

Special Report

GCC Capital Markets Newsletter – 2Q25



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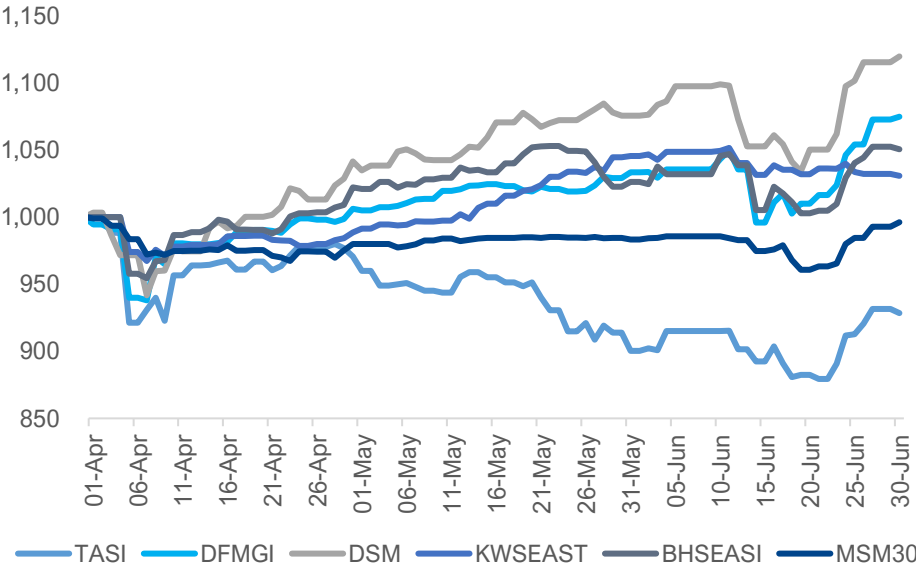
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GCC Equity Market Analysis

Majority of the GCC markets recovered in 2Q25, with UAE at the forefront

- Global sentiment improved, as easing trade tensions and advancing US trade negotiations positively impacted GCC index returns in 2Q25.
- The DFMGI (Dubai) Index led GCC indices with a 12.0% return, fueled by strong non-oil growth, improved investor sentiment, robust corporate earnings, policy reform, and increased foreign institutional inflows.
- The TASI (Saudi) was the weakest performer among GCC indices, declining by 7.2% due to falling crude oil prices, which impacted export revenue.
- The DSM (Qatar) Index rose 5.0%, the KWSEAST (Kuwait) Index gained 4.7%, and the MSM 30 (Oman) Index advanced 3.1% in 2Q25, supported by improved global sentiment, easing trade tensions, and the Israel-Iran ceasefire.
- The Bahrain (BHSEASI) Index closed 2Q25 nearly flat at -0.4%, with early weakness from subdued economic cues offset by late-quarter gains driven by positive global sentiment, short-term liquidity support, and regional tailwinds.

GCC Countries Equity Returns – 2Q25

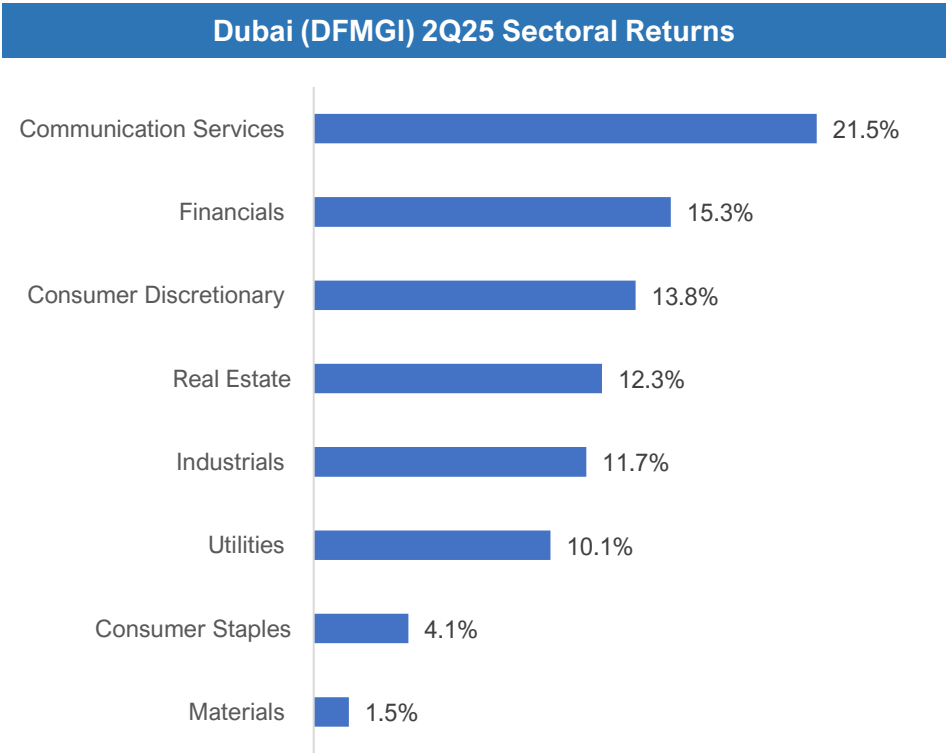


Country	Apr-25	May-25	Jun-25	2Q25	2Q24	YTD
Saudi Arabia (TASI)	-2.9%	-5.8%	1.6%	-7.2%	-5.8%	-7.2%
Dubai (DFMGI)	4.1%	3.3%	4.1%	12.0%	-5.1%	10.6%
Qatar (DSM)	2.2%	0.0%	2.7%	5.0%	1.2%	1.7%
Bahrain (BHSEASI)	-2.0%	0.5%	1.2%	-0.4%	-0.8%	-2.1%
Kuwait (KWSEAST)	-1.4%	1.9%	4.2%	4.7%	-5.3%	14.8%
Oman (MSM 30)	-1.2%	5.7%	-1.3%	3.1%	1.1%	-1.7%

