower sensitivity of GDP growth and fiscal balances to oil prices. Saudi Arabia exhibits the highest oil price sensitivity, followed by Kuwait and Oman.

**Portfolio Positioning:** We maintain limited exposure to businesses that would be adversely affected by reduced government spending in a weaker oil price environment.

**Geopolitics:** The post-truce environment has shifted market focus from geopolitical tensions to oil price dynamics

## Appendix

### Macroeconomic Data

Region	GDP Growth(%)					Inflation(%)					Policy Rate(%)				
	2022A	2023A	2024A	2025F	2026F	2022A	2023A	2024A	2025F	2026F	2022A	2023A	2024A	2025F	2026F
World	3.6	3.5	3.3	2.9	2.9	8.6	6.6	5.7	3.6	3.4					
DM	3.1	1.8	1.9	1.6	1.6	8.5	5.7	3.9	3.3	2.9	3.8	5.5	4.8	3.9	3.3
EM	3.9	4.4	4.8	4.1	4.0	6.4	5.7	6.7	3.0	2.7	6.0	6.7	6.9	5.7	4.9
Eurozone	3.6	0.4	0.9	1.3	1.1	8.4	5.5	2.4	2.1	1.8	2.5	4.5	3.2	2.2	2.2
US	2.5	2.9	2.8	1.8	1.8	8.0	4.1	3.0	2.8	2.9	4.5	5.5	4.5	3.9	3.3
UK	5.3	0.3	1.1	1.3	1.1	9.1	7.4	2.5	3.4	2.5	3.5	5.3	4.8	3.8	3.3
Canada	4.2	1.5	1.6	1.2	1.2	6.8	3.9	2.4	2.0	2.0	4.3	5.0	3.3	2.3	2.3
Japan	1.0	1.2	0.1	1.1	0.7	2.5	3.3	2.7	3.0	1.8	-0.1	-0.1	0.3	0.7	0.9
Australia	4.2	2.1	1.1	1.7	2.2	6.6	5.6	3.2	2.5	2.7	3.1	4.4	4.4	3.4	3.1
Brazil	3.0	3.3	3.4	2.2	1.7	9.3	4.6	4.4	5.1	4.2	13.8	11.8	12.3	15.0	12.3
Mexico	3.9	3.3	1.5	0.5	1.3	7.9	5.6	4.7	3.9	3.7	10.5	11.3	10.0	7.0	6.5
India	9.7	7.6	8.2	6.4	6.5	6.7	5.7	5.0	4.6	2.7	6.3	6.5	6.5	5.2	5.3
Indonesia	5.3	5.1	5.0	4.9	4.9	4.2	3.8	2.3	1.9	2.6	5.5	6.0	6.0	4.5	4.3
S. Africa	2.1	0.8	0.5	1.1	1.5	6.9	5.9	4.4	3.4	3.9	7.0	8.3	7.8	7.0	6.8
Egypt	6.7	3.8	2.4	4.1	4.7	8.5	24.4	33.3	15.0	11.0	16.3	19.3	27.3	NA	NA
Turkey	5.2	5.0	3.5	3.4	3.4	72.0	53.4	60.0	34.5	24.1	9.0	42.5	47.5	36.2	26.3

Country	GDP Growth(%)					Fiscal Breakeven(\$/bbl)					Fiscal Balance(% GDP)				
	2022A	2023A	2024A/F	2025F	2026F	2022A	2023A	2024A	2025F	2026F	2022A	2023A	2024A	2025F	2026F
Qatar	4.2	1.2	1.5	2.6	5.3	48.5	49.9	47.1	44.7	43.2	10.4	5.5	0.7	0.0	1.1
UAE	7.5	3.6	4.0	4.5	4.6	46.6	45.6	50.0	50.4	45.2	10.0	5.9	4.8	2.9	2.9
Kuwait	5.9	-3.6	-2.7	2.7	2.7	81.6	79.6	88.2	80.2	76.7	28.2	26.3	21.6	23.6	23.0
Saudi Arabia	7.5	-0.8	1.3	4.2	4.1	89.1	94.5	96.1	92.3	86.6	2.5	-2.0	-2.8	-4.9	-4.9
Oman	9.6	1.3	1.0	2.5	3.3	55.4	54.0	53.7	57.0	53.5	10.5	6.9	6.3	1.2	1.1
Bahrain	6.0	3.0	2.6	2.8	2.9	131.8	137.8	133.2	137.0	138.6	-5.1	-8.5	-10.7	-10.4	-11.1

### Historical Market Data

	Total Returns(%)	2019	2020	2021	2022	2023	2024	QTD*	YTD**
US Treasuries	5-year US Treasuries	5.3	6.2	-2.0	-8.0	4.5	2.3	1.2	5.6
	10-year US Treasuries	8.5	10.0	-3.1	-14.9	3.6	-0.7	1.8	7.2
US Fixed Income	USIG	8.7	7.5	-1.5	-13.0	5.5	1.3	2.0	6.1
	USHY	14.3	7.1	5.3	-11.2	13.4	8.2	2.5	7.2
EM Fixed Income	Global EM	13.1	6.5	-1.7	-15.3	9.1	6.6	3.4	8.5
	MENA Agg	13.3	6.9	0.5	-10.6	6.2	3.6	4.0	8.6
	Global Sukuk	10.8	7.7	0.8	-7.8	5.4	3.3	2.3	6.3
EM / DM Equity	US S&P 500	31.5	18.4	28.7	-18.1	26.3	25.0	8.1	14.8
	EURO STOXX 600	18.9	18.8	-2.3	-19.8	10.2	8.0	10.9	28.2
	MSCI EM	27.9	-1.4	25.8	-9.9	16.6	9.6	3.5	13.3
	S&P Pan Arab	11.9	-0.6	35.8	-4.4	8.0	5.2	5.2	9.9

Source: Bloomberg, IMF

\*QTD returns are for the period from 06/30/2025 to 09/30/2025.

