

# Masreq Capital

Outlook on MENA Fixed Income  
and Equity Markets

Q1 2026



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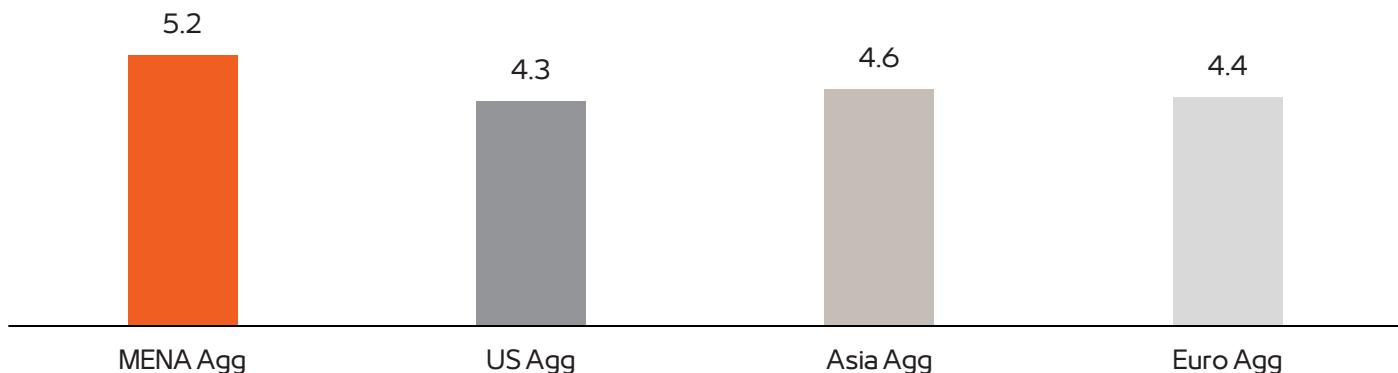
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## MENA Fixed Income Compared to Other Regional Aggregates (Agg)

MENA fixed income continues to offer a compelling yield premium of roughly 80 to 100 basis points relative to other regional aggregate benchmarks. This structural advantage has driven steady outperformance over one, three, and five year periods. With core fundamentals intact and spreads still appealing, we see a strong case for sustained relative performance going forward.

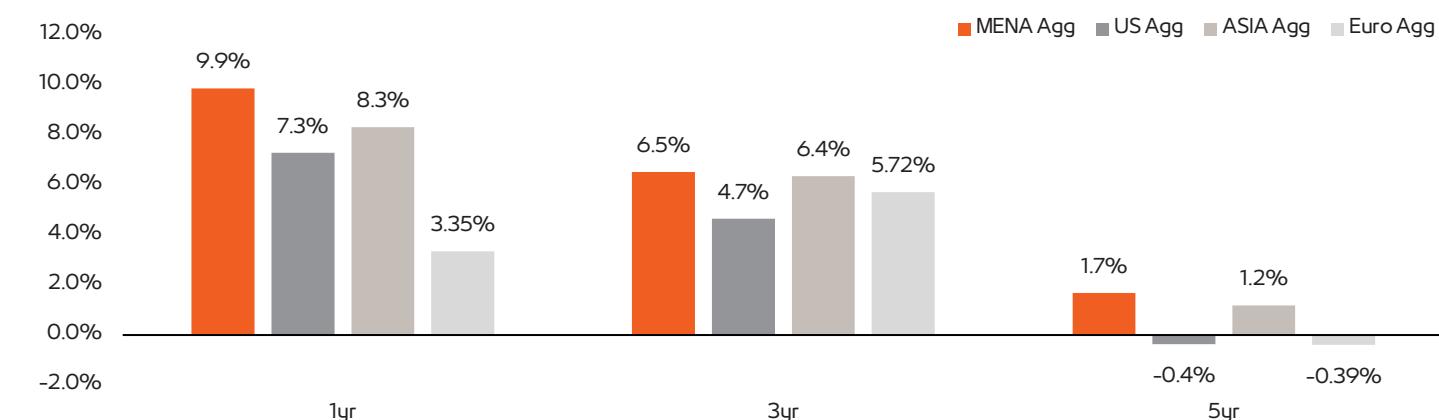
### USD Hedged Yields (%)



	MENA Agg	US Agg	ASIA Agg	Euro Agg
Yield (%)	5.2	4.3	4.6	4.4
OAS (bps)	124	27	66	43
Duration (yrs)	6.3	6.0	5.6	6.2
Rating	A2/A3	AA2/AA3	A3/BAA1	AA3/A1

MENA fixed income remains a high-quality segment of the global bond market but is still underrepresented in investor portfolios, especially when assessed through the lens of risk adjusted returns. With an average credit rating of A2 / A3 and a duration of 6.3 years, the asset class is broadly aligned with other regional aggregate benchmarks, offering a similar profile while providing differentiated value. In addition, we see an increasing appeal for a non-USD denominated but USD pegged, high quality bond exposures.

### MENA Fixed Income Has Consistently Outperformed



The MENA Aggregate Index has outperformed its global counterparts across all major time frames, highlighting its resilience and relative value. Annualized returns of 9.9% over one year, 6.5% over three years, and 1.7% over five years show that it has exceeded the performance of the US, Europe, and Asia aggregates while also maintaining positive outcomes during periods when others have lagged.

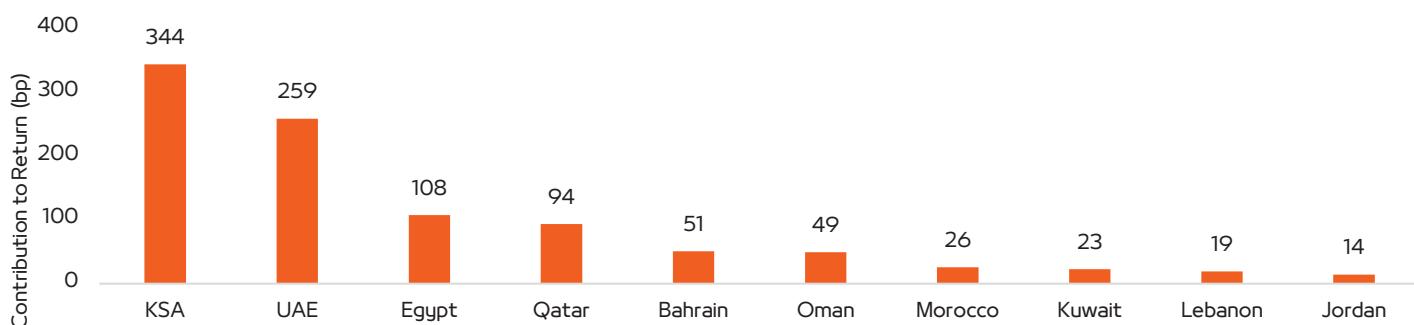
Data as of 31st December 2025. Indices used: Bloomberg EM USD Agg: MENA (MENA Agg); Bloomberg US Aggregate (US Agg); Bloomberg EM USD Agg: ASIA (ASIA agg); Bloomberg Euro-Aggregate (Euro Agg). Hedged yields are calculated using FX forwards. Past performance is no guarantee of future results.

# MENA Fixed Income

## Market Overview

MENA fixed income extended its strong performance into the final quarter, delivering a total return of +9.88% in 2025 on its A-rated profile with an average duration of c.6-years. Gains were broad-based across sovereigns and GReEs, supported by steady demand from local bank treasuries (driven by HQLA requirements), regional insurers, and Asian investors. Performance was driven by both carry and yield compression, as EM fixed income benefited from a “muddle-through” economic scenario in the US, which skewed global flows toward EM assets. This strength came despite record primary issuance which typically acts as a headwind by absorbing liquidity. At the country level, Saudi Arabia (+344 bps), the UAE (+259 bps), and Egypt (+108 bps) were the top contributors. In terms of absolute returns, high-yield names such as Lebanon, Egypt, and Jordan led the pack, reflecting a broader trend where HY outperformed IG across EM and even in the US fixed income space, as investors favored carry and spread compression.

### Contribution to Total Return by Country – Q425<sup>1</sup>



## Market Outlook

We remain constructive on MENA fixed income as we enter 2026, projecting mid-single-digit returns as the asset class continues to offer an appealing option for income-seeking local investors, supported by robust fundamentals and a favorable regional and global backdrop. Although spreads have tightened to near historic lows, this presents limited concern given that all-in yields remain attractive, albeit modestly lower than 2025 levels.

Looking ahead, we believe short-end benchmark yields could dip further, especially if market expectations shift toward three rate cuts in 2026 or cuts extending into 2027. Against this backdrop, we expect the yield curve to steepen, with the long end remaining anchored near current levels, limiting potential for meaningful gains from yield compression. Therefore, we maintain a duration-neutral stance and focus on monetizing carry and roll-down yield to enhance portfolio returns.

On flows, the external environment should remain supportive, with moderate US growth and a still supportive global liquidity backdrop continue to anchor demand for higher yielding, fundamentally resilient EM assets. This should broadly offset the anticipated strong primary market activity, resulting in minimal impact on credit spreads.

At the fundamental level, MENA economies continue to show gradual improvements in their credit profiles, with Saudi Arabia also making progress on economic diversification, even as its debt-to-GDP ratio rises from a very strong starting point. Meanwhile, Kuwait's renewed debt issuance and consequent debt-to-GDP increase are viewed positively, as reflected in S&P Global Ratings' upgrade to AA- in November 2025, driven by stronger reform momentum and reduced fiscal funding constraints.

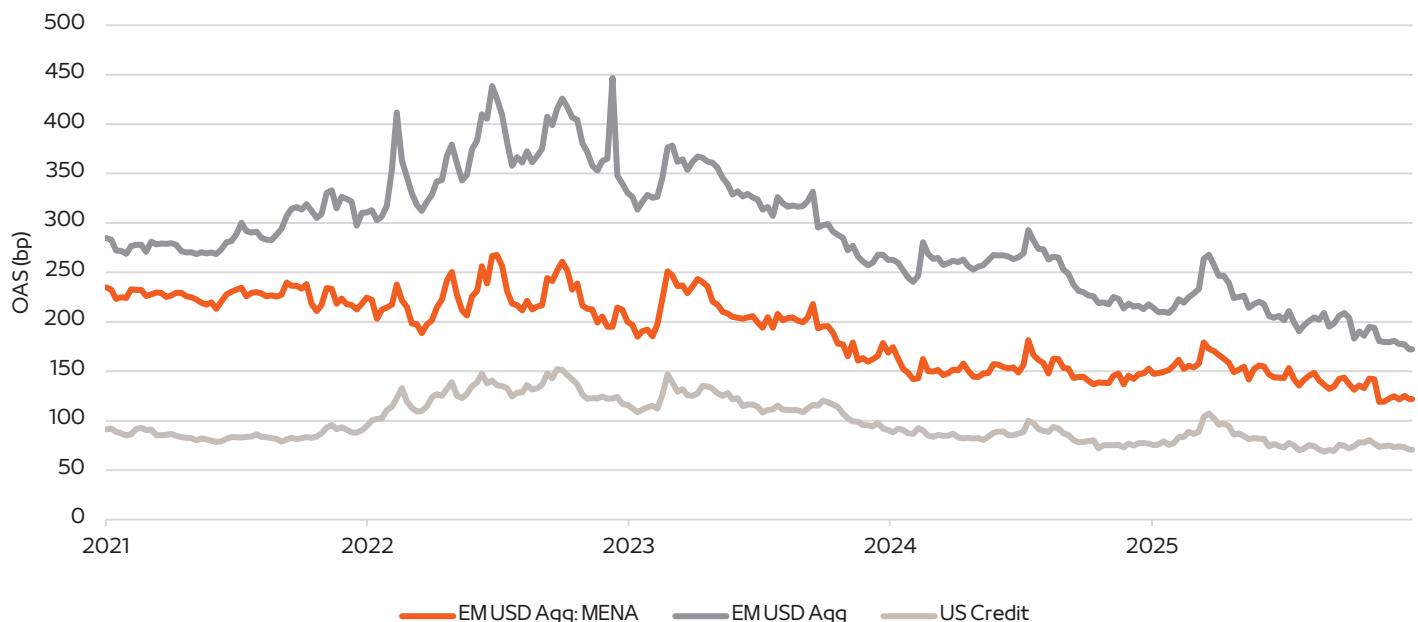
Among high-yield sovereigns, Egypt is benefiting from strong FDI from Gulf countries and macroeconomic stabilization. Bahrain, meanwhile, has announced a series of fiscal measures including fuel price increases, tariff adjustments, and a new corporate tax framework aimed at narrowing its fiscal deficit. We also expect Morocco to be upgraded to investment grade by at least one additional rating agency in 2026, following S&P's upgrade to IG in 2025.

Default rates in the MENA region should remain lower than those in broader emerging markets (EM), supported by the region's strong investment-grade profile and relatively low corporate debt issuance. Since 2020, the average default rate for MENA corporates has been just under 0.5%, significantly below the 1.5% average for EM corporates. On the sovereign side, Lebanon's 2020 default remains the only case in the region during this period, resulting in an average sovereign default rate of 2.2%, also lower than the 4–5% average for EM sovereigns.

<sup>1</sup>Source: Bloomberg, Indices used: Bloomberg EM USD Agg: MENA Index, Bloomberg EM USD Agg Index, Bloomberg US Corporate High Yield Index

## MENA Fixed Income

### Resilient MENA Credit Spreads Defy Global Headwinds and Signal Regional Strength



### Relative Valuations

Despite a limited investable universe in the MENA region, the space still offers opportunities across credit profiles. On a like-for-like quality and duration basis, the MENA USD Agg continues to offer superior all-in income versus the US, Europe, and Asia at similar rating and duration. While spreads have compressed toward historic tights and the index yield has eased to ~5.2% (47th percentile), the asset class remains appealing to income-seeking regional investors, supporting demand. For 2026, we expect returns to be carry-led, arguing for monetizing carry and roll-down—especially in the belly—while maintaining discipline on duration despite relative cheapness at the long end.

