

Investor Return Requirements in the GCC

2025

Examining GCC Investor Return Expectations: Insights Amid Elevated Interest Rate, Global Pressures, and Geopolitical Tensions



At SICO, we aim to provide deeper insights, and our latest report on Investor Return Requirements in the GCC, now in its fourth edition, reflects this commitment. This report gathers feedback from a survey of key players in the GCC investment ecosystem, highlighting current investor expectations. This year, we have also introduced the survey in Arabic to enhance our reach within the community, and we are pleased to report an increase in the proportion of respondents from Saudi Arabia, which was 2x our participation from the Kingdom last year.

Investor sentiment and outlook remain positive, despite navigating through a landscape marked with global inflationary pressures, elevated interest rates, and geopolitical uncertainty. Investors across the GCC are recalibrating their strategies to meet the dynamic shift in the global and regional environment heading into 2025. The intersection of these forces continues to significantly impact asset classes, reshaping the investment landscape and warranting closer examination.

This year, we gathered insights from 208 respondents regarding the returns they require from various asset classes, including listed equities, government bonds, real estate, private equity, and cash deposits. We also explored their expectations for economic performance across the GCC in 2024, and issues of most concern to investors.

Equities continue to remain the preferred asset class to generate risk adjusted returns for our respondents. This is followed by fixed income and real estate. This is not surprising given that fixed income will experience its own share of volatility from rate cuts, while decreasing cost of capital can entice investors to generate return through equities in the coming year.

As we approach 2025, the global landscape remains fraught with challenges. The IMF has revised its growth forecast to 2.8%, reflecting ongoing geopolitical tensions and supply chain disruptions that continue to hinder economic recovery. Inflation, which peaked at 6.9% in 2023, is projected to

decrease to 4.7% in 2024, with further moderation expected in 2025, as central banks maintain tight monetary policies and commodity prices stabilize. These economic conditions underscore the need for adaptive strategies in both public and private sectors to navigate the evolving marketplace.

Across all asset classes, geopolitical tensions remain the primary concern among investors, followed closely by inflation and interest rates. Notably, investors express the most optimism regarding economic performance in Saudi Arabia, the UAE, and Qatar, likely due to robust activity in non-energy sectors in these countries driven by domestic momentum and foreign demand, with ongoing mega events and giga projects supporting activity in tourism, construction, manufacturing, and real estate. This trend is particularly promising for SICO as we strengthen our presence in Saudi Arabia through our subsidiary, SICO Capital—a full-fledged investment bank—and leverage the surge of IPOs in the UAE via our subsidiary, SICO Invest.

We aim to provide a glimpse into the market dynamics and investor requirements in the region through these annual surveys, while translating these insights into products that align with the needs of GCC investors. As an asset manager, broker, market maker, and investment bank, understanding which products to offer, at what prices, and in which markets is essential.

Our report goes beyond presenting data, it reflects the collective wisdom of the GCC's investment community and highlights the underlying themes that will shape the region's financial future. We extend our gratitude to all respondents for sharing their valuable insights. As we continue to navigate these dynamic markets in 2024, we remain dedicated to providing you with the information needed to make informed decisions in this ever-evolving environment.

Najla Al Shirawi
Group CEO





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1.

The Global Economic Backdrop

Commentary on US firm's analyst expectations versus actual results

In recent months, U.S. firms have experienced a mixed bag of results creating uncertainty amongst analysts regarding their expectations. Certain sectors, such as financial institutions and banks, have reported solid results. In the technology sector, companies like NVIDIA and TSM (Taiwan Semi-conductors) have reported strong earnings with AI being at the center of their growth and optimism.

Analysts are beginning to reassess growth forecasts, especially as inflation and rising labor costs continue to challenge profitability. There still seems to be uncertainty with forward guidance given the volatile economic backdrop with different moving parts in play, such as the US election and the potential for a slowing economy.

US S&P 500 performance


 The S&P 500 is up year-to-date **22.67%** (as at 22 October 2024) currently outpacing the historical average of 12%.

NVIDIA drove approximately **50%** of the index's performance.

The all-time high on the index was broken **40+** times this year.

Investor sentiment could be impacted negatively if job data weakens in the upcoming months, as well as any potential uptick in inflation.

Fed Interest Rates

 The Federal Reserve recently initiated a rate-cutting cycle by reducing the Fed funds target rate to 4.75%-5.00%. This shift is crucial for the economy, with the Fed's data dependent approach meaning investors should remain diversified across stocks and bonds. The Fed's dot plot forecasted four (25bps) rate cuts for 2024, 50% of which being implemented in September. The expectation remains for a further two cuts in both November and December, respectively. The US presidential election will also play a significant role in the Fed's fiscal policy going forward into 2025.

The index of the **Top 3 highest weighted companies**



currently make up **20%** of the index.

China Stimulus

China's economic policies are under increasing scrutiny as the government attempts to support its struggling economy and stock market. Recent stimulus measures, the largest since 2015, included raising the loan quota for unfinished residential projects. However, recent policy briefings have disappointed investors by reiterating past actions instead of introducing stronger pro-growth initiatives. This has led to notable declines in the CSI 300 Index and heightened skepticism about the government's policy effectiveness. While the People's Bank of China has implemented measures, such as cuts to lending and mortgage rates, the mismatch between investor expectations for significant fiscal support and the government's cautious approach has resulted in further volatility. These developments not only affect the Chinese economy, but also have broader implications for global markets.

Oil Prices and Geopolitical Backdrop

As of 16 October 2024, Brent futures fell to



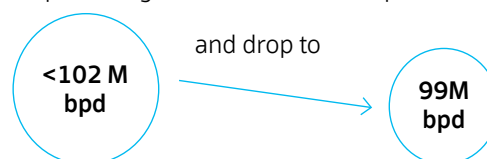
and WTI to



their lowest level since 2 October

Analysts remain cautious due to ongoing geopolitical tensions. US-China relations, the war in Ukraine, and particularly the growing tension in the Middle Eastern conflicts could threaten global supply. OPEC+ will maintain supply cuts until December, when some members plan to begin easing them. Both OPEC+ and the International Energy Agency have revised their 2024 global oil demand growth forecasts downward, primarily due to weaker expectations from China.

The IEA predicts global oil demand will peak at:



Meanwhile, China's recent fiscal stimulus has not significantly supported oil prices, despite plans to raise an additional CNY 6 trillion (USD 850 billion) through special treasury bonds to boost its economy.

