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Looking Beyond Short-term Turbulence

Fundamentals and active management remain key

Insights | Article's link:
https://sicobank.com/2h2026/market-outlook.html

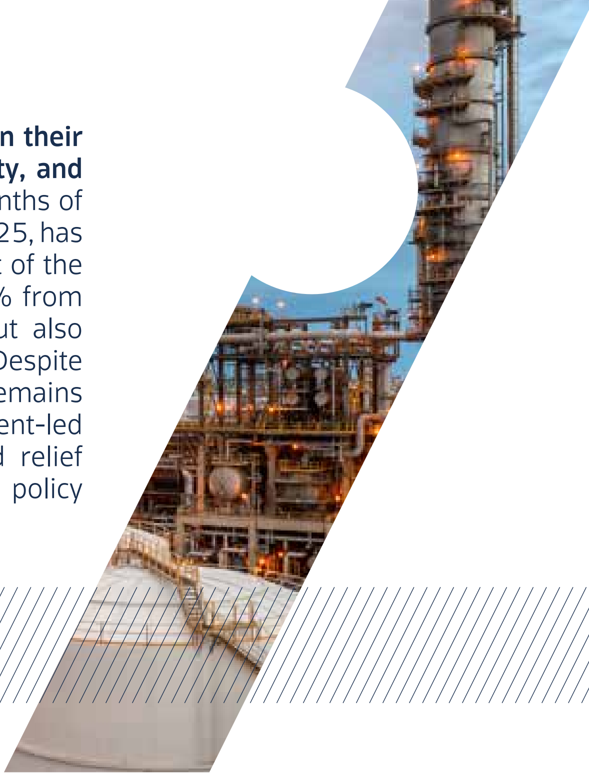
Executive Summary

Maintain disciplined but constructive, selective risk exposure across GCC/MENA equities, with an overweight preference for resilient domestic-growth markets, recoverable UAE dislocations, Oman's reform-led momentum, and undervalued non-GCC MENA opportunities, while avoiding highly leveraged or liquidity-constrained casualties of the current disruption.

The unprecedented regional conflict has materially altered both investor sentiment and the risk-return profile of GCC/MENA equities. While headline market returns across the region may appear relatively stable on a year-to-date basis, underlying volatility has been significant, with individual stocks experiencing even sharper swings. At this stage, attempting to forecast the duration, trajectory, or sustainability of any near-term resolution remains highly speculative. Instead, our focus is on objectively assessing how each GCC market is positioned to navigate a range of plausible scenarios and identifying the best companies to create value within their respective universes.

Saudi Arabia, the region's largest equity market, has demonstrated notable resilience amid ongoing challenges. This strength is underpinned by its **ability to mitigate disruptions to oil exports through alternative infrastructure** such as the East-West Pipeline, the support of a large and diversified domestic economy, resilient religious tourism flows, and the continued execution of strategic development projects backed by the Public Investment Fund. While **the Tadawul All Share Index (TASI) remains positive year-to-date**, it has retreated from its April highs as investors reacted to conflict-related developments and heightened oil price volatility, reinforcing the need for selective domestic-growth exposure rather than broad index market beta.

In contrast, the impact on UAE markets has been more pronounced given their greater reliance on external demand drivers, tourism, real estate activity, and foreign investment flows. Dubai, which rallied 8% during the first two months of 2026 following cumulative gains of more than 130% between 2022 and 2025, has entered a period of consolidation. Real estate stocks have borne the brunt of the correction, with several market heavyweights declining by more than 30% from their February 2026 peaks, creating potential valuation dislocations but also raising the bar on balance sheet quality, liquidity, and earnings visibility. Despite these near-term headwinds, the fundamental outlook for the UAE remains constructive, underpinned by counter-cyclical fiscal support, government-led initiatives aimed at revitalizing affected sectors through incentives and relief measures, and the country's proven ability to adapt through innovative policy responses once conditions stabilize.



The impact on Qatar, Kuwait, and Bahrain has been more significant due to their reliance on the Strait of Hormuz. While alternative routes and mitigating measures are being explored and implemented, these economies are likely to experience slower growth, or contraction in some cases, as **oil revenues come under pressure** and secondary effects ripple through domestic economic activity.

Oman has emerged as one of the region's strongest-performing markets this year, building on the positive momentum established in 2025. Market performance continues to be supported by meaningful capital market reforms, improved fiscal fundamentals, and steady economic growth, making the market one of the clearer examples where policy execution is translating into investor confidence. Furthermore, Oman appears comparatively less exposed to the current conflict owing to its geopolitical positioning and could potentially benefit from any long-term regional resolution and the development of alternative trade and logistics corridors. The foreign index inclusion narrative and active role of multiple liquidity providers have also supported key stocks in the broader capital market.

Zooming out, the most actionable conclusion is that dispersion—not the headline index direction—is likely to define returns. The current environment should be assessed through four investment buckets:

- Resilient markets with domestic or policy support.
- Vulnerable sectors exposed to external demand and liquidity stress.
- Temporary beneficiaries such as logistics and transportation.
- Durable long-term opportunities where valuation support and earnings resilience remain intact.

Within this framework, **companies that can pass through inflationary cost pressures, manage supply chains, and adapt export logistics are likely to demonstrate greater resilience.** By contrast, tourism, hospitality, aviation, and UAE real estate remain the clearest areas for close monitoring, particularly where balance sheet leverage, liquidity, or refinancing risk could turn a cyclical slowdown into a more durable impairment.

For regional investors, there is also a compelling case to increase selective exposure to non-GCC MENA markets, particularly Egypt and Morocco, where valuations and structural growth opportunities remain attractive. While Saudi Arabia continues to benefit from its large domestic economy, the UAE also presents stock-specific recovery opportunities where government support, franchise quality, and depressed valuations align.

The current macroeconomic backdrop is therefore particularly conducive to active management. **Alpha generation is likely to depend less on forecasting the direction or duration of the conflict and more on identifying relative winners and losers through disciplined analysis of fundamentals, valuations, balance sheet strength, liquidity, and long-term earnings resilience.**

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