# the INVESTOR

Issued by Union of Investment Companies - March 2020 - Issue No. 8

## CORONAVIRUS WILL PUSH KUWAIT AND THE GLOBAL ECONOMY INTO RECESSION IN 2020

- BOURSA KUWAIT GEARS UP FOR MARKET MAKERS
- BREXIT, TRADE DEALS AN OPPORTUNITY FOR GCC
- KUWAIT-AUSTRALIA INVESTMENT AND TRADE TIES
- THE BENEFITS OF INVESTING YOUNG

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UNION OF INVESTMENT COMPANIES

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# UNION OF INVESTMENT COMPANIES

**WE WORK TO PROMOTE INVESTMENT OPPORTUNITIES AND ACTIVITY IN KUWAIT, STRENGTHEN INVESTMENT POLICY AND REGULATION FOR THE BENEFIT OF THE COUNTRY'S NATIONAL ECONOMY AND FUTURE DEVELOPMENT.**

## President's Message

Significant economic developments at the local, regional and global levels are making 2020 an investor's year. In Kuwait, the introduction of market makers to Boursa Kuwait was a sturdy milestone within the country's plans for expansion of investment opportunities and openness to global investor communities.

Meanwhile, Kuwait continues its economic diversification drive through unwavering support to its private sector and the earmarking of more development projects for execution through the public-private partnership model.

On the regional scene, we are witnessing vast paces of digitization for economic growth and job creation. Across developed economies, digitization improves productivity and has a measurable effect on growth. On the other hand, emerging markets are more driven by tradable sectors, and therefore tend to gain more from digitization's effect on employment. Furthermore, global geopolitical and economic developments like Brexit are likely fraught with investment opportunities.

The Investor aims to address this fast changing economic and financial climate by interviewing those with firsthand knowledge of the current trends in investing regionally and globally.

Notwithstanding the concerns of financial market towards the impact of global health concerns like the coronavirus, we are optimistic that 2020 will bring a plethora of investment opportunities to the region. I invite you, dear reader, to explore this issue of The Investor to hear experts speak about the pressing topics of the day including a detailed analysis of Kuwait's new market making, investment and trade with Australia, what opportunities Brexit will create for GCC investors and much more.

We look forward to an interesting 2020 and to discussing all these topics and more in coming issues.

Saleh S. Al-Selmi

# THIS ISSUE 08

# Investor Briefs

## Brexit: Gulf funds may adopt a wait-and-see approach

According to market observers, most of the Gulf sovereign wealth funds are expected to adopt a wait-and-see approach in the aftermath of Britain's exit from the European Union as the potential implications from Brexit are yet to be gauged. The final vote to leave the EU has generated certain amount of uncertainty in the London residential market in which many Gulf businessmen are heavily invested. The observers believe that there could be a drop in demand and prices for real estate properties in the UK, prompting investors to look for new pastures.

Undoubtedly, many foreign funds, including GCC funds, will feel the pinch resulting from the uncertainty, at least in the short-term, forcing them to look for other options. A few Gulf funds could possibly move out from the UK to other economies such as the US or to emerging economies like China or Japan despite the uncertainties in these countries over the coronavirus. At the same time, post-Brexit UK will open a plethora of new investment opportunities to investors as they expect British assets could be available at bargain prices under the current circumstances.

## Shift in global supply chains to open up automation investment opportunities

Global supply chains may be gearing up for a tectonic shift, reversing a decades-long shift to emerging markets in coming years. Companies in more than 80% of 12 global sectors ($22 trillion market cap) in each of North America, Europe and Asia-Pacific (ex-China) have implemented or announced plans to shift at least a portion of their supply chains from current locations, notes BofA Securities in an investment note from its global research team.

Citing a survey covering more than 3,000 companies, the note identifies several factors driving this change including automation lowering labor costs in developed economies, narrowing of tax arbitrage and growing national security concerns as well as issues related to carbon footprint size associated with long supply chains.