2. GCC Economy Outlook

GCC Economies continue their efforts to diversify their economy away from oil with enhanced spending, reduction of subsidies and introduction of VAT, corporate taxation and other avenues of enhancing non oil revenues. Among the countries, UAE and Saudi Arabia appear to show the maximum favorable economic momentum while Oman being more fiscally prudent to improve its credit profile and recent upgrade to investment grade rating by S&P. Qatar's LNG expansion project is expected to gain traction in 2025 while Bahrain is the first country to introduce 15% Corporate tax as per Global minimum taxation rules for select qualifying corporate. Kuwait is also expected to pursue further reforms to improve its macro situation, however the optimism within GCC is broadly skewed towards Saudi Arabia and UAE. In addition, IPO momentum continues

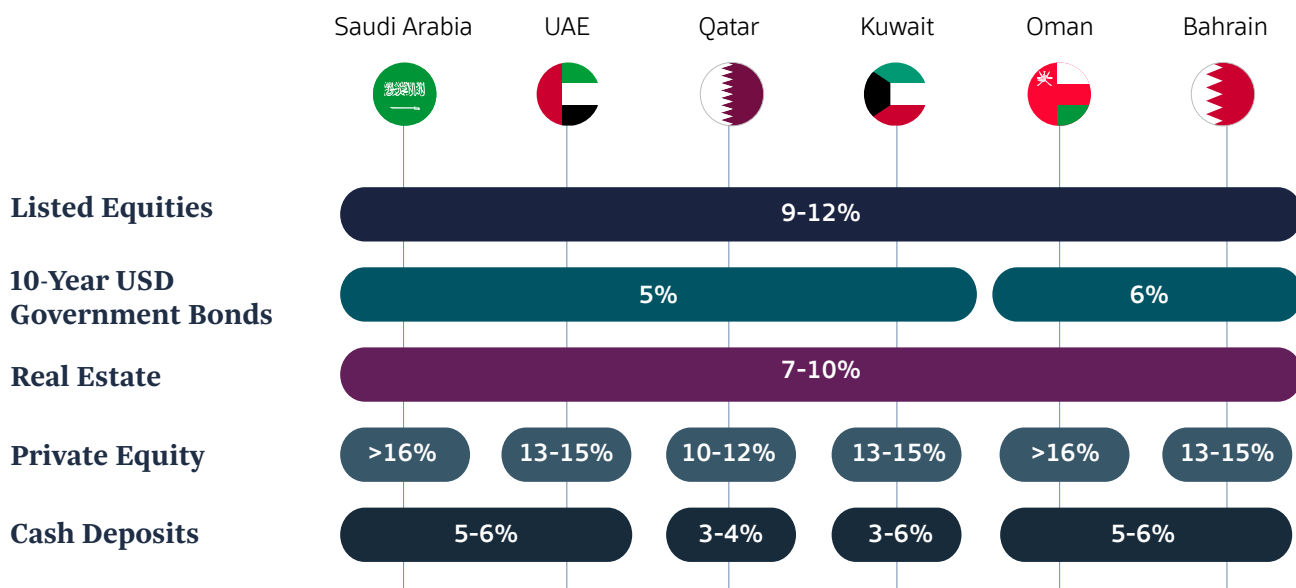
to be an important capital markets driver for the region, particularly in KSA and UAE. 2025 will be a pivotal year for GCC banks as it braces for impact from Fed rate cuts while broader markets and oil may embrace further volatility from current Geopolitical tensions which still remains elevated.

Changing expectations amid geopolitical tensions and inflationary pressures

We conducted a survey among C-suite executives, investment and fund managers, business owners, and institutional investors in the GCC to gauge their requirements for investor returns across various asset classes.

Summary of Survey Results

Minimum Unleveraged Required Returns by Asset Class in the GCC (reflecting the majority of responses)



The report also examines investor optimism by market, with participants expressing the greatest confidence in the economic outlook for

Saudi Arabia and the **UAE**
83% and **79%**

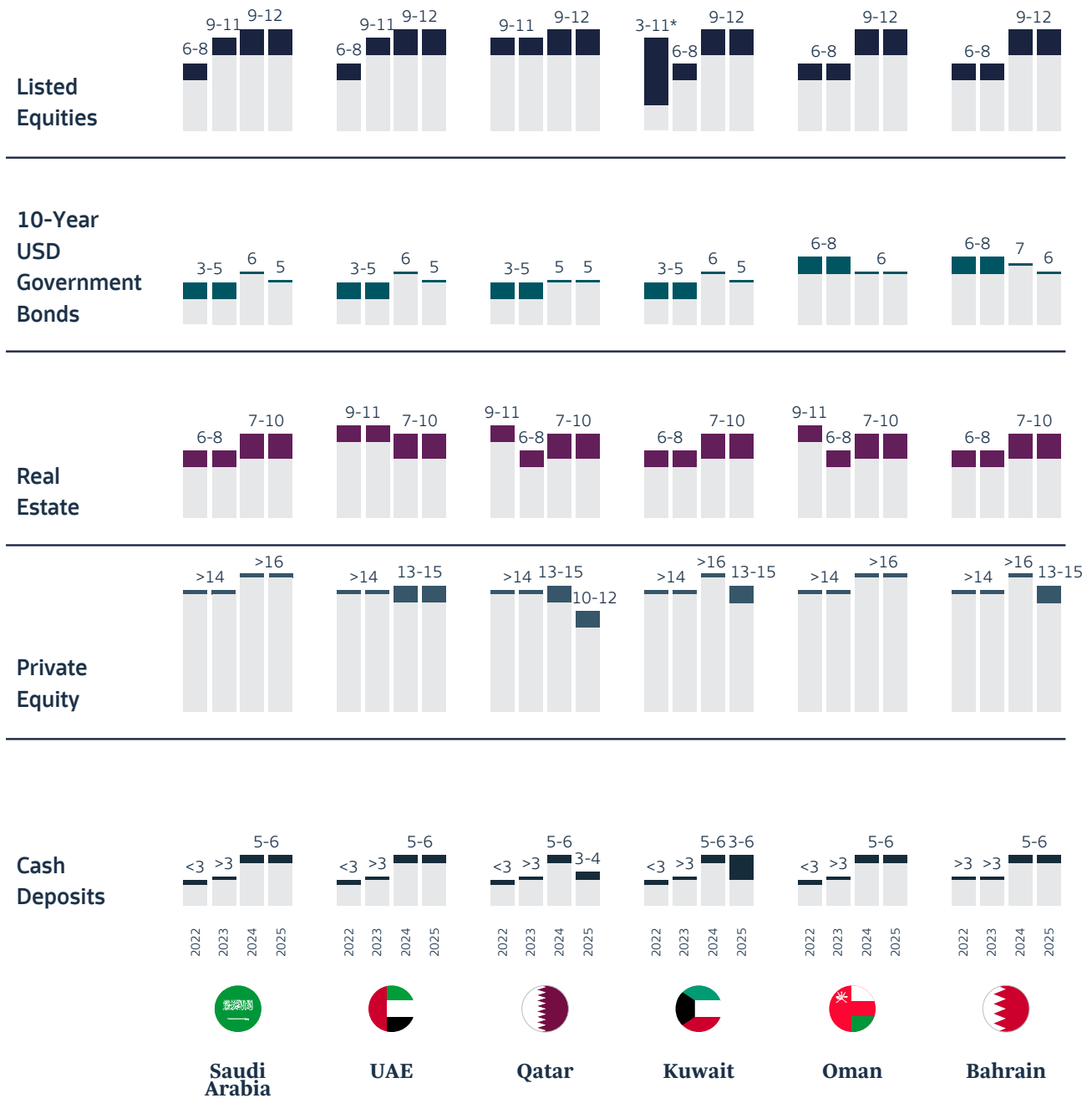
driven by the momentum of giga-projects and IPO activity.

Qatar follows with a more subdued, yet positive, sentiment. While geopolitical risks, inflation, and interest rates rank as the top concerns for investors, there is widespread belief that equities will deliver the best risk-adjusted returns in the next 12 months, followed by fixed income and real estate.

Changing investor return requirements through the years

Since the report was first published in 2021, the landscape has evolved considerably. In this fourth edition of the Investor Return Requirements in the GCC report, we provide a rich analysis of how investor return expectations have shifted across various asset classes over time.

Minimum Unleveraged Required Returns by Asset Class in the GCC



* an equal number of respondents selected 3-5%, 6-8% and 9-11% for Kuwait in 2022.

