

Mashreq Capital

Outlook on MENA Fixed Income
and Equity Markets

Q4 2026



MENA Fixed Income and Equity Markets Outlook Q4 2026

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Executive Summary

Key Takeaways

- **Higher yields have improved entry points.** The MENA bond index yields approximately 6.5%, with Q3 weakness driven primarily by higher US Treasury yields rather than regional credit fundamentals.
- **Carry and security selection should drive returns.** We maintain a neutral stance on MENA credit and a modest overweight position in duration.
- **Sukuk continue to offer relative defensiveness.** Drawdowns were smaller than both MENA and broader EM bonds during the major stress episodes of 2026.
- **Equity opportunities remain selective.** We favour the UAE, Oman, and selective bottom-up opportunities in Saudi Arabia while remaining cautious on Qatar and Kuwait. Dispersion makes country selection an important source of return.
- **Key risks** are higher US real yields and renewed geopolitical escalation affecting regional energy infrastructure.

Our Key Views

- **Federal Reserve:** One further 25bp hike, most likely in December, followed by an extended pause.
- **US Treasury yields:** A gradual decline from current levels, although conviction remains modest.
- **Oil:** Expected to remain elevated through year end, with Brent trading in a USD 95–105/bbl range.

Review of Our January 2026 Views

Assumptions that held up:

- We anticipated higher US Treasury yields and a stronger US dollar.
- We expected carry to drive returns, and positioning portfolios for carry added value.
- We positioned overweight in Oman and regional telecoms within equities.

Assumptions revisited:

- Our oil oversupply thesis was overturned by geopolitical developments.
- Return forecasts proved optimistic amid war-related volatility and higher US yields.
- Our equity underweight in Saudi energy detracted as oil prices surged.

Portfolio responses over the year:

- A neutral duration stance from the end of 2025 supported performance in H1, while our focus on carry added value year-to-date.
- We rotated equity exposure out of UAE residential real estate into Saudi energy and materials, which supported performance.

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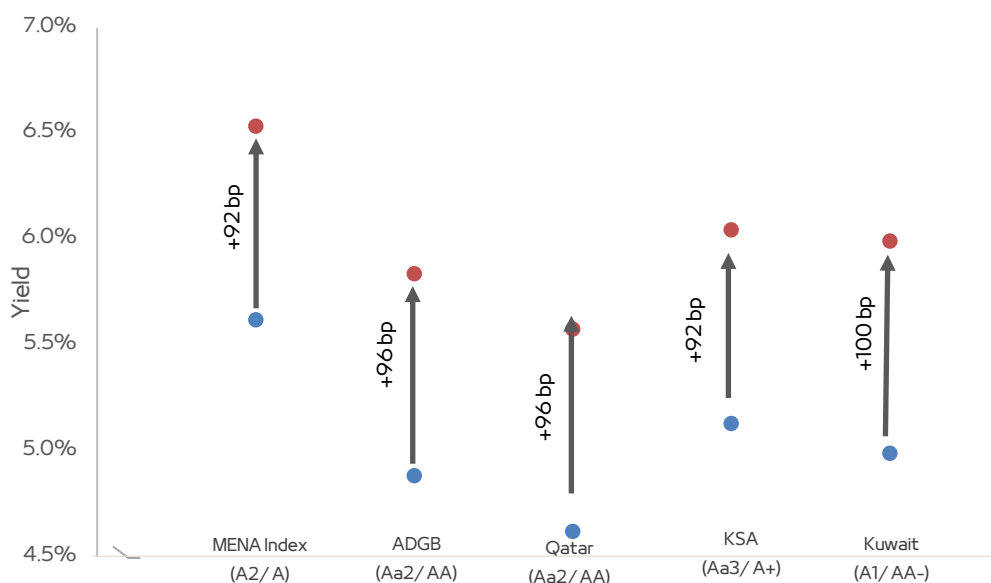
MENA Fixed Income Outlook

MENA fixed income enters 4Q26 following a challenging third quarter. The Bloomberg EM USD Aggregate MENA Index returned a negative 3.8% in 3Q26 and a negative 3.2% year to date, pressured by higher US Treasury yields and continued regional geopolitical tensions. Benchmark credit spreads widened from 122bp to 136bp, briefly touching 140bp after US-Iran ceasefire talks collapsed, while strikes on regional energy infrastructure disrupted export and trade flows. Credit performance was differentiated, with Bahrain credit spreads widening 49bp, while Saudi Arabia and the UAE proved more resilient, supported by stronger economic fundamentals.

We favour a neutral stance on MENA credit spreads for 4Q26 and now expect full-year 2026 returns to be flat to mildly negative. The rate-driven sell-off has, however, materially improved the entry point. The index now offers a yield of 6.5%, with a spread of 136bp and a duration of 5.7 years, while higher-quality Gulf sovereign bonds are offering yields close to 6%. With geopolitical risks persisting and rate volatility elevated, spread buffers remain relatively thin. We therefore prefer to earn carry in higher-quality issuers rather than add credit risk. Our base case assumes one further 25bp Fed hike, most likely in December, followed by an extended hold. With policy near its peak, we expect the belly and long end to normalise lower in a bull-flattening, supporting a modest overweight duration stance.

