

## Hoping to catch a ride on the MSCI wave

- Yesterday Saudi equities were added to MSCI's watch list for potential inclusion into the MSCI Emerging Markets (EM) index. On the back of this we initiate a tactical call on Saudi equities.
- Although Saudi's structural challenges are formidable, the reforms undertaken so far, especially those related to financial markets confirm that the Kingdom is moving in the right direction in the eyes of international investors
- Being added to the watch list for EM inclusion does not mean anything yet. It merely means that MSCI will commence a consultation process with market participants to gauge the experience of investors, particularly as to the improvements made by the regulator and stock exchange to accessibility, the settlement cycle as well as the Qualified Foreign Investor program
- If this feedback is sufficiently positive, MSCI could classify Saudi as an Emerging equity market in June 2018. This would pull significant flows into the Kingdom's equity market as funds benchmarked to the MSCI EM index rebalance
- Markets tend to rally around key MSCI announcements/reclassifications. The real rally will likely occur only in June 2018 should Saudi equities indeed be earmarked for official EM inclusion, however, we think that there is also scope for a near-term rally on the back of the market making it onto the watch list
- Only the larger, more liquid stocks in the Saudi index would qualify for EM inclusion, therefore any rally will likely be concentrated in those stocks
- The fact that oil prices are currently hovering towards the bottom of their 12-month range adds an additional near-term impetus to the potential move up in Saudi equities, should oil prices rebound
- This note follows on from our [more detailed commentary on potential MSCI watch list inclusion](#) from June 18

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# Investment Strategy Note

21 June 2017



## Sources

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All information in this report has been obtained from the following sources except where indicated otherwise:

1. Bloomberg
2. Wall Street Journal
3. RTTNews
4. Reuters
5. Gulfbase
6. Zawya

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