"We don't think investors are fully prepared for this tectonic shift. In our view, the US could be a significant beneficiary of this process, while Chinese firms are perhaps most at risk. Even more striking, our survey found almost universal intent to use automation. This suggests our forecast of a doubling in industrial robots to 5 million units by 2025 may prove conservative, with bullish implications for capex and manufacturing. While our Economics team expects a cyclical recovery in US manufacturing by mid-2020, valuations and fund positioning suggest investors are not positioned for a sustained recovery in manufacturing. Increased spend in automation and manufacturing would have multiplier effects on the broader economy and be beneficial for financial services that cater to them. We recommend investors add exposure in automation," BofA concludes.

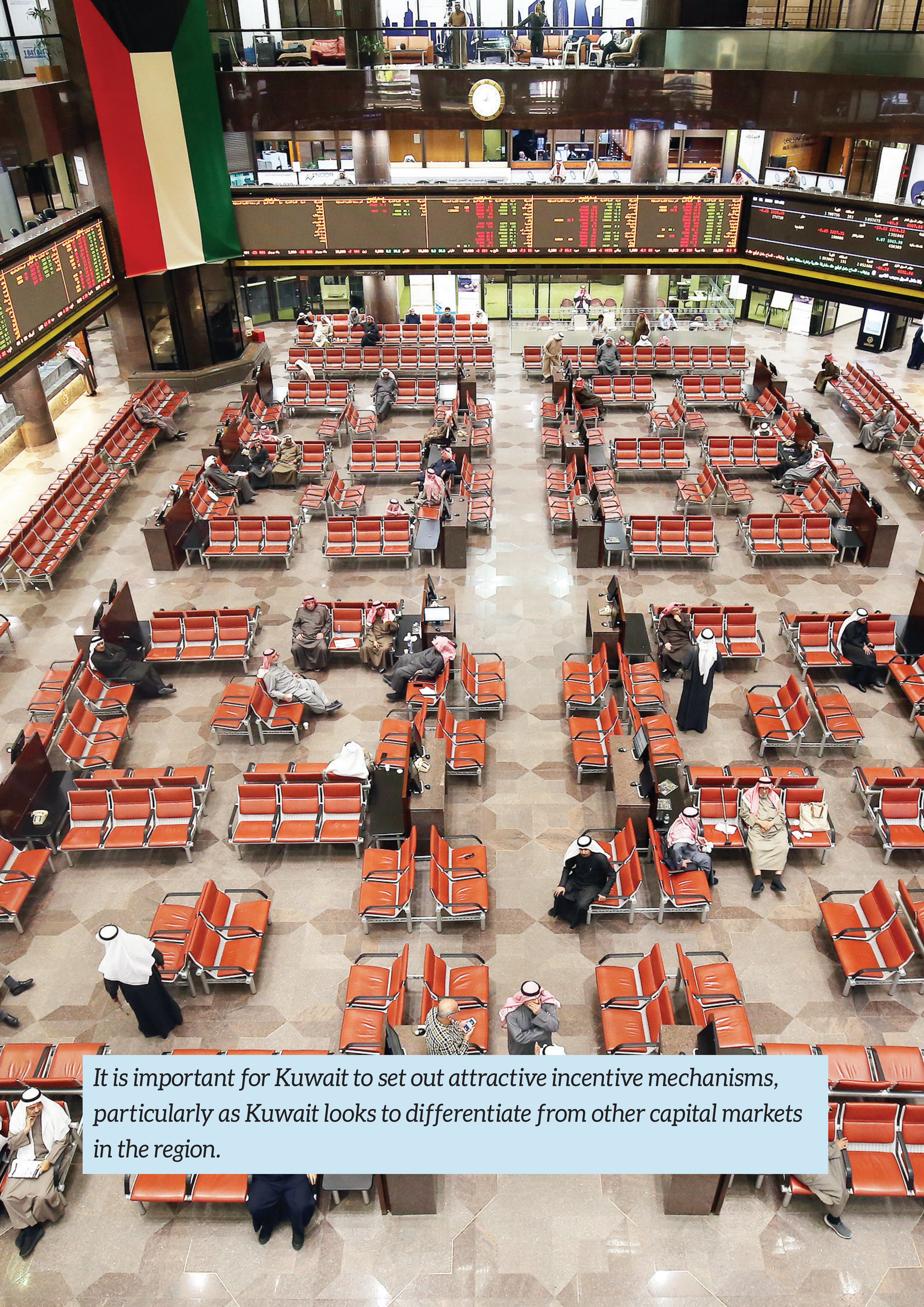
## Wealth asset investor appetite for risk declines