Higher Yields Improve Forward Return Potential

AA/A Rated Regional Sovereign Bond Yields and the MENA Index
(As of 30 Sep 2026, vs 30 Jun 2026)



Source: Bloomberg, Mashreq Capital

The 3Q26 selloff has improved prospective returns in higher quality regional bonds. With AA/A rated sovereigns now offering substantially higher carry, investors can earn more income with limited additional credit risk. While geopolitical risks remain elevated, a moderation in US Treasury yields would be an additional source of return, although this is not our base case.

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Strategy & Top Ideas - Fixed Income

SOVEREIGNS – CREDIT DIFFERENTIATION EXTENDS BEYOND CREDIT RATINGS

The events of 2026 underscored that regional risks now extend beyond trade and shipping disruptions to the resilience of critical infrastructure, energy exports and economic activity. This has widened differentiation across MENA sovereign credits, increasing the importance of external balances, fiscal flexibility and policy credibility alongside traditional rating measures.

Preferred	Neutral	Less Preferred
UAE	Saudi Arabia	Lebanon
Morocco	Qatar	Tunisia
Egypt	Kuwait	Iraq
	Oman	Bahrain
	Jordan	

Preferred: UAE, Morocco and Egypt

We favour sovereigns that combine strong external balances, policy credibility and attractive risk-adjusted carry. The **UAE** benefits from substantial fiscal and external buffers, **Morocco** continues to advance its reform agenda, while **Egypt's** improving external position and declining refinancing risks have strengthened the investment case.

Neutral: Saudi Arabia, Qatar, Kuwait, Oman and Jordan

Fundamentals remain broadly supportive, but valuation, supply dynamics or geopolitical considerations temper upside potential. While these sovereigns retain credit strengths, we currently see a more balanced risk-reward profile relative to our preferred opportunities.

Less Preferred: Lebanon, Tunisia, Iraq and Bahrain

We remain cautious on sovereigns facing weaker fiscal flexibility, political uncertainty or funding challenges. While valuations have improved in some cases, we believe investors are better compensated elsewhere in the region.

Off-Benchmark: Turkey

Turkey remains outside our benchmark universe. Policy normalisation has improved investor sentiment and macroeconomic stability, but elevated volatility and policy uncertainty warrant a selective approach.

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Strategy & Top Ideas - Fixed Income

CORPORATES – CASH FLOW QUALITY MATTERS MORE THAN CARRY

We favour credits supported by visible cash flows, strong funding profiles and resilient asset structures, while remaining selective where refinancing or operational risks are not adequately compensated.

Within corporates, we see the most compelling opportunities in bank capital, select real estate credits and pipeline infrastructure debt, where cash-flow visibility and structural resilience remain more important drivers of performance than ratings alone.

Banks: Selective Exposure to Subordinated Debt

GCC banks retain strong capital and liquidity, while higher rates continue to support margins at lenders with established low-cost deposit franchises. We prefer subordinated bank capital for its attractive risk-adjusted carry. Saudi bank capital may remain wider than regional peers as recurring external funding needs sustain supply, creating selective opportunities where spreads compensate for structural risks.

Real Estate: Prioritise Contracted Cash Flows

Select BB developers offer attractive value where collections from pre-sold units provide clear coverage of near-term maturities. The focus remains on cash conversion, escrow balances and debt-service capacity rather than headline demand or inventory. Issuers dependent on new sales, refinancing or distant project completion require greater compensation.

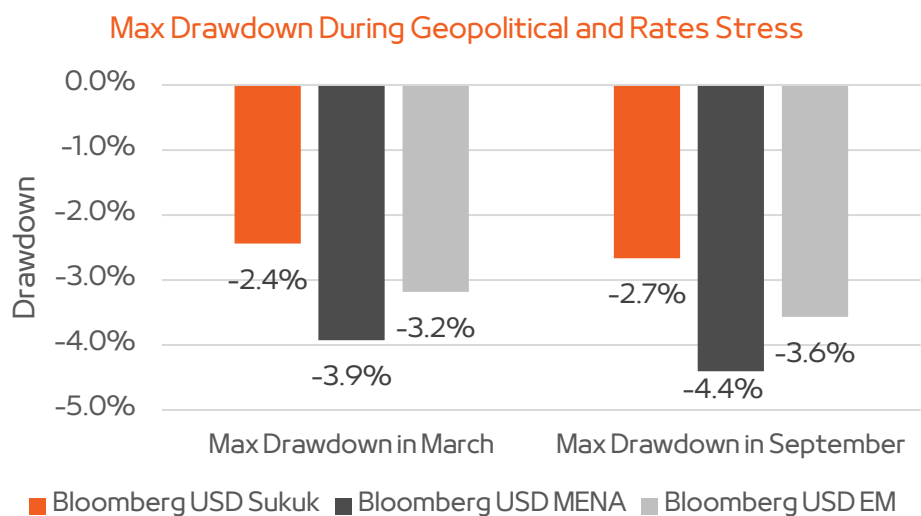
Pipeline / Infrastructure: Resilient Structures, Higher Asset Risk

Saudi and UAE pipeline bonds retain support from contracted cash flows, established counterparties and strong sponsors. Physical attacks, however, increase the importance of asset redundancy, insurance protection and structural safeguards. The sector remains attractive, with a preference for shorter maturities and structures offering sufficient compensation for operational concentration. Regional issuance has remained substantial, reinforcing the need for selectivity across issuers and structures.

