

MACRO & MARKETS

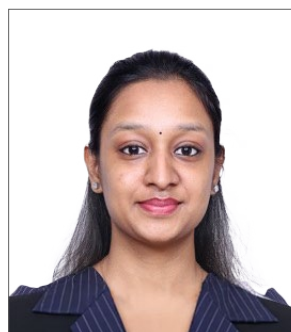
GCC - DECEMBER 2025

GCC Banks Vs. EM Banks:
And the winner is...

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Key Highlights

▶ **Regional markets end the month in red:** The S&P GCC composite index declined by 7.4% during the month of November 2025 due to negative global sentiment. All GCC equity market indices, except Oman registered broad-based losses.

▶ **Positive momentum in Kuwait's economic environment:** S&P upgraded Kuwait's sovereign credit rating to AA- with a stable outlook, citing progress on fiscal reforms, the new financing law, and strong government asset positions despite persistent deficits and hydrocarbon reliance.

▶ **GCC provides stronger dollar returns:** The currency effect acts as a drag on the dollar-denominated returns of banks in emerging markets. Unlike other emerging markets where stock returns are undercut in dollar terms due to local currency depreciation, the GCC markets carry an inherent advantage that offers stable returns in dollar terms due to their currency peg.

▶ **Stellar performance of GCC banks:** Banks such as ADIB and ENBD delivered strong double-digit annual returns at 37.2% and 24.2% respectively driving the returns of the UAE banking index in the last five-year period. Al Rajhi bank, Gulf bank and KFH were few top performers in Saudi Arabia and Kuwait and delivered annualised returns of 20.8%, 14.2% and 13.7% respectively in the last five years.

▶ **GCC – A clear choice for active EM fund managers:** GCC markets offer dual advantage: an environment apt for successful stock picking to drive strong performance and steady dollar-denominated returns. This blend of stability and strong fundamentals positions the GCC and GCC Banks as potentially the best risk-reward proposition for active EM managers over the near term.

Market Wrap - November 2025

All GCC equity indices, except Oman, declined during November 2025, with the S&P GCC Composite Index falling 7.4%. The S&P GCC Composite Index fell amid negative global sentiment, resulting in broad-based losses across Saudi Arabia (-9.1%), Dubai (-3.7%), Abu Dhabi (-3.5%), Qatar (-3.1%), and Bahrain (-1.1%). Kuwait All Share Index declined by 1.9% in November, driven by a 2.1% decline in the banking sector index. However, Kuwait's economic landscape demonstrated positive momentum in November, headlined by S&P's upgrade of the sovereign credit rating to AA- with a stable outlook, citing progress on fiscal reforms, the new financing law, and strong government asset positions despite persistent deficits and hydrocarbon reliance. The Muscat Stock Exchange (MSX) gained 1.7%, benefiting from the IMF's favourable economic outlook and strong, sustained net buying by foreign investors. Oil (Brent) prices fell by 2.9% during the month owing to persistent concerns over excess global supply.

Research Theme

GCC Banks Vs. EM Banks: And the winner is...

Financials account for 22% of the MSCI EM index, next only to Information Technology (28%). There are 146 banks represented in the EM index, of which 26 are in the GCC. China (38) and India (13) dominate the list, both in terms of the number of banks and their weight in the index, but the GCC closely follows.

Most EM banks face currency risk, while GCC currencies are pegged to the USD (except Kuwait, which is pegged to a basket). The currency effect acts as a drag on the returns of dollar-denominated investments. Unlike other emerging markets where stock returns are undercut in dollar terms due to local currency depreciation, the GCC markets carry an inherent advantage that offers stable returns in dollar terms due to their currency peg. This opens up the case to examine the performance of GCC banks with other EM banks in the MSCI EM index, both in local currency terms and USD terms, especially when active EM fund managers are underweight GCC banks relative to other EM banks.

Over the last five years (till October 2025), GCC banking stocks have outperformed major emerging-market banking stocks such as India, China, Brazil, and Taiwan, delivering higher dollar returns. UAE banks registered annualized returns of 22.4% followed by Saudi Arabia at 16.8% and Kuwait at 12.6%. Compared with India, China's banking stock performance in U.S dollars terms was 3.4%, while India's was 7.2%.

Banks such as ADIB and ENBD delivered strong double-digit returns of 37.2% and 24.2%, respectively, driving the UAE banking index's returns over the five-year period. Al Rajhi bank (0.55% weight in MSCI EM index), Gulf bank (0.02% weight in MSCI EM index) and KFH (0.29% weight in MSCI EM index) were a few top performers in Saudi Arabia and Kuwait and delivered annualized returns of 20.8%, 14.2% and 13.7% respectively, in the last five years.

