



After the Rally: Is Oman Still a Buy?



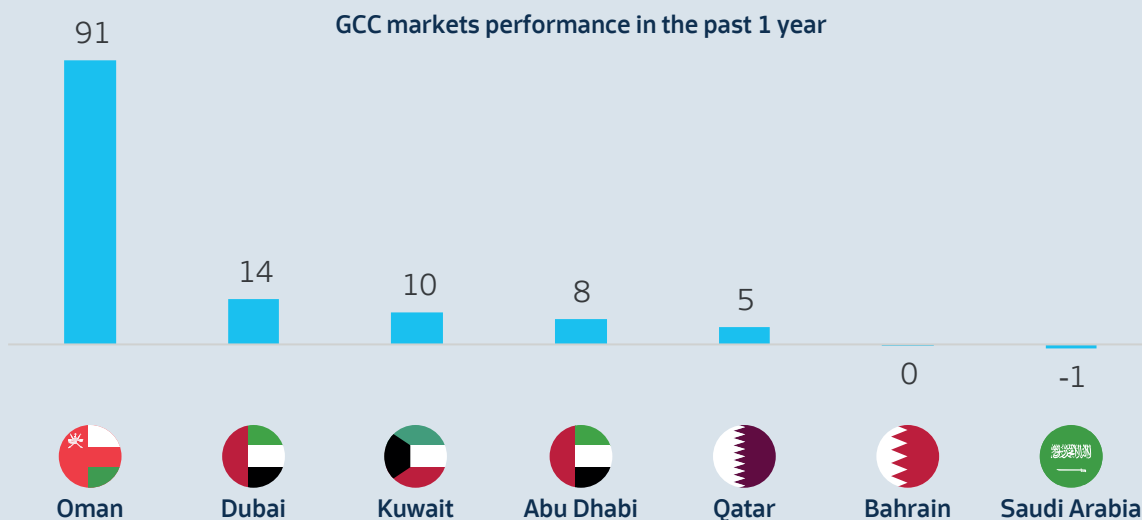
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Outperforming GCC peers

Oman has been the GCC's standout equity market over the past year, with the benchmark index nearly doubling in value. Dubai, the next-best performer, rose about 14% over the same period. This surge was underpinned by improving macroeconomic fundamentals and a sharp pickup in trading liquidity following the launch of three market-making and liquidity funds. Consequently, the likelihood of a potential reclassification of Oman to the Emerging Markets category by index providers such as MSCI has increased, drawing renewed interest from both local and international investors.

More recently, Oman has stood out as being geopolitically better placed during the current regional conflict, as reflected in its performance since the start of the conflict.

The rally raises a practical question for regional investors: how much of the upside is already accounted for in prices, and what tends to happen around index-watchlist additions and subsequent inclusions? To frame the answer, it helps to look at how other Gulf markets traded into—and after—similar MSCI milestones.



Source: Bloomberg Note: Data as of 10th April 2026

How Gulf markets traded around MSCI inclusion

Index providers such as MSCI assess markets on both accessibility (for foreign investors) and hard metrics, notably size and liquidity. After meeting the criteria, markets typically spend at least a year on a watchlist while MSCI monitors whether liquidity and market-cap thresholds are sustained.

Phase 1: Movement in anticipation of watchlist inclusion

In the GCC, the **UAE and Qatar were the first to be upgraded to MSCI Emerging Markets status**. They were placed on the watchlist in 2008, and in the year leading up to it, **Dubai, Abu Dhabi, and Qatar appreciated by 24%, 41%, and 68%**, respectively. We believe that market fundamentals played a

larger role than the index related event, as Qatar was commissioning LNG projects, while the UAE was riding a real estate boom. It took **five years for MSCI to finally upgrade these markets**. Conversely, neither the Saudi Arabian nor Kuwaiti market rallied in anticipation of an upgrade.

Phase 2: From watchlist to inclusion

In the year leading up to MSCI's inclusion decision, **Dubai and Abu Dhabi gained 59% and 45%**, respectively, as anticipation built. **Qatar's run-up was more subdued. The market gained 12%** in the year to MSCI's June 2013 decision. The **Saudi market increased by 17%**, a stronger performance than Phase 1, but mediocre considering an