MENA Fixed Income and Equity Markets Outlook Q4 2026

Global Sukuk Outlook - Fixed Income

Global USD Sukuk enters 4Q26 from a position of relative strength despite a volatile third quarter marked by geopolitical tensions and rising global bond yields. The asset class continues to benefit from its shorter duration profile, strong regional liquidity and growing global demand for Sharia-compliant income. Year to date to 30 September 2026, the Bloomberg USD Sukuk Index declined 1.6%, significantly outperforming the broader MENA bond index, which fell 3.2% over the same period. This outperformance was driven in part by the defensive behaviour of sukuk during periods of market stress. As shown below, sukuk recorded materially lower drawdowns than both MENA and EM bonds during the March geopolitical sell-off and September rates-driven correction. Looking ahead, we expect supportive technicals and resilient investor demand to continue to support the asset class, although wider dispersion makes issuer selection more important.



Source: Bloomberg, Mashreq Capital

Note: Maximum drawdown measured to trough dates of 24 Mar 2026 (Sukuk), 23 Mar 2026 (MENA) and 27 Mar 2026 (EM) for the March episode, and 29 Sep 2026 (Sukuk) and 30 Sep 2026 (MENA and EM) for the September episode.

4Q26 Investment Themes

Defensive Resilience

The shorter duration profile of sukuk and strong regional liquidity have resulted in smaller drawdowns during both geopolitical and rates-driven stress periods, continuing to provide downside protection relative to broader MENA and EM bonds.

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Global Sukuk Outlook - Fixed Income

4Q26 Investment Themes - Continued

Supportive Technicals

Resilient regional liquidity and growing demand for Sharia-compliant income continue to absorb an active GCC issuance calendar, supporting valuations despite elevated market volatility.

Increasing Differentiation

As geopolitical risks, fiscal trends and valuations diverge across issuers, security selection is becoming increasingly important. We favour stronger credits and selective higher-yield opportunities where spreads provide adequate compensation for risk.

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Strategy & Top Ideas - Fixed Income

SOVEREIGN SUKUK – WHERE VALUE AND RESILIENCE INTERSECT

The volatility of 2026 reinforced the importance of looking beyond credit ratings when investing in sovereign sukuk. External balance sheets, policy credibility, reform momentum and exposure to regional disruptions are increasingly driving performance. We therefore favour resilient investment-grade credits alongside selected higher-yielding sovereigns where improving fundamentals and attractive carry provide adequate compensation for risk.

Preferred	Neutral	Less Preferred
Oman	Saudi Arabia	Indonesia
UAE	Qatar	Malaysia
Turkey	Kuwait	Philippines
Egypt	Benin	Supranational
Pakistan		Bahrain

Preferred

We remain most constructive on sovereign sukuk issued by **Oman, the UAE, Turkey, Egypt and Pakistan**. Oman and the UAE continue to offer relative value within the sukuk segment and stand out for their strong fiscal and external positions, while Turkey benefits from improving policy credibility and strengthening macroeconomic fundamentals. In high yield, Egypt and Pakistan offer attractive carry and spread compensation relative to underlying risks, supported by ongoing reform efforts and improving market sentiment. Oman's sukuk offers better relative value than its conventional curve, which explains its different ranking across the two universes, while Turkey sits outside the MENA conventional benchmark but within our sukuk universe.

Neutral

We maintain a neutral stance on sovereign sukuk from **Saudi Arabia, Qatar, Kuwait and Benin**. Credit fundamentals remain broadly supportive across this group, but current valuations appear more balanced following recent spread moves. While these issuers continue to offer defensive characteristics and strong credit quality, we see more compelling risk-adjusted opportunities elsewhere within the sukuk universe.

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Strategy & Top Ideas - Fixed Income

SOVEREIGN SUKUK – WHERE VALUE AND RESILIENCE INTERSECT

Less Preferred

We remain less constructive on sovereign sukuk from **Indonesia, Malaysia, the Philippines, Bahrain** and supranational issuers. While credit quality remains generally strong in parts of this group, current valuations often provide limited compensation relative to alternative opportunities in both GCC and high-yield sovereign sukuk. Bahrain's recent spread widening has improved valuations, but structural fiscal weaknesses and reliance on GCC support continue to warrant a cautious approach. Given a selective market environment, we continue to favour issuers where spreads and carry provide greater potential for excess returns.

CORPORATES – SELECTIVITY OVER YIELD CHASING

Banks – Preferred

We prefer subordinated financial sukuk, which offer attractive carry relative to the level of risk. Saudi subordinated sukuk may continue to trade at a wider spread than regional peers, reflecting higher external funding requirements and a steady issuance pipeline.

Real Estate – Selective

We remain highly selective in GCC real estate rather than seeking broad sector exposure. Our preference is for issuers with stronger balance sheets, visible cash flows and good liquidity.

Within high yield, select BB developers offer attractive value where collections from pre-sold units provide clear coverage of near-term maturities. The focus remains on cash conversion, escrow balances and debt-service capacity rather than headline demand or inventory. Issuers dependent on new sales, refinancing or distant project completion require greater compensation.

MENA Fixed Income and Equity Markets Outlook Q4 2026

Global Emerging Markets Fixed Income Outlook

EM hard currency credit proved resilient through much of the quarter despite a renewed energy shock. While higher oil prices initially supported the asset class, market focus shifted in September as US rates moved higher. The Bloomberg EM USD Aggregate Index finished the quarter down 3.5%, with almost all of the decline occurring in September. In our view, this reflected a repricing from previously tight valuations as Treasury yields rose rather than a meaningful deterioration in EM credit fundamentals.