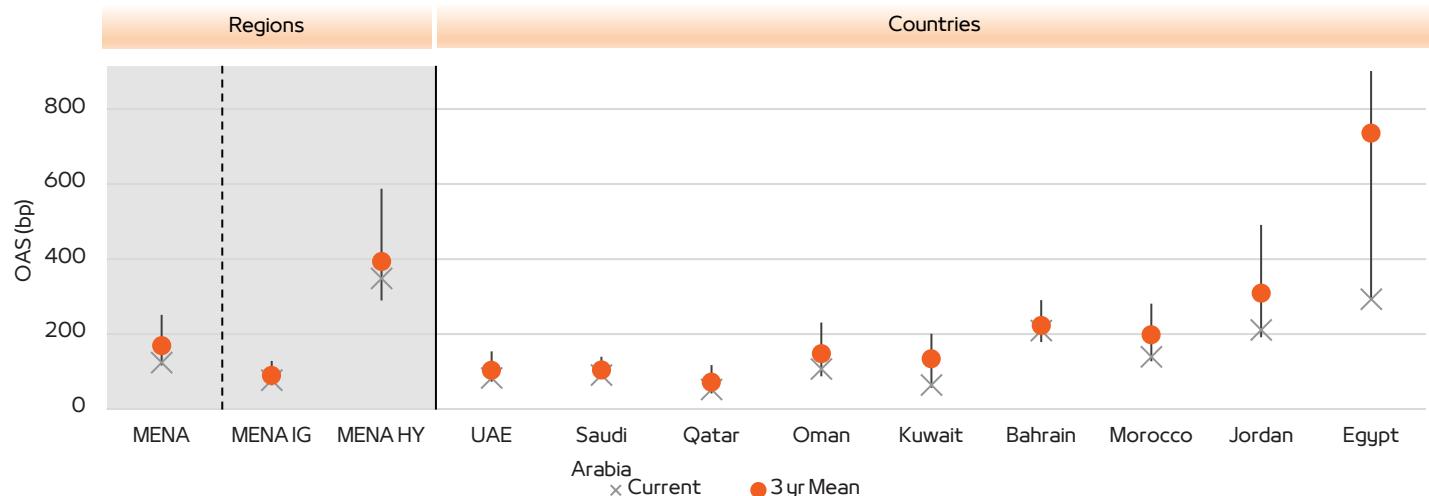
Within investment-grade GCC, UAE, Qatar, and Kuwait justify tight spreads given persistent fiscal surpluses, large sovereign-wealth buffers, and low net leverage. By contrast, despite strong buffers and an 'A' rating, KSA has faced long-end spread pressure as weaker fiscal and primary balances keep gross issuance elevated. Among lower-rated sovereigns, Egypt stands out: a primary surplus projected above ~2.5% of GDP in 2026, alongside firm nominal growth and ongoing fiscal consolidation, is lowering the debt-to-GDP ratio despite a heavy interest bill and an elevated headline deficit. Oman, now back in investment grade, is set to maintain a primary surplus under conservative budgeting and prudent fiscal management, further strengthening its credit profile.

At the sovereign level, we see relative value in **Saudi Arabia** short end and belly, among the cheapest A rated EM sovereigns with structural reforms underway. We also see **Morocco** outperforming as a second investment grade rating looks plausible after S&P's 2025 upgrade, which would attract technical inflows into both sovereign and GRE paper. **Jordan** also screens well: the new seven-year benchmark and buybacks have improved curve dynamics and liquidity, leaving the front end and intermediates offering low beta carry, supported by continued IMF engagement and a more sustainable debt trajectory after recent GDP revisions.

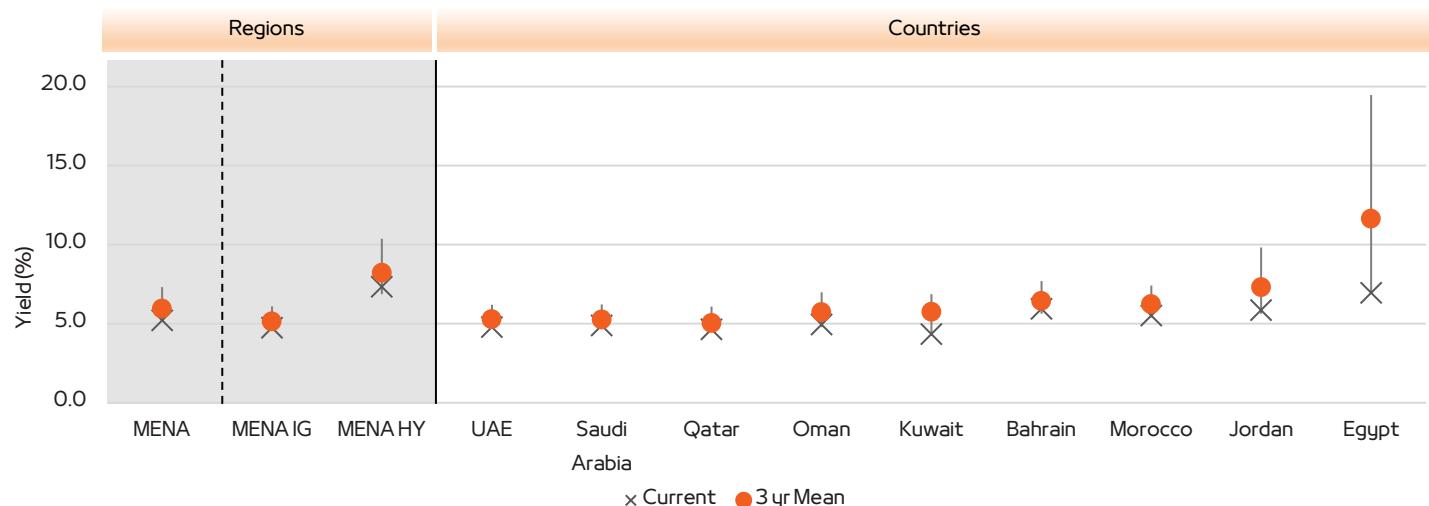
<sup>1</sup>Source: Bloomberg. Indices used can be found in the back of the document.

## MENA Fixed Income

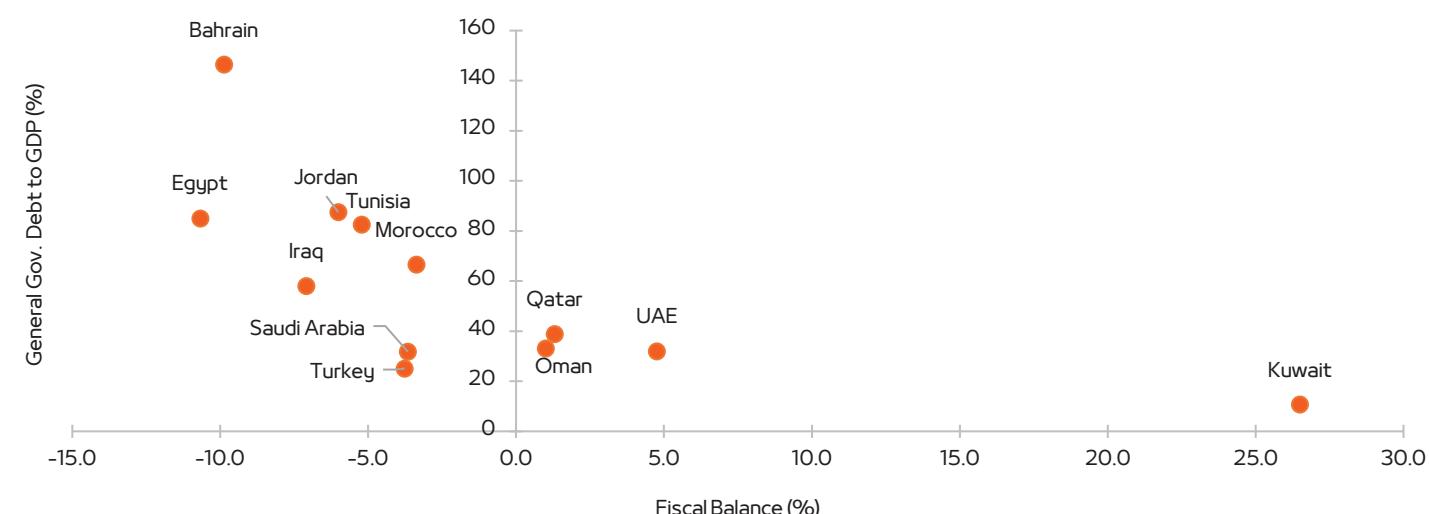
### OAS Dispersion by Country<sup>1</sup>



### Yield Dispersion by Country<sup>1</sup>



### Fiscal Strength and Debt Burden<sup>1</sup>



## MENA Fixed Income

### Supply Outlook

MENA hard currency primary markets set a record in 2025, with issuance of about USD 148bn versus USD 109bn in 2024, led by Saudi borrowers across the sovereign, PIF, Aramco and banks, with the UAE the second largest contributor. We expect a comparable pace in 2026, supported by favourable borrowing costs and lower oil price baselines that continue to encourage external funding.

Saudi Arabia should remain MENA's anchor issuer, with 2026 funding needs at USD 58bn versus USD 37bn in 2025, and international bond issuance at 25 to 30% of plan, or USD 14 to 17bn, still elevated but below roughly USD 20bn in 2025.

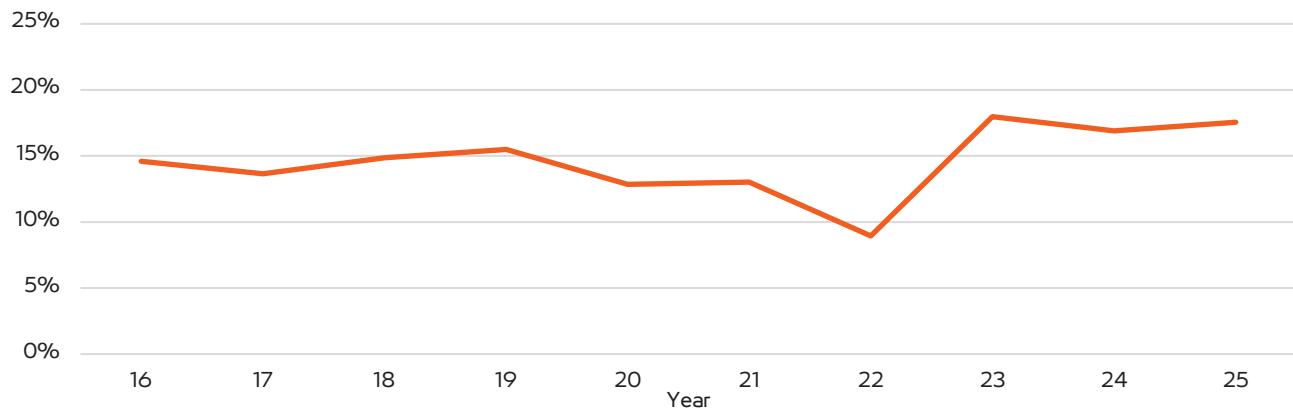
In October 2025, Kuwait executed a landmark USD 11.25bn three tranche transaction across 3, 5 and 10 years under its new public debt law, with a ceiling of KWD 30bn, about USD 98bn, broadening the region's high-grade pipeline into 2026.

On sukuk, global market volumes were robust at USD 93bn in 2025 versus USD 61bn in 2024, and we remain constructive on 2026 while closely tracking evolving Sharia and regulatory standards, particularly AAOIFI Standard 62, which may influence structuring choices, documentation and investor due diligence without changing our baseline view on market access.

### MENA Issuance Trends<sup>2</sup>



### MENA as a share of Global EM Issuance<sup>2</sup>



<sup>1</sup>Source: Bloomberg used can be found in the back of the document.

<sup>2</sup>Source: JP Morgan, Mashreq Capital calculations. Issuance data including securities denominated in USD, GBP, and EUR.

# MENA Fixed Income

## Strategy and Top Ideas

### Sovereigns

#### Rising Stars on the Radar: Morocco Poised for Investment Grade

We remain constructive on Morocco despite the sharp tightening in 2025 and see the sovereign well positioned for further investment grade upgrades over the next 12 months. We continue to prefer Moroccan GRES given their attractive spread pickup versus the sovereign.

#### Reform Backed Carry: Egypt & Turkey

Turkey remains our largest off benchmark position, providing diversification away from oil. Political risks persist, but an orthodox central bank stance and continued disinflation efforts have stabilized markets. We also remain constructive on Egypt despite spread tightening, supported by improved macro stability, ongoing IMF engagement, and Gulf sourced FDI. Lower oil prices should further support energy importing high yield sovereigns such as Turkey and Egypt in 2026.

#### Caution on the Curve: Saudi Long-End Faces Pressure from Supply & Deficits

Elevated fiscal breakeven oil prices and increased supply point to potential near-term underperformance versus the UAE and Qatar, particularly at the long end. Despite relatively attractive valuations versus other A rated EM sovereigns, Saudi remains higher beta within GCC investment grade due to its fiscal profile and issuance pipeline.

#### Weighing Credit Risks Against Valuation: Bahrain & Sharjah

Fundamentally, we hold negative credit views on Bahrain and Sharjah, driven by their debt trajectories. However, implicit support from GCC governments mitigates some of these risks and provides a stabilising backstop. On balance, we maintain a neutral position versus the benchmark, with selective exposure calibrated to valuation. Recent fiscal reforms announced by the Bahraini government and Sharjah's ambitious 2026 revenue target are incremental positives, reinforcing our view that policy direction is moving constructively.

### Corporates

#### Strong Sponsors and Attractive Yields: Opportunities in Saudi & UAE Pipeline Debt

We remain constructive on selected infrastructure linked bonds in Saudi Arabia and the UAE. These transactions offer a clear yield premium versus sovereigns and similarly rated global credit, underpinned by strong sponsors, predictable cash flows and robust structures.

#### GCC Subordinated Debt: Attractive Carry Amid Strong Call Track Record

We continue to favour GCC Tier 2, supported by a well capitalised banking system and a consistent track record of timely refinancing. In Tier 1, GCC AT1s trade tighter than OECD and other regional AT1s, but the history of callbacks remains supportive. With carry likely to dominate returns, the sector remains compelling. Saudi subordinated paper may continue to trade wider than the rest of the region given rising reliance on external funding and a steady pipeline of issuance.

#### Selective within the GCC real estate bonds

We remain selective in GCC real estate. We see value in subordinated bonds issued by UAE investment grade real estate companies. In high yield, we prefer the upper end of the spectrum, specifically BBs, where liquidity, leverage metrics and a proven bond market track record offer greater comfort.

