



# Follow the Money

A Strategic Call  
to the Heart of The Gulf



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In a world where geopolitical tensions often dictate the ebb and flow of international markets, the Gulf Cooperation Council (GCC) nations stand apart, against common misconception. Indeed, despite the heated climate of their geographic vicinity, these countries appear to have chosen a path of peace and economic prosperity. This deliberate pivot towards stabilisation and development represents not only a political stance but also a burgeoning opportunity for global investors.



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### A Commitment to Peace and Prosperity

Peace in the region has been a critical initiative that the GCC has pursued over the past decade. In 2020, Bahrain and UAE normalised their relations with Israel through the Abraham Accords, which created new economic and diplomatic opportunities. Even more recently, Gulf States have actively engaged in diplomatic initiatives to de-escalate tensions between Israel and Iran since the October 2023 attacks. For instance, collective calls from the UAE, Saudi Arabia, and other regional partners have emphasised the importance of dialogue, adherence to international law, and respect for the UN Charter to ensure regional stability. Saudi Arabia has also been directly involved in discussions with Iran, focusing on the potential repercussions of regional tensions, highlighting ongoing efforts to manage relations and prevent conflict escalation. We have observed the positive impacts of these initiatives on the local stock exchanges, with the Tadawul Index (Saudi Arabian Stock Exchange) gaining 15% since the events of October 7th, 2023.

### Global Investment Powerhouses

GCC countries have emerged as significant global investors through sovereign wealth funds such as the Saudi Public Investment Fund (PIF) and the Abu Dhabi Investment Authority (ADIA), boasting an estimated combined asset base of over \$2 trillion. The Saudi Public Investment Fund (PIF) has launched various local investment initiatives to support and diversify the Kingdom’s economy in alignment with Vision 2030 across all strategic sectors. Furthermore, these sovereign funds have become well-established and seasoned international investors with substantial holdings in companies like Uber and Lucid Motors, aligning their objectives with foreign investors investing alongside them domestically.<sup>1</sup>