Fundamentals have generally held up better than prices. More than 200 days into the Hormuz disruption, bypass pipelines, strategic reserve releases and softer Chinese import demand have absorbed much of the supply shock. Brent's futures curve remains anchored near pre-conflict levels, suggesting markets view the disruption as largely temporary rather than a source of lasting energy repricing. Global growth has also remained resilient, supported by broad manufacturing recovery and AI-related capital expenditure, with Asian semiconductor exporters such as Korea and Taiwan among the main beneficiaries.

Looking ahead, inflation rather than energy now appears to be the more important constraint for policymakers. A strong El Niño into Q4 and early 2027 could reverse some of the disinflationary impulse that helped offset earlier fuel cost increases. With inflation still above target across much of the EM universe and the Fed now tightening, policy flexibility has narrowed. We expect fiscal vulnerabilities to become a more important differentiator, particularly among sovereigns with high or worsening inflation and fiscal deficits, and among countries reliant on subsidies to shield consumers from higher prices.

The September sell-off has improved the starting point for investors. Higher all-in yields provide greater carry to absorb volatility than was available a quarter ago. In our view, future returns are likely to be driven more by carry and issuer selection than by broad spread compression, reinforcing our preference for relative value opportunities over outright beta exposure.

MENA Fixed Income and Equity Markets Outlook Q4 2026

Global Emerging Markets Fixed Income Outlook

Investment Grade Sovereigns

Within investment grade sovereigns, we favour countries where valuations still provide a cushion against a tougher rates backdrop and where fundamentals have identifiable tailwinds.

Morocco remains one of our preferred exposures. The positive outlook affirmed by Moody's, economic growth running around 4.5%, and stronger revenue collection support ongoing fiscal improvement. While higher energy costs are likely to widen the current account deficit, large FX reserves and access to the IMF Flexible Credit Line provide meaningful external buffers.

Chile continues to offer defensive characteristics despite limited spread upside. Fiscal dynamics are improving on the back of stronger copper revenues, and the external position remains robust, with a current account surplus expected this year despite elevated oil prices. With spreads inside 130bps, valuation upside is constrained, but the country's balance sheet strength and low beta profile remain valuable in a more volatile rates environment.

By contrast, **Asian investment-grade** credits remain less preferred, as spreads look tight relative to ratings. GCC investment grade also remains less preferred, although our view has become more constructive as valuations have improved. This view reflects relative value and the need to fund higher-conviction opportunities in high yield, not a negative view on underlying credit quality.

High Yield Sovereigns

The strongest ratings momentum across emerging markets remains concentrated in high yield sovereigns. As a result, we continue to find attractive opportunities where improving fundamentals are accompanied by meaningful carry.

We prefer **Pakistan, Sri Lanka, Côte d'Ivoire, Angola and Argentina**. In each case, fundamentals continue to improve while valuations still offer attractive compensation for risk. Argentina underperformed during the quarter and now offers more than 100bp of spread pickup over several frontier-market peers. In our view, that valuation advantage more than offsets political noise ahead of next year's elections. We also prefer **South Africa**, which we view as one of the clearer positive ratings stories within the emerging market universe.

We remain selective on the credits we prefer less. **Ecuador** stays less preferred, as rising fuel subsidies, El Niño risks and political pressure ahead of the first-half election cycle could undo recent fiscal gains. **Costa Rica** and **Guatemala** are also less preferred, as their valuations look less compelling than similarly rated peers. Costa Rica's fiscal consolidation is increasingly priced into spreads, while Guatemala faces heavy Eurobond supply. **Senegal** also remains less preferred, as debt restructuring under the G20 Common Framework looks increasingly likely.

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Global Emerging Markets Fixed Income Outlook