Sarah Sanders

A reported 23% of wealthy clients in the Middle East plan to move assets over the next three years, according to an EY global survey. The survey indicates a significant drop in investor appetite for moving assets, down from 32% the preceding three years. Asset moves happen especially during major life events like when clients start a new business, buy a house, receive or inherit large sums of money.

Factors impacting choice of wealth asset management providers include quality and reputation of services, product diversity, advisory capabilities, pricing, personal attention and increasingly, technological solutions. "Wealth management clients in the region are cautious and do not want to trust one provider with all of their assets. Instead, they tend to work with institutions that have a long history of success in more stable markets abroad," explains Sarah Sanders MENA Wealth and Asset Management Leader EY.

"Clients that do consider investing their assets in the region are often curious to see how the local market might develop. There is therefore a great opportunity for wealth asset providers in the region to cultivate relationships with these clients and build trust over time, ultimately leading to an increase in the number of assets invested in the Middle East."



*It is important for Kuwait to set out attractive incentive mechanisms, particularly as Kuwait looks to differentiate from other capital markets in the region.*

Investor Interview

# Boursa Kuwait gears up for market makers

**Interview by Jamie Etheridge**

The Investor speaks with Kai Upadek, partner at Oliver Wyman, on the introduction of market makers in Kuwait, the responsibilities and value of market makers for investors and how market makers will help Kuwait differentiate itself from other regional markets.

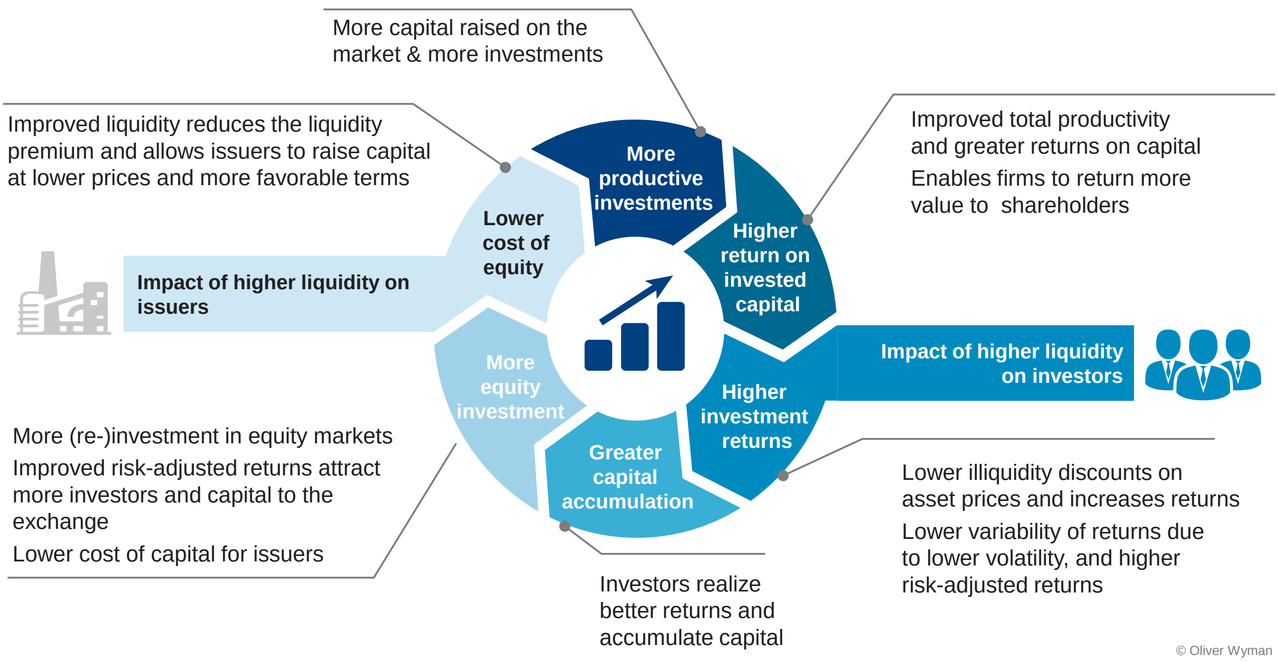
**The Investor: Boursa Kuwait will be launching market makers as of mid-2020. Can you tell us how this will work? What is the standard practice/procedure?**