Note: The return range in the survey was extended in 2024, bringing up the upper range to >20% from >14% last year, due to investor preference and higher requirements amid inflationary pressures. Year-on-year comparison may not be meaningful for certain asset classes due to the range change.

3.

Minimum Unleveraged Required Return By Asset Class In The GCC

- A. Listed equities
- B. 10-Year USD
Government bonds
- C. Real estate
- D. Private equity
- E. Cash deposits



LISTED EQUITIES

Required investor annual return:

9-12%
across the GCC

Return requirements across the GCC remain consistent, with investors seeking returns between 9-12% for 2024. Given the expected decline in cost of capital, a low double-digit return expectation is not surprising. However, the past 10-year CAGR (ending Sept 2024) of GCC Equities total return has been closer to 7%. Accordingly, it does highlight the optimism of respondents from equities as an asset class for next year.

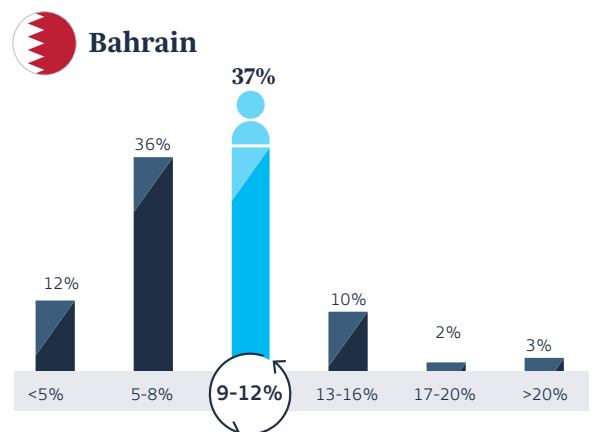
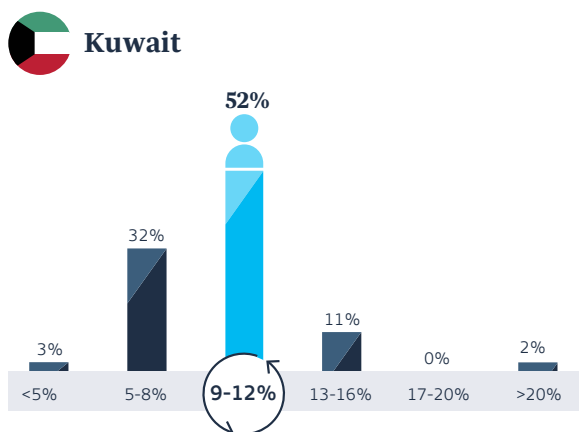
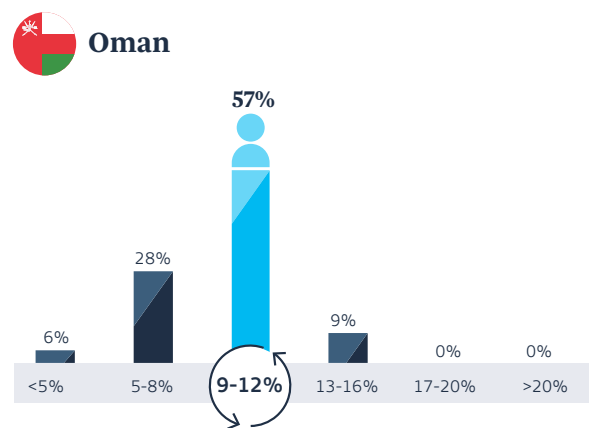
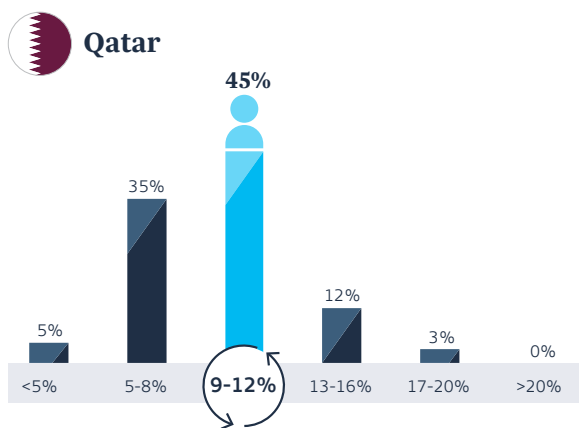
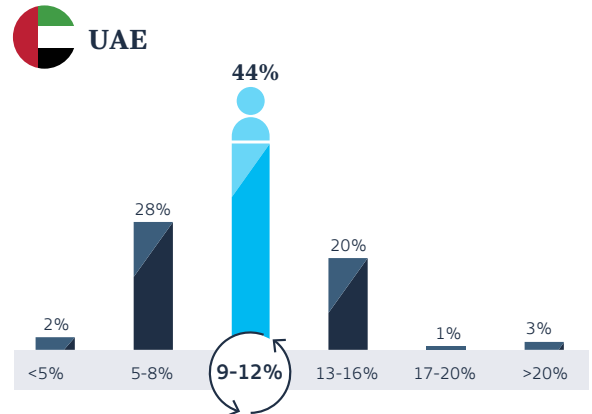
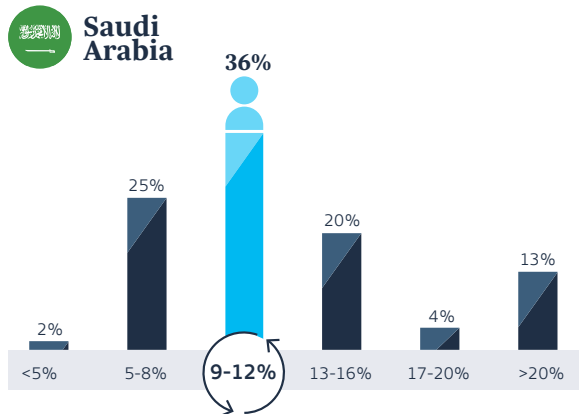
Investor confidence in the GCC capital markets remains strong, particularly in Saudi Arabia and the UAE, which have seen significant listings such as Rasan Information Technology, Parkin Company, Avalon Pharma, Fakeeh Hospital, Alef Education Holding, and Spinneys. Additionally, Oman's IPO activity is gaining momentum, exemplified by the recent listing of OQ Exploration and Production Company, which further supports the market this year.



Given the expected decline in Fed rates in the next 12 months, the 9-12% total return for listed equities expected by the majority in the survey is broadly a reflection of the same. Additionally, the majority of the respondents remain most positive on the economic outlook of Saudi Arabia and UAE, a result of continuous reforms, as well as the strength and resilience of their domestic economies.

Nishit Lakhotia
Group Head of Research

Minimum Investor Annual Returns Currently Required for Listed Equities, Including Dividends and Capital Gains



Percentage of respondents
 Percentage of returns
 Highest number of respondents
 Return range by highest number of respondents

10-YEAR USD GOVERNMENT BONDS

Required investor annual return:

5%

in Saudi Arabia,
the UAE, Qatar,
and Kuwait

6%

in Oman and
Bahrain

Compared to last year, return expectations have declined for Saudi Arabia, the UAE, Kuwait, and Bahrain, while remaining unchanged for Oman and

Qatar. Notably, over 40% of respondents expressed a requirement for a 5% return in Saudi Arabia, the UAE, Qatar, and Kuwait according to this year's survey.