# MENA Fixed Income

## Fixed Income Country Views



● Mashreq Capital's current views

### Saudi Arabia - NEUTRAL

Moody's	S&P	Fitch
Aa3 stable	A+ stable	A+ stable

We maintain a neutral sovereign credit outlook for Saudi Arabia, balancing its strong financial position with rising external headwinds. Non-oil GDP growth is forecast at 4.5% in 2026, underpinned by firm domestic demand and a supportive pipeline of mega events, including the 2030 Riyadh World Expo and the 2034 FIFA World Cup. Overall GDP growth is projected at 4.6%, supported by government-led project momentum and OPEC+ production plans. The 2026 budget targets a 3.3% of GDP deficit, narrowing meaningfully from the projected 5.3% deficit in 2025, with revenues expected to rise 5.1% year on year on stronger non-oil activity. Lower oil prices remain the key swing factor: with the IMF fiscal breakeven at USD 86 per barrel versus current Brent at USD 64 per barrel, deficit risks remain skewed wider amid global trade tensions. Large external buffers, including USD 464bn in foreign reserves and USD 1.15tn in PIF assets, provide resilience, but spread performance will remain closely tied to oil market dynamics and global trade developments.

### UAE-NEUTRAL

Moody's	S&P	Fitch
Aa2 stable	AA stable	AA- stable

We maintain a neutral sovereign credit view on the United Arab Emirates (UAE), reflecting the balance between strong non-oil growth and fiscal resilience, and moderating hydrocarbon revenues alongside regional geopolitical risks. The UAE's credit profile is anchored by substantial financial buffers, notably Abu Dhabi's sovereign wealth funds with around USD 1.8 trillion in assets, which provide a strong cushion against external shocks and support long term macro stability. The 2026 federal budget remains expansionary, with about 39% allocated to social development and pensions, prioritising education and healthcare in line with the diversification agenda. Structural reforms, including corporate tax, labour market integration and investment facilitation, should reinforce competitiveness over time. Key downside risks remain oil price volatility, regional geopolitics, and uncertainty around the pace and consistency of reform execution.

## MENA Fixed Income

Moody's	S&P	Fitch
Aa2 stable	AA stable	AA stable

### **Qatar - NEUTRAL**

Qatar's sovereign credit outlook remains neutral, underpinned by strong macroeconomic fundamentals, ample fiscal buffers, and disciplined debt management. Debt-to-GDP has improved materially, falling from 72% in 2020 to an estimated 39% in 2026, supported by elevated hydrocarbon revenues and a prudent fiscal stance. While hydrocarbons still account for nearly 78% of government revenue, leaving the fiscal outlook sensitive to commodity price swings, Qatar remains well insulated against external shocks, including those stemming from ongoing global trade tensions and tariff related disruptions, given sizeable sovereign reserves and one of the lowest fiscal breakeven oil prices in the region, estimated at just under USD 45 per barrel for 2025 and projected to decline further. Economic activity strengthened in Q4 2025, with real GDP rising 2.9% on a robust 4.4% expansion in non-hydrocarbon sectors such as construction, wholesale and retail trade, and non-oil activities now represent close to 66% of GDP, highlighting meaningful progress on diversification. Medium-term growth is anchored by the North Field LNG expansion, which will raise production capacity from 77 to 142mn tonnes per annum by 2030 and should materially boost export earnings and fiscal surpluses, with the IMF projecting the primary surplus to rise from 1.3% in 2026 to over 2.8% by 2030.

Moody's	S&P	Fitch
Baa3 stable	BBB-stable	BBB stable

### **Oman - NEUTRAL**

Oman's credit profile has strengthened materially since the pandemic, supported by prudent fiscal management, declining debt and solid hydrocarbon revenues. Debt to GDP fell to 35% in 2025 from a peak of 68% in 2020, reflecting disciplined repayment and favourable oil prices, while fiscal surpluses persisted in 2025 at 0.4% of GDP on conservative budgeting and reforms including VAT implementation and subsidy rationalization. The interest expense to revenue ratio improved from 10.6% in 2020 to 7.4% in 2025, underscoring effective consolidation. Revenue dynamics are also improving, with stronger non-oil momentum, up 3.9% in 2024 and 3.4% in Q3 2025, alongside better tax administration. A personal income tax is scheduled for 2028, initially at a low rate and a high-income threshold. External resilience has been reinforced by higher FX reserves, reaching USD 16.5bn by October 2025, covering more than three months of imports. On baseline oil assumptions, the current account is expected to shift to a deficit of about 0.8% of GDP in 2026 from an estimated 1.1% deficit in 2025. Overall, ongoing debt reduction, reform momentum and diversification progress support a constructive outlook, reinforced by Fitch's December upgrade restoring Oman to full investment grade.

Moody's	S&P	Fitch
B2 stable	B stable	B+ negative

### **Bahrain - NEGATIVE**

We maintain a negative sovereign credit outlook on Bahrain, as persistent fiscal deficits, an unsustainable debt trajectory and limited reform progress continue to weigh on fundamentals, despite high per capita income and ongoing GCC support. The authorities' reluctance to pursue durable fiscal consolidation, including the reversal of VAT hikes and subsidy cuts, has exacerbated vulnerabilities. The two-year 2025 to 2026 budget targets a deficit of 7.8% of GDP in 2025, narrowing to 5.8% in 2026, but these figures likely underestimate the true gap given continued off budget spending. The IMF expects public debt to rise to around 146% of GDP by 2026, with interest costs absorbing 36% of government revenue, highlighting a debt path that remains heavily reliant on recurring GCC assistance. Fiscal fragility is compounded by oil dependence, with hydrocarbons contributing about 55% of revenue, and weak non-oil revenue generation. While tourism and FDI provide some diversification, structural headwinds persist, including oil production shocks and subdued private investment. External buffers are also thin, with FX reserves covering only about 1.5 months of imports, and reliance on short term external borrowing increases sensitivity to global liquidity conditions. Absent more decisive reforms, Bahrain risks slipping into a debt trap, although the newly announced corporate income tax is a step toward revenue diversification and, if implemented effectively, would be modestly credit positive over the medium term.

## MENA Fixed Income

### Egypt - POSITIVE

Moody's	S&P	Fitch
Caa1 positive	B stable	B stable

We hold a positive outlook on Egypt, supported by the March 2024 policy reset, declining inflation, stronger confidence and robust external backing. The shift to currency devaluation, a flexible exchange rate and tighter monetary policy has helped restore central bank credibility, while inflation has fallen to 11.8% in December 2025 from above 30% in 2023 on policy tightening and subsidy reforms, with further moderation expected. External liquidity pressures have eased meaningfully, with reserves rising to USD 50bn, covering close to eight months of imports and exceeding commonly cited adequacy thresholds, while progress on a USD 7.5bn investment by Qatar has reinforced sentiment. Backed by IMF support through the Extended Fund Facility and the Resilience and Sustainability Facility, the external financing outlook has strengthened, fiscal consolidation remains on track, and an improving current account should reduce debt to GDP to 85% in 2026 from 91% in 2024. Interest costs are still heavy at an estimated 57% of revenue in 2026 but should ease gradually as rates decline. Growth is expected to improve to 4.5% in FY2026, led by tourism, logistics and a recovery in private investment; while external debt service remains high and regional risks persist, the overall risk balance continues to improve.

### Kuwait - NEUTRAL

Moody's	S&P	Fitch
A1 stable	AA- stable	AA- stable

We maintain a neutral outlook on Kuwait, reflecting strong economic and fiscal fundamentals that are tempered by limited progress on diversification and persistent institutional constraints. Kuwait's debt to GDP remains among the lowest globally at an estimated 11% in 2026, in part because the absence of a public debt law between 2017 and early 2024 forced greater reliance on reserve fund drawdowns to finance deficits. The recent passage of the debt law is therefore a meaningful inflection point, enabling the government to raise up to USD 97bn, or about 60% of GDP, through bond issuance over the next 50 years. While this will lift leverage gradually, it should improve fiscal flexibility and liquidity management. Market appetite for new high-grade supply appears strong, and we expect forthcoming issuance, likely front loaded over the next decade, to be well received. However, with structural reforms and economic diversification still advancing only modestly, near term upside remains constrained.

### Morocco - POSITIVE

Moody's	S&P	Fitch
Ba1 stable	BBB- stable	BB+ stable

We hold a positive fundamental outlook on Morocco, supported by a broad reform agenda spanning tax and subsidy rationalization, labour market flexibility, capital market modernization and improved investment governance, with growth momentum further reinforced by 2030 World Cup related infrastructure spending. The 2021 New Development Model reinforces diversification, female labour force participation and education, strengthening the medium-term growth and fiscal trajectory. Fiscal policy discipline has been evident despite persistent deficits: the deficit has narrowed from 7.1% of GDP in 2020 to 3.8% in 2025, with a 3.0% target for 2026, and the 2026 budget reaffirmed consolidation by reducing expenditure to 26.8% of GDP from 27.6% in 2025 despite social pressures following the October protests. External dynamics remain broadly supportive: tourism was strong at 19.8mn visitors in 2025 versus 17.4mn in 2023, while phosphate, agricultural and aeronautics exports have provided additional support, even as the current account deficit widened to 2.3% of GDP in 2025 from 1.2% in 2024 due to import growth outpacing exports. A USD 4.5bn IMF two-year flexible credit line enhances resilience to external shocks, and lower oil prices, with Brent at USD 64 per barrel, remain a tailwind for this oil importing economy. Following S&P's upgrade of Morocco to BBB- in September last year on the back of sound macro policies, we expect other agencies to follow over the next 12 to 18 months.

## MENA Fixed Income

### Jordan - NEUTRAL

Moody's	S&P	Fitch
Ba3 stable	BB- stable	BB- stable

Our neutral view on Jordan reflects a balance between strong policy institutions and sustained official sector backing, and entrenched structural constraints including low growth, high debt and socio-economic pressures. The IMF expects growth to edge up to 2.9% in 2026 from 2.7% in 2025 as regional tensions ease, supporting a stronger tourism recovery and a gradual pickup in trade with Syria and Iraq; tourism earnings in 11M 2025 rose 7.0% to USD 7.2bn, and a sustained Hamas Israel ceasefire would further strengthen the 2026 outlook. Fiscal metrics remain the key weakness: the 2026 budget targets a deficit of 4.6% of GDP, improving from an estimated 5.2% in 2025 but still elevated versus peers, while weak growth and wide deficits have pushed debt to GDP to about 90% in 2025 from 88% at end 2021. Offsetting these risks, Jordan's external position remains supported by consistent official financing, including the US annual USD 1.43bn pledge through 2029, a new USD 2.1bn EU programme to be disbursed over the next two to three years, a USD 1.1bn World Bank commitment under its five-year partnership framework, and concessional funding from the UAE and Qatar. FX reserves remain robust at roughly 7.5 months of import cover as of end October, helping contain risks around a projected current account deficit of 6% of GDP in 2026, while Jordan's strong track record under its IMF programme continues to anchor investor confidence in the reform path.

### Turkey - POSITIVE

Moody's	S&P	Fitch
Ba3 stable	BB- stable	BB- stable

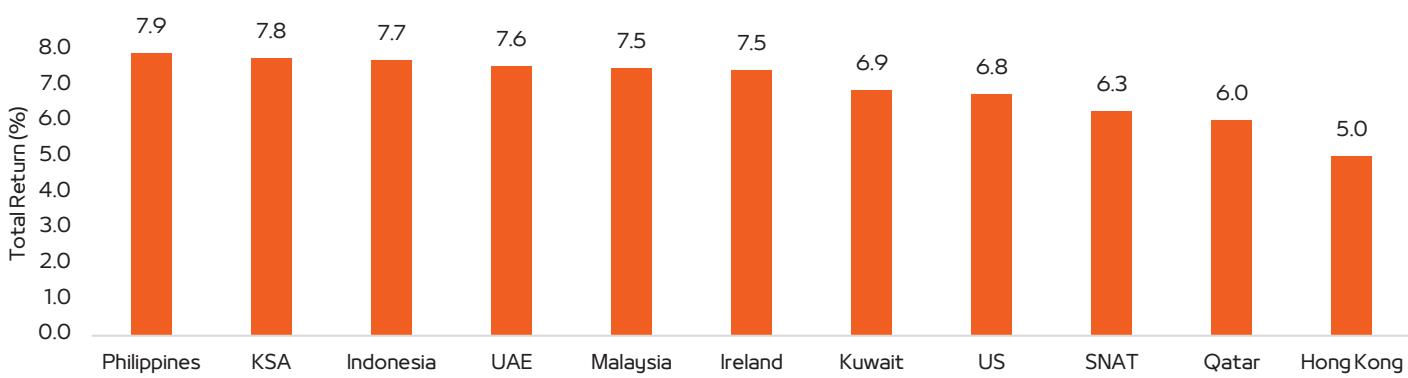
We are positive on Turkey and expect it to be a potential rating upgrade story, as its macroeconomic outlook is improving, supported by disinflation progress, tighter monetary policy, and fiscal consolidation, signalling a return to orthodoxy after years of volatility. CBRT's commitment to maintaining restrictive policy has bolstered lira stability and reduced dollarization, while foreign reserves have improved to USD 77bn. Currently Turkey's FX import cover remains at 2 months, posing a vulnerability, but structural improvements are underway. The current account deficit increased marginally to 1.4% of GDP in 2025 (from 0.8% in 2024), driven by increased energy and gold imports. The C/A deficit is expected to remain below trend in 2026, supported by strong tourism earnings, slowing consumption-led imports and contained energy prices. Government debt is expected to remain low at 25% of GDP in 2026, well below the 'BB' peers, though interest costs are expected to be around 10.6% of revenue in 2026 due to higher domestic borrowing rates. While risks from lira volatility and energy dependence persist, Turkey's credible policy shift, resilient private sector, and strong tourism inflows (up 5.7% YoY in 9M2025) support a constructive outlook. If reform momentum continues, further disinflation and growth stabilization around 2% could pave the way for rating upgrades.

# Global Sukuk

## Market Overview

The Bloomberg Global Aggregate USD Sukuk Index returned 7.4% in FY2025, driven by carry and modest spread compression. The index's effective duration of ~4.5 years aligned well with the bull-steepening of US Treasury curve, delivering higher risk-adjusted return. Gains were led by Philippines, Saudi Arabia, Indonesia, the UAE, and Malaysia, supported by attractive starting spreads, and, for the Philippines, constrained supply. Contribution to index return reflected both outsized index weights (notably Saudi Arabia, the UAE, and Indonesia) and above-benchmark performance from several of these markets. Developed-market and supranational sukuk lagged amid historically tight spreads and limited scope for further compression.

