

# SAGA

## — STRATEGIES —

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### SAGA Views and News

*Welcome to the SAGA Strategies' newsletter!*

*As we come to the end of the 2018 calendar year, we offer some thoughts about the main story points and the relative resilience of the KSA equity market.*

*Feel free to visit our website to learn more or drop us an email [here](#).*

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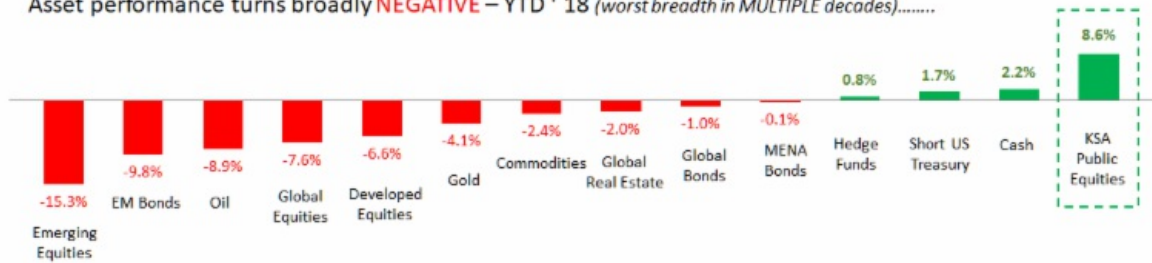
### 2018 Market Recap - The Unpredictable Year

As we head into the final few days of 2018, ready to turn the corner into 2019, we take a moment in this issue to reflect on the year that was dominated by trade conflicts, volatility, and interest rate concerns. In the next newsletter, we will look at 2019, not so much to predict, but to consider the potential possibilities and pitfalls.

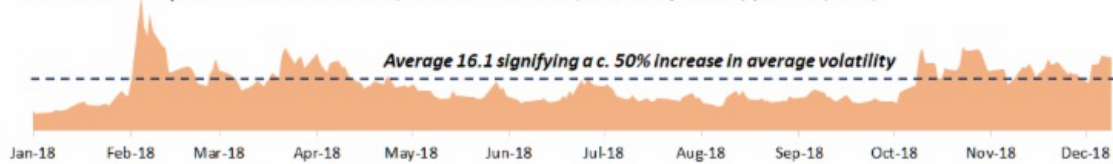
2018 started against the backdrop of a rising tide that lifted asset values across the spectrum from KSA public markets to global bonds, real estate, and equities. Volatility was at a historical low which facilitated riskier investing. But the story in 2018 was quite different...

**Volatility.** The main headline for 2018 was the heightened perception of risk on multiple fronts. Across different asset classes and geographies, volatility gave way to an overall negative performance on returns, impacting even risk assets. Higher interest rates in the US, while other major central banks like the ECB & the BOJ were forced to continue negative rate regimes, led to USD strength reflecting the US' strong GDP growth while Europe and Japan slowed down.

Asset performance turns broadly **NEGATIVE** – YTD '18 (worst breadth in MULTIPLE decades).....



..... as volatility rises **SIGNIFICANTLY** (CBOE VIX Index below, measure of volatility for US Equities)



**KSA Outperforms.** Against this backdrop, KSA public equities outperformed most major markets. While geopolitical dynamics in the region and globally played a role in the overall volatility story, 2018 ended on positive ground. But one must be aware that 2018 had two stories. In the first half, optimism on the back of 2017 and MSCI inclusion drove strong market performance. In the second half, however, government policies and lower spending pressured performance on the Tadawul. In addition, geopolitical risks resulted in net foreign capital outflows and the drop in oil prices from October increased pressure on the economy.

Taking a deeper dive, one sees that sector performance was quite uneven. Petrochemicals showed strong earnings until Q3 but due to the Q4 drop in oil and product prices, investors increasingly expected lower earnings. Food & Beverages and Healthcare sector equities suffered from the mass exodus of migrant workers. At the same time, banks presented a strong picture, with cost of risk still low and higher margins due to higher interest rates.

2018 was expected to be the year when a fundamental correction took place in global financial markets. However, the fact that most markets have only scraped negative territory – correlated with their riskiness – the resilience of the global markets was clearly on display. And this was further supported by by macros which have not detoxicated for the most part. While this may indicate a more severe correction when it happens, the markets indicate otherwise as will see in the next newsletter.

For more perspective on why KSA was able to remain resilient in 2018, consider consulting with one of our experts.

## Interesting News

- [\(Economist Magazine\) Family Offices Become Financial Titans](#) - The Economist magazine covers the rise of family offices and why families are increasingly investing the time and money into establishing these important institutions.
- [58% HNIs interested in setting up family office: Edelweiss Campden report](#) - More than half of the wealthy business families in India, are interested in setting up or joining a family office.
- [\(JLL\) Family Offices Embrace Real Estate, Eye Further Allocations](#) - Family offices have upped their exposure to real estate, drawn by the attractive returns and diversification benefits the sector offers.