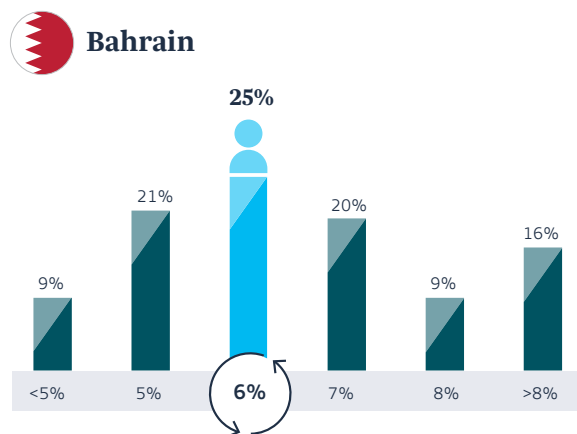
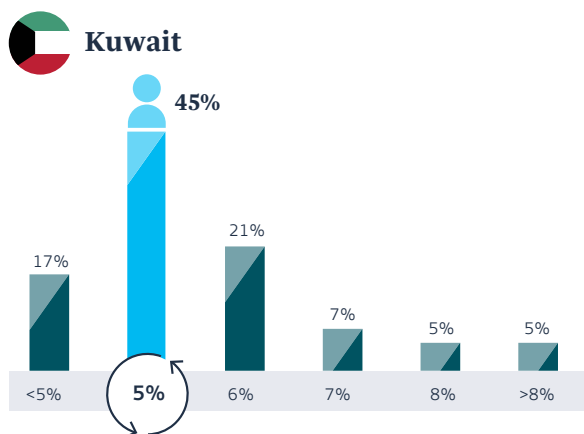
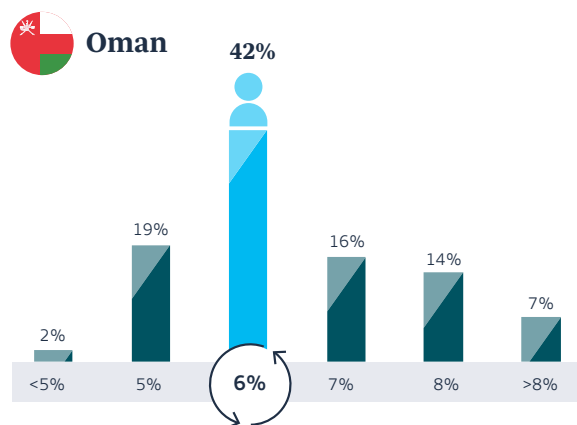
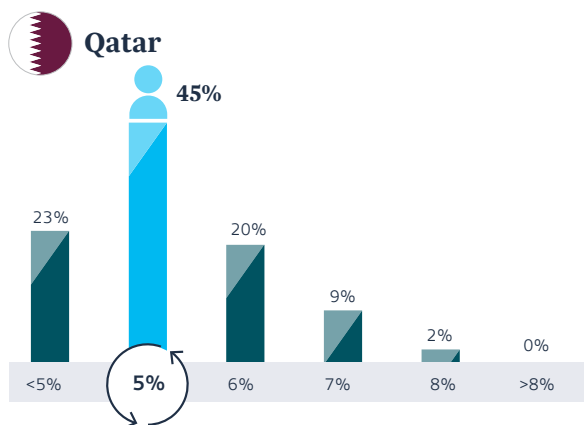
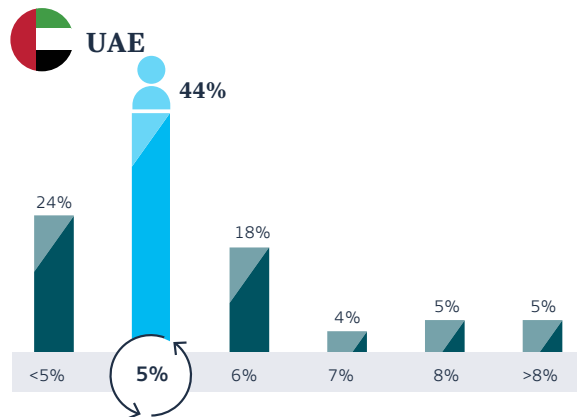
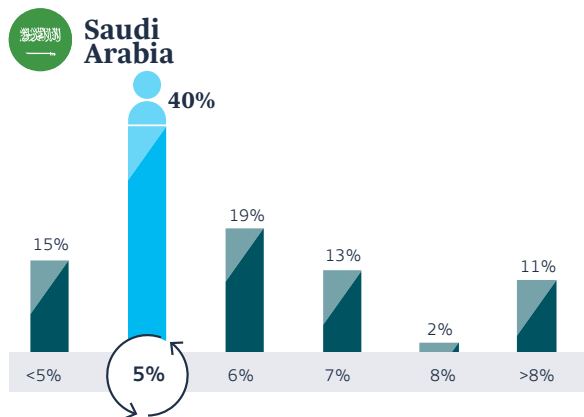


The Federal Reserve's unexpected 50-basis point rate cut has boosted bond prices and created a favorable environment for fixed income investments, with average GCC bond yields at 5.1%. With six more cuts anticipated, the GCC fixed income market is expected to remain strong as demand outpaces supply. However, the market's neutral stance on interest rate expectations suggests investors should focus on the medium-term, prioritizing liquidity amid US election risks and geopolitical uncertainties. A duration-light strategy is advisable, emphasizing idiosyncratic risks like blue-chip GCC real estate, medium-term Egyptian bonds, and select GCC bank perpetuals.

Ali Marshad

Group Head of Fixed Income Asset Management

Investor Annual Returns Currently Required for 10-Year USD Government Bonds, Including Coupons and Held to Maturity



Percentage of respondents
 Percentage of returns
 Highest number of respondents
 Return range by highest number of respondents

REAL ESTATE

Required investor annual return:

7-10%

across the GCC

Although investors would require a risk premium on this asset class, due to market volatility, tenant risk, among other challenges, this consistency is unsurprising. With economic growth stemming from increased government spending and infrastructure development, especially in the UAE and Saudi Arabia.

We can see demand for real estate on the rise in line with population growth and an increase in tourism, while supply from private and public sector investments is also expected to increase with the amount of projects in the pipeline and declining cost of capital.