A similar trend has been observed in the performance of EM banking stocks over the past 10 years, through October. Saudi banking stocks registered a CAGR of 11.4%, Kuwait at 10.7%, and the UAE at 9.8%, significantly higher than the EM banking index's 5.2%. While India (the largest weighted country in terms of banking stocks) posted a 9.6% CAGR, China trailed at 3.8%. The performance of South Africa at 18.5% CAGR and Hungary at 17.3% CAGR is noteworthy, but they carry smaller weights and may not move the needle.

Emerging markets such as Turkey and Egypt have recorded sharp currency depreciation against the USD, wiping out the strong returns generated in local currency terms. Over the past 10 years to October 2025, Turkish banking stocks posted a 30.1% CAGR in local currency terms, while registering a 0.4% loss due to the depreciation of the Turkish lira against the USD (from 2.91/USD to 42.02/USD). The same is true of Egyptian banks, which recorded annualized returns of 20.1% in local currency terms and 0.6% in USD terms. Egyptian pound (EGP) depreciated from 8.03/USD in October 2015 to 47.19/USD in October 2025.

Notably, over the last 10- and five-year timeframes, only a few emerging markets, specifically Brazil, the Czech Republic, and Poland, have bucked this trend, and their USD returns exceeded local currency returns. For instance, Brazilian banks delivered a CAGR of 12.9% in local currency terms while USD returns stood at 14.4% due to the depreciation of USD against the Brazilian Real from 5.74/USD to 5.37/USD.

This case presents an opportunity for active EM fund managers. Unlike passive strategies, which are constrained by index holdings, active stock selection allows managers to overweight high-quality stocks that not only deliver robust returns in their local currencies but also provide stable returns to investors in dollar terms. Active managers could underweight emerging market stocks that offer relatively lower returns in dollar terms due to currency depreciation. While a few emerging markets have temporarily appreciated against USD, the lack of sustained currency strength makes them less compelling for strategic, long-term overweighting by active EM fund managers.

Beyond stable dollar returns, GCC markets stand out as one of the most rewarding investments among emerging markets. Structural reforms and government initiatives in the GCC countries bode well for their equity market performance. GCC markets have outperformed EM over the last five years (till October 2025), with the S&P GCC Composite index registering a CAGR of 8.7% compared to 4.9% for the MSCI EM index. GCC banks, in particular, exhibit stronger financial health than other EM banks, with better asset quality, greater capitalization, and stable government funding. Overall, for active EM managers seeking superior returns, the GCC is a clear choice and GCC banks even more so.

GCC markets offer dual advantage: an environment apt for successful stock picking to drive strong performance and steady dollar-denominated returns. Banks such as KFH, ADIB, and Al Rajhi have produced robust 10-year returns in USD terms, unlike the returns of stocks in other emerging markets, which were significantly dampened by currency depreciation. This blend of stability and strong fundamentals positions the GCC and GCC Banks as potentially the best risk-reward proposition for active EM managers over the near term.

Appendix:

Performance of MSCI EM Banking stocks (10-Year)

EM Banking stocks by region	Number of banks	10-year LC Return (CAGR)	10-year USD Return (CAGR)	Difference between USD and LC returns	Outperformance/ Underperformance relative to EM Index	Weight in the MSCI EM index
India	13	13.0%	9.6%	-3.4%	4.4%	3.07%
China	38	5.0%	3.8%	-1.2%	-1.4%	3.06%
Saudi Arabia	10	11.5%	11.4%	0.0%	6.2%	1.35%
Brazil	6	13.5%	9.8%	-3.7%	4.6%	1.34%
Taiwan	11	5.4%	6.0%	0.6%	0.8%	1.15%
Kuwait	5	10.8%	10.7%	-0.1%	5.5%	0.65%
UAE	5	9.8%	9.8%	0.0%	4.6%	0.62%
Indonesia	4	10.3%	8.2%	-2.1%	3.0%	0.58%
Korea	6	8.6%	6.2%	-2.4%	1.0%	0.54%
South Africa	4	21.2%	18.5%	-2.7%	13.3%	0.54%
Malaysia	6	2.1%	2.3%	0.3%	-2.9%	0.51%
Qatar	6	2.5%	2.6%	0.1%	-2.6%	0.47%
Greece	4	-10.1%	-10.6%	-0.4%	-15.8%	0.39%
Poland	5	7.5%	8.0%	0.5%	2.8%	0.39%
Mexico	2	6.8%	5.5%	-1.2%	0.3%	0.28%
Hungary	1	19.3%	17.3%	-2.0%	12.1%	0.21%
Peru	1	13.0%	12.7%	-0.3%	7.5%	0.17%
Chile	3	15.3%	11.8%	-3.5%	6.6%	0.17%
Turkey	4	30.1%	-0.4%	-30.5%	-5.6%	0.12%
Philippines	3	4.3%	3.4%	-0.9%	-1.8%	0.12%
Thailand	4	0.3%	1.2%	1.0%	-4.0%	0.11%
Colombia	2	9.4%	7.0%	-2.4%	1.8%	0.11%
Czech Republic	2	3.5%	5.1%	1.6%	-0.1%	0.06%
Egypt	1	20.1%	0.6%	-19.5%	-4.6%	0.05%
MSCI EM Index	146	-	5.2%	-	-	-