**Kai Upadek:** The introduction of market makers by Boursa Kuwait is a positive step and will help the Kuwaiti capital market continue its significant progress in recent years. The move will play an important role to improve market liquidity, which has been a strategic priority for many exchanges in the region. In addition, market makers can provide significant benefits to the capital market by improving information flows, narrowing the spread environment and helping to facilitate orderly markets.

There is no "one size fits all" approach on how market making should be implement-

## Growing liquidity can become a virtuous cycle, with increasing benefits for both investors and issuers

### Benefits of increasing market liquidity



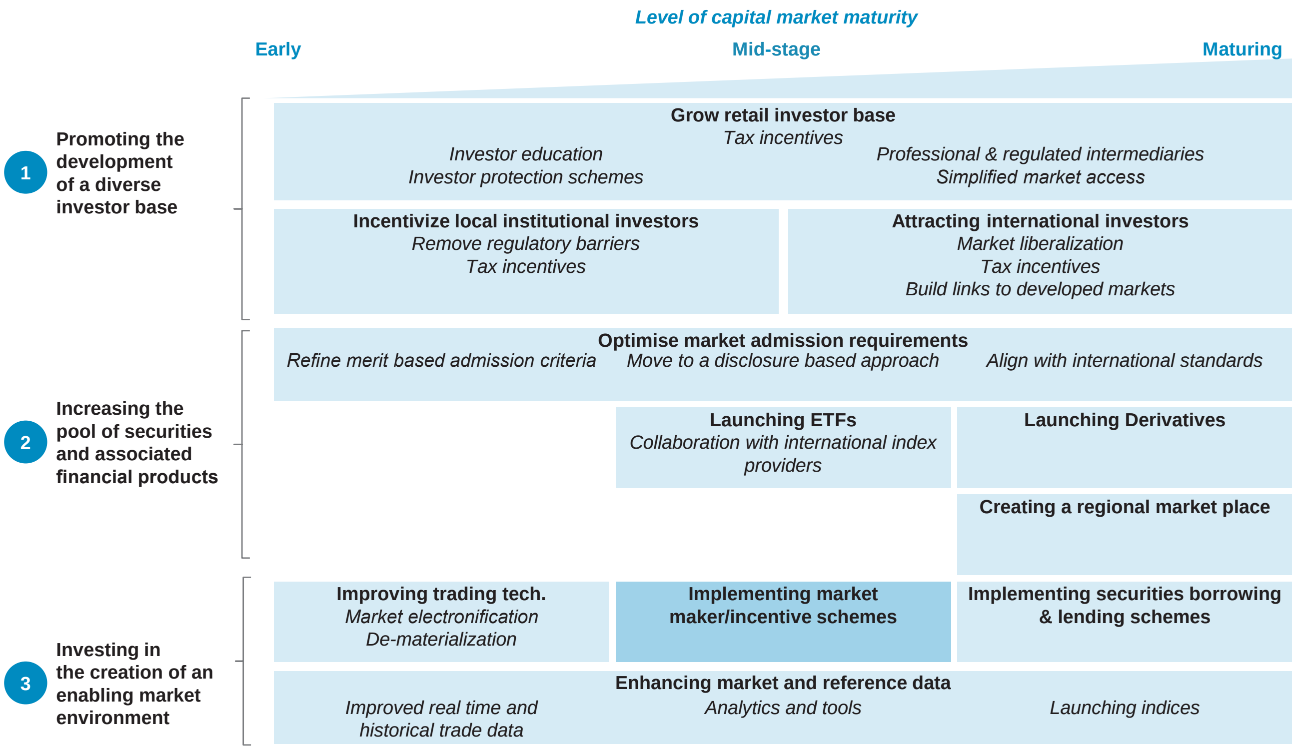
ed. It should be designed based on the market environment including factors such as settlement practices, ability to obtain inventory, tick sizes and rebates. Often markets introduce a temporary market making model whilst market practices and trading environments evolve and become more attractive for market makers.