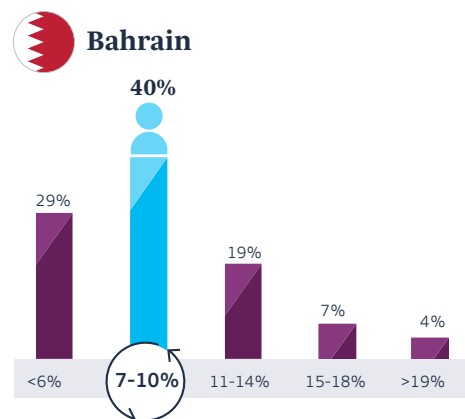
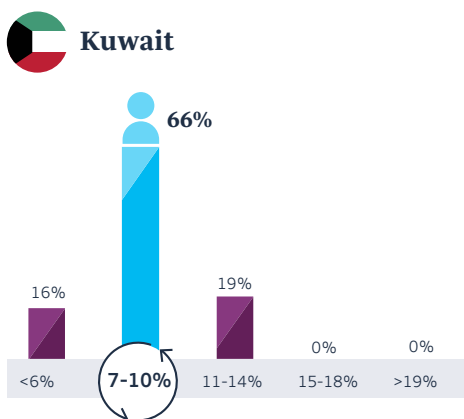
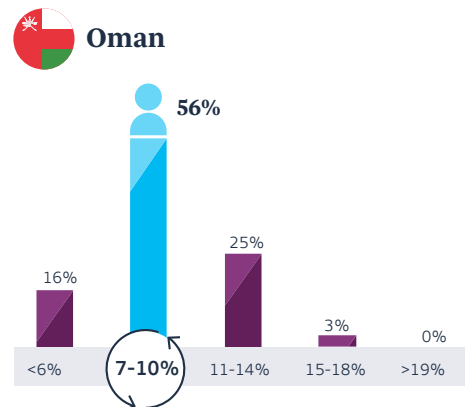
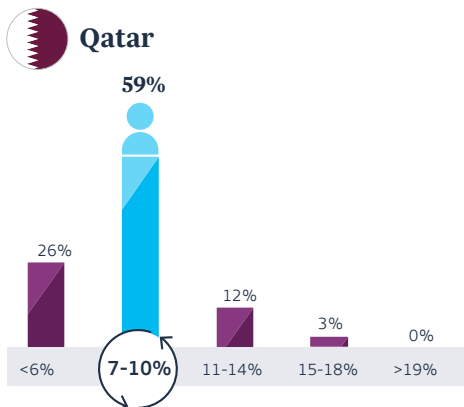
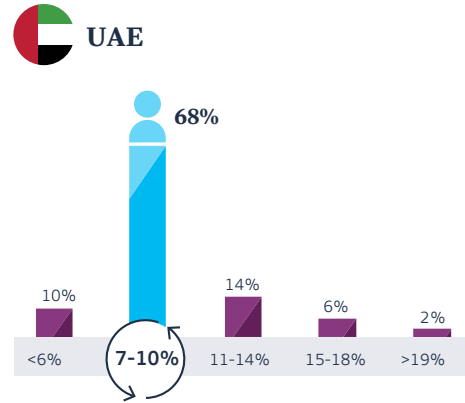
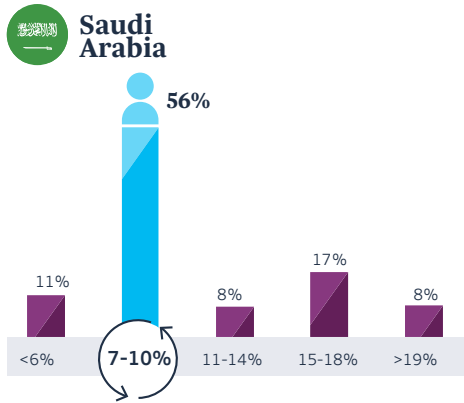


Real estate returns across the GCC have shown a mixed performance year-on-year, with standout growth in markets like Dubai and Riyadh, where surging demand has outpaced supply, driving up rent and capital values. This divergence underscores the importance of a nuanced approach to real estate investment in the region.

Wissam Haddad

Group Head of Investment Banking

Investor Annual Returns Currently Required for Real Estate, Including Total Distributions and Capital Gains



Percentage of respondents
 Percentage of returns
 Highest number of respondents
 Return range by highest number of respondents

PRIVATE EQUITY

Required investor annual return:

16% in Saudi Arabia
and Oman

13-15% in the UAE, Kuwait
and Bahrain

10-12% in Qatar

The disparity in return requirements is expected given the availability, or lack thereof, of private equity investments along with country specific risks associated with these investments, where investors

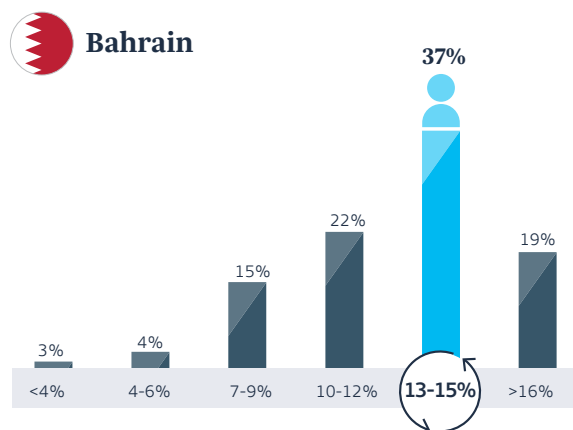
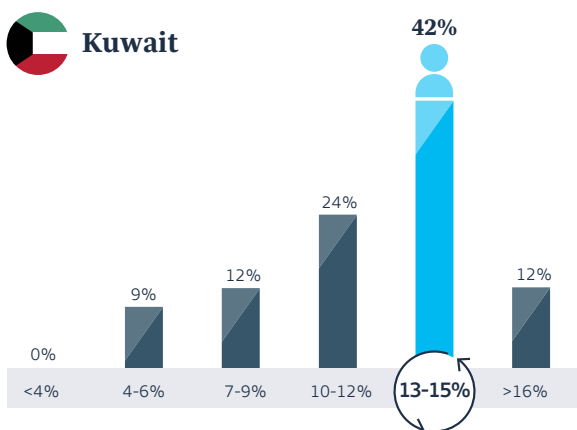
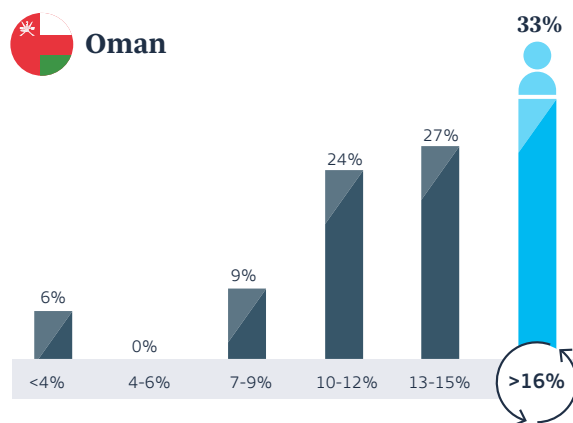
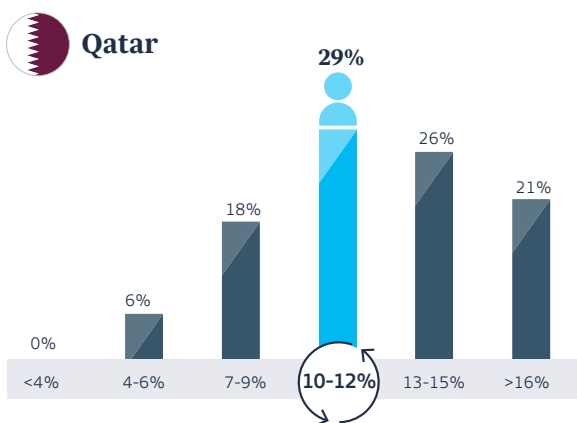
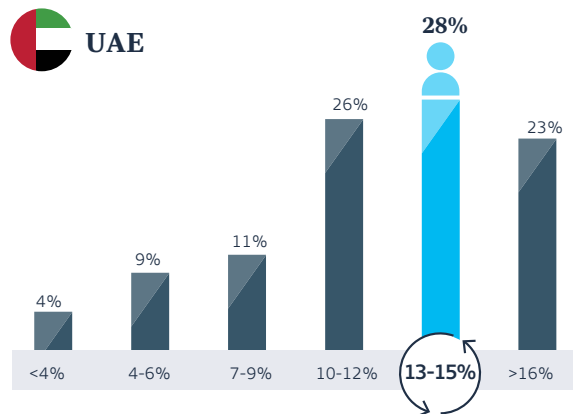
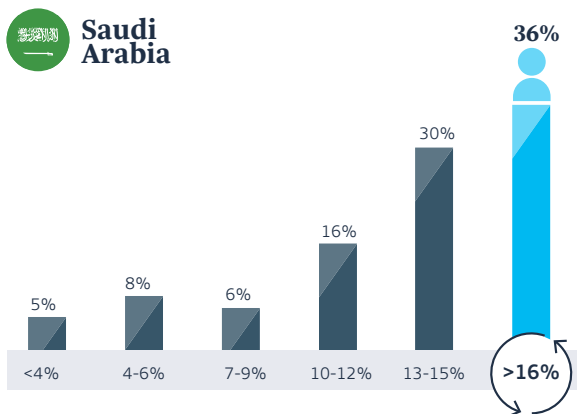
may require a higher premium in countries with varying levels of competition, higher barriers to entry, or more stringent regulatory requirements.



