GCC Macro Viewpoint

Investment Strategy | May 2025

From Trump's visit to tariffs, what mattered for GCC markets in May

- **Performance of GCC fixed income indices was mixed over the past month…**
- **…while all equity markets in the region, except Saudi Arabia, posted gains.**
- **President Trump's tour to the region in May captured attention globally.**
- **As the theme of the month, we provide basic introduction to carbon trading.**

The macro viewpoint

- US President Donald Trump's visit to the Middle East attracted significant global attention, marked by a series of high-profile agreements. During his visit to Saudi Arabia, commitments were made for USD600bn in commercial deals, with the potential to expand to USD1trn. Additionally, a historic USD142bn arms agreement was announced, the largest of its kind to date. In Qatar, Boeing secured its most substantial order ever, aimed at enhancing the country's transportation and storage capacities. The Qatar Investment Authority (QIA) signaled plans for an additional USD500bn in US investments over the next decade. Meanwhile, the UAE confirmed its intention to invest USD1.4trn in the US over the next ten years, primarily in artificial intelligence (AI). The UAE also announced the establishment of the largest AI facility outside the US.
- Saudi Arabia and the UAE are strategically positioned to capitalize on the recently announced technology and AI agreements with the US, aligning with the region's broader economic diversification objectives. Improved access to advanced AI chips, coupled with the development of new infrastructure, is expected to accelerate AI adoption and drive innovation. Additionally, these agreements have the potential to generate substantial foreign direct investment inflows, further strengthening the region's technological and economic landscape and achieving diversification.
- Thanks to OPEC+ decision to increase production in recent months, the changing probabilities of a US-Iran deal, the evolving Russia-Ukraine situation, and the tariffs weighing on global growth have all resulted in volatile oil prices which in turn weighed on the investment sentiment in the region.
- We remain constructive on the outlook for GCC on a cross-asset basis as we see limited vulnerability arising from tariffs and their related uncertainty. From a regional cross-asset viewpoint, we remain positive on UAE and KSA; neutral on Qatar and Kuwait. Within fixed income, we also like Oman, and are neutral on Bahrain while in equities we stay cautious on both.

Kishore Muktinutalapati
Head - Investment Strategy
Tel: +971 (0)2 812 6457
kishore.muktinutalapati@adcb.com

Prerana Seth, CFA
Fixed Income Strategist
Tel: +971 (0)2 812 6449
prerana.seth@adcb.com

Mohammed Al Hemeiri
Senior Analyst
Tel: +971 (0)2 812 6450
mohammed.alhemeiri@adcb.com

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Exhibit 1: Summary of our top-down views on GCC markets

	View (3M-6M)*					Top-down/Macro rationale
	--	-	N	+	++	
Equities						
Abu Dhabi				■		Valuations can be justified while the structural story remains compelling.
Dubai				■		Cyclical play on UAE growth with attractive valuations and strong momentum.
KSA				■		Structural growth story in the region; but cyclically constrained by weak earnings.
Kuwait			■			Valuations have been adjusting in line with the earnings revisions.
Qatar			■			Earnings downgrade momentum has eased but valuations have adjusted already.
Oman		■				Easing economic momentum makes fixed income more appealing than equities.
Bahrain		■				Stay cautious on rising cyclical vulnerabilities. Market remains most cyclical in GCC.
Fixed Income						
Abu Dhabi				■		Attractive bond valuations, strong fundamentals, high-quality within EM.
Dubai				■		Debt reduction efforts and relative high-quality names in corporate sector.
KSA				■		Attractive bond valuations, strong fundamentals, high-quality within EM.
Kuwait			■			New law to allow bond issuance and JPM upgrade are credit positive.
Qatar			■			Strong fundamentals, quality within EM. Market upgrade helps.
Oman				■		Improving debt fundamentals, fiscal management, reduced oil dependency.
Bahrain			■			External debt concerns remain; heavy dependency on oil.