\*\*YTD returns are for the period from 12/31/2025 to 09/30/2025.

## Appendix

### Market Data

<b>Bond Yield Forecasts</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>3Q25</b>	<b>2025F</b>	<b>2026F</b>
UST 2-YR	4.43	4.25	4.24	3.61	3.51	3.32
UST 5-YR	4.00	3.85	4.38	3.74	3.66	3.61
UST 10-YR	3.87	3.88	4.57	4.15	4.15	4.08
UST 30-YR	3.96	4.03	4.78	4.73	4.72	4.65
Gilt 10-Yr	3.67	3.54	4.57	4.70	4.38	4.19
Bund 10-YR	2.57	2.02	2.37	2.71	2.69	2.88
JGB 10-YR	0.42	0.61	1.10	1.65	1.62	1.81
<b>Equity Market Forecasts</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>3Q25</b>	<b>2025F</b>	<b>2026F</b>
S&P 500	3840	4770	5882	6688	6471	6949
MSCI EM	956	1024	1075	1346	NA	NA
EUR 600	425	479	508	558	571	575
S&P Pan Arab Composite	160	166	169	179	NA	NA
<b>Commodity Price Forecasts</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>3Q25</b>	<b>2025F</b>	<b>2026F</b>
Brent (USD/bbl)	86	77	75	67	69	65
Natural Gas (USD/MMBtu)	4.48	2.51	3.63	3.30	3.45	4.09
Gold (USD/Oz)	1824	2063	2625	3859	3461	4172
Copper (USD/mt)	8372	8559	8768	10269	9889	10634

<b>Index</b>	<b>OAS</b>	<b>min</b>	<b>max</b>	<b>1Yr Avg</b>	<b>5Yr Avg</b>	<b>10Yr Avg</b>	<b>10Yr Percentile<sup>1</sup></b>
<b>USIG</b>	27	34	58	34	45	47	1
<b>USHY</b>	273	290	586	290	380	418	5
<b>EM Agg</b>	198	230	405	230	279	316	1
<b>EM Sov + Quasi</b>	194	237	388	237	273	308	1
<b>EM Corp</b>	211	204	450	204	296	338	6
<b>EMIG</b>	85	100	231	100	131	160	1
<b>EMHY</b>	391	443	749	443	539	600	9
<b>MENA Agg</b>	133	141	270	141	206	217	1
<b>MENAIG</b>	71	83	158	83	110	128	1
<b>MENAHY</b>	340	319	681	319	500	514	13
<b>Global Sukuk</b>	70	66	132	66	92	99	16

<b>Index</b>	<b>P/E</b>	<b>min</b>	<b>max</b>	<b>1Yr Avg</b>	<b>5Yr Avg</b>	<b>10Yr Avg</b>	<b>10Yr Percentile<sup>2</sup></b>
S&P 500	28.1	14.5	37.9	27.0	25.6	23.0	10.0
MSCI EM	16.7	9.4	22.2	16.3	15.5	14.8	13.0
STOXX Europe	16.6	11.3	31.2	15.3	17.5	17.0	39.0
S&P Pan Arab	14.6	9.7	31.2	14.9	17.7	15.6	26.0

<sup>1</sup>OAS Percentile refers to the current option-adjusted spread relative to its 10-year history. A lower percentile indicates spreads are tighter (more expensive) versus historical norms.

<sup>2</sup>P/E Ratio Percentile shows the current price-to-earnings ratio versus its 10-year history. A lower percentile implies richer (more expensive) equity valuations.

**Indices used on page 2 & 3:** MENA represented by the Bloomberg EM USD Agg; MENA index, Bloomberg GCC USD Credit index (MENA IG), Bloomberg EM USD Agg: MENA HY (MENA HY), Bloomberg EM USD Agg: UAE (UAE), Bloomberg EM USD Agg: Saudi Arabia (KSA), Bloomberg EM USD Agg: Qatar (Qatar), Bloomberg EM USD Agg: Oman (Oman), Bloomberg EM USD Agg: Kuwait (Kuwait), Bloomberg EM USD Agg: Bahrain (Bahrain), Bloomberg EM USD Agg: Morocco (Morocco), Bloomberg EM USD Agg: Jordan (Jordan), Bloomberg EM USD Agg: Egypt (Egypt), Bloomberg EM USD Agg: Iraq (Iraq), Bloomberg EM USD Agg: Lebanon (Lebanon).

**Indices used on page 9:** Bloomberg EM USD Agg Index, Bloomberg EM IG Index, Bloomberg EM HY Index, Bloomberg EM Agg: A Index, Bloomberg EM Agg Sov Index, Bloomberg EM Agg Sov HY Index, Bloomberg EM Agg Sov IG Index, Bloomberg EM Agg Sov Index, Bloomberg EM Agg Corp Index, Bloomberg Global Agg Corp Index, Bloomberg Global Agg Sukuk Index,

**Source:** Bloomberg, IMF

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