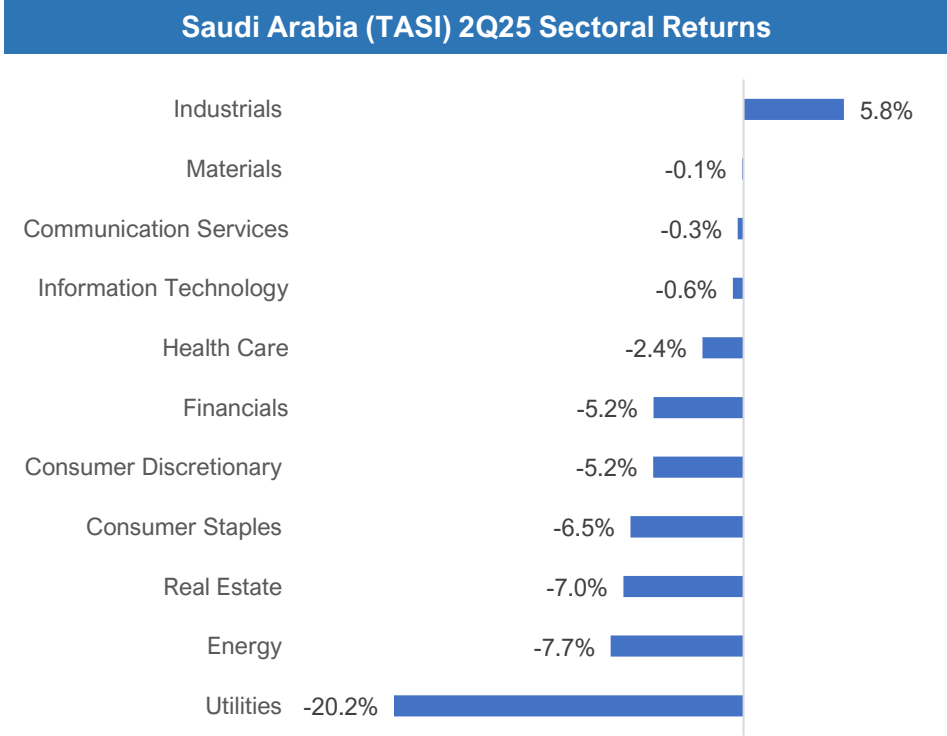
Source: Bloomberg, Aranca Research

Dubai and Saudi Equity Market Analysis

DFMGI demonstrated resilience, while TASI faced downward pressure



The Financial Services sector, the highest weighted in the index, led gains at 15.3%, driven by strong 1Q25 corporate earnings and positive Q2 investor sentiment. The Real Estate sector, the second highest weighted, rose by 12.3% due to higher transaction volumes and strong developer performance. The Industrials sector increased by 11.7%, reflecting robust non-oil growth.