Legend ■ **Current** **Previous**

*Source: ADCB Asset Management | Notes: *Views in regional context. "--" = Very Negative, "-" = Negative, "N" = Neutral, "+" = Positive, "++" = Very Positive.*

GCC cross-asset views by geography

Colour legend
Very Negative
Negative
Neutral
Positive
Very Positive

Abu Dhabi	Equities (Positive)	Fixed Income (Positive)

- **Macro:** PMIs continue to point to solid expansion in the non-oil private sector business in the UAE. In a notable improvement from recent months, staff numbers across the non-oil economy rose at the sharpest pace in almost a year and thereby eliminating any drag arising due to capacity constraints. New orders also rose strongly. However, supplier delivery times improved too offsetting the improvement in employment and new orders.
- **Equities:** ADX index posted small gains over the past month and managed to outperform the regional equity benchmarks. On a cyclical basis, we stay positive on Abu Dhabi (and UAE equities broadly) reflecting the stronger earnings upgrade momentum and still inexpensive valuations. Structurally, Abu Dhabi equities benefit from the ongoing reforms and benchmark transformation.
- **Fixed Income:** UAE sovereign bonds remained under pressure with rise in UST yields. Over last month, UAE bonds posted marginal losses and underperformed EM USD bonds. On a YTD basis, UAE sovereign bond index continue to outperform the EM USD aggregate index. With the recent uptick in yields, valuations of Abu Dhabi sovereign bonds now look more attractive relative to its high credit rating and strong macroeconomic backdrop within EM. Valuations of Abu Dhabi sovereign bonds are also attractive versus Dubai sovereign bonds especially given the former fares better in terms of fiscal metrics.

Dubai	Equities (Positive)	Fixed Income (Positive)

- **Macro:** Thanks to a smaller increase in new business inflows (the weakest since October), non-oil private sector registered a softer upturn in operating conditions according to the latest PMI data. However, the order book volumes rose sharply overall, contributing to another month of robust expansion. Employment component expanded during April.
- **Equities:** Dubai equity indices outperformed all others in the region (except Oman) over the past month and remain strong outperformers also on a year-to-date basis. We continue to see cyclical value in Dubai equities, helped by strong economic activity in the Emirate.
- **Fixed Income:** Dubai USD sovereign bond yields were mixed over the past month. Dubai sovereign bonds do not hold a rating but given the public debt levels and substantial government related entities liabilities, they rank lower compared to Abu Dhabi sovereigns. Recent debt reduction through repayment of debt is credit positive. Prospects of positive fiscal surplus, revenue generation through IPOs of state owned companies and lower bond issuance remain favourable.

Saudi Arabia	Equities (Positive)	Fixed Income (Positive)

- **Macro:** Just as in the case of UAE, employment growth was strong also in Saudi Arabia. Indeed, the employment growth in April, as suggested by the PMI, was the joint-highest in over a decade. However, the growth of new orders eased to its eight-month low while the staff costs climbed to a record high confirming the strong hiring environment.
- **Equities:** Saudi was the only market to have posted negative returns over the past month. Down c7% so far this year, the Saudi equity market has been an underperformer confounding our optimism. To us, Saudi remains a key structural story in the region. Even on a cyclical timeframe, Saudi equities can perform well when the earnings revisions turn positive. However, owing to the weakness in oil prices, the earnings momentum has worsened over the past month.
- **Fixed Income:** Saudi Arabia bonds recorded marginal negative returns last month but outperformed GCC high-quality peers including Qatar and Abu Dhabi. On a YTD basis, Saudi Arabia is the second best performer in the GCC, behind Kuwait. Fiscal concerns remain with declining oil revenues and higher spending resulting in a budget deficit in 1Q’25. However, Saudi bond yields are already accounting for the weaker fiscal backdrop and trading cheap not only to similar rated peers in EM and also compared to the GCC peers. Diversification efforts and increased non-oil activity are supportive.

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Negative
Neutral
Positive
Very Positive

Kuwait	Equities (Neutral)	Fixed Income (Neutral)

- **Macro:** Looking at the PMI data, output rose at the second-fastest pace on record for the non-oil private sector. Marketing activity and competitive pricing were the principal factors supporting growth of output. Staff costs increased for the first time in three months.
- **Equities:** Kuwait equities posted positive returns over the past month and outperformed the broader GCC benchmark. Corporate earnings outlook has revived as earnings estimate revisions have moderated in recent weeks. However, the valuations have moderated too – indicating that prices are already reflecting the evolution of earnings outlook. We stay neutral Kuwait.
- **Fixed Income:** Kuwait bonds were the best performers in GCC, outperforming peers. The approval of a public debt law (Financing and Liquidity law) which allows the government to issue sovereign bonds marks a major shift in the country's fiscal policy, allowing to expand the depth of the bond market. In addition, the borrowing proceeds (KWD20bn worth of issuance pencilled in) are likely to be utilized to fund infrastructure projects, economic diversification efforts and fiscal deficit financing. The reclassification of Kuwait (in phased manner over six months) by J.P. Morgan as developed market and removal from EM bond index is also positive. The 2027 USD maturity bond is trading at a tighter spread of c60bp versus similar maturity USTs.