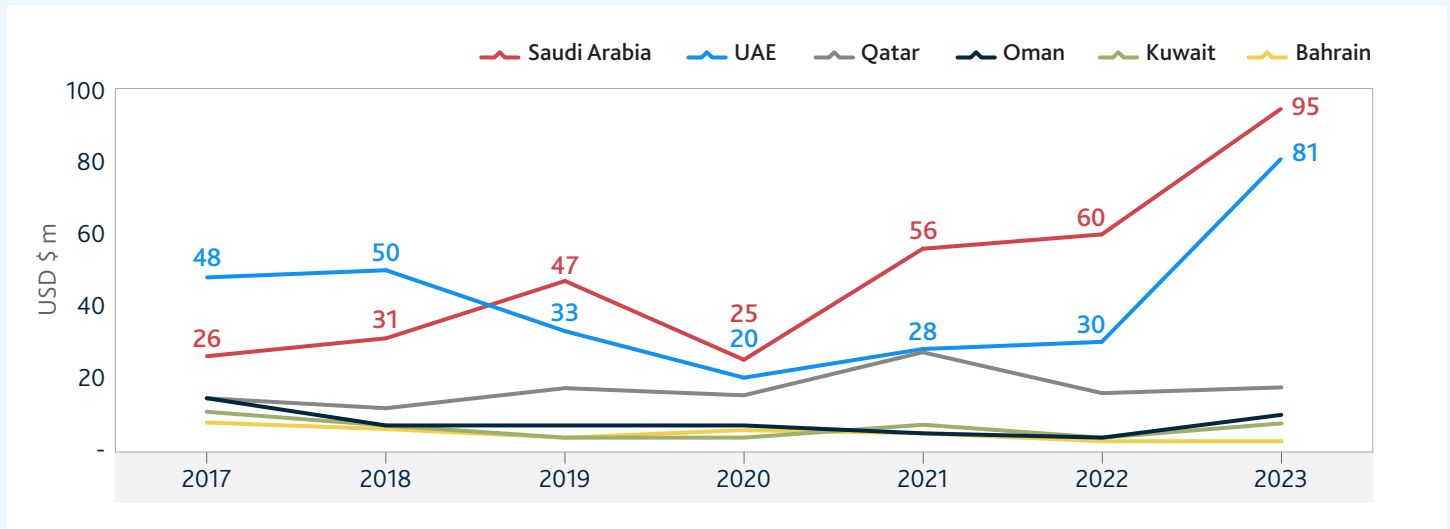


However, the most unique and transformative part of the Gulf’s success story in recent years has been the trillions of dollars that have been and will be invested back into their own economies. This sets the regions’ countries apart from almost every other energy-producing country today or throughout history. Recent geopolitical events in the region do not seem to have interrupted the pace or size of domestic investment in the local economies. Local investors believing in the long-term future of their own country and its economy has historically been very positive for long-term development. The examples of capital flight from FX rich emerging markets are plentiful and tend to result in the same negative outcome for economies and equity markets.

### Infrastructure Spend

Over the past six years, the Gulf Cooperation Council (GCC) countries have been investing a significant amount of capital in their local economies. They have a pipeline of cross-sector projects worth \$2.7 trillion, primarily concentrated in Saudi Arabia (\$1.53 trillion) and the United Arab Emirates (\$600 billion). This level of investment surpasses both the United States’ Infrastructure Investment Program (\$1 trillion) and the European Union’s “NextGenerationEU” Recovery Plan (\$800 billion).<sup>2</sup>

Value of GCC contracts awarded by country, 2017-23 (USD \$m)



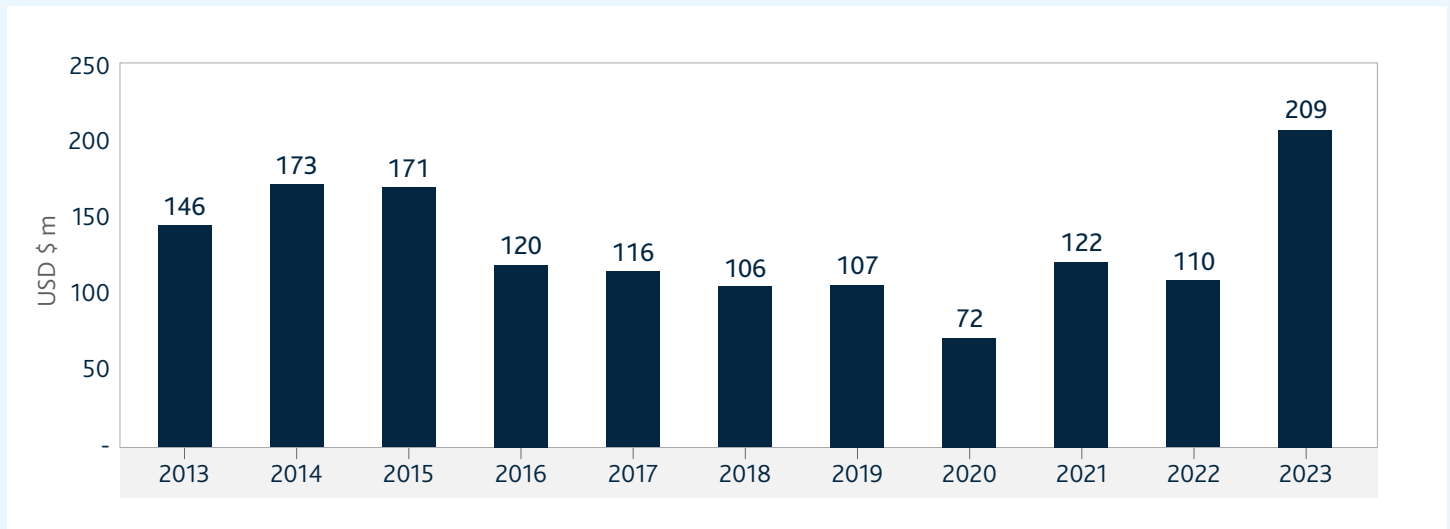
Source: Global Data. MEED, "The Saudi Arabia Opportunity – A Projects Market Like No Other", April 22, 2024