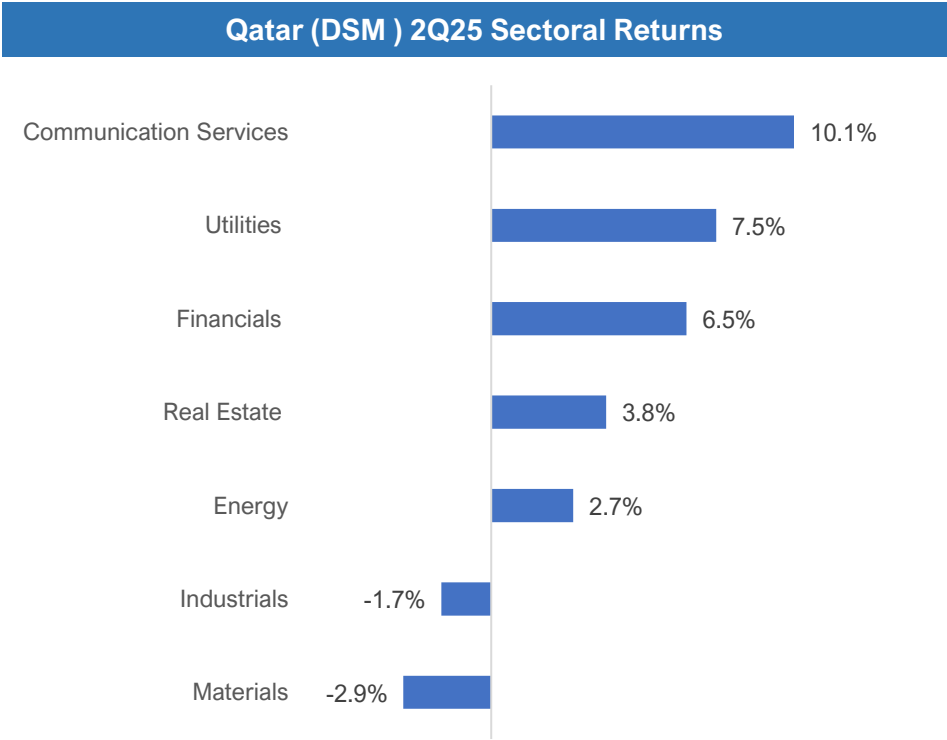


In the 2Q25, most sector indices in Saudi Arabia declined, heavily impacted by high weighted key sectors such as financial services, energy, and materials. The financial services sector fell by 5.2%, due to reduced trading volumes impacting revenue expectations and investor sentiment. The energy sector struggled with lower oil revenue amid subdued global prices, while the materials sector contracted due to rising input costs. This decline was partially offset by a 5.8% gain in the industrial sector, driven by better performance in the non-oil economy.

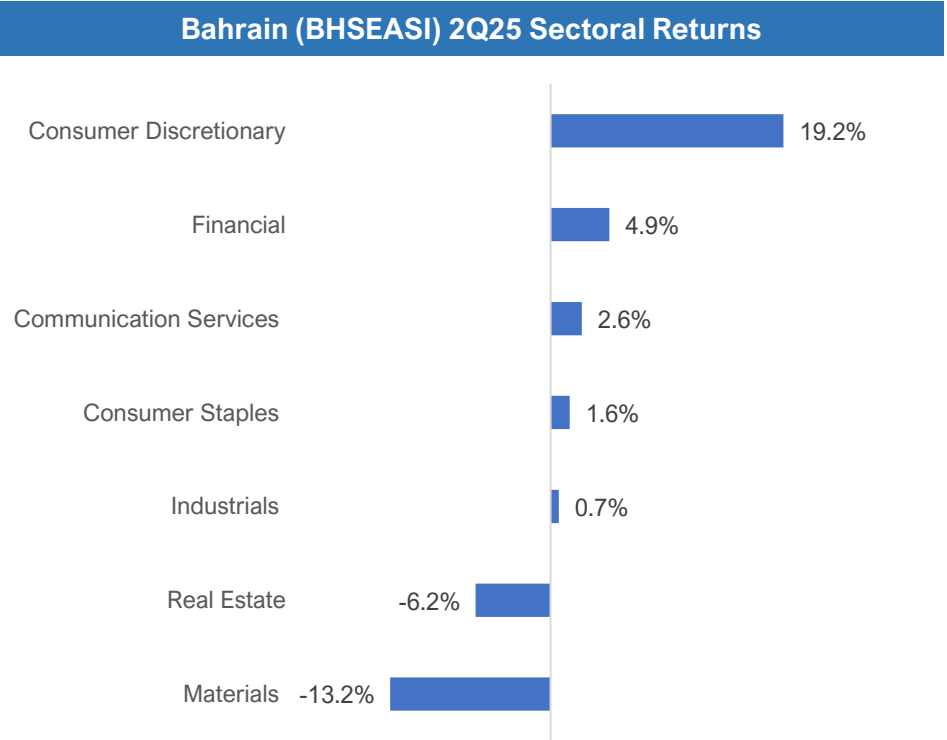
Source: Bloomberg. UAE and Saudi Indices used for sectoral returns

Qatar and Bahrain Equity Market Analysis

Financial services boost performance in Qatar and Bahrain



Qatar’s DSM experienced an increase primarily driven by gains in high-weight sectors such as Financial Services, Energy, and Communication Services, despite a decline in the Industrials sector, which is the second most weighted. Financial Services benefited from positive 1Q earnings and increased foreign fund flows. The Energy sector outperformed with new LNG investments, while Communication Services grew through acquisitions enhancing 5G and digital infrastructure.



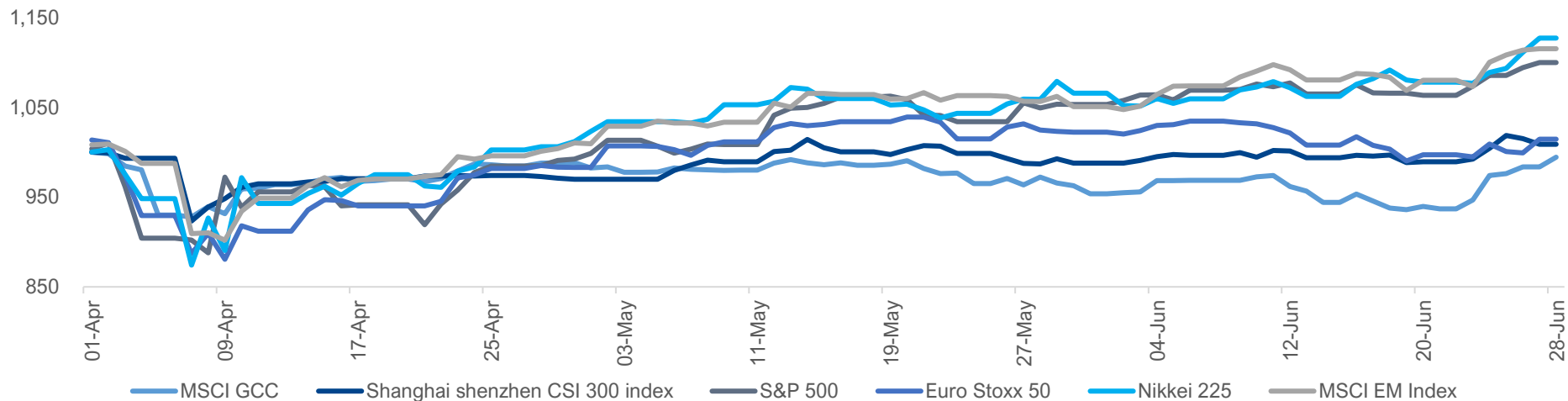
Bahrain’s BHSEASI remained flat in 2Q25, as gains in heavyweight financial services were largely offset by losses in the second-largest weighted materials sector index. The financial services sector experienced growth due to rise in foreign fund inflows and better-than-expected earnings in the 1Q, attributed to increased interest income and reduced impairments. Investors sentiments remains positive, supported by enhanced profitability and cost efficiency. Meanwhile, the materials sector declined due to increased cost pressures.