### Total Return by Country<sup>1</sup>



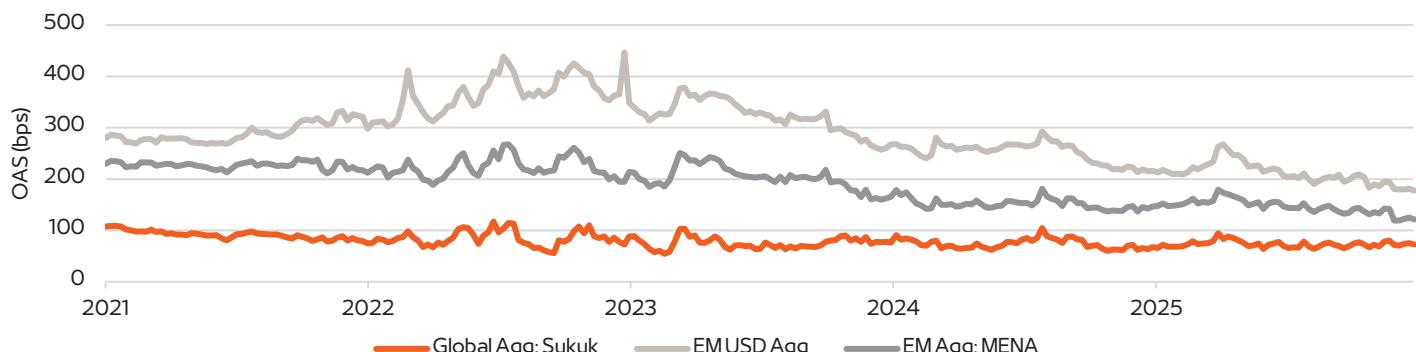
## Market Outlook

We expect the USD sukuk market to remain resilient and well-positioned in 2026, supported by strong demand from traditional Islamic finance hubs and an increasingly diverse global investor base seeking stable, Sharia-compliant carry. With spreads near historic tights and benchmark yields offering limited room for further compression—particularly at the long end—we anticipate mid-single-digit total returns, driven primarily by income rather than price appreciation. This environment underscores the importance of disciplined security selection and thoughtful curve positioning, rather than relying on duration for upside.

Key risks to the broader fixed-income market include the potential for US inflation to remain elevated, deteriorating geopolitical conditions in the Middle East and globally, ongoing trade uncertainties, and evolving AAOIFI standard-setting. That said, historically, sukuk has demonstrated resilience during periods of regional stress, supported by its sticky investor base. Additionally, the index's relatively lower duration provides a buffer against unfavourable yield curve shifts.

On the primary market front, issuance momentum is expected to continue following a record year in 2025, when global sukuk supply reached approximately USD 93bn—up 50% year-on-year. This growth was fuelled by sustained demand from GCC sovereigns, banks, corporates, and infrastructure issuers, alongside expanding participation from high yield issuers such as Egypt.

## Sukuk Spreads



<sup>1</sup>Source: Bloomberg. Index: Bloomberg Global Agg USD Sukuk Index.

# Global Sukuk

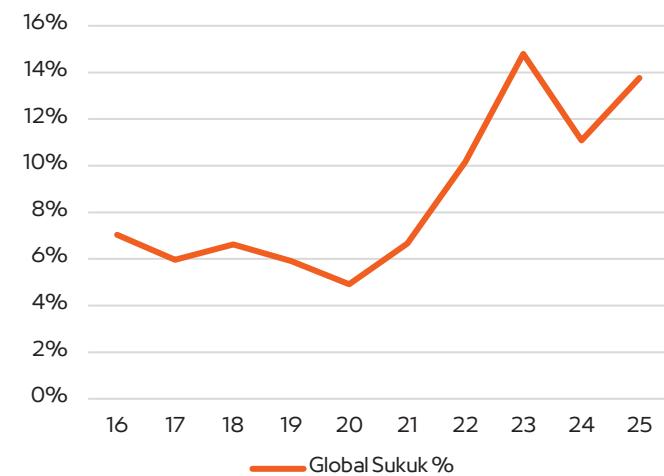
## Supply Outlook

USD denominated sukuk issuance is expected to remain elevated at around USD 90bn in 2026, extending the strong momentum seen in 2025. The outlook is underpinned by lower global interest rates, sizeable refinancing needs and ongoing funding requirements across sovereign, financial and corporate issuers. The GCC, led by Saudi Arabia and the UAE, should remain the main engine of supply, reflecting borrowing linked to diversification programmes, infrastructure build out and energy transition capex. Lower oil price assumptions for 2026 are likely to widen fiscal and funding gaps, reinforcing reliance on USD sukuk alongside conventional bonds. Banks should be a key incremental source of issuance as they refinance maturities, extend funding tenors and diversify wholesale funding bases amid competitive deposit conditions. Corporates and quasi sovereigns, particularly in utilities, infrastructure, energy and real estate, are also expected to stay active, using USD sukuk to lock in longer tenor funding and access a deep global Islamic investor base. Overall, the 2026 USD sukuk pipeline looks healthy, with resilient demand supporting steady absorption of new supply.

### Global USD Sukuk Issuance Trends<sup>1</sup>



### Global USD Sukuk as a share of USD EM issuance<sup>1</sup>



## Strategy and Top Ideas

### HY Over IG:

We maintain a preference for high yield exposure to enhance portfolio carry and capture improving credit trajectories. Given the investment grade only benchmark, these positions are held off benchmark. Our allocation includes Egypt and Pakistan, where an IMF policy anchor and ongoing macro stabilization support the medium-term outlook despite last year's notable spread compression. We also hold other off benchmark sovereign positions in Bahrain and Turkey. Bahrain offers moderate carry with some room for improvement if fiscal reforms progress, while Turkey continues to benefit from orthodox monetary and macroeconomic policy normalisation that is steadily strengthening credit fundamentals.

### GCC Tilts:

Within the GCC, we are underweight Saudi Arabia, reflecting its outsized benchmark weight and elevated borrowing needs. We also remain underweight Indonesia, where valuations appear stretched relative to fundamentals. These underweights are offset through Oman and Kuwait, where improving fundamentals, policy discipline and limited supply provide a favourable risk reward backdrop.

### Selective carry through bank subordinates:

We like the carry available in GCC bank subordinated instruments, particularly Tier 2 sukuk. The regional banking sector benefits from a strong track record of timely refinancing and robust capital positions.

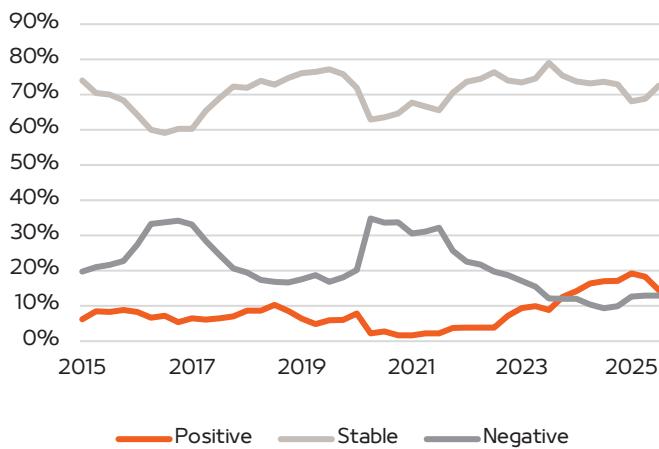
<sup>1</sup>Source: Bloomberg, JP Morgan, Mashreq Capital Calculations.

# Emerging Markets Fixed Income

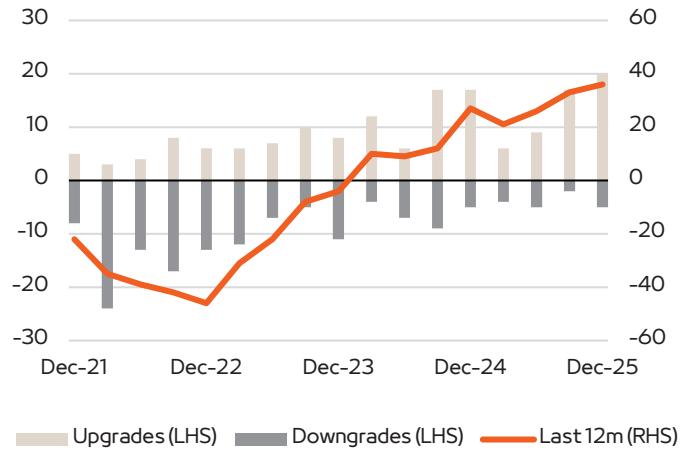
## Market Overview

Emerging market debt ended 2025 on a strong note, with the Bloomberg EM USD Aggregate Index up 2.4% in Q4 and 11.1% for the full year. The rally reflected a decline in front end US Treasury yields and around 20bp of index level EM spread tightening. Spreads were supported by constructive technicals and resilient fundamentals, helped by modest but positive dedicated inflows, while credit quality improved into year end as net positive sovereign rating actions extended the upswing that began in late 2022. The Federal Reserve's three cuts since September added a dovish impulse and helped global risk assets push toward cycle highs. Country dispersion remained wide: Argentina outperformed after the October 26 midterms were viewed as market friendly and supportive of the administration's reform mandate. Senegal lagged after the IMF mission ended without a staff level agreement, and official commentary on the 2026 budget and fiscal consolidation path kept investors cautious and spreads wide. Gabon and Mozambique also underperformed, consistent with the market's tendency to fade credits with weaker near term programme visibility and higher execution risk.

## Sovereign Rating Outlook



## Rating Actions



## Market Outlook

We remain positive on EM hard currency debt over a 12 month horizon. The backdrop remains bondholder friendly: the Fed's easing bias alongside still elevated starting US Treasury yields should support duration, while carry remains attractive and should buffer total returns through episodic risk aversion. Fund flow dynamics have recovered from the early January wobble, hard currency sovereign funds have returned to inflows, and primary markets remain orderly, allowing supply to clear without destabilising spreads. After a strong 2025 and with valuations already tight, the prospective return profile looks softer, but we still expect mid to high single digit index returns, driven primarily by carry with a smaller contribution from capital gains.

The ratings tailwind is also maturing, as reflected in the charts above. As upgrades are realised, agencies are rotating outlooks from Positive back to Stable, reducing the pipeline of potential positive actions and the scope for another upgrade led compression phase. This points to spreads becoming range bound at the index level rather than pushing to fresh tights, reinforcing a bias to harvest carry and focus on idiosyncratic catalysts rather than rely on broad beta. Supply is a key implication: we expect gross sovereign issuance to remain high by historical standards, only modestly below 2025's peak, with high yield issuance likely to rise as more sovereigns regain market access. Firm supply alongside a maturing ratings cycle should cap meaningful index level spread tightening, even as better rates duration and healthy coupons keep total returns positive. In this environment, relative value positioning and selective high yield exposure with catalysts such as IMF anchors, credible fiscal packages, or pragmatic liability management should offer the clearest path to additional spread compression.

# Emerging Markets Fixed Income

## Strategy and Top Ideas

### Investment Grade Sovereigns

Within investment grade sovereigns, we remain overweight Chile and Romania. Chile continues to screen as high quality defensive exposures, supported by strong external buffers, stable policy frameworks and moderate debt burdens. In Romania, recent post election developments have reinforced political stability and reaffirmed commitment to fiscal consolidation and EU alignment. Continued progress on fiscal execution could allow Romania to reprice toward tighter levels versus regional IG peers. Conversely, we remain underweight Saudi Arabia and Indonesia. In Saudi Arabia, ongoing fiscal expansion and already tight valuations limit scope for further spread compression even with supportive oil dynamics. In Indonesia, heightened political uncertainty following the replacement of the finance minister and ongoing protests, alongside incremental supply and tight spreads, leaves risk skewed to underperformance.

### High Yield Sovereigns

Within high yield, we continue to emphasize quality and maintain a clear preference for BB rated sovereigns over lower rated beta. Our preferred overweights are Armenia, Uzbekistan and Colombia. Armenia benefits from an improving regional backdrop as gradual normalisation of relations with neighbours reduces geopolitical tail risk and supports investment and external backing. We like Uzbekistan for steady reform momentum, diversified growth and gold linked external receipts. In Colombia, valuations have retraced a large part of last year's dislocation yet carry remains compelling. Among lower rated sovereigns, we see selective value in Benin, Pakistan and Angola. Benin's fundamentals are improving on reforms and active liability management under an IMF anchor, with strong programme performance leaving scope for potential upgrades; continued market access, including plans for an inaugural USD sukuk alongside taps of long dated benchmarks, further broadens the investor base and reduces refinancing risk. In Pakistan, continued IMF engagement and recent political stabilisation are helping re normalize the curve, and we focus on the belly where convexity is favourable if programme delivery holds. Conversely, we remain underweight the weaker cohort where deteriorating debt metrics, reliance on external financing and constrained market access leave spreads vulnerable to shocks. Senegal is our principal underweight, as the IMF mission ended without a staff level agreement and ongoing debate around the 2026 budget and fiscal consolidation path keeps risks skewed to wider spreads until delivery is more visible.

### Corporates and GReS

We remain neutral on EM corporates: valuations are tight, but fundamentals are stable and default rates continue to run below average. Our focus is on GReS and selective corporates in improving macro environments, particularly Uzbekistan and Morocco, where spread pickup versus sovereigns remains attractive. We also see value in Pemex, where recent policy support and improved funding access have helped stabilize the credit profile. While valuations are rich versus history, the asset class continues to benefit from balanced technicals, stable leverage metrics and a broad investor base. We expect a selective grind tighter in spreads, but an uncertain macro backdrop argues against indiscriminate risk taking. In parallel, we remain underweight Asia, where spreads are tight and we are cautious on segments most exposed to commodity volatility or China linked demand, notably smaller oil and gas issuers and parts of Asian real estate. Overall, we maintain a quality and selectivity bias, favoring resilient GReS and corporates with improving fundamentals while remaining cautious where valuations are stretched and macro risks are elevated.