As interest rates continue their downward trajectory, we expect more active deal flow in private equity. This is driven by two fronts: 1) yields on mainstream bonds and bank accounts will drop, driving demand to higher return investments like private equity; and 2) the ability of fund managers to leverage acquisitions would also drive private equity transactions

Wissam Haddad
Group Head of Investment Banking

Investor Annual Returns Currently Required for Private Equity, Including Total Distributions and Capital Gains



Percentage of respondents
 Percentage of returns
 Highest number of respondents
 Return range by highest number of respondents



CASH DEPOSITS

Required investor annual return:

5-6% in Saudi Arabia,
the UAE, Oman,
and Bahrain

3-6% in Kuwait

3-4% in Oman

The disparity in return requirements is expected given the availability, or lack thereof, of private equity investments along with country specific risks associated with these investments, where investors

may require a higher premium in countries with varying levels of competition, higher barriers to entry, or more stringent regulatory requirements.

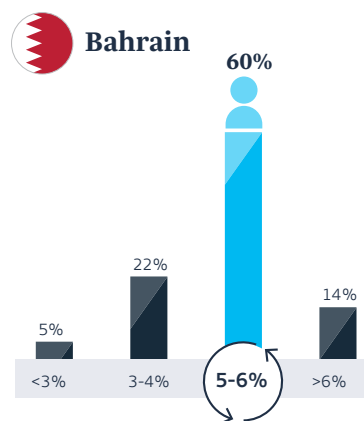
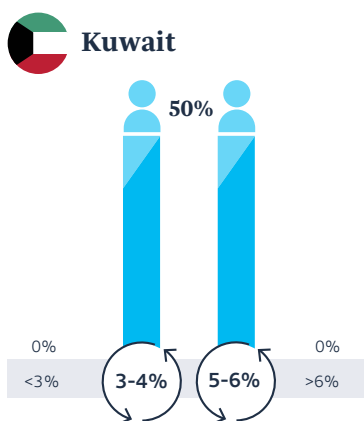
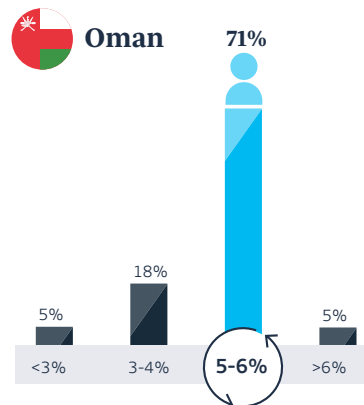
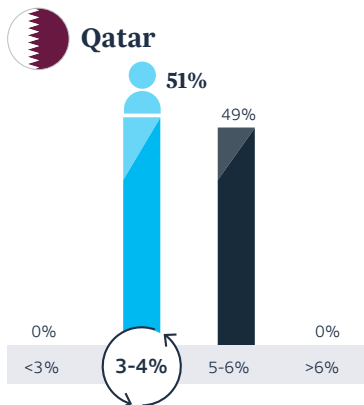
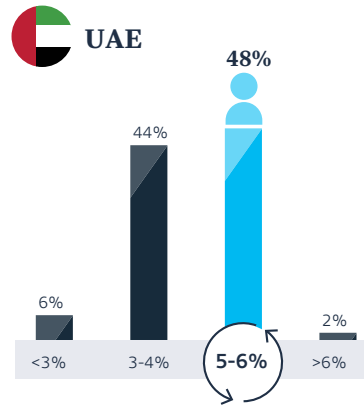
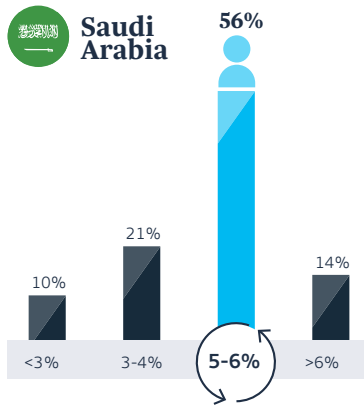


In July 2024, cash deposit rates in the GCC peaked as regional Central Banks aligned with the U.S. Fed's aggressive rate hikes, which reached their highest level since March 2001. This surge, driven by efforts to combat post-COVID inflation, demonstrated the old saying that 'cash is king,' as cash became a top asset class with higher rates and low volatility. However, following Fed rate cuts in the latter half of the year, rates have dropped by about 75 bps, leading to expectations of a 1.5% decline from peak levels, increasing re-investment risks and shifting investor preference towards fixed income.

Ali Marshad

Group Head of Fixed Income Asset Management

Investor Annual Returns Currently Required for Cash Deposits, Including Total Distributions and Capital Gains



Percentage of respondents
 Percentage of returns
 Highest number of respondents
 ↻ Return range by highest number of respondents

4.

Economic Outlook

Respondents that are positive about the economic outlook,

83%

in Saudi Arabia

79%

in UAE

52%

in Qatar

Market participants remain broadly optimistic of the GCC as a whole, with greater optimism witnessed in Saudi Arabia, the UAE, and Qatar.

Positive sentiment in Oman has increased this year, while sentiment in Saudi Arabia and Qatar has slightly decreased. Participants remain largely neutral for Kuwait. The positive outlook on Saudi Arabia can be attributed to the Kingdom's economic resilience, an extensive list of projects in the pipeline which are picking up pace, moving towards execution, proactive investments from the PIF, and the private sector's participation in giga projects. Adding to the positive sentiments is the expansionary budget, despite the voluntarily reduction of oil production beyond OPEC+ agreement, likely aiding oil price stability and abating downward pressures.

In the **UAE**, we have been observing a pickup in IPOs, increased tourism and consumer spending, the steady implementation of economic reforms, and robust activity in real estate, allowing investors to look forward to a strong year ahead. Economic growth in the first half of the year in both **Dubai** and **Abu Dhabi** has been robust, with tourism numbers on a constant rise.