Qatar	Equities (Neutral)	Fixed Income (Neutral)

- **Macro:** PMI data suggested that the non-oil private sector activity expanded for the sixteenth consecutive month. However, in sharp contrast to the UAE and Saudi Arabia, private sector in Qatar recorded slower increases in employment and wages, despite remaining one of the strongest on record. New business inflows moderated too.
- **Equities:** Qatar equity market performed strongly in the recent weeks and has outperformed the broader GCC benchmark. During the recent months, Qatar equity earnings estimate downgrades have abated while valuations have moved marginally higher. We continue to believe that Qatar market looks fairly priced and stay neutral.
- **Fixed Income:** Qatar was the worst performer in GCC, underperforming high-quality peers. Due to recent underperformance, valuations of Qatar bonds are looking attractive versus Abu Dhabi in certain maturity segments. While sovereign bond yields have jumped, corporate bond spreads have stabilized to pre April Liberation day levels. Macroeconomic backdrop remains positive with the country expected to post positive fiscal and external balances in 2025. The oil breakeven levels are also the lowest in the region. The reclassification of Qatar (in phased manner over six months) as developed market by J.P. Morgan should attract demand from developed market investors.

Oman	Equities (Negative)	Fixed Income (Positive)

- **Macro:** To address the recent slowdown in growth, Oman's central bank announced a series of measures to boost lending and to aid its economic diversification. Also, credit rating agencies appear to have an inclination to upgrade the country's ratings. However, we would be watchful of Oman's recent plan to cut its oil production – which is the largest in relation to its capacity. Oman's non-oil GDP rose by 3.9% in 2024, boosted by manufacturing and retail/wholesale rebounds.
- **Equities:** Omani equities outperformed all other GCC markets over the past week but the performance remains negative on a year-to-date basis. We stay cautious on the outlook. Easing growth momentum makes fixed income more appealing than equities in Oman.
- **Fixed Income:** Oman bond index performance has been flat over the past month, faring better than Bahrain and outperforming high-quality sovereigns of Qatar, Saudi and UAE. Government effort to reduce debt levels through fiscal discipline are supportive. Q1'25 fiscal deficit levels were lower than the deficit levels in Q4'24. Continued diversification efforts has led to reduced breakeven oil prices. While spreads are pricing in the improving fundamentals, the positive rating momentum is favourable.

Bahrain	Equities (Negative)	Fixed Income (Neutral)

- **Macro:** Thanks to higher interest payments, Bahrain's fiscal deficit widened during 2024 to 5.4% of the GDP. Revenue declined 2% as oil revenues fell 8% while the non-oil revenues rose 10%. Expenditure grew c3% contributing to deficit. We remain concerned about the macro vulnerability of the Kingdom of Bahrain.
- **Equities:** Bahrain equities posted small gains during recent weeks but are still in losses for the year so far. Weakening macro and weaker momentum in equity markets keep us negative on the outlook for now. Bahraini equity market presents a small but a cyclical opportunity set within GCC and we focus on higher quality larger markets.
- **Fixed Income:** Bahrain bonds posted negative returns and underperformed Oman over the past month. Fiscal concerns have resurfaced with declining oil revenues and sharply higher financing costs pushing the budget deficit beyond 5% of GDP in 2024. However, spreads are too tight relative to B-rated peers against the weak fundamentals. Dependency on oil remains significant, making it the most sensitive to oil price fluctuations. Weak external balances make the bond market vulnerable to external shocks.