# MENA Equity

## Market Overview

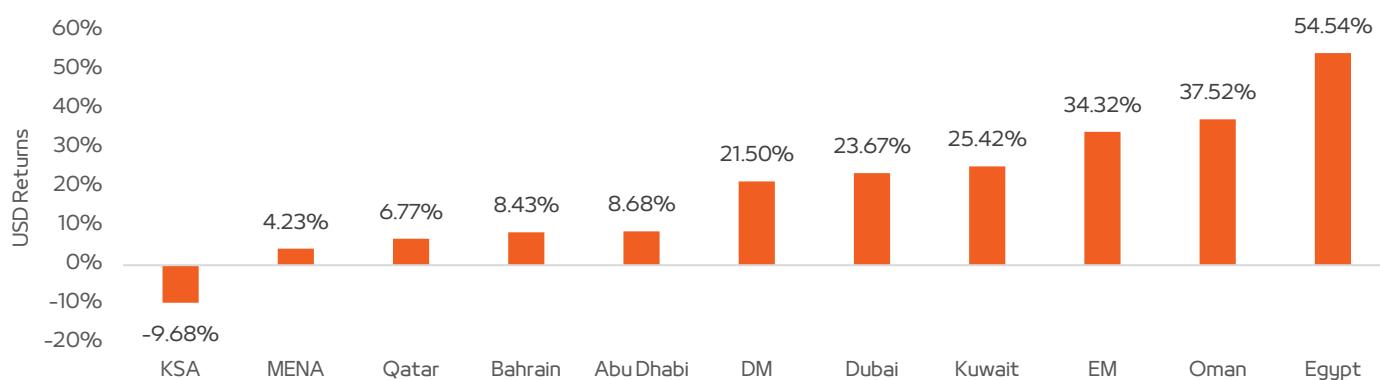
MENA equities materially underperformed Emerging Markets in 2025. EM delivered a +34.32% return, supported by a weaker US dollar, strong growth and supportive central banks across the region. In contrast, MENA returned +4.23%, dragged primarily by Saudi Arabia—the region's largest market—which declined -9.68% over the year. Notably, MENA ex. Saudi Arabia returned +21.7% in 2025, more in-line with the broader EM. Strong gains were witnessed in several markets, including Egypt (+54.5%), Oman (+37.5%), Kuwait (+25.4%), and Dubai (+23.7%).

Saudi Arabia had a volatile year. The market remained under pressure in 1H25 as softer oil prices raised questions around the sustainability of large-scale government spending plans. Performance was mixed across sectors: heavyweight banks such as RJHI and SNB were relatively resilient on the back of continued loan growth and stable balance sheets, while petrochemicals underperformed amid weak margins and deteriorating profitability. Aramco also lagged in line with lower oil prices. In 3Q25, reports suggesting Saudi could raise foreign ownership limits triggered a broad-based rally—particularly in financials. However, subsequent clarification that implementation would be phased (and potentially delayed) led to a sharp 4Q25 sell-off, leaving the market down -9.68% for the year.

Egypt was the standout performer, rising +54.5% in 2025. Ongoing reforms and stronger capital inflows helped stabilize the fiscal backdrop, while an increasingly supportive central bank stance provided additional tailwinds for equities. Oman and Kuwait also outperformed. Oman benefited from its ongoing macro and reform agenda, alongside progress toward potential MSCI inclusion. In Kuwait expectations of higher public spending, and prospects for mortgage law passage helped fuel gains in financials and real estate, underpinned by improving private-sector activity and expectations of stronger loan growth.

Within the UAE, Dubai outperformed Abu Dhabi, driven by a strong rally in real estate and financials. Continued capital inflows into Dubai supported property-market momentum, while bank fundamentals remained healthy, with expanding and resilient loan books.

## Performance of Key Markets – 2025

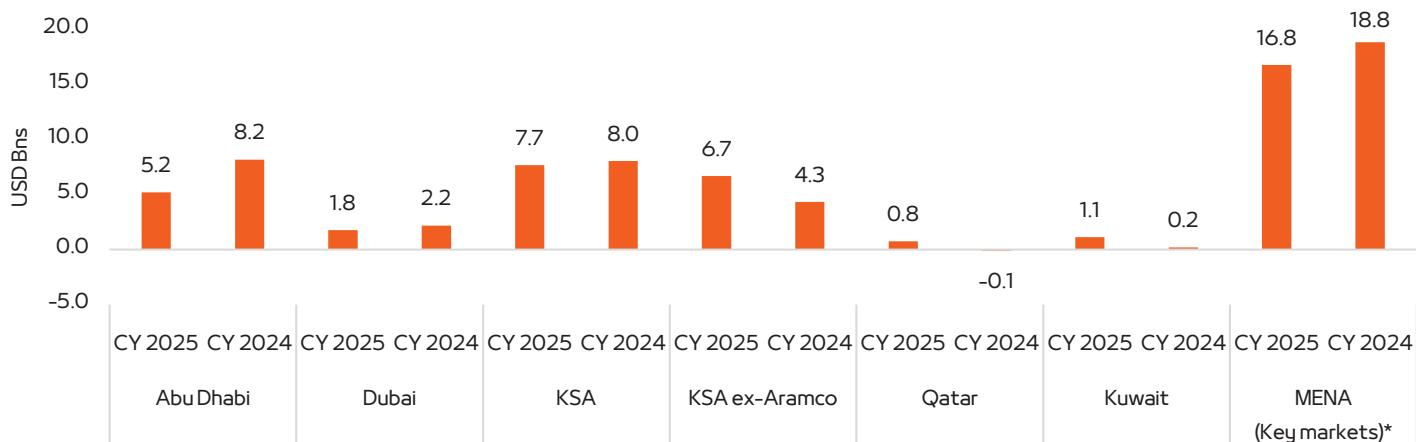


Qualified Foreign Investor (QFI) inflows across key MENA markets (Saudi Arabia, Dubai, Abu Dhabi, Qatar and Kuwait) moderated to USD 16.8bn in 2025, down 11% YoY, reflecting a more selective foreign bid. Kuwait recorded the strongest improvement, with inflows rising 463% to USD 1.1bn, as investors priced in higher government spending and the potential passage of a mortgage law. Flows were concentrated in index-heavy financials, led by National Bank of Kuwait and Kuwait Finance House.

Abu Dhabi saw the sharpest pullback, with QFI inflows down 36% YoY to USD 5.2bn, driven by net selling in large-cap names, including International Holding Company (IHC). Dubai inflows also eased, down 18% YoY to USD 1.7bn. Selling was most pronounced in Talabat, amid concerns around intensifying competition and potential margin pressure. Offsetting this, inflows were relatively broad-based, with DEWA, Emirates NBD, and Emaar Development among the key beneficiaries.

## MENA Equity

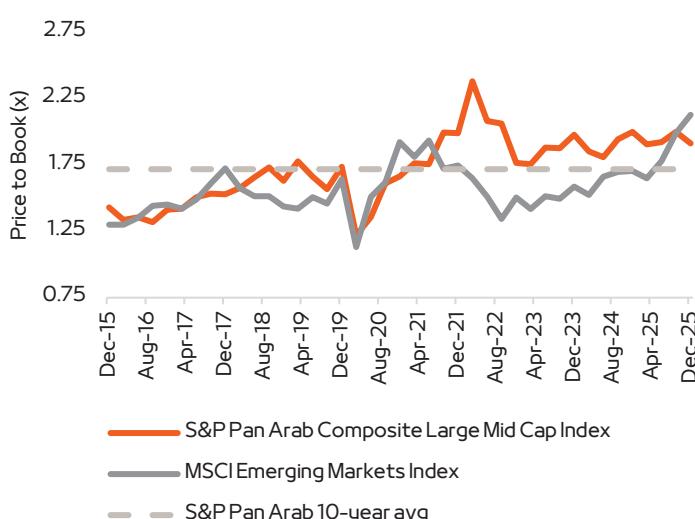
### Est. QFI Net Flows



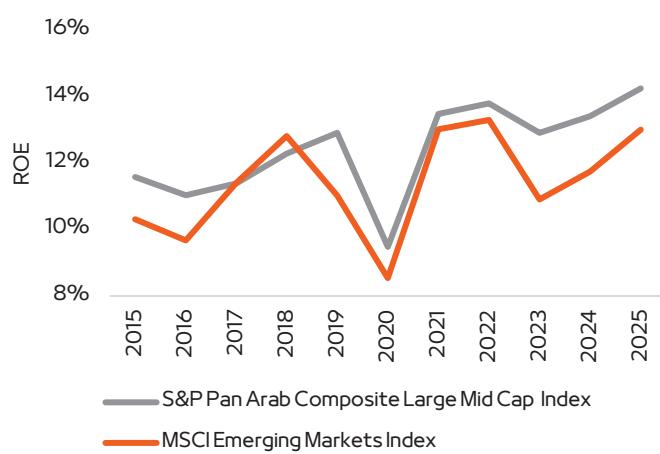
### Valuations

By end-Q4 2025, MENA's forward P/B was 1.91x (around 20% below the 2022 high). MENA now trades at a discount to EM despite historically commanding a premium – a shift driven by stronger EM momentum, improving risk appetite, better earnings growth, and rotation into higher-beta markets. Valuations remain uneven: Saudi (forward P/E 15.75x vs 17.35x 10-year average) and Abu Dhabi (11.75x vs 13.85x) screen below long-term norms, while Dubai screens above trend (DFMGI 10.99x vs 9.80x). Importantly, MENA's structural quality remains intact: the S&P Pan Arab Index has averaged 13.5% ROE over three years (c.160 bps above EM) alongside lower leverage (Debt/Assets 17.46% vs 20.14% for EM).

### Forward Price/Book ratio



### ROE %



\*MENA (Key markets) includes Saudi Arabia, Dubai, Abu Dhabi, Qatar and Kuwait  
QFI Net Flows Chart Data Source: EFG

Forward Price/Book ratio and ROE% Chart Data- Source: Bloomberg

# MENA Equity

## MENA Earnings Review – 3Q25

Regional earnings were strong in 3Q 2025, up 7.8% YoY and 13.0% QoQ, but dispersion widened by country. The UAE led with earnings up 26% YoY, underpinned by sustained strength in property. Real estate earnings rose 42% YoY and financials grew 31% YoY on robust domestic activity. Saudi lagged with earnings up just 1.8% YoY: energy was flat (-0.3% YoY) as lower oil prices offset gains elsewhere, though financials remained resilient (+12.6% YoY).

### Real Estate

Regional real estate remained the key earnings engine, with profits up 55% YoY led by the UAE and Saudi. The UAE continued to benefit from capital inflows and employment growth, supporting demand and delivering 42% YoY earnings growth. Saudi results were also strong (earnings up 3.1x YoY), led by MASAR as demand accelerated following reforms.

### Financials

Financials held up well despite lower rates, supported by loan growth and strong balance sheets. UAE earnings rose 31% YoY on expanding lending and GRE-related growth alongside sustained government spending. In Egypt, loan and deposit growth cooled from early-2025 highs but remained strong; Egypt delivered the region's fastest financials bottom-line growth in 2025 (+65% YoY), supported partly by fintech momentum.

### Materials

Materials benefited from firmer commodity prices, with earnings up 7.9% YoY. Fertiglobe delivered strong growth on higher pricing and cost efficiencies, with performance supported largely by elevated urea prices.

### Information Technology

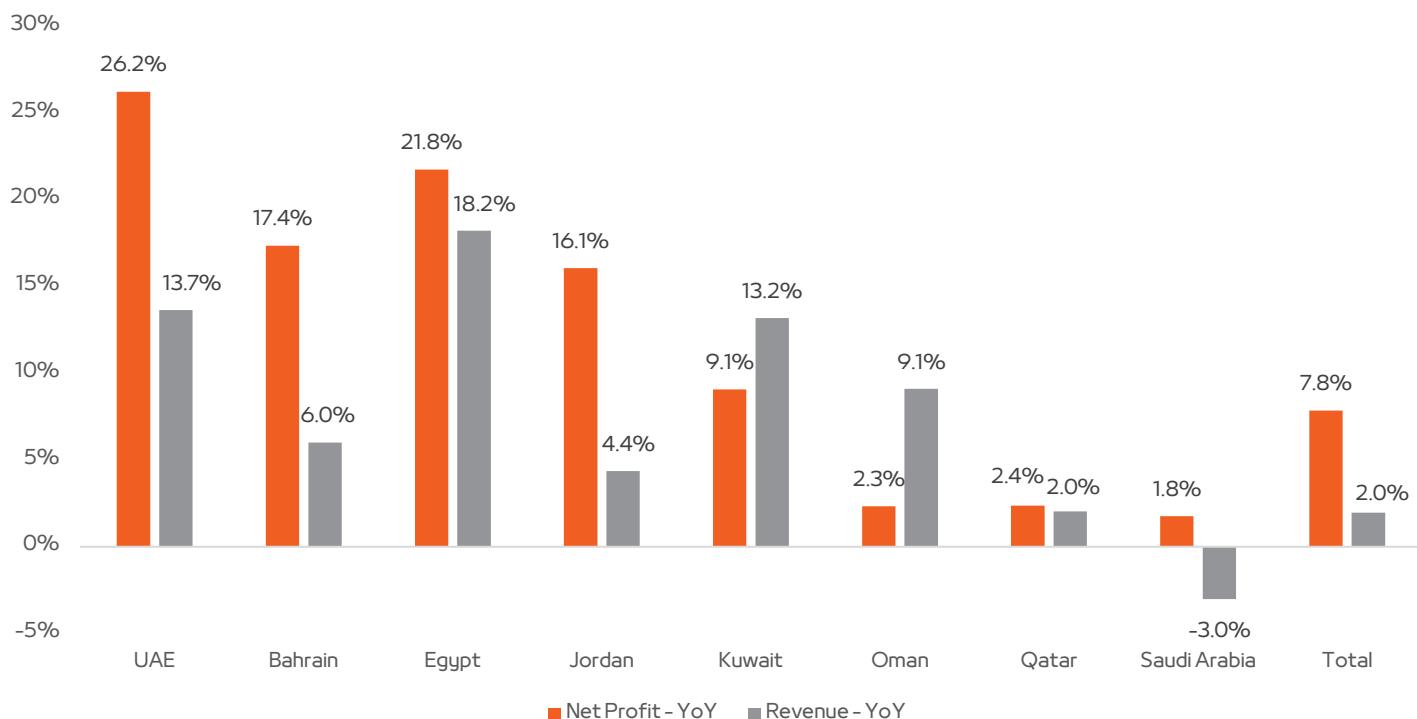
IT underperformed, with earnings up 4.3% YoY. In Saudi, Arabian Internet faced margin pressure from revenue-mix shifts despite growth, while Elm disappointed as Thiqah acquisition benefits took longer to materialize. In the UAE, Presight lagged as delays in contract monetization weighed on results.