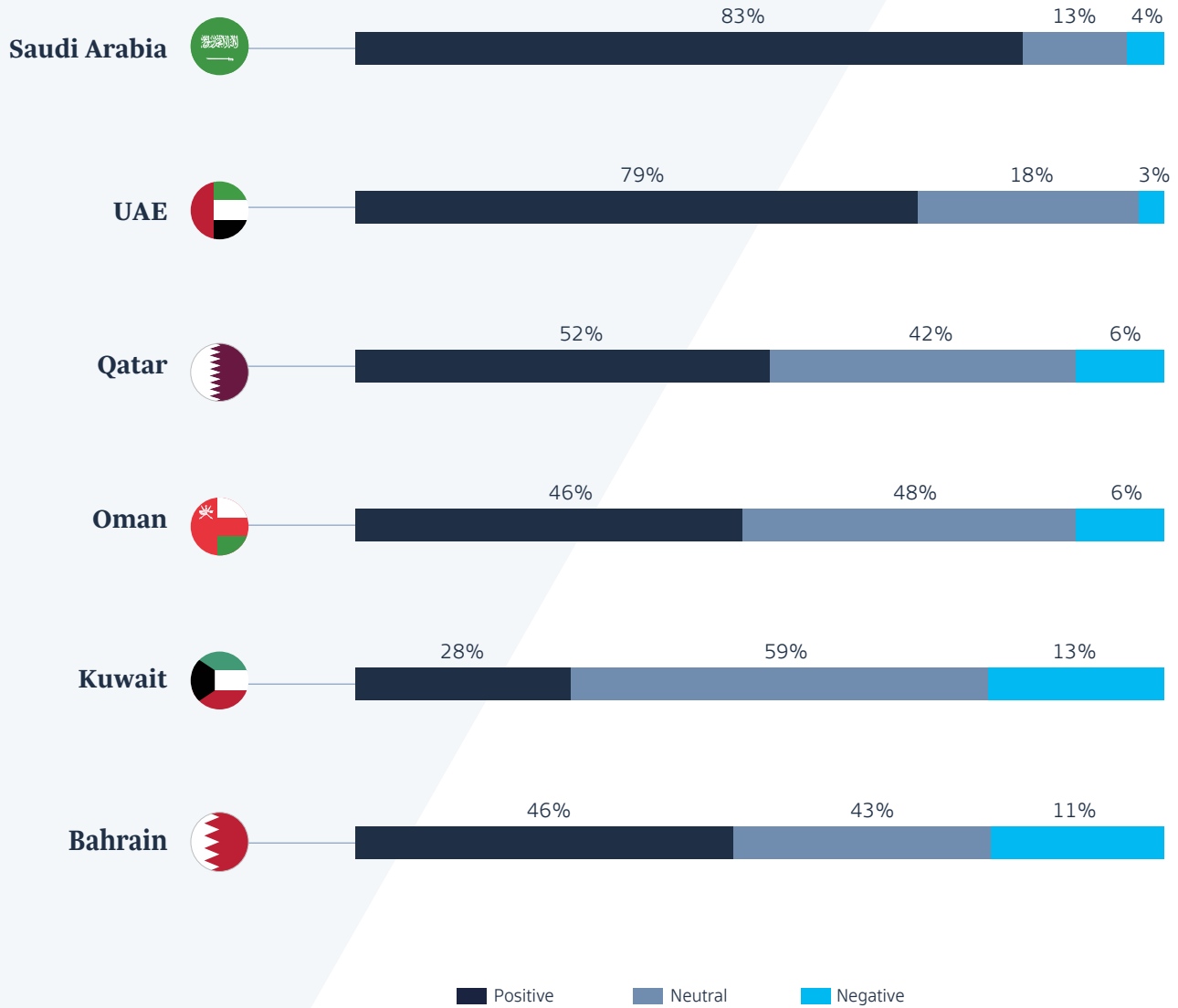
Meanwhile investors have been neutral about **Kuwait** despite a change in the political scene and the dissolution of parliament for four years.

In **Oman**, improving fiscal fundamentals and the government's shift towards capital expenditure, after significantly lowering its debt to GDP ratio, have reflected on a generally positive sentiment.

Bahrain, in addition to having a high breakeven for oil, is undergoing structural reforms to achieve fiscal balance by 2024.

Non-oil GDP growth continues to support overall economic growth, with key sectors driving that change being transportation and logistics and tourism related sectors.

GCC Economic Outlook Over the Next 12 Months



Most respondents are more optimistic about GCC countries this year, although sentiment has slightly decreased

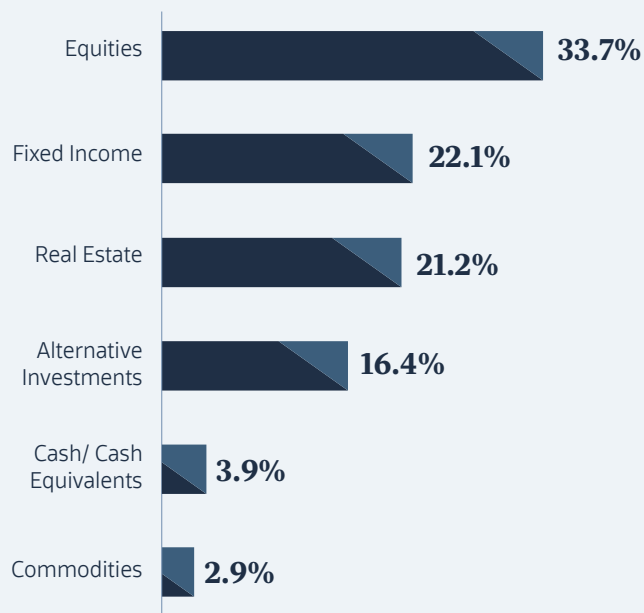
in Saudi Arabia
83%
 VS.
87%
 YoY

in Qatar
52%
 VS.
60%
 YoY

Asset class offering the best risk adjusted returns over the next 12 months

Equities are expected to provide the best risk-adjusted returns over the next 12 months, followed by fixed income and real estate.

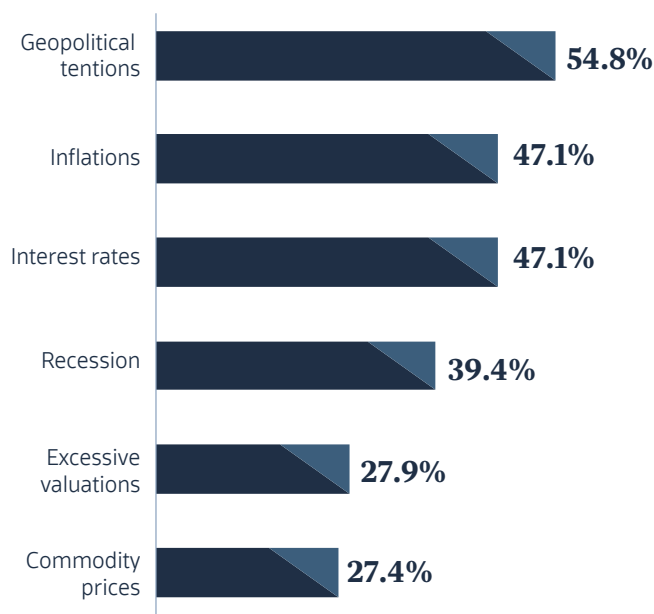
Listed equities were the most preferred asset class in terms of risk adjusted returns over the next 12 months across all GCC countries. The second preference varied between fixed income and real estate, with fixed income favored in the UAE and Bahrain, while real estate was preferred in Saudi Arabia and Oman.



Issues Concerning Investors

Geopolitical tensions were the primary concern among respondents, followed closely by inflation and interest rates, and then recession.

Geopolitical tensions currently hold the top spot for concerns within the GCC, given their potential to disrupt trade, energy markets, and investor sentiment. While oil price volatility remains a risk, the region's fiscal reserves and government support have historically provided market stability. Inflation and rising interest rates follow closely, with GCC central banks aligning their policies with U.S. monetary decisions due to currency pegs, impacting borrowing, spending, and investments. Concerns about global recessions rank third, with businesses preparing for reduced demand and constrained capital flows. These risks highlight the need for prudent risk management, diversification, and adaptive policy strategies to navigate uncertainty effectively.



5.