In Saudi Arabia, Vision 2030, launched in 2016, aims to diversify the economy away from its reliance on oil. One of the most ambitious projects is NEOM, a \$500 billion mega-city that seeks to be a hub for innovation and tourism. Last year, almost \$110 billion in contracts were awarded, and as of March this year, \$194 billion worth of contracts had been tendered or are under bid evaluation. These investments in infrastructure are transforming the country’s economy, providing significant benefits to local companies and non-oil sectors, creating jobs, and attracting foreign investors like us. From a macroeconomic perspective, the impact is substantial, with Saudi Arabia’s non-oil economy growing by nearly 5% in 2023, compared to a contraction in its oil economy.<sup>3</sup> From a bottom-up perspective, there is now an ecosystem of companies seeing strong earnings growth from direct links to these projects or indirectly through increased labour participation in the domestic economy, creating an emerging consumer class. It’s essential to highlight that these reforms also accompany social developments involving all members of society, with female labour force participation rising to almost 40% in 2023, up from 18% in 2016.<sup>4</sup>

In the UAE, several visa reforms have been implemented in recent years to attract more expatriates, investors, professional workers and tourists. This large influx of inhabitants has fuelled the real estate development market to accommodate them, and more significant projects are being initiated to connect urban areas and benefit from the new human capital to grow new economic sectors. The current real estate projects underway amount to an estimated value of \$50bn, the extension of the Al Maktoum International Airport \$82bn, the Etihad Rail project linking Saudi Arabia and Oman to the UAE at \$11bn, and Mohammed bin Rashid Al Maktoum Solar Park in Dubai at £13bn.

These initiatives maintained momentum even as oil prices reached a \$68 barrel low in 2023, sending a strong signal about these countries’ long-term commitment to this investment and reform process.

### Value of GCC contracts awarded 2013-23 (USD \$m)



Source: Global Data. MEED, "The Saudi Arabia Opportunity – A Projects Market Like No Other", April 22, 2024

**Contrasting Global Oil Exporters:** The strategic reinvestment of oil revenues into domestic economies sets the GCC apart from other oil-exporting countries. For instance, while Venezuela and Nigeria have seen economic volatility and underinvestment in infrastructure, leading to economic stagnation, the GCC’s proactive approach has led to more robust financial health. Saudi Arabia’s budget surpluses and continuous GDP growth, which remained positive even during global downturns, illustrate the successful utilization of oil wealth for economic diversification and development.

**Untapped Potential in Emerging Markets:** Despite substantial growth and investment, institutional exposure to GCC markets is relatively limited. Although the GCC now represents over 7% of the MSCI Emerging Markets Index, against less than 2% five years ago, most Emerging Market investors are underweight or not invested in the region.<sup>5</sup>

**Fiera Capital Approach:** The team’s exposure to the region is focused on the growing non-oil economy, with exposures from 5% to 30% across our various global Emerging and Frontier Strategies. Additionally, we have successfully managed a dedicated MENA strategy for over ten years. Our success in the region stems from our benchmark agnostic approach, which can often trap indexed foreign investors into the less attractive segments of the market. We also entertain close ties with local market participants by visiting the region very regularly to develop our bottom-up research and be a strong presence on primary issues.



**Endnotes**

- 1 <https://www.swfinstitute.org/fund-rankings/sovereign-wealth-fund>
- 2 <https://outlook.gihub.org>
- 3 Oxford Economics, Databank Statistics, Apr 2024.
- 4 <https://oxfordbusinessgroup.com/reports/saudi-arabia/2022-report/economy/sea-change-educational-and-social-reforms-in-line-with-vision-2030-seek-to-increase-womens-participation-in-the-workplace>
- 5 JPMorgan, EM Manager Survey Apr 2024.

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