Source: Bloomberg. Qatar and Bahrain Sector indices are used for sectoral returns

GCC vs. Global Equity Market Analysis

Global equities rose on rate cut hopes and trade deal optimism

GCC vs. Global Indices – 2Q25

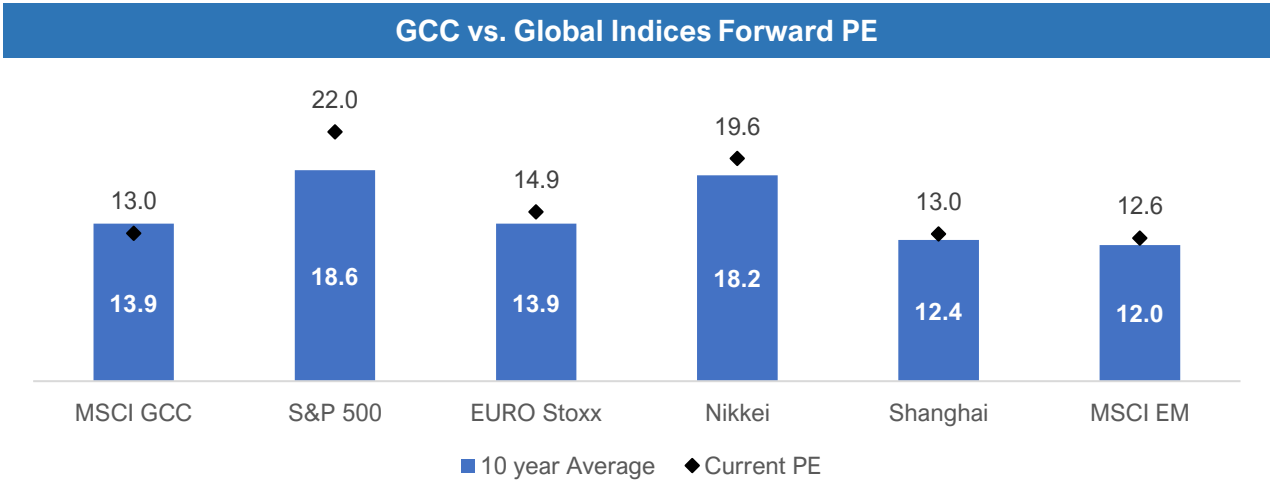


- In 2Q25, Japan's Nikkei 225 led global markets with a +13.7% return, supported by strong semiconductor earnings, corporate reform optimism, and steady Bank of Japan (BoJ) policy. However, US-Japan trade remained a key concern despite Japan's outperformance. The MSCI EM Index rose +11.0%, the S&P 500 gained +10.6%, and the Shanghai Index edged up +1.3%. The MSCI GCC Index witnessed slight decline and stood at -0.7%.
- The MSCI EM Index rose +11.0% in 2Q25, supported by easing geopolitical tensions, a weaker USD boosting capital inflows, and strong performance in Mexico, Korea, and India.
- The S&P 500 gained +10.6% in 2Q25, driven by artificial intelligence (AI)-led tech optimism, hopes for progress in US-China trade talks, and expectations of deeper Fed rate cuts amid weak economic indicators.
- The MSCI GCC Index reflected slight decline to -0.7% in 2Q25, weighed down by heavy-weight indexes such as the Saudi's TASI amid weak oil prices and subdued oil revenue. However, the decline was partially offset by a regional ceasefire that improved investor's sentiment.