### Energy

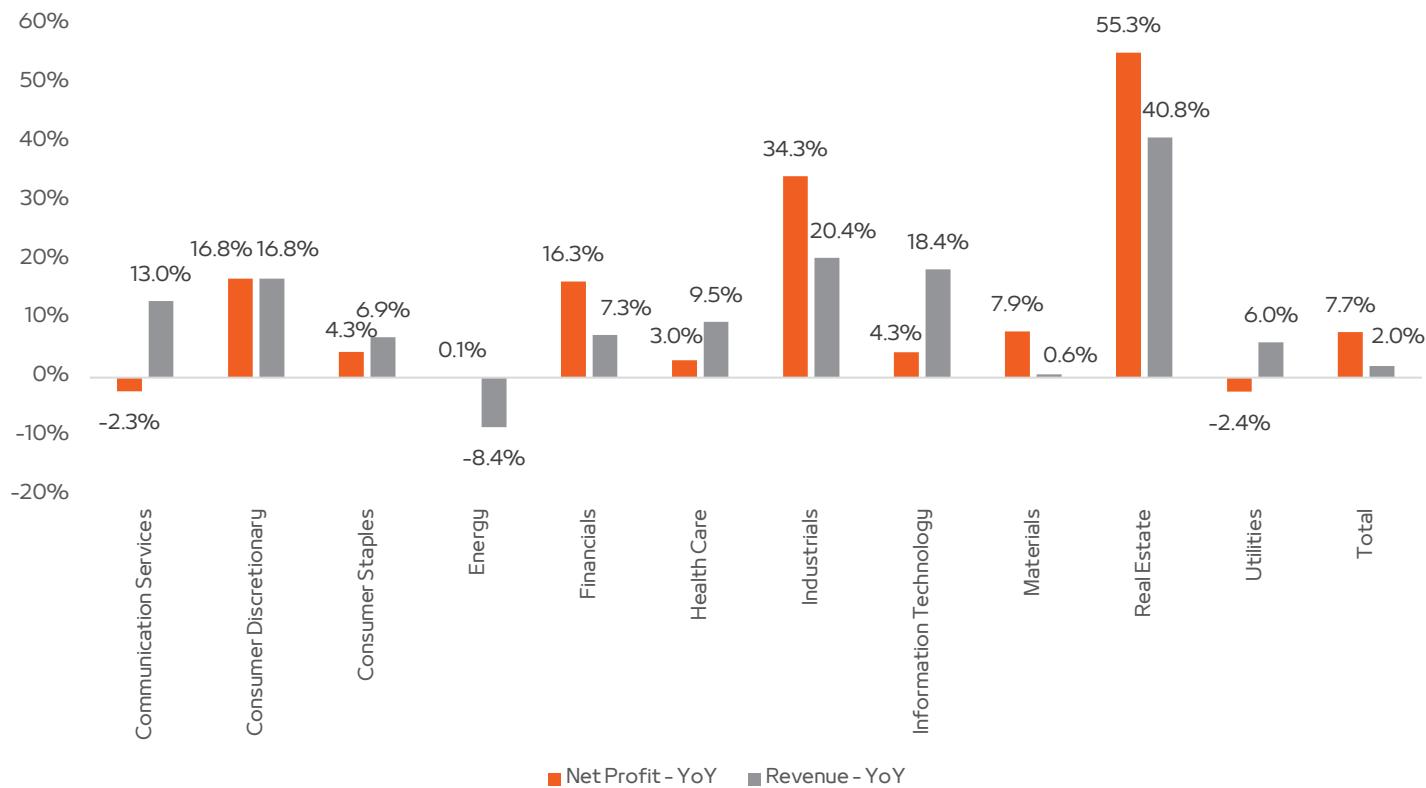
Energy earnings were broadly flat amid softer oil prices. Ex-Aramco, the sector grew earnings 5% YoY, supported by resilient ADNOC entities with limited direct oil price sensitivity. Improved shipping rates also supported ADNOC Logistics. The quarter again differentiated oil-linked names from more diversified operators, with the latter outperforming.

## MENA Equity

### MENA Earnings Growth 3Q25 - Country wise\*



### MENA Earnings Growth 3Q25 - Sector wise\*



All chart data on page - Source: Bloomberg

\*Based on names in the benchmark, filtered for availability of data

Market Outlook on MENA Fixed Income & Equity Markets

Classification: Public

Q1 2026 | Page: 20

## MENA Equity

### MENA Equities Positioning vs Global EM

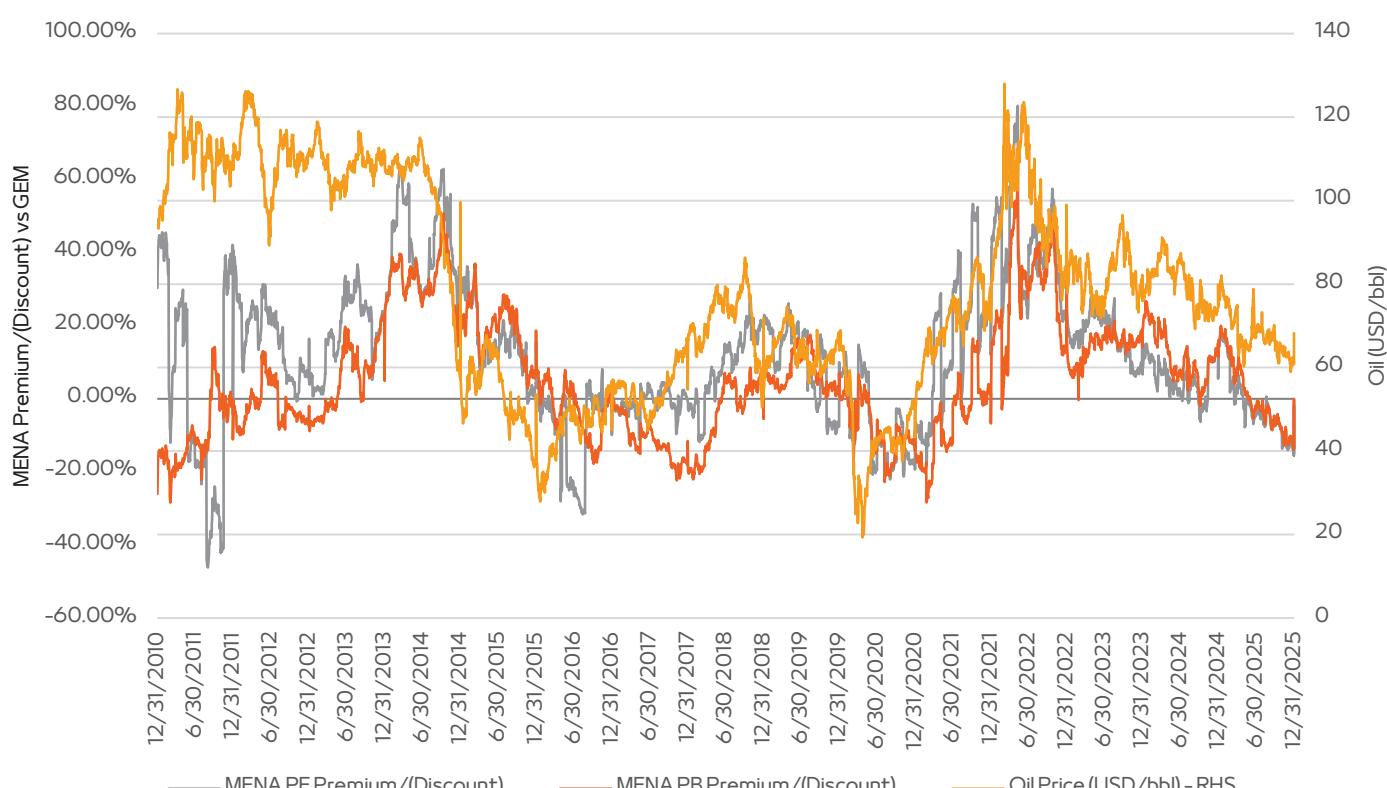
According to our 2026 Global Strategic Asset Allocation Outlook, we expect Global EM Equities to post muted returns. Elevated valuations and already high investor positioning, limit the scope for meaningful upside in the asset class. In contrast, our view on MENA Equities is more constructive. The region's cyclical profile, its high beta to the pro-risk environment, correlation with USD and its relatively attractive valuations, support a more positive return outlook. We expect MENA Equities to deliver closer to 6% returns in 2026, albeit with a high dependency on oil prices and the USD. In our view however, there are idiosyncratic pockets of value which can enhance investor return – notably UAE real estate, financials, infrastructure-linked beneficiaries, and selectively materials.

EM surged in 2025 while MENA lagged materially primarily due to the Dollar devaluation, leaving the region—especially the GCC—undervalued relative to EM. MENA is now trading at a broad-based valuation discount to EM. That discount is not uniform, however: banks and telecoms are the key premium pockets versus EM, supported by both liquidity in larger names and stronger underlying fundamentals. Banks continue to show solid loan growth with strong capital and provisioning buffers, and we expect them to defend their premium on sustained momentum and resilient asset quality. Telecoms remain high-quality, cash-generative franchises, consistent with their premium positioning.

We see UAE-led real estate as a clear bright spot, supported by capital inflows and visible carry—with EMAAR's ~7% dividend yield reinforcing MENA's quality-income appeal. Beyond real estate and financials, we remain constructive on infrastructure-linked names, reflecting the region's persistent policy support and government-led investment cycle. Tactically, while petrochemicals are inherently cyclical, any recovery in pricing/spreads would likely benefit regional producers disproportionately—given the feedstock advantage that can translate into stronger relative margins when the cycle turns.

Near term, we expect the valuation discount to linger through 1Q26, with oil likely in the USD 55–65/bbl range and broader EM maintaining relatively stronger momentum. Medium term, however, the current discount offers a selective entry point. If oil moves to and holds around USD 70/bbl, we would expect a quicker regional re-rating, with Saudi likely the most responsive.”

### MENA trading at a historic discount to Global Emerging Markets (GEM)

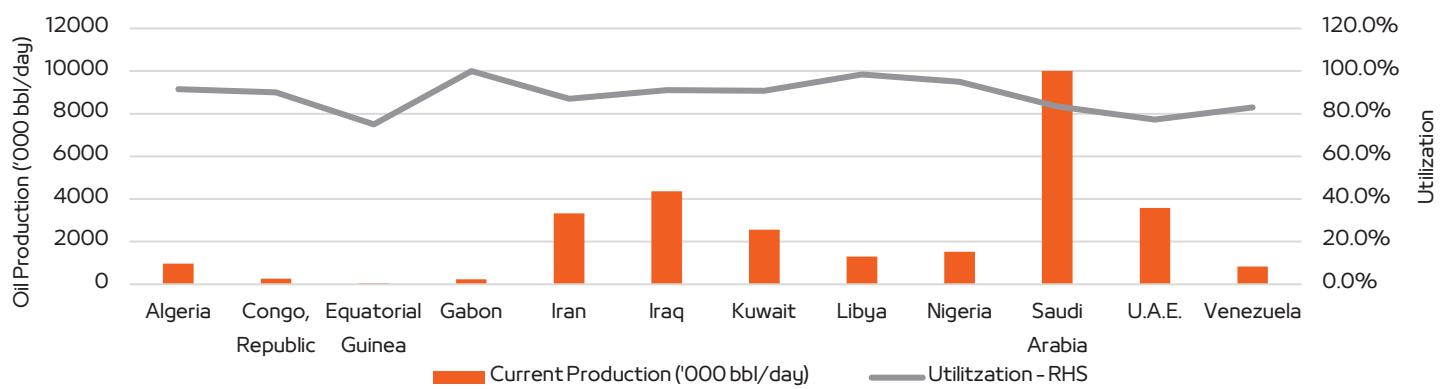


# MENA Equity

## Oil Price Dynamics

Our SAA/TAAs leading indicators point towards oil to trade in USD 55–65/bbl range over the next six months. Upside risk stems from escalating Iran-US tensions and broader regional instability that could constrain supply, while downside risk would likely require meaningful progress toward a Russia-Ukraine resolution. Oil has repeatedly held the USD 60/bbl area despite oversupply concerns, signaling resilient demand. A sustained break above our range (USD 55–65/bbl) would likely catalyze a broader re-rating across MENA, led by Saudi Arabia. Conversely, Saudi equities historically show higher downside sensitivity when oil falls – particularly below USD 55/bbl – so a sustained move under USD 55/bbl would imply materially higher pressure on the Saudi market.

## OPEC Production vs Utilization



## Strategic Positioning

### Geographic Focus

We remain constructive and bottom-up on Saudi Arabia, the UAE, and Oman, prioritizing markets with clear policy roadmaps and a track record of execution. Saudi Arabia and the UAE stand out on this basis. Oman has delivered a credible macro turnaround, improving sentiment and liquidity and creating new opportunities. Following the strong 2025 rally linked to MSCI Emerging Markets inclusion ambitions, we expect momentum to extend, supported by government spending and continued market reforms.

In Kuwait, reforms remain a key catalyst but visibility is still evolving. While the mortgage law is a potential step-change, we prefer to wait for clearer timing before adding exposure, particularly with financial valuations already stretched. In the interim, we hold Boursa Kuwait as a pragmatic way to participate in rising market activity supported by government spending and structural reforms. Clearer mortgage-law guidance should sharpen beneficiary selection and unlock more targeted opportunities.

### Sector Allocation:

#### UAE Financials

We reduced Emirates NBD and Dubai Islamic Bank to crystallize gains. While fundamentals remain solid, forward returns look less asymmetric with both names trading near peak P/B multiples versus history. Emirates NBD also faces potential M&A-related capital uncertainty. We redeployed into ADCB after its rights issue, using the entry point to add exposure to a bank with strong balance-sheet metrics and clearer growth visibility. Overall, we remain constructive on UAE financials and expect the sector to continue to perform well.

# MENA Equity

## Dubai & Abu Dhabi Real Estate

We increased exposure to TECOM and Dubai Investments Company, reflecting high conviction in Dubai commercial real estate. Occupancy remains in the high-90s, and rents are still compounding at double-digit rates (up ~40% YoY in 3Q25). At this stage, we prefer commercial over residential on fundamentals and would add further on weakness. We also added Aldar, expanding Abu Dhabi real estate exposure while gaining from its commercial footprint.

## Saudi Arabia's Financials

Within Saudi banks, we remain selective as system liquidity is tight and funding costs are rising, as reflected in 3Q25 results. In this backdrop, we prefer SNB given its strategy reset, stronger loan momentum, and solid capital position. Valuation also remains supportive, with SNB screening as one of the more attractive opportunities within Saudi banking.

## Oman

We trimmed OQEP amid lower oil prices and limited visibility on the dividend framework. We remain constructive on Oman's macro trajectory and added Bank Muscat, which is better aligned with structural reforms and positioned to benefit from the transformation agenda.