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Very Negative
Negative
Neutral
Positive
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Exhibit 2: Cross-asset performance* summary of GCC markets and their global benchmarks

Fixed Income	Latest	1M (%)	YTD (%)
Global Agg	485.4	-0.39	4.65
Global Treasuries	205.3	-0.57	5.21
EM USD Agg TR	1277.3	0.56	2.29
EM LatAm TR	1163.9	0.99	2.79
EM EMEA TR	375.9	0.35	2.05
EM Asia TR	662.9	0.35	2.07
Bahrain TR	207.8	-0.20	2.18
Oman TR	160.2	0.00	2.31
Kuwait TR	161.2	0.36	2.81
Qatar TR	140.0	-0.28	1.67
Saudi Arabia TR	144.4	-0.09	2.34
UAE TR	145.9	-0.13	2.32
Equity	**Latest**	**-1M %**	**YTD %**
ADX	9665.3	2.55	2.64
DFM	5464.2	5.16	6.03
Tadawul	10999.8	-4.89	-6.77
DSM	10736.4	5.01	2.73
MSM30	4514.6	5.24	-1.04
BHSE	1921.5	1.10	-3.15
KWSE	8697.6	2.78	10.84
MSCI GCC	713.7	-1.03	0.18
MSCI EM	1171.0	7.14	8.58
MSCI ACWI	868.2	5.89	2.88

3M interbank	Latest	1M (bp)	YTD (bp)
Saudi	5.31	-6.97	-17.25
UAE	4.11	-8.11	-29.45
Kuwait	4.00	0.00	6.25
Bahrain	5.64	1.03	-4.54
Oman	4.67	-3.45	-19.45
Qatar	4.65	0.00	-2.50
US SOFR	4.26	-3.00	-11.00
5Y Sov. CDS	**Latest**	**-1M (bp)**	**YTD (bp)**
Saudi Arabia	77.78	-6.30	-13.13
Abu Dhabi	38.18	-5.08	-5.95
Dubai	62.53	-2.33	-0.32
Kuwait	73.51	-1.60	-1.30
Bahrain	230.96	-2.47	43.58
Oman	120.69	-15.32	18.61
Qatar	37.61	-3.86	-6.09
10Y yield	**Latest**	**-1M (bp)**	**YTD (bp)**
Saudi Arabia	5.17	5.60	-20.80
Abu Dhabi	4.69	18.00	-33.60
Dubai	4.57	0.00	-25.20
Bahrain	7.09	27.00	14.60
Oman	5.56	9.80	-15.30
Qatar	4.72	10.00	-10.80

*Source: MSCI, Local Stock Exchanges, Bloomberg, and ADCB Asset Management | Notes: *based on data as of close of May 23, 2025.*

Theme of the month: Carbon trading and the UAE

The UAE is at the forefront of global climate initiatives, and carbon trading has emerged as a pivotal tool in its strategy to achieve a sustainable and diversified economy. In this section, we provide a brief introduction to carbon trading and discuss how UAE is facilitating the development of these markets.

Introduction to carbon trading

Carbon trading, also known as cap-and-trade or emissions trading, is a market-based system that allows companies to buy and sell allowances for greenhouse gas emissions. This mechanism incentivizes businesses to reduce their carbon footprint by creating a financial value for emissions reductions. Entities that emit less than their allocated quota can sell their surplus allowances, while those exceeding their limits must purchase additional allowances, thereby fostering accountability and encouraging cleaner operations.

The two primary types of carbon markets are compliance markets and voluntary markets. Compliance markets operate under government regulations, where companies must meet emission targets or purchase credits to offset excess emissions. Voluntary markets, on the other hand, allow businesses and individuals to buy credits for corporate sustainability initiatives or personal climate commitments.

A carbon credit represents one metric tonne of carbon dioxide (or its equivalent) reduced, avoided, or removed from the atmosphere. These credits come from projects such as reforestation, renewable energy, methane capture, and improved industrial efficiency. Once purchased for offsetting, credits are permanently retired, ensuring they cannot be reused.

The carbon credit lifecycle is the process through which carbon credits are created, validated, traded, and eventually retired to offset emissions. This lifecycle ensures transparency and accountability, making carbon trading a crucial tool in global efforts to combat climate change. A typical carbon credit lifecycle is shown in exhibit 3.

Platforms like carbon exchanges make trading easier by providing transparent pricing, liquidity, and streamlined transactions. As regulations evolve, carbon trading plays an increasing role in global sustainability efforts, driving innovation and funding projects that combat climate change while helping industries transition to greener operations.