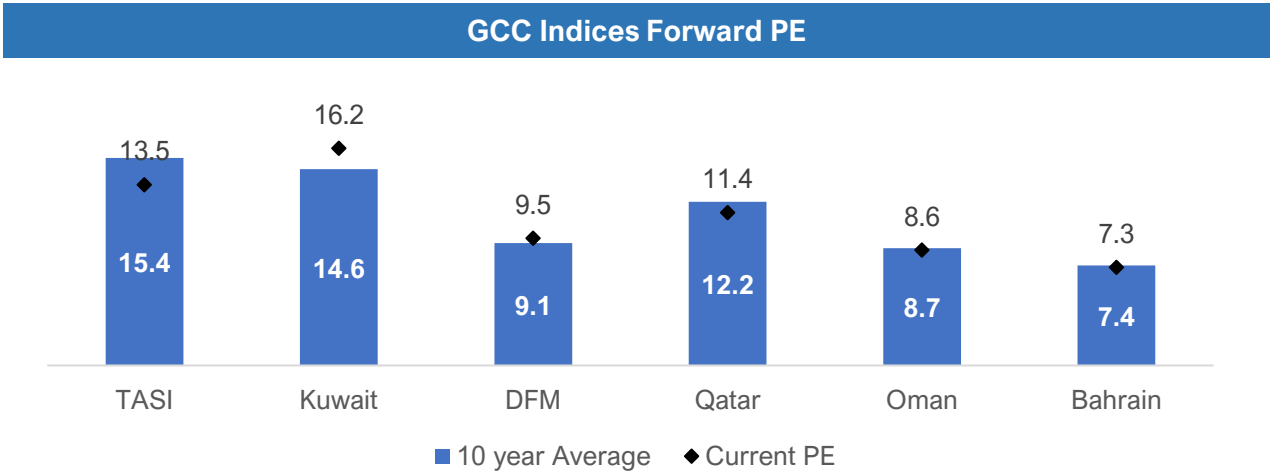
Source: Bloomberg, Aranca Research

GCC vs. Global Equity Market Valuation

Kuwait trades at a premium, while Qatar and Saudi remain discounted



The GCC market is fairly valued based on the past-10-year average (1-year forward PE), similar to the global indices, except the US market, which is currently trading at a premium at 22.0x vs. its past-10-year average of 18.6x. Most of the indices are trading at par which reflects the impact of volatility caused by announced tariffs by the US government.



Within GCC, Kuwait is trading at a premium of 16.2x vs. its past-10-year average PE multiple of 14.6x, while Qatar is trading at discount of 11.4x. TASI is also trading at a discount at 13.5x vs its past-10-year average PE of 15.4x, considering the recent quarter decline. However, other GCC indices are fairly valued. Saudi Arabia, the UAE, and Kuwait remain the most attractive markets, considering structural reforms and higher non-oil growth vs. other countries in the region.

Source: Bloomberg, Aranca Research.

GCC Macroeconomic Performance

Balanced inflation and elevated PMI indicate favorable economic conditions

GCC inflation stays low, highlighting economic stability and effective price control

Country	2024												2Q25		
	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Apr-25	May-25	Jun-25
Oman	-0.1%	0.0%	0.2%	0.4%	0.9%	0.7%	1.5%	1.1%	0.4%	0.8%	0.5%	0.7%	0.9%	0.6%	0.5%
Kuwait	3.3%	3.4%	3.0%	3.2%	3.2%	2.8%	3.0%	2.9%	2.8%	2.4%	2.4%	2.5%	2.3%	2.3%	2.3%
Bahrain	0.8%	0.6%	1.0%	1.2%	2.5%	1.4%	1.1%	0.9%	0.4%	0.3%	0.4%	0.5%	-0.5%	-1.0%	-0.4%
KSA	1.6%	1.8%	1.6%	1.6%	1.6%	1.5%	1.5%	1.6%	1.7%	1.9%	2.0%	1.9%	2.3%	2.2%	2.3%
Qatar	3.0%	2.7%	1.0%	0.7%	0.9%	1.0%	0.2%	1.2%	0.8%	0.9%	1.0%	0.2%	0.5%	-0.1%	NA

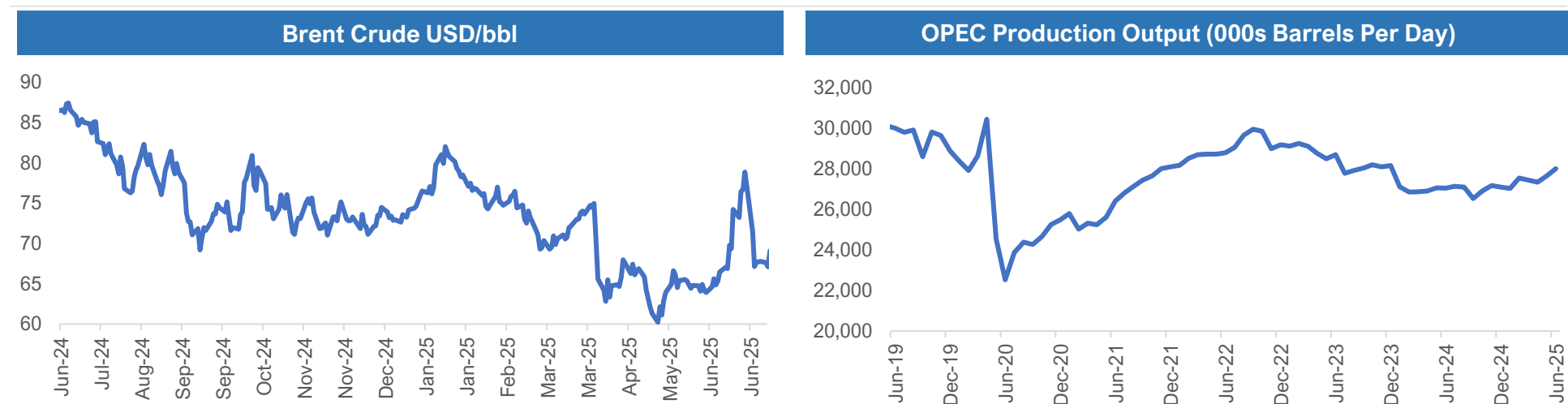
Strong PMI Figures Reflect Robust GCC Economic Momentum