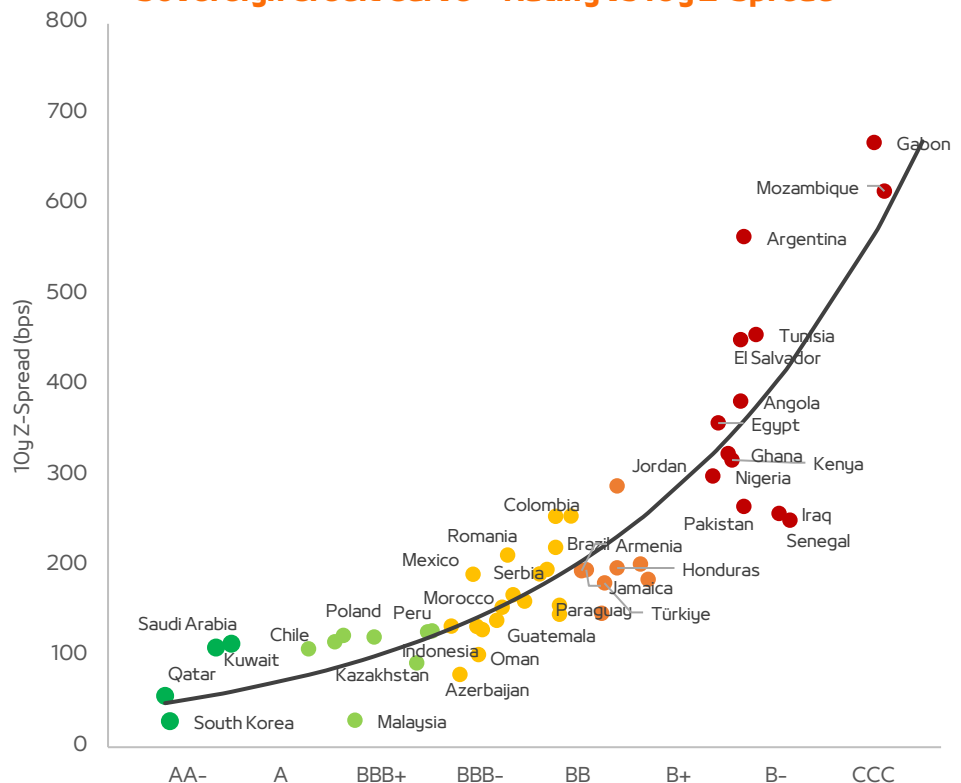
Corporates

We remain broadly **neutral** on EM corporates and continue to prefer sovereigns across the asset class. Fundamentals remain stable, with default rates still well below historical averages. Although spreads widened following the September sell-off, we do not believe the additional spread adequately compensates investors for incremental risk in a more volatile environment where issuer dispersion is likely to increase.

Regionally, we are most constructive on **CEEMEA**, where quasi-sovereign issuers and national champion banks continue to offer the most attractive risk-adjusted opportunities. Uzbekistan and Morocco stand out within the quasi-sovereign universe, offering attractive spreads over sovereign curves while sharing many of the same fundamental strengths. Within the **GCC**, improved valuations support a more constructive stance than earlier in the year. We continue to favour issuers with strong sovereign linkage and selectively add subordinated bank paper from high-quality national champions, with a preference for Tier 2 structures.

In **Latin America**, our positioning remains selective and broadly neutral. We favour quasi-sovereign issuers and established national champions while remaining cautious on broad corporate beta. Across **Asia**, valuations still appear stretched and offer limited compensation for the broader regional risk backdrop. Overall, we continue to prioritise quality, sovereign linkage and issuer selection over broad corporate beta.

Sovereign Credit Curve – Rating vs 10y Z-Spread



Source: Bloomberg, Mashreq Capital

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2026 | Page: 12

MENA Fixed Income and Equity Markets Outlook Q4 2026

MENA Equity Outlook

After an eventful first three quarters, MENA equities enter the final quarter of 2026 with firm energy prices and resilient earnings providing a supportive backdrop. However, cautious foreign positioning and wide differences in geopolitical exposure, earnings delivery and domestic liquidity continue to produce significant dispersion across countries and sectors. We remain constructive on the region, but the environment increasingly favours selective country, sector and stock positioning. The S&P Pan Arab Large Composite Index declined 0.6% in the third quarter, reducing its year-to-date return to 2.2% and its one-year return to negative 2.2%. Dispersion was substantial: the UAE gained 5.3% and Qatar declined 9.7%, while Kuwait and Oman delivered positive returns and Saudi Arabia fell 1.9% for a second consecutive quarterly decline. This divergence reinforces our view that country positioning will remain an important source of return. Our base case now implies a 2026 total return in the region of 5–7%, revised down from 6–8%. This is a forecast, and the risks set out in this document may cause outcomes to differ materially.

Markets offer materially divergent risk-return profiles

Kuwait and Qatar are among the regional markets most directly exposed to the US–Iran war because of their dependence on hydrocarbon exports through the Strait of Hormuz. Their equity markets have nevertheless performed very differently. Kuwait was down 0.8% year to date, compared with an 11.2% decline in Qatar. This may partly reflect differing perceptions of the risks to crude and LNG exports, together with differences in earnings resilience and domestic liquidity. Qatar’s equity market is trading at its lowest price-to-book valuation since the 2009 lows following the Global Financial Crisis. This may limit further downside and create the potential for a substantial rerating if operating conditions improve. However, a more constructive view requires clearer evidence that LNG export volumes and private-sector activity are recovering.