Source: LSEG Workspace

Performance of MSCI EM Banking stocks (5-Year)

EM Banking stocks by region	Number of banks	5-year LC Return (CAGR)	5-year USD Return (CAGR)	Difference between USD and LC returns	Outperformance/Underperformance relative to EM Index	Weight in the MSCI EM index
India	13	11.0%	7.2%	-3.8%	2.3%	3.07%
China	38	4.6%	3.4%	-1.3%	-1.5%	3.06%
Saudi Arabia	10	17.1%	16.8%	-0.3%	11.9%	1.35%
Brazil	6	12.9%	14.4%	1.5%	9.5%	1.34%
Taiwan	11	8.5%	6.9%	-1.6%	2.0%	1.15%
Kuwait	5	12.7%	12.6%	-0.1%	7.7%	0.65%
UAE	5	22.4%	22.4%	0.0%	17.5%	0.62%
Indonesia	4	6.6%	3.9%	-2.7%	-1.0%	0.58%
Korea	6	21.2%	15.8%	-5.4%	10.9%	0.54%
South Africa	4	35.2%	33.5%	-1.7%	28.6%	0.54%
Malaysia	6	6.2%	6.0%	-0.2%	1.1%	0.51%
Qatar	6	1.6%	1.7%	0.1%	-3.2%	0.47%
Greece	4	42.6%	42.9%	0.3%	38.0%	0.39%
Poland	5	36.3%	38.3%	1.9%	33.4%	0.39%
Mexico	2	13.3%	16.4%	3.0%	11.5%	0.28%
Hungary	1	26.7%	25.1%	-1.7%	20.2%	0.21%
Peru	1	18.9%	20.6%	1.7%	15.7%	0.17%
Chile	3	29.9%	24.9%	-5.0%	20.0%	0.17%
Turkey	4	70.9%	23.7%	-47.2%	18.8%	0.12%
Philippines	3	12.6%	11.7%	-0.9%	6.8%	0.12%
Thailand	4	18.9%	17.9%	-0.9%	13.0%	0.11%
Colombia	2	19.4%	14.8%	-4.6%	9.9%	0.11%
Czech Republic	2	21.8%	24.3%	2.5%	19.4%	0.06%
Egypt	1	28.2%	2.8%	-25.4%	-2.1%	0.05%
MSCI EM Index	146	-	4.9%	-	-	-

Source: LSEG Workspace

Market Performance

Equities	Returns		
	2024	Nov-25	YTD-2025
Saudi Arabia	0.6%	-9.1%	-12.0%
Kuwait All Share	8.0%	-1.9%	20.3%
Qatar General Index	-2.4%	-3.1%	0.4%
Abu Dhabi	-1.7%	-3.5%	3.5%
Dubai	27.1%	-3.7%	13.1%
Bahrain	0.7%	-1.1%	2.7%
Oman	1.4%	1.7%	24.7%
S&P GCC Composite	2.0%	-7.4%	-2.4%

Source: LSEG Workspace

Commodities	Returns		
	2024	Nov-25	YTD-2025
Oil (Brent)	-3.1%	-2.9%	-15.3%
Natural Gas	44.5%	17.6%	33.5%
Gold	27.2%	5.7%	61.2%

Source: LSEG Workspace

Fixed Income	Yields	
	2024	YTD-2025
U.S. Treasury 10Y Sov.	4.5%	4.0%
Saudi Arabia 10Y Sov.	5.2%	4.7%
Abu Dhabi 10Y Sov.	4.9%	4.2%

Source: LSEG Workspace

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