Country	2024												2Q25		
	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Apr-25	May-25	Jun-25
Saudi Arabia PMI	55.4	57.2	57.0	57.0	56.4	55.0	54.4	54.8	56.3	56.9	59.0	58.4	55.6	55.8	57.2
UAE NBD Composite PMI	56.6	57.1	56.9	55.3	55.3	54.6	53.7	54.2	53.8	54.1	54.2	55.4	54.0	53.3	53.5
Qatar PMI	50.4	51.0	50.6	52.0	53.6	55.9	51.3	53.1	51.7	52.8	52.9	52.9	50.7	50.8	52.0

Source: Bloomberg and Reuters

GCC Oil Market

Brent crude oil price declined to USD 67.61/bbl at the end of 2Q25, due to ceasefire in the region



- In 2Q25, Brent crude oil prices fell by 9.5%, primarily due to increased output from OPEC+ African producers and a 1.0% YoY rise in OPEC production, as Russia and Saudi Arabia sought to regain market share. The decline was further influenced by the reversal of production cuts and investor speculation about future production increases.
- A recent ceasefire between Israel and Iran also contributed to reduced risk premiums associated with oil, amplifying the downward pressure on prices. This situation highlights the complex interplay of supply dynamics and geopolitical factors affecting the global oil market.

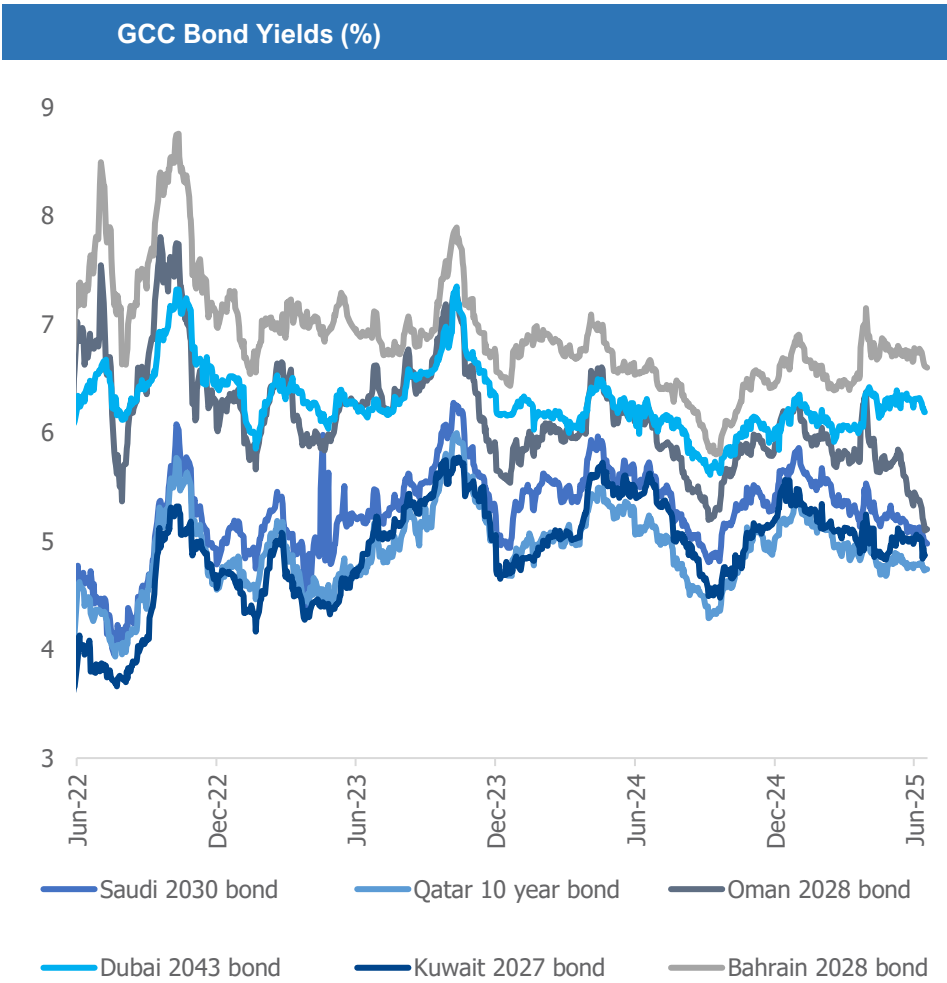
Outlook: Oil price forecasts remain uncertain due to uncertainty from tariffs, which could dampen global demand. Sanctions on Russia and Iran, along with lower oil inventories in the OPEC+ region, could lead to short-term volatility.