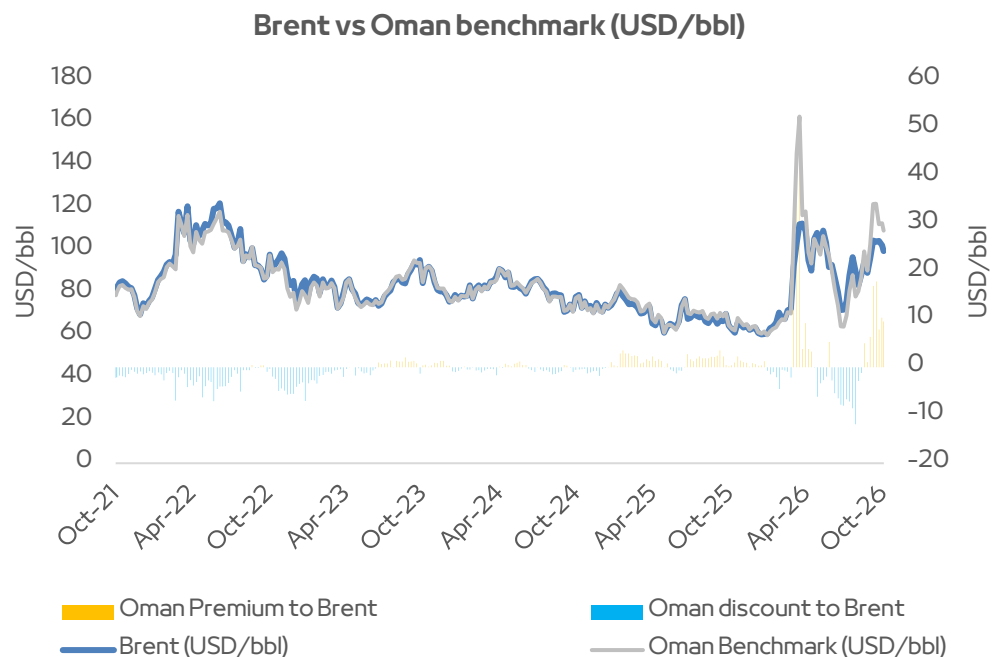


Source: Bloomberg, Mashreq Capital

MENA Fixed Income and Equity Markets Outlook Q4 2026

MENA Equity Outlook

Saudi Arabia illustrates the disconnect that can emerge between earnings delivery and market returns. Earnings have grown by an average of 8.1% annually over the past five years, while the equity market has returned only 1.2% annually. This gap may support a medium-term re-rating, but investor sentiment needs to improve first. Oman was one of the region's stronger markets in the third quarter, with the MSX30 Index, the country's main equity benchmark, gaining 1.1% and its year-to-date return reaching 33.1%. With export routes outside the Strait of Hormuz, Oman has kept its crude flowing. Omani crude traded at a discount to Brent for much of 2021 to 2023, but it now trades at a wide premium, just as Brent itself has moved sharply higher (see chart). Oman has therefore benefited three ways: export volumes intact, higher oil prices, and a premium on top of those higher prices. Together these have strengthened the near-term fiscal and earnings backdrop.



Macro Backdrop: Resilient But Uneven

Non-oil growth retained momentum entering the fourth quarter, although conditions varied considerably across markets. The UAE and Saudi Arabia PMIs were both 55.3 in September, while Dubai's PMI rose to 54.5, confirming a recovery from the disruption earlier in the year. The composition of growth differed between the two markets. The UAE had the more balanced demand profile, with export orders recording their strongest increase in almost two years. Saudi Arabia remained more dependent on domestic demand, while export orders contracted for a seventh consecutive month. Qatar remained the clearest regional exception. Real GDP contracted by 15.7% year on year in the second quarter of 2026 as mining and quarrying activity fell 50.7% following disruption to LNG production and exports. The non-hydrocarbon economy expanded by 2.6%, supported by real estate, financial services, hospitality and retail, which partly offset weakness in manufacturing and business services.

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MENA Equity Outlook

Companies with resilient demand and strong cost pass-through should be better placed to defend margins, while more competitive sectors remain exposed to pressure. In the UAE banking system, strong credit growth and improving asset quality remain supportive, but deposit growth has lagged and funding costs are rising. We remain positive on the region's growth outlook but selective about where that growth is most likely to translate into earnings. While we are broadly neutral at the country level, we continue to find attractive bottom-up opportunities in Saudi Arabia, alongside the UAE and Oman. These markets are supported by resilient domestic demand, policy-led investment and, in Oman's case, stronger fiscal and external balances. Within them, we favour businesses with domestic earnings exposure, pricing power and visible demand. We remain cautious on Qatar despite increasingly supportive valuations, as a more constructive view requires clearer evidence of recovering LNG exports and private-sector demand.

Oman's Structural Case Is Strengthening

Oman's current strength builds on several years of fiscal consolidation, debt reduction and credit-rating upgrades. Since last year, policymakers have also increased their focus on developing the equity market, with the medium-term objective of securing inclusion in global emerging-market benchmarks. These efforts contributed to a strong rally between May 2025 and May 2026, during which the MSX30 Index, Oman's primary equity benchmark, doubled, followed by a period of consolidation. Over the past five years, the Index has delivered an annualised total return of 19.6%, while the earnings of its constituents have compounded by 14.1% a year. Following the end of the quarter, FTSE Russell added Oman to its Watch List for possible reclassification from Frontier to Secondary Emerging Market status. This establishes a clearer route towards a potential upgrade and implementation after 2027. Robust first-half growth, improving domestic liquidity and stronger fiscal balances support our constructive view. Further gains are likely to depend more heavily on continued earnings delivery and progress towards benchmark inclusion.

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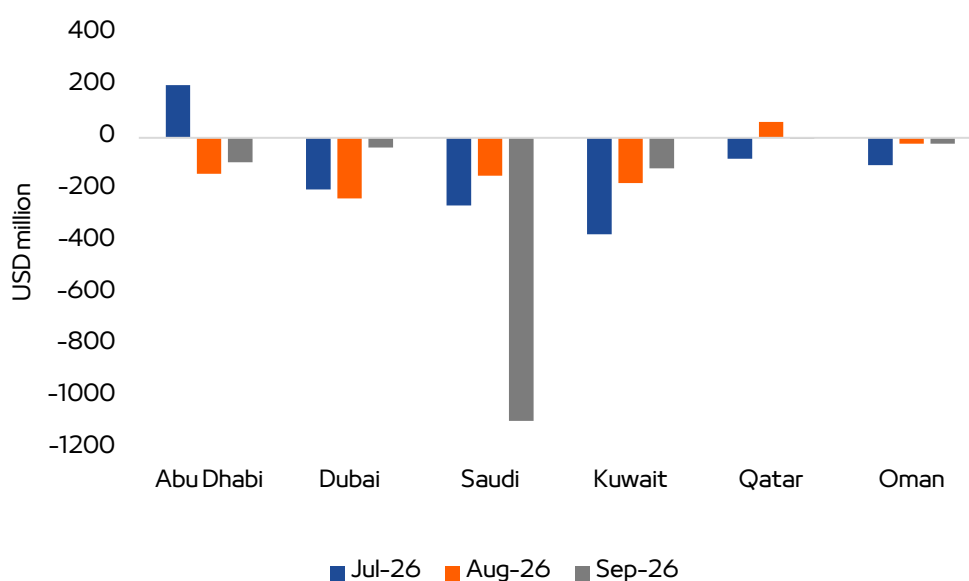
MENA Equity Outlook