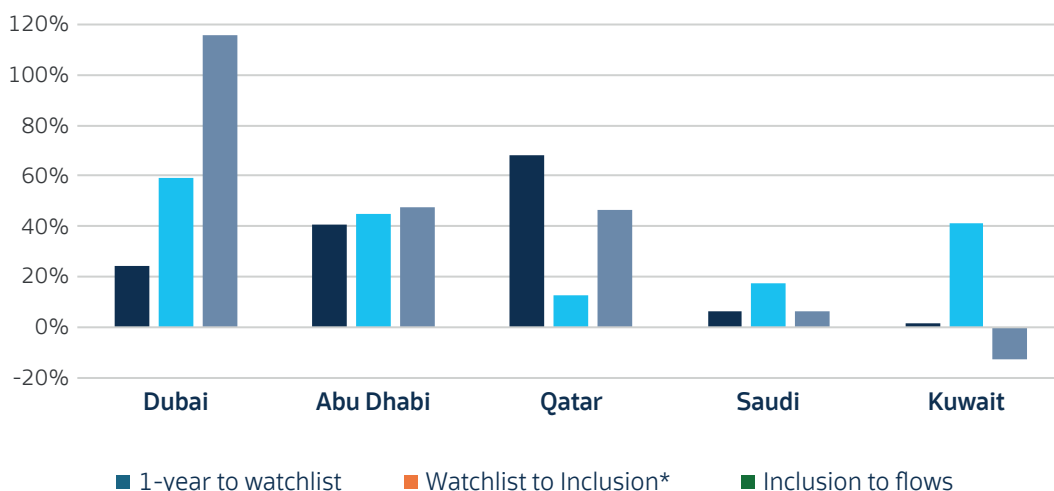
estimated USD 13 billion in foreign inflows. Structural gaps meant MSCI initially granted Kuwait only a conditional upgrade tied to market reforms, including omnibus account structures and same-NIN cross trades. **The market rose 32% by the time that conditional decision was reached and extended gains to 40% by the final announcement.**

Phase 3: From inclusion to flows

UAE markets performed the best during this phase – **Dubai was up 116% while Abu Dhabi delivered 47%**. The MSCI catalyst mattered, but it coincided with a supportive backdrop of real estate market recovery and oil prices of over USD 100 per barrel. Furthermore, the UAE had not experienced a sustained recovery since the global financial crisis, which was followed by the Dubai debt restructuring and the Arab Spring. **Qatar's performance was also not far behind, appreciating 46%**.

The two recent additions, **Saudi and Kuwait, did not perform as well in this time frame**. The former moved up by just 6%, showing perhaps that the investors hedged their positioning during this period. Given the scale, MSCI implemented Saudi's inclusion in two steps (in May and August 2019). Kuwait's inclusion was delayed due to the COVID-19 and the market was still down more than 10% when index-related flows arrived.

Market performance into MSCI upgrade



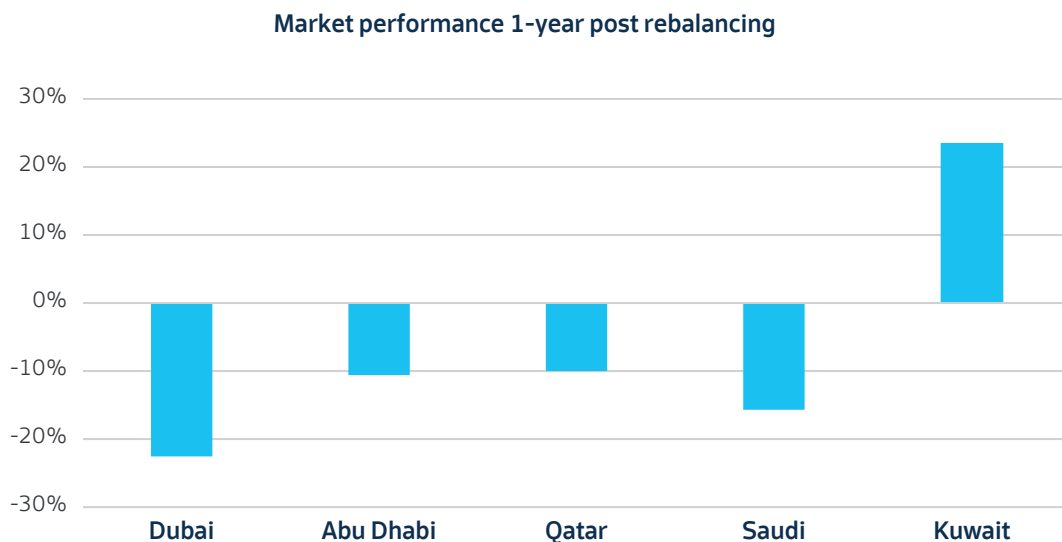
Source: Bloomberg

Note: *For Dubai and Abu Dhabi 1-year inclusion is proxy for watchlist to inclusion

Phase 4: Post rebalancing

Both UAE markets retreated in the year after inclusion—**Dubai by 23% and Abu Dhabi by 11%**—as positioning was unwound, a move compounded by **60–70% slide in oil prices. Qatar fell by c.10%** post rebalancing.

Saudi Arabia's Phase 4 was dominated by the COVID-19 shock as it **fell 16%**. On the other hand, **Kuwait rebounded by more than 20%** during this phase, helped by the post-pandemic global equity rally.



Source: Bloomberg

Can Oman make the cut?