According to the latest IEA report, in 2025, global oil prices are expected to be influenced by a complex interplay of supply and demand dynamics. World oil demand is forecast to increase by 720 kb/d, slightly below previous estimates due to weaker deliveries in the US and China. Conversely, global oil supply is projected to rise by 1.8 mb/d, driven by non-OPEC+ producers unwinding production cuts. This supply surplus, combined with rising refinery throughputs, suggests a well-supplied market. However, geopolitical tensions, particularly in the Middle East, could introduce volatility, potentially driving prices higher if disruptions occur.

Source: Bloomberg

GCC Bond Market Analysis

Government bond indices fell in 2Q25, amid robust bond issuances in GCC



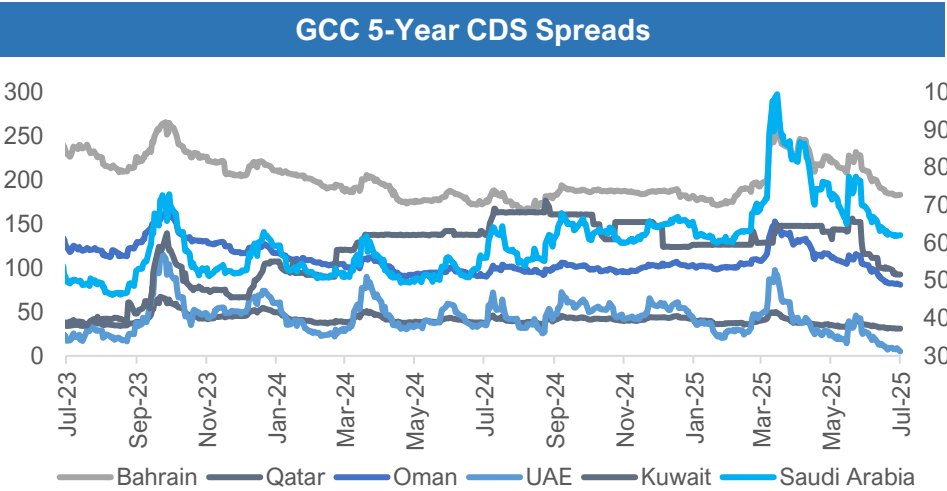
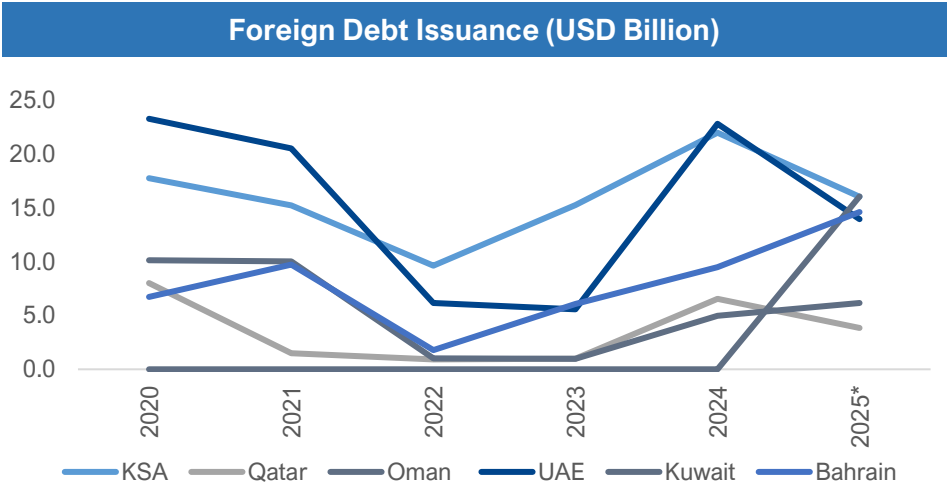
GCC Markets	Yield (BPS)			
	Index	2Q25	2Q24	YTD
	Saudi 2030 bond	-26	32	-69
	Qatar 10-year bond	-19	20	-46
	Oman 2028 bond	-69	17	-110
	Dubai 2043 bond	17	27	11
	Kuwait 2027 bond	-13	50	-71
	Bahrain 2028 bond	5	-8	-3

- In 2Q25, Yields in the GCC region fell overall, supported by the strong economic fundamentals, increased demand due to expectations of rate cuts by the US, and easing geopolitical tensions.
- Despite a notable increase in bond issuances across the region, particularly from countries such as Saudi Arabia, Bahrain, and Kuwait, the rising demand contributed to the downward trend in yields. A prime example of this is the Central Bank of Bahrain's announcement on May 27, where its three-year Government Development Bond issue was oversubscribed by an impressive 203%, attracting BD 507.8 million in subscriptions for a BD 250 million offering.