## Industrials

Industrials were among the largest detractors, driven by Saudi Ground Services and Flynas on idiosyncratic pressures. Despite near-term volatility, we continue to favor the Saudi tourism growth theme and view fundamentals for both companies as intact.

## Saudi Arabia Real Estate

Saudi real estate also detracted. Stock-specific pressure (including the Masar secondary offering) weighed on performance, alongside broader headwinds from regulatory reforms (rent freezes and the white-land tax). Near term, the path is choppy; medium term, we remain positive. Opening to foreign investors and continued population inflows should lift demand over time, and the structural supply gap should ultimately flow through to sector earnings and valuations.

# MENA Equity

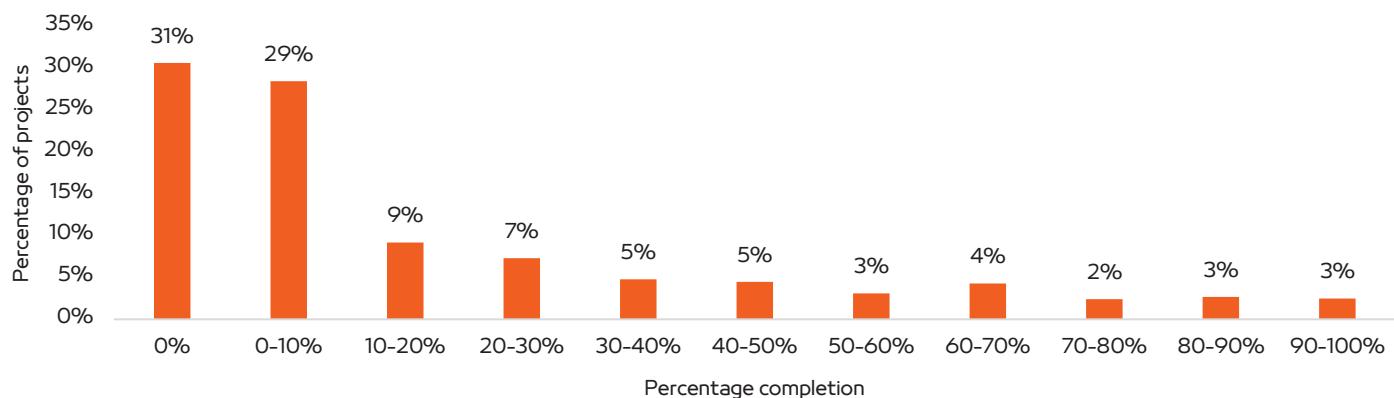
## Key Factors to look at

### UAE Real Estate - Momentum continues

Rents have softened over the past three months and secondary apartment transactions have slowed over the past two months, creating near-term caution. Oversupply remains the key watchpoint, with an estimated 40–45k unit handover expected in 2026.

Despite these pressures, we remain constructive. Developer launches in 2025 exceeded 2024, signalling demand remains resilient and inventory continues to clear. Activity is still end-user led (~60%), while mortgage-backed sales remain below 30%, limiting speculative risk. Supply discipline also looks intact: only 15% of units under construction are beyond 50% completion, reducing the probability of a near-term glut. Overall, we do not expect a material downturn over the next 12 months and continue to favor the theme.

### Percentage completion for launched projects



### UAE Tourism - Strong inflows

Visitor arrivals rose ~5% YoY through November 2025, while hotel room supply remained broadly unchanged – a supportive setup that has lifted ADRs and occupancy.

Rising arrivals despite higher room rates reinforce Dubai's sustained global pull, with spillovers across consumption, retail, transport, and hospitality-linked sectors. We are watching room additions, pricing trends, and seasonality for confirmation. Sustained inflows should support EMAAR via hospitality exposure and remain positive for SALIK, DTC, and PARKIN as Dubai infrastructure beneficiaries.

Nov'24-Nov'25	Occupied Room Nights (mn)	Guests' Length of stay (nights)	Average Daily Rate (AED)	Rev. per Avail Room (AED)	Room Utilization (%)
2024	39.19	3.6	520	405	78
2025	40.85	3.7	557	448	80

## MENA Equity

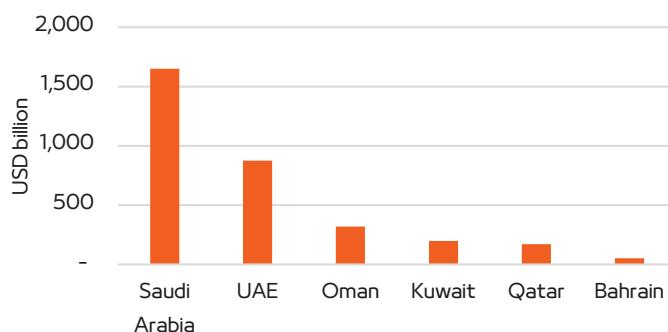
### Key Factors to look at

#### Saudi Arabia - Spending Reprioritization

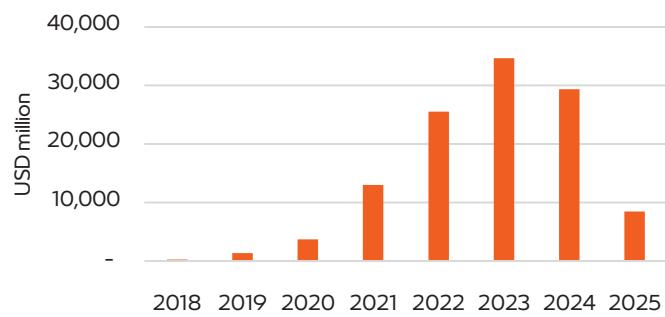
Lower oil has raised questions around Saudi Arabia's fiscal stance. However, the latest budget reiterates commitment to spending, with 2026 guided flat to slightly lower than 2025. Authorities continue to frame the fiscal deficit as a deliberate policy choice to fund long-term diversification.

We read this as constructive and remain aligned with priority spend areas – gas, water and electricity infrastructure, and accelerating AI-linked investment. We expect spending to remain durable in these segments, supporting demand across exposed sectors. Gas investment (including Jafurah) remains a structural positive as gas displaces crude in power generation, freeing crude for export and higher-value uses.

#### Value of known, planned and un-awarded GCC projects – as of Sep 2025



#### Gigaprojects Awarded (USDmn)

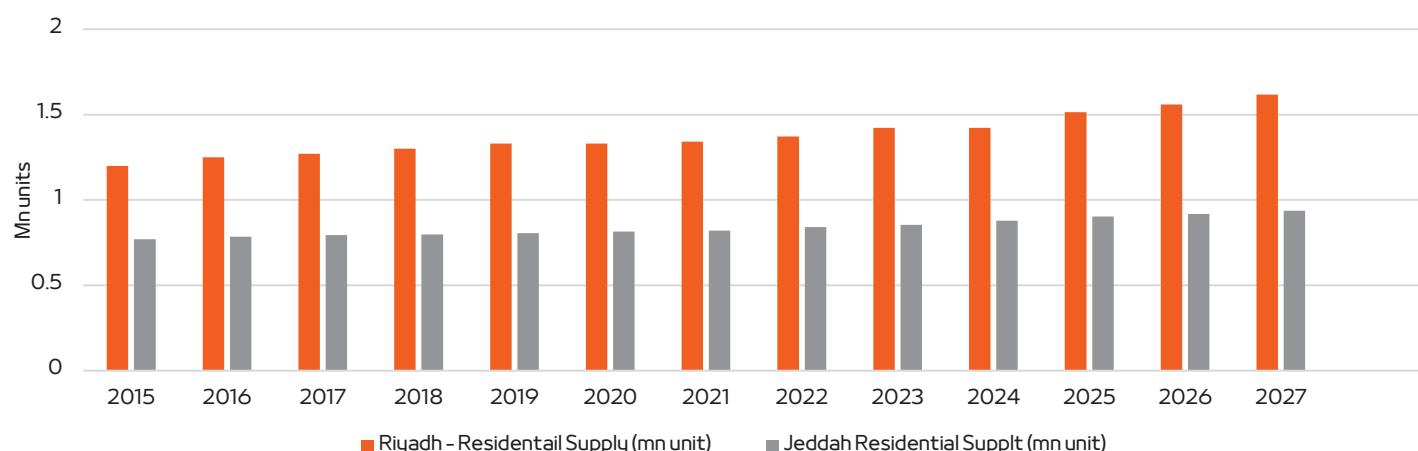


#### Saudi Real Estate - Opening to Foreign Ownership

From January 2026, foreign investors can buy property in selected areas of Saudi Arabia, introducing a new demand driver after muted 2025 activity amid regulatory transition.

We expect strong initial interest – particularly from expats and potentially other Muslim-majority markets – concentrated around the holy cities. We remain selective but constructive and will track early participation closely. As reforms broaden – especially in Riyadh – we expect demand to deepen and become more diversified.

#### Saudi Residential Supply



# MENA Equity

## Key Factors to look at

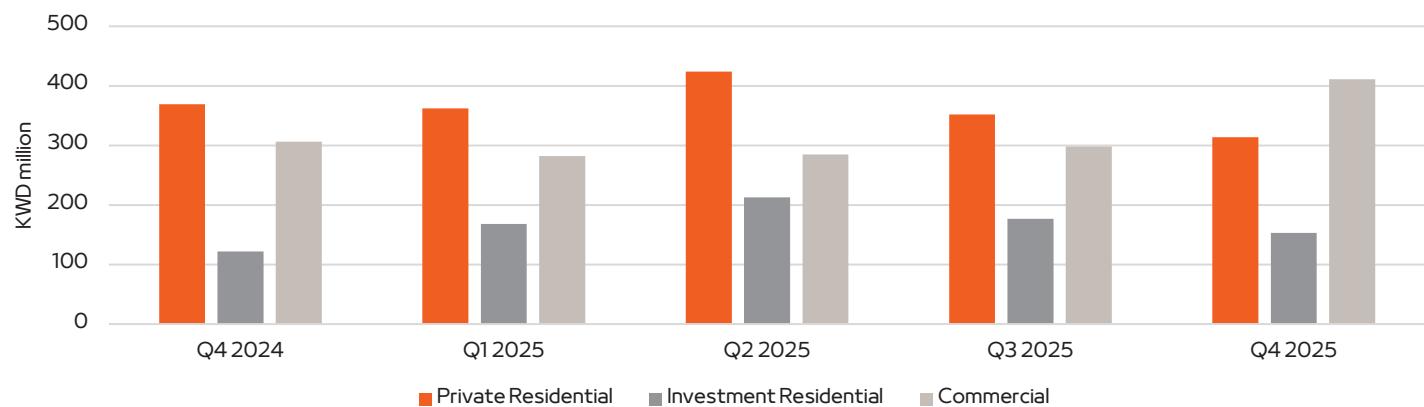
### Saudi Arabia – Foreign ownership reforms for capital markets

Signals point to phased, sector-specific foreign-ownership reforms rather than a single market-wide rollout. While formal sequencing has not been published, the CMA's move to remove QFI qualification requirements from Feb 2025 underscores the direction of travel. We expect reforms to progress; even if staged, they should catalyze inflows and improve liquidity. Financials are best positioned given index weight and free float, with heavyweight banks likely to benefit first as foreign-ownership headroom expands.

### Kuwait – Reform momentum

Kuwait's mortgage law remains pending, with reports suggesting possible passage in 1H26, though visibility is still limited. The 2025 debt law expands financing flexibility, while planned infrastructure spending should support growth. As projects ramp up, we expect loan demand to improve, with positive read-through for select real estate names. We continue to monitor mortgage-law developments and view financials as the cleanest proxy for the reform theme, while also tracking political sentiment shifts following citizenship revocations. Execution has been moderate so far, making pace and follow-through the key variable.

### Value of Real Estate Transactions in Kuwait



### GCC Data Centres (Saudi Arabia, UAE, Qatar)

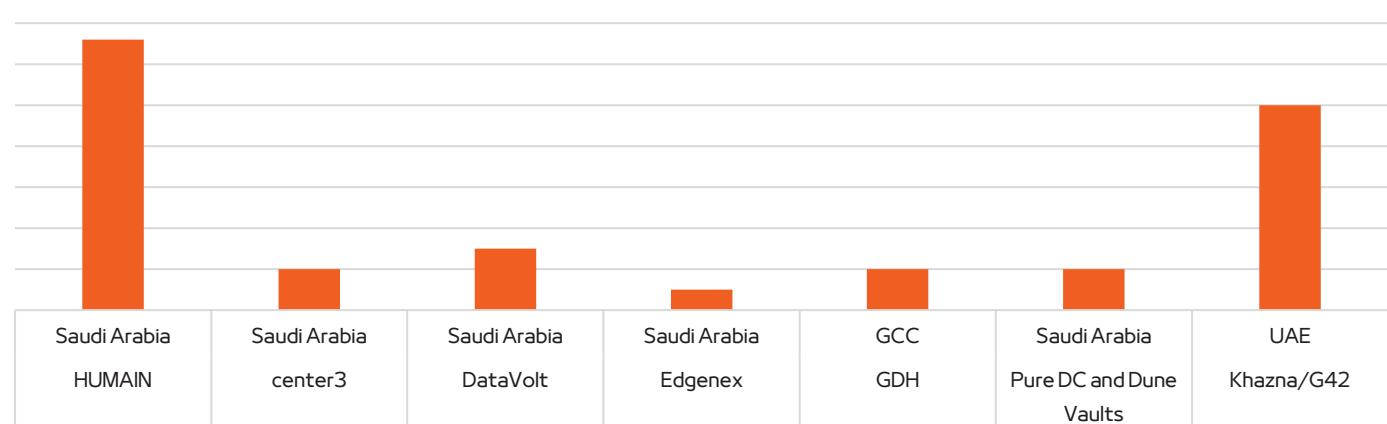
Governments across the GCC are accelerating data-centre buildouts, with capacity and revenues projected to grow ~5x by 2030. Policy support is broad and coordinated, with AI and data-infrastructure programs led by GRCs – including Stargate and HUMAIN – spanning the full stack from physical build to compute.

Momentum is already translating into access to critical hardware: NVIDIA chip approvals for HUMAIN have progressed in Saudi Arabia, while G42 has secured advanced chips in the UAE. Structurally, low energy costs and supportive regulatory frameworks strengthen regional competitiveness as AI-driven power demand rises.

We remain constructive and will track financing structures and execution milestones closely as projects shift from announcements to funded development.