UAE and carbon trading

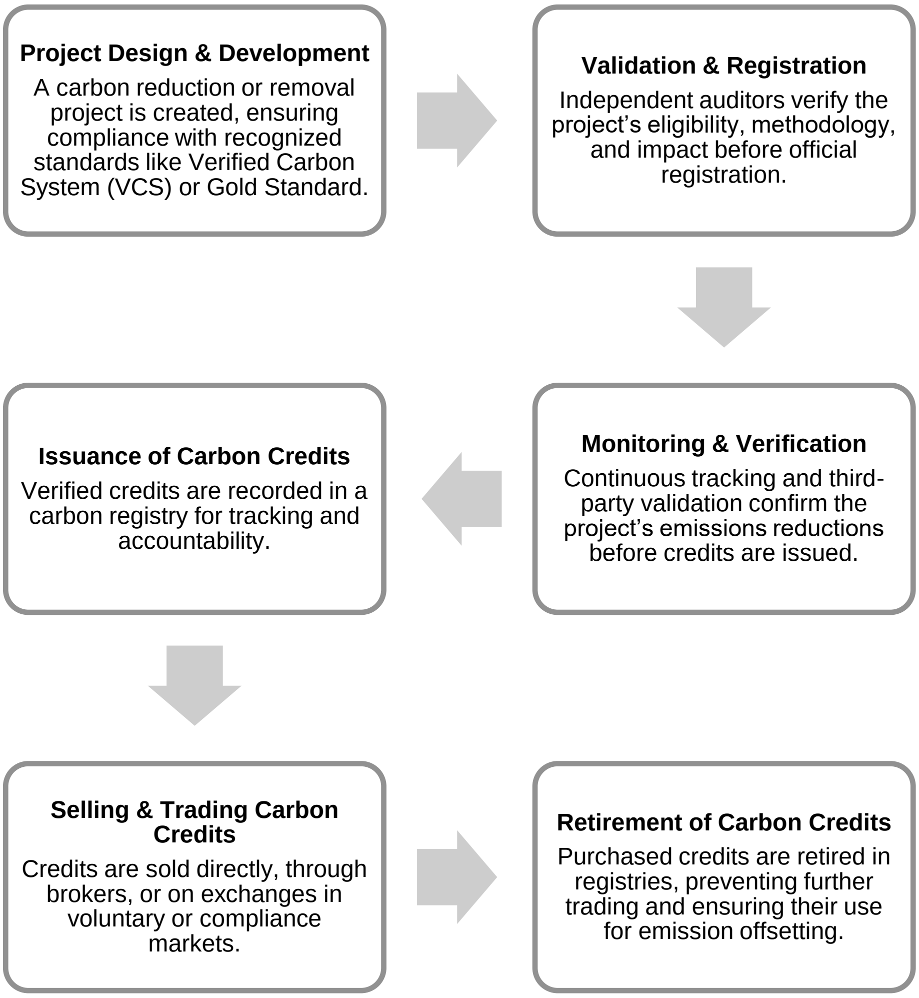
To facilitate carbon trading, the UAE has been actively developing the necessary regulatory and infrastructural frameworks. The nation has invested in creating a robust system for measuring, reporting, and verifying emissions, ensuring transparency and credibility in the market. Institutions such as the Ministry of Climate Change and Environment (MOCCAE) and the Environment Agency - Abu Dhabi (EAD) play a critical role in implementing and overseeing these policies.

The UAE is exploring partnerships and collaborations to establish regional carbon markets, potentially extending its influence to neighbouring countries and fostering a unified approach to climate mitigation in the Middle East.

The UAE's carbon trading initiatives are closely tied to its investments in renewable energy. The nation is a global leader in solar power (with 708 watt/capita as of 2023), with projects such as the Noor Abu Dhabi solar plant and the Mohammed bin Rashid Al Maktoum Solar Park showcasing its commitment to clean energy. These efforts complement carbon trading by reducing the overall dependency on fossil fuels and providing sustainable alternatives for industries striving to lower their emissions.

Further, the integration of advanced technologies, such as artificial intelligence and blockchain, into emissions monitoring and trading systems can further enhance the efficiency and reliability of carbon markets.

Exhibit 3: Carbon credit lifecycle



Source: ADCB Asset Management

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