Source: Bloomberg

GCC Debt Issuance and Impact on Spreads

Higher debt levels fuel volatility in credit markets



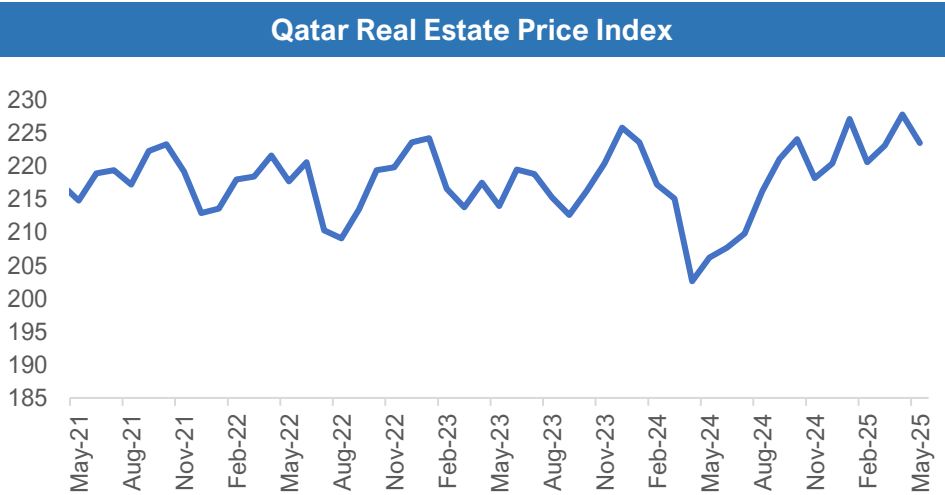
Foreign debt issuance in the GCC region has increased in 2025. This has been primarily driven by lower-than-expected oil prices, which have led to reduced oil revenue and widening budget deficits as governments ramp up spending to support non-oil sector growth. As of July 2025, sovereign debt issuance in the GCC stood at USD 70.6 billion, surpassing the full-year issuance of USD 65.7 billion in 2024. The six GCC countries have projected total expenditures of approximately USD 542 billion against expected revenue of USD 487.8 billion. Saudi Arabia has forecasted a fiscal deficit of around USD 27 billion, accounting for nearly half of the region’s total shortfall. Kuwait expects a USD 20 billion deficit and has already issued USD 16 billion YTD, following the revival of its debt law in March this year after an eight-year pause.

Credit default swap (CDS) spreads in the GCC widened in 2025, driven by increased debt issuance and rising geopolitical risk. Spreads, which had already risen through 2024, peaked in April 2025 amid the Israel-Iran conflict, as markets priced in a temporary risk premium due to fears of oil supply disruptions and regional spillover. Although oil prices initially spiked, concerns over long-term stability particularly the risk of weaker demand and growing fiscal pressures in oil-dependent economies added to market volatility. Increased sovereign borrowing to finance large deficits also contributed to the widening spreads. However, following a ceasefire and improving investor sentiment, spreads have since normalized, in some cases falling below historical averages. Looking ahead, spreads may remain volatile and face upward pressure amid persistent geopolitical tensions and elevated debt issuance.

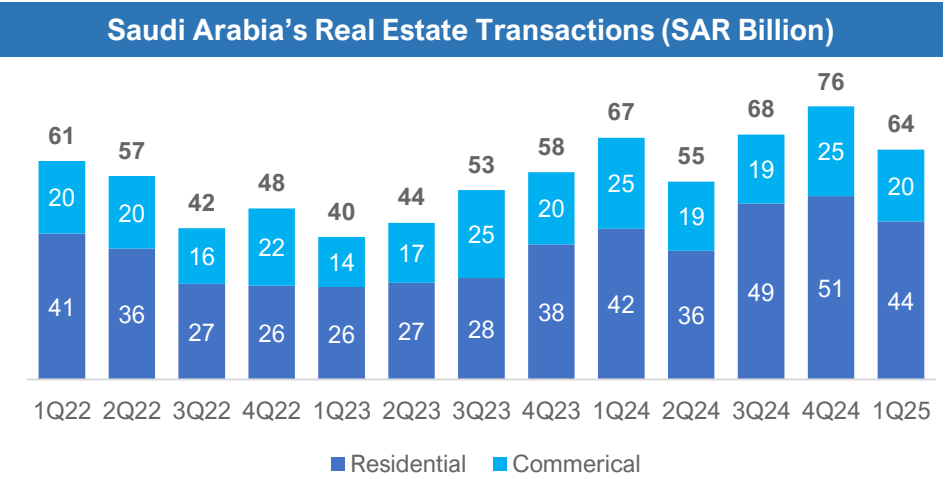
Source: Bloomberg, Aranca Research, * As of July 27, 2025

GCC Real Estate

Qatar’s real estate sector witnessed continued demand, whereas GCC demand normalized in 2Q25



The Real Estate Price Index in Qatar reached 223.5 points in May 2025, marking an 8.4% YoY increase from 206.2 points in May 2024. However, the index declined by 1.9% MoM, down from 227.8 points in April 2025. The strong annual growth underscores the resilience of Qatar’s real estate market, supported by sustained demand in Doha and nearby regions, rising foreign capital inflows, and robust mortgage activity. In contrast, the monthly dip reflects short-term market volatility, likely driven by seasonal trends or minor pricing corrections.



In 1Q25, Saudi Arabia's real estate transactions declined by 4.5% year-on-year to SAR 64 billion, with residential sales at SAR 44 billion and commercial sales at SAR 20 billion. This decline in transaction value is due to increased borrowing costs, and the introduction of white land fees, prompting landowners to expedite sales. Higher financing costs have restricted borrowing for families and investors, while competition among developers has led to attractive pricing and flexible financing solutions. Looking ahead, the market is expected to stabilize over the next six months, with Al-Zahrani forecasting a modest price decline of 2-4% in areas with excess supply and potential transaction value increases of 3-5% if major projects or innovative financing products are launched.

Source: Bloomberg, Ministry of Justice



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