Foreign flows remain negative, but selective

Foreign selling accelerated in the third quarter of 2026, with net outflows increasing to USD 2.8 billion from USD 0.5 billion in the second quarter and peaking in September as the geopolitical backdrop deteriorated. Saudi Arabia accounted for more than half of the selling, reversing from USD 1.6 billion of inflows in the second quarter to USD 1.5 billion of outflows in the third. Domestic institutions absorbed part of the selling after being net sellers during the first half. Outflows were concentrated in Al Rajhi Bank, Aramco and materials companies, while foreign investors continued to accumulate selected names, including Rasan and Petro Rabigh. Kuwait recorded USD 0.7 billion of outflows and Dubai USD 0.5 billion, while Abu Dhabi and Qatar were broadly flat.

We expect aggregate foreign flows to remain under pressure while geopolitical uncertainty stays elevated. Saudi Arabia is particularly exposed given its significant weight in regional portfolios and investor concerns surrounding energy and export infrastructure. However, continued accumulation in selected companies suggests that capital is becoming more selective rather than leaving the region indiscriminately. A sustained recovery in foreign participation will probably require a credible improvement in the geopolitical backdrop. In Saudi Arabia, further relaxation of foreign ownership restrictions could provide an additional catalyst by broadening the investor base, improving liquidity and supporting a market rerating.

Foreign Flows for Q3 2026



Source: Bloomberg, Mashreq Capital

MENA Fixed Income and Equity Markets Outlook Q4 2026

MENA Equity Outlook

Saudi Arabia Neutral

IT	↑
Communication Services	↑
Healthcare	↑
Energy	=
Materials	↓
Utilities	↓

Saudi Arabia - Neutral: While we remain neutral at the country level, Saudi Arabia continues to offer attractive bottom-up opportunities despite the third-quarter setback. The conflict disrupted an alternative export route and weighed on the equity market, but we view the decline primarily as a repricing of geopolitical risk rather than evidence of a material deterioration in domestic fundamentals. The macro picture supports this view. Conflict-related spending has contributed to the fiscal deficit, while higher oil prices have more than offset lower export volumes. With oil prices expected to remain firm and volumes likely to recover, we expect the fiscal position to improve from current levels. Capital spending is being redirected from the broader giga project pipeline towards energy, chemicals, digital infrastructure, transport and projects linked to Expo 2030 and the 2034 World Cup. With project completions outpacing new awards, the pace and composition of future awards will be important for contractors. Bank liquidity remains under pressure as credit growth has outpaced deposits, funding has shifted towards more expensive time deposits and banks have drawn down liquidity buffers. Interbank conditions tightened in September, with the SAIBOR spread over US rates approaching a two-year high. Capital remains strong, making margin pressure the main concern rather than balance-sheet resilience. Higher oil prices have supported earnings in energy and petrochemicals despite constrained volumes. Technology infrastructure providers exposed to data-center and artificial intelligence demand are also outperforming more services-led business models. In the near term, geopolitics is likely to determine market direction. Our base case is for the operating backdrop to remain broadly unchanged over the next three months, limiting the scope for a sustained rerating. Progress towards easing foreign ownership restrictions could nevertheless improve sentiment and attract foreign investors. We favour energy infrastructure, data-centre and grid infrastructure, and companies with contracted multiyear backlogs. Within banks, we prefer lenders with strong low-cost deposit franchises. We remain cautious on contractors and building-materials companies exposed to the reprioritised giga project pipeline.

Oman Overweight

Energy	↑
Financials	↑

Oman - Overweight: We remain overweight Oman, where the macro backdrop continues to improve. Second-quarter GDP growth accelerated to 5.1%, supported by a sharp increase in oil and gas production, while public revenue rose 13% in the first half. Energy remains our preferred exposure. Oman exports through Duqm, Salalah and Mina al Fahal, all outside the Strait of Hormuz, allowing higher oil prices to translate more directly into volumes, revenue and earnings. Oman is also becoming an increasingly important regional trade corridor, reinforcing the strategic value of its ports, logistics infrastructure and industrial zones. Financials are also well supported. Liquidity has improved since the conflict began, with demand deposits rising as a share of private deposits and government and state-company deposits increasing alongside oil revenue. This leaves banks well placed to fund the next stage of the cycle and should support margins as credit growth accelerates.