**The Investor: What is your view on the challenges and opportunities this will create for investors in Kuwait and for foreign investors?**

**Upadek:** As previously mentioned, the introduction of market makers can have a very positive impact for investors both Kuwaiti and foreign. It should help to achieve greater liquidity and have additional benefits such as improving information flows, narrowing the spread environment and helping to facilitate orderly markets. For foreign investors in particular, the introduction of market makers could be perceived

Kai Upadek is a partner at Oliver Wyman's London office. Kai has worked in depth with major financial institutions in Europe, the US, Asia, the Middle East and Africa in the capital markets and market infrastructure space. Before joining Oliver Wyman, Kai was working in the product development team of a multinational asset manager where he was responsible for setting up a number of institutional investment products. He holds a master's degree in Management from ESCP-EAP Paris.

## Markets have a range of ways to enhance liquidity depending on their level of sophistication; market maker schemes are an important lever




as a positive, forward-looking step by Kuwait to develop the capital market sector. This is important as Kuwait looks to differentiate itself from regional peers.

**The Investor: What do market makers bring to the investment landscape in terms of supporting transparency, good governance or other aspects of investing?**

**Upadek:** Market makers can bring significant benefits to the investment landscape. Market makers improve information flow for investors by providing continuous quotations for a given percentage of the trading period. Often market makers are subject to maximum spread requirement which improves the pricing environment for investors and market efficiency. This is typically supported by requirements on minimum order sizes. Finally, market makers support good governance in helping to facilitate market orderliness - for instance, market makers assist in market supervision, help set start and end of day orders, and provide last resort short-selling facilities as required by brokers.

*Market makers are typically offered incentives around market making economics and risk management requirements to make market making an attractive proposition.*

*Market makers can bring significant benefits to the investment landscape.*

**The Investor: What are the most important rights and responsibilities of market makers and how can these impact the local investment climate?**

**Upadek:** The key responsibilities of a market maker relate to the key benefits they can bring to the market, namely improving information flows, narrowing the spread environment and helping to facilitate orderly markets. In addition, it is critical that market makers take on the responsibility of building out their internal capabilities, particularly around risk management and technology. Whilst not necessarily a 'right' for market makers, it is important for Kuwait to set out attractive incentive mechanisms, particularly as Kuwait looks to differentiate from other capital markets in the region.

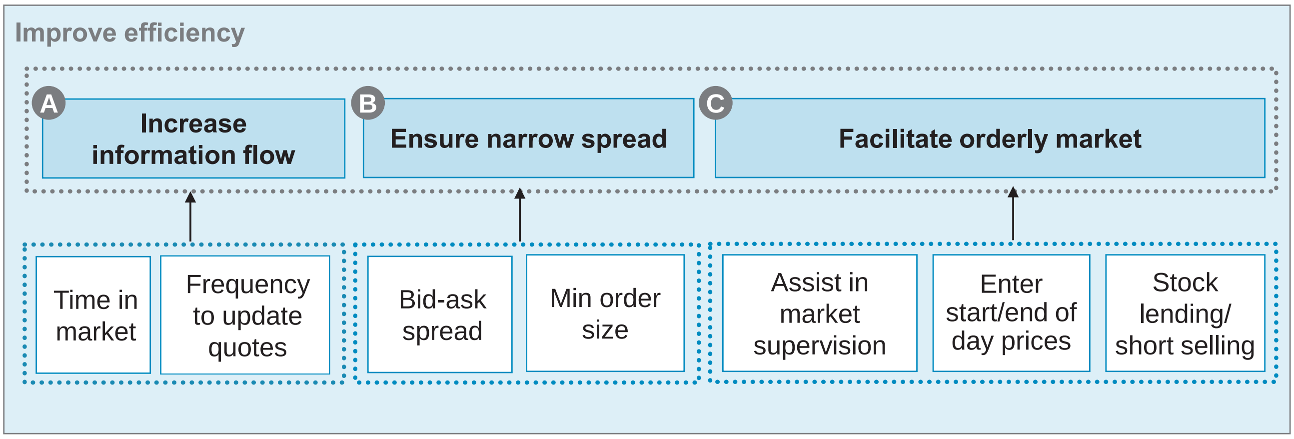
**The Investor: What are the key steps a prospective market maker must take as they consider to enter the market?**