Historically, limited market size and liquidity have been the main hurdles for Oman's entry into the MSCI Emerging Markets Index. MSCI requires at least three listed companies to meet minimum thresholds for market capitalization and liquidity. Liquidity has improved markedly since the introduction of three dedicated liquidity funds, pushing a growing set of stocks above the liquidity threshold. On size, Bank Muscat, OQEP, and Bank Sohar meet the total market-cap requirement, but only Bank Muscat and OQEP currently clear the free-float market-cap threshold. As of 31 March, Bank Sohar's free-float market cap was ca.20% below the requirement. Now that we are in the review period we can say with reasonable confidence that it will not pass the threshold and hence Oman would not make it to the

watch list. As the next review will be one year from here, **the earliest announcement of MSCI inclusion will be in May 2028 with foreign inflows of around USD 500 million to follow by August 2028.**

Even if MSCI hinges on Bank Sohar's free-float, Oman appears closer to meeting FTSE Emerging Markets criteria. They already have five stocks passing the minimum free-float market cap, with two of these large enough to fall into the mid-cap category. In addition, **Liquidity metrics are expected to be within reach by the September 2026 review, potentially putting Oman on watch**, with confirmation a year later. On that timeline, **foreign flows of about USD 300 million could arrive as early as March 2028.**

How to position

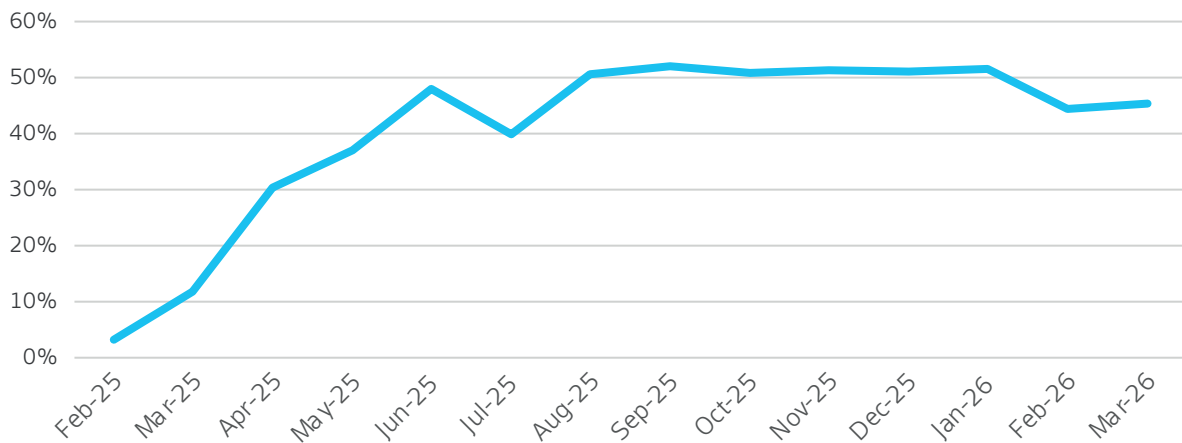
History suggests markets can continue to demonstrate growth after a watchlist addition and into a reclassification decision. Therefore, naturally investors feel that there's more upside to Oman which is on the cusp of index inclusion. That said, we believe investors need to be careful in investing in Oman for several reasons:

- **Markets are becoming more efficient and the near doubling of the Omani market** in the past year is a sign that a large investors base, especially domestic investors have already positioned themselves.
- **Oman is trading at 17x earnings**, which is significantly higher than its 10-year average of 11x, as well as the UAE and Qatar's multiples. Its PE multiples are comparable to Saudi Arabia, as well as emerging markets.

- **Oman's rally has been fueled by the surge in market liquidity which is underpinned by the participation of three liquidity funds—United Securities Market Making, Ubhar Capital Market Making and Tanmia Liquidity Fund**, who have accounted for roughly 50% of total traded value in recent months. Limited breadth of participation leaves the rally more vulnerable than in markets where a wider investor base drives volumes.

- Finally, while potential passive inflows are not small by regional standards—around USD 500 million for MSCI and c.USD 300 million for an FTSE EM upgrade, with Oman's market liquidity improving vastly in the past year—these flows can be absorbed with relative ease.

Liquidity funds' share in the Omani market's traded value



Source: Muscat Securities Exchange

Conclusion

We believe that investors should be cautious when it comes to investing in the Omani market. With MSCI inclusion in 2027 an unlikely event, the next catalyst comes in the form of addition to FTSE watchlist Sep 2026. Given that high probability of this happening if not certainty, it can rise by more than 20%. However, it will stretch valuations which are already expensive versus the historical average and compared to peers. While Oman's fundamentals have markedly improved, we believe the price already reflects this.

Local investors have largely positioned themselves for the trade as reflected in a sharp rise in the market. Given the gains they are sitting on they can aggressively move to unwind their positions, while only passive index trackers would move in without much interest from active managers given the size of the market.

Therefore, in our view, **a more diversified MENA allocation is likely to deliver better risk-adjusted returns than a late-cycle, single-market bet on Oman.**

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