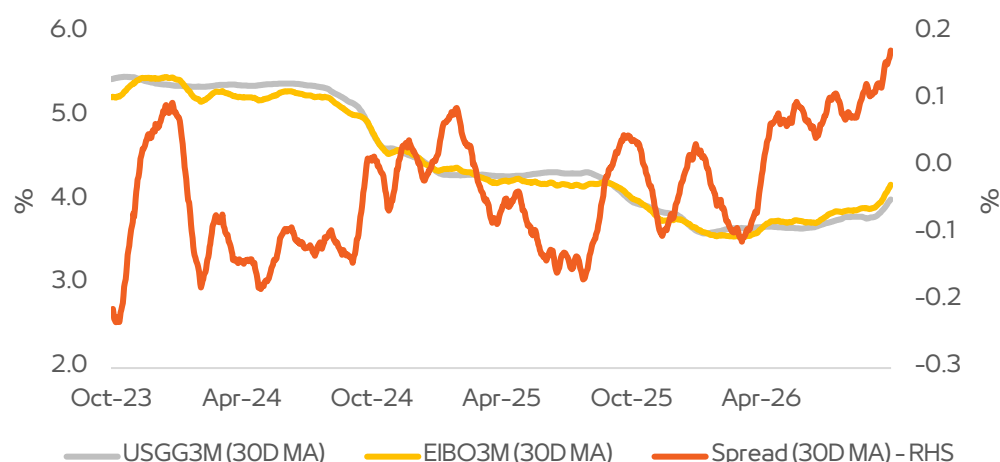
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MENA Equity Outlook

UAE	Overweight
Energy	↑
Communication Services	↑
Financials	↓
Materials	↓

UAE – Overweight: We remain overweight the UAE, but our positioning remains selective, with a clear preference for Abu Dhabi over Dubai. The macro backdrop has recovered faster than expected, with non-oil activity reaching a 20-month high in September as new orders and export demand strengthened. The ability to export through Fujairah, bypassing the Strait of Hormuz, has become a strategic advantage and gives the UAE greater flexibility to increase output as volumes recover. The project cycle remains concentrated in Abu Dhabi, where large energy awards continue to support activity. A second crude pipeline to Fujairah, due in 2027, would double export capacity outside the Strait. Related investment in energy and logistics infrastructure should support energy services, contractors and corporate lenders. Bank liquidity has tightened as credit growth has outpaced deposits, increasing reliance on short-term offshore funding. Loan growth remains strong, but funding costs are rising and EIBOR is trading above US rates (shown in chart below). Dubai's residential property market is weakening as prices ease, transactions slow and new supply accelerates. Hospitality is currently more resilient, although tourist arrivals remain below last year. We favour the ADNOC value chain, energy infrastructure and logistics, and defensive businesses with recurring income. Given tighter liquidity and rising funding costs, we are underweight Financials overall; within that underweight, our bank exposure is concentrated in lenders with strong current-account deposit franchises, which are better insulated from this pressure. We remain cautious on Dubai residential developers and hospitality until demand shows greater resilience against rising supply.

Tightening liquidity in the UAE: 3M EIBOR has moved to a premium over 3M US Treasuries



Source: Bloomberg, Mashreq Capital

MENA Fixed Income and Equity Markets Outlook Q4 2026

MENA Equity Outlook

Qatar IT Communication Services Financials	Underweight ↑ ↑ ↓	Qatar - Underweight: We remain underweight Qatar, the GCC market most directly affected by the conflict. LNG exports are moving in small batches, while the damage at Ras Laffan is expected to take around three years to repair. The state has absorbed the impact of lower hydrocarbon revenue by sharply reducing capital spending. The non-energy economy is weakening, with business surveys indicating contraction for seven consecutive months. Banks also face tighter funding conditions following the withdrawal of state deposits, increasing their reliance on offshore borrowing and central bank support. Credit growth has stalled, while the September rate increase adds further pressure to funding costs. We remain underweight until export activity normalises. A restart could support a sharp market recovery, but the timing remains uncertain. In the meantime, we prefer data-centre-focused companies, which have so far been relatively insulated from the slowdown.
Kuwait Financials Industrials	Underweight ↓ ↓	Kuwait - Underweight: We remain underweight Kuwait. Crude exports depend on the Hormuz route at scale. Although export volumes have recovered to around two-thirds of last year's level, oil revenue remains materially lower and the fiscal position is deteriorating. We expect the deficit to widen this fiscal year, increasing the government's reliance on borrowing. Unless export volumes normalise, we see no clear near-term catalyst. We are underweight Financials overall; within that underweight, we favour the strongest banks, particularly those with low-cost deposit franchises and robust capital buffers. We also prefer defensive, cash-generative businesses trading at discounted valuations. We avoid mid-cap companies and real estate names that are more exposed to slower project awards. We would reassess the underweight if export volumes recover more fully or reform and project awards gain momentum.
Egypt Financials	Neutral ↑	Egypt - Neutral: The macro backdrop has stabilised and the policy path is moving gradually towards easing. Growth reached 5.1% in fiscal year 2026 and inflation eased to 14.5%, with monthly price changes flat to negative since June. The central bank lowered its inflation forecast while keeping policy rates at 19%. Remittances continue to provide a durable source of hard currency. Against this, domestic demand remains weak: the September PMI of 47.2 indicates contraction, and tight policy and high input costs continue to weigh on activity. We see the balance of risks as even. Within the market, we hold a preference for banks, supported by solid deposit franchises and the prospect of lower policy rates. Over time, easing should support credit growth, valuations and non-interest income and reduce reliance on carry, although weak demand limits how quickly lending can accelerate. We expect the central bank to keep rates unchanged through year-end, with cuts beginning in 2027. The main risks are renewed regional escalation, further currency weakness and the pass-through of subsidy reductions.

Note: Sector positioning is shown for sectors with a significant weight in the country index.

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