Survey Background

SICO's

4th annual Investor Returns Assessment survey

9 - 26 September 2024



Objectives:

- Maintain a pulse on market participants' economic outlook
- Return expectations across GCC countries and across asset classes, including stocks, government bonds, real estate, private equity, and cash deposits.



The survey was distributed to participants via a web-based link, with the option to complete it in either English or Arabic.



Responses were collected completely anonymously.



Participants had the option to receive a USD 25 Amazon gift card upon completing the survey.

Survey Questions, Responses and Mode

Question #1:

What is your current job title?

Answers were selected using radio buttons, allowing only one choice, with an "other" option also available.

Question #2:

In which country are you currently based?

Answers were selected using radio buttons, allowing only one choice, with an "other" option also available.

Question #3:

What minimum total annual returns, without debt or leverage, would you currently require if you were to invest in: (if you do not invest in certain areas, kindly provide your best estimate) Stocks, 10-Year Government Bond (USD), Real Estate, Private Equity, and Cash Deposits for Bahrain, Kuwait, Saudi Arabia, Qatar, Oman, and the UAE?

Response options ranged from < 3%, to over 20%.

Respondents used drop-down boxes where only one answer could be selected. Respondents provided answers for the countries and asset classes relevant to their investment mandates and areas of expertise, without being required to answer questions that did not apply to them.

Question #4:

Which asset class offers the best risk adjusted returns over the next 12 months?

Response options:

- | | |
|-----------------|------------------------------------|
| a. Equities | e. Alternative Investments |
| b. Fixed Income | (e.g. private equity, hedge funds) |
| c. Real Estate | f. Cash/Cash Equivalents. |
| d. Commodities | |

Respondents used radio buttons, allowing only one selection.

Question #5:

How do you feel about the economic outlook over the next 12 months for Bahrain, Kuwait, Saudi Arabia, Qatar, Oman, and the UAE?

Response options: positive, negative, or neutral.

Respondents used radio buttons, but with one response required per country.

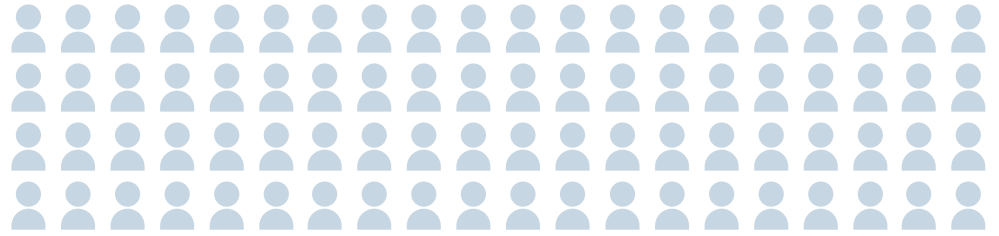
Question #6:

Which issues are of the most concern to investors now?

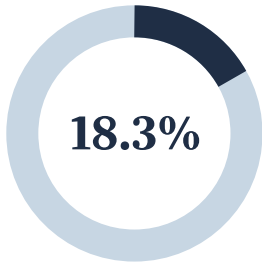
Response options: inflation, commodity prices, recession, interest rates, excessive valuations, geopolitical tensions.

Respondents used radio buttons, allowing multiple selections.

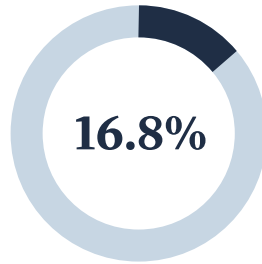
209 Respondants



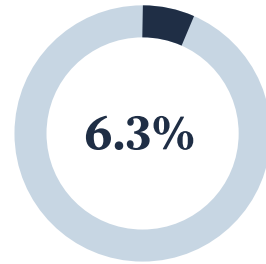
Respondant Profile



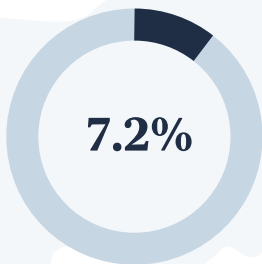
Fund Manager



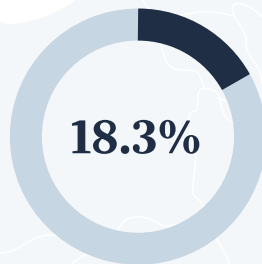
Investment Manager



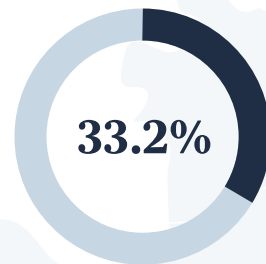
Chief Financial Officer or equivalent



C Suite

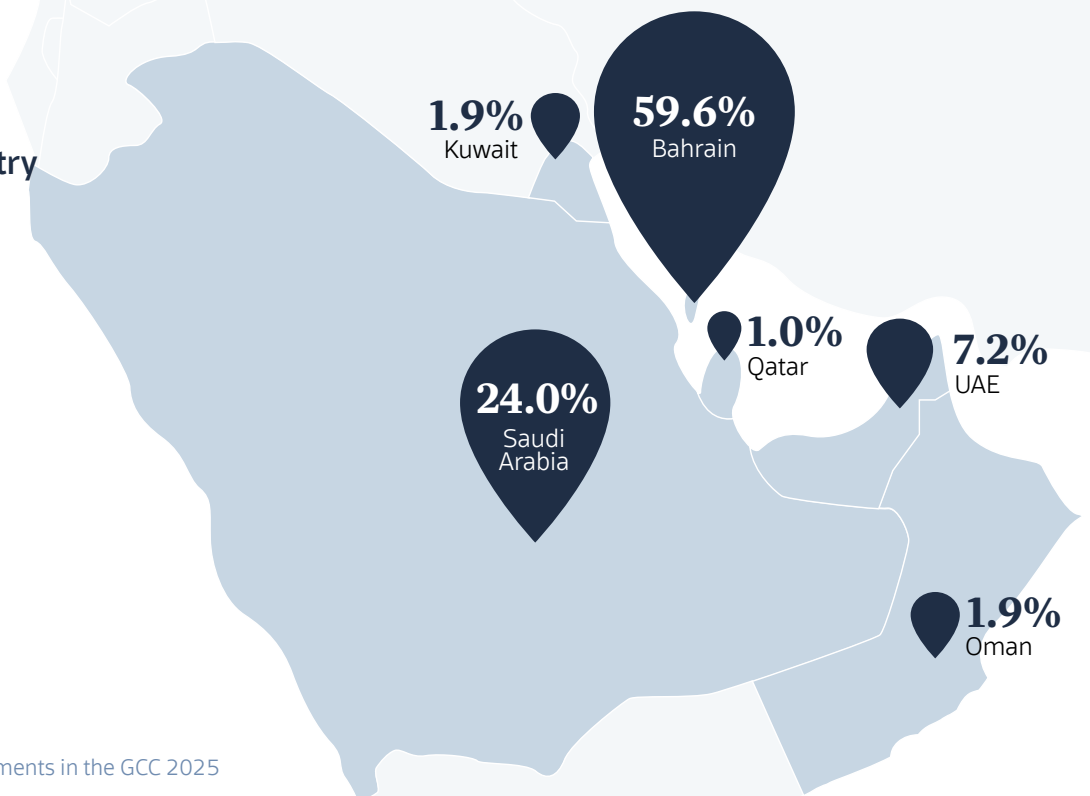


Business Owner



Other Please specify

Respondant by country



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