## MENA Equity

### Announced Data Centre Capacity (GW)



### Saudi Gas & Utilities Infrastructure

Oil & gas and water infrastructure remain policy priorities in Saudi Arabia. Despite perceptions of slower spending, contract awards continue to flow to companies upgrading critical networks. For our selective exposures, this steady award cadence supports backlog visibility and reinforces our view that these sectors will remain prioritized.

### Egypt – Macro Stabilization and IMF Progress

Egypt continues to meet key IMF program benchmarks and has made tangible progress on stabilization, creating room for a cautious policy pivot. Inflation has decelerated, though we are monitoring pass-through from recent fuel and rent adjustments. The new gas-supply agreement strengthens the medium-term energy balance and supports external stability. We remain constructive: further disinflation would widen the runway for additional rate cuts, supporting an equity recovery – particularly in rate-sensitive names and domestic cyclicals.

### Oman – Market Reforms and EM Inclusion Ambitions

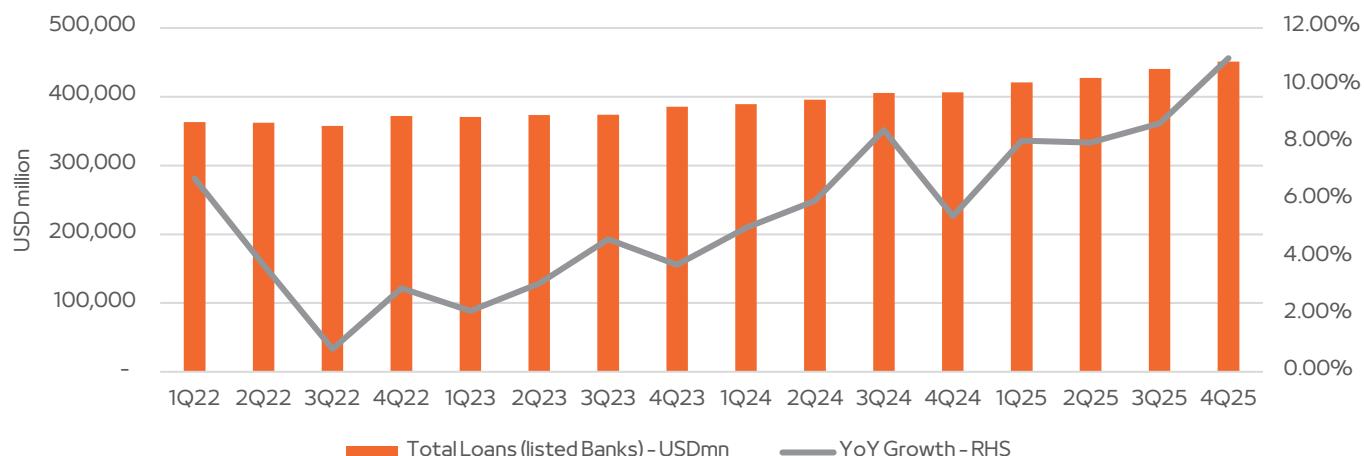
Oman continues to position for potential MSCI Emerging Markets inclusion, supported by large IPOs and reforms aimed at improving liquidity, depth, and investor access. Markets have responded as reforms gain traction. We remain constructive on the macro outlook; the reform agenda adds an incremental growth driver and should steadily improve investability. We will continue to track execution and progress toward MSCI criteria.

### Qatar – Banking Sector Outlook

Qatar's banking sector is seeing modest but improving loan growth (~6–8% YoY), driven mainly by public-sector demand as spending rises and LNG megaprojects near completion. We are monitoring credit momentum closely. Strong balance sheets at select banks should support external lending growth as funding costs ease alongside lower policy rates. The theme is early-stage, but upside potential is building and we are watching for opportunities.

## MENA Equity

### Qatar's Listed Banks - Total Loans



### Risk Assessment

**Oil Price Sensitivity:** Saudi Arabia remains the most oil-sensitive major market; sustained oil below USD 60/bbl would materially pressure Saudi equities.

**Portfolio Positioning:** We remain underweight Saudi and overweight UAE; the largest risk contribution is concentrated in these exposures.

**Geopolitics:** Regional risk has intensified; we are closely tracking Iran-US dynamics and broader escalation risk

# MENA Equity

Below we summarize our bottom-up portfolio allocations:

## Country Views

	Negative	Neutral	Positive
Saudi Arabia	●	●	●
UAE	●	●	●
Qatar	●	●	●
Kuwait	●	●	●
Oman	●	●	●
Bahrain	●	●	●
Egypt	●	●	●
Morocco	●	●	●
Jordan	●	●	●
Tunisia	●	●	●

## Sector Views

	Negative	Neutral	Positive
Financials	●	●	●
Communication Services	●	●	●
Consumer Discretionary	●	●	●
Consumer Staples	●	●	●
Energy	●	●	●
Health Care	●	●	●
Industrials	●	●	●
Information Technology	●	●	●
Materials	●	●	●
Real Estate	●	●	●
Utilities	●	●	●

● Mashreq Capital's current views

## Appendix

### Macroeconomic Data

Region	GDP Growth(%)					Inflation(%)					Policy Rate(%)				
	2022A	2023A	2024A	2025F	2026F	2022A	2023A	2024A	2025F	2026F	2022A	2023A	2024A	2025A	2026F
World	3.8	3.5	3.3	3.2	2.9	8.7	6.7	5.8	4.2	3.3	NA	NA	NA	NA	NA
DM	3.1	1.8	1.9	1.7	1.8	8.6	5.7	3.9	3.3	2.9	3.8	5.6	4.8	3.9	3.3
EM	3.9	4.4	4.8	4.2	4.3	6.4	5.8	6.8	1.8	2.6	6.1	6.7	6.9	6.4	5.2
Eurozone	3.6	0.4	0.9	1.4	1.2	8.4	5.5	2.4	2.1	1.8	2.5	4.5	3.2	2.2	2.2
US	2.5	2.9	2.8	2.0	2.1	8.0	4.1	3.0	2.8	2.8	4.5	5.5	4.5	3.8	3.2
UK	5.3	0.3	1.1	1.4	1.1	9.1	7.4	2.5	3.4	2.5	3.5	5.3	4.8	3.8	3.3
Canada	4.7	2.0	2.1	1.7	1.3	6.8	3.9	2.4	2.1	2.1	4.3	5.0	3.3	2.3	2.3
Japan	1.3	0.7	-0.2	1.2	0.8	2.5	3.3	2.7	3.1	1.9	-0.1	-0.1	0.3	0.8	1.0
Australia	4.2	2.1	1.0	1.9	2.2	6.6	5.6	3.2	2.8	3.1	3.1	4.4	4.4	3.6	3.6
Brazil	3.0	3.3	3.4	2.3	1.7	9.3	4.6	4.4	5.0	4.0	13.8	11.8	12.3	15.0	12.0
Mexico	3.9	3.3	1.5	0.4	1.3	7.9	5.6	4.7	3.8	3.8	10.5	11.3	10.0	7.0	6.5
India	9.7	7.6	8.2	6.5	7.5	6.7	5.7	5.0	2.2	2.1	6.3	6.5	6.5	5.3	5.2
Indonesia	5.3	5.1	5.0	5.0	5.0	4.2	3.8	2.3	1.9	2.7	5.5	6.0	6.0	4.8	4.3
S. Africa	2.1	0.8	0.5	1.3	1.6	6.9	5.9	4.4	3.3	3.4	7.0	8.3	7.8	6.8	6.3
Egypt	6.7	3.8	2.4	4.3	4.7	8.5	24.4	33.3	20.4	11.9	16.3	19.3	27.3	20.0	NA
Turkey	5.2	5.0	3.5	3.7	3.5	72.0	53.4	60.0	35.2	25.0	9.0	42.5	47.5	38.0	28.9

Country	GDP Growth (%)					Fiscal Breakeven (\$/bbl)					Fiscal Balance (% GDP)				
	2022A	2023A	2024A	2025F	2026F	2022A	2023A	2024A	2025F	2026F	2022A	2023A	2024A	2025F	2026F
Qatar	4.2	1.5	2.4	2.9	6.1	48.5	49.9	47.1	44.7	43.2	10.4	5.6	0.7	-0.3	1.3
UAE	7.5	3.6	4.0	4.8	5.0	46.6	45.6	50.0	50.4	45.2	9.8	5.8	6.4	5.1	4.8
Kuwait	6.8	-1.7	-2.6	2.6	3.9	81.6	79.6	88.2	80.2	76.7	30.0	28.2	23.8	26.8	26.5
Saudi Arabia	12.0	0.5	2.0	4.0	4.0	89.1	94.5	96.1	92.3	86.6	2.2	-1.8	-2.5	-3.7	-3.7
Oman	9.6	1.3	1.0	2.9	4.0	55.4	54.0	53.7	57.0	53.5	10.5	6.9	3.3	0.4	1.0
Bahrain	6.2	3.9	2.6	2.9	3.3	131.8	137.8	133.2	137.0	138.6	-6.0	-9.7	-10.6	-10.7	-9.9

### Historical Market Returns (%)

	Total Returns(%)	2019	2020	2021	2022	2023	2024	QTD*	2025
US Treasuries	5-year US Treasuries	5.3	6.2	-2.0	-8.0	4.5	2.3	1.2	6.8
	10-year US Treasuries	8.5	10.0	-3.1	-14.9	3.6	-0.7	1.1	8.4
US Fixed Income	US IG	8.7	7.5	-1.5	-13.0	5.5	1.3	1.1	7.3
	US HY	14.3	7.1	5.3	-11.2	13.4	8.2	1.3	8.6
EM Fixed Income	Global EM	13.1	6.5	-1.7	-15.3	9.1	6.6	2.4	11.1
	MENA Agg	13.3	6.9	0.5	-10.6	6.2	3.6	1.2	9.9
	Global Sukuk	10.8	7.7	0.8	-7.8	5.4	3.3	1.0	7.4
EM / DM Equity	US S&P 500	31.5	18.4	28.7	-18.1	26.3	25.0	2.7	17.9
	EURO STOXX 600	18.9	18.8	-2.3	-19.8	10.2	8.0	4.8	34.3
	MSCI EM	27.9	-1.4	25.8	-9.9	16.6	9.6	6.5	20.7
	S&P Pan Arab	11.9	-0.6	35.8	-4.4	8.0	5.2	-3.8	5.7

Source: Bloomberg, IMF

\*- QTD returns are for the period from 09/30/2025 to 12/31/2025.

## Appendix

### Market Data

Bond Yield Forecasts	2022A	2023A	2024A	2025A	2026F
UST 2-YR	4.43	4.25	4.24	3.47	3.32
UST 5-YR	4.00	3.85	4.38	3.73	3.61
UST 10-YR	3.87	3.88	4.57	4.17	4.11
UST 30-YR	3.96	4.03	4.78	4.84	4.67
Gilt 10-Yr	3.67	3.54	4.57	4.48	4.34
Bund 10-YR	2.57	2.02	2.37	2.86	2.92
JGB 10-YR	0.42	0.61	1.10	2.07	2.03
Equity Market Forecasts	2022A	2023A	2024A	2025A	2026F
S&P 500	3840	4770	5882	6846	7436
MSCI EM	956	1024	1075	1404	1741
EUR 600	425	479	508	592	625
S&P Pan Arab Composite	160	166	169	172	200
Commodity Price Forecasts	2022A	2023A	2024A	2025A	2026F
Brent (USD/bbl)	86	77	75	61	62
Natural Gas (USD/mmbtu)	4.48	2.51	3.63	3.69	4.02
Gold (USD/oz)	1824	2063	2625	4319	4996
Copper (USD/mt)	8372	8559	8768	12423	12800

Index	OAS	min	max	1Yr Avg	5Yr Avg	10Yr Avg	10yr Percentile <sup>1</sup>
<b>US IG</b>	25	35	60	35	35	39	43
<b>US HY</b>	259	278	713	278	278	333	393
<b>EM Agg</b>	176	215	443	215	215	285	309
<b>EM Sov + Quasi</b>	168	217	427	217	217	276	303
<b>EM Corp</b>	206	207	489	207	207	310	327
<b>EM IG</b>	88	105	252	105	105	130	154
<b>EM HY</b>	335	392	784	392	392	553	580
<b>MENA Agg</b>	124	148	237	148	148	202	207
<b>MENA IG</b>	76	85	228	85	85	105	129
<b>MENA HY</b>	356	337	559	337	337	461	480
<b>Global Sukuk</b>	72	67	108	67	67	86	89

Index	P/E	min	max	1Yr Avg	5Yr Avg	10Yr Avg	10yr Percentile <sup>2</sup>
S&P 500	27.9	14.5	38.0	27.2	26.6	25.9	23.2
MSCI EM	17.6	9.4	22.2	17.0	16.2	15.6	15.0
STOXX Europe	17.5	11.5	31.4	15.5	15.3	17.6	17.1
S&P Pan Arab	14.1	9.7	31.2	14.9	15.0	17.7	15.6

<sup>1</sup>OAS Percentile refers to the current option-adjusted spread relative to its 10-year history. A lower percentile indicates spreads are tighter (more expensive) versus historical norms.

<sup>2</sup>P/E Ratio Percentile shows the current price-to-earnings ratio versus its 10-year history. A lower percentile implies richer (more expensive) equity valuations.

Indices used on slide 2 & 3: MENA represented by the Bloomberg EM USD Agg: MENA index, Bloomberg GCC USD Credit index (MENA IG), Bloomberg EM USD Agg: MENA HY (MENA HY), Bloomberg EM USD Agg: UAE (UAE), Bloomberg EM USD Agg: Saudi Arabia (KSA), Bloomberg EM USD Agg: Qatar (Qatar), Bloomberg EM USD Agg: Oman (Oman), Bloomberg EM USD Agg: Kuwait (Kuwait), Bloomberg EM USD Agg: Bahrain (Bahrain), Bloomberg EM USD Agg: Morocco (Morocco), Bloomberg EM USD Agg: Jordan (Jordan), Bloomberg EM USD Agg: Egypt (Egypt), Bloomberg EM USD Agg: Iraq (Iraq), Bloomberg EM USD Agg: Lebanon (Lebanon). Indices used on slide 9: Bloomberg EM USD Agg Index, Bloomberg EM IG Index, Bloomberg EM HY Index, Bloomberg EM Agg: A Index, Bloomberg EM Agg Sov Index, Bloomberg EM Agg Sov HY Index, Bloomberg EM Agg Sov IG Index, Bloomberg EM Agg Sov Index, Bloomberg EM Agg Corp Index, Bloomberg Global Agg Corp Index, Bloomberg Global Agg Sukuk Index.

Source: Bloomberg, IMF

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