**Upadek:** We typically see four key areas that prospective market makers must consider before entering the market. Firstly, market makers must consider what approach they will take to market. This will involve considering which segments and securities to make markets in, which market making model to pursue, and whether or not to pursue a partnership or sole venture model.

Secondly, market makers need to identify how they will build out the required capabilities to make markets. This involves hiring people with the required technical market making experience, building out the required IT infrastructure, establishing

## Market makers improve efficiency by increasing information flow, ensuring a narrow spread and facilitating an orderly market

### Market maker roles and responsibilities




MMs ensure availability of offers and demands at the lowest cost, however, they are not responsible for affecting market trends

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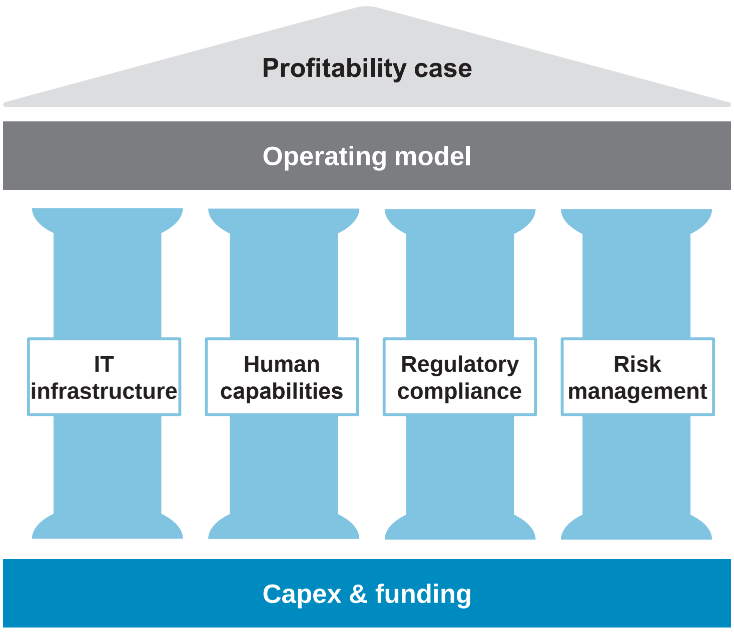
# Overview of typical Market Maker (MM) launch framework for prospective market makers

### Market Maker launch framework




### Key questions to answer pre-launch

**A**
- Is MM profitable and for how long?

**B**
- What market niche to take and how to construct business operations?
- Which markets and securities to MM in?
- Which MM model to pursue (Principal vs. Agent)?
- Is partnership or sole setup viable?

**C**
- What is the IT infrastructure required?
- What are the human capabilities required?
- What MM requirements are set up by the exchange and how to comply with them?
- What are the MM specific risks that should be managed and how?

**D**
- What capex is required to set up Market Making and how to fund it?



a comprehensive risk management framework, and ensuring a robust regulatory compliance approach.

Thirdly, prospective market makers will need to determine the capex requirement to launch and develop a funding model. The fourth aspect will then be to look at the overall proposition and requirements and assess the profitability case to enter the market, which should enable an NPV on the business launch to be developed.

**The Investor: What are the types of market making models that we observe in today's markets?**

**Upadek:** We see three main types of market making models adopted by players in today's markets - these are quote-driven, centralized order-driven, and non-centralized order-driven. The key differences between the models pertain to the ability of investors being able to trade amongst themselves rather than having all trades go through market makers, and the degree to which a market maker has a monopoly. Of the typical models observed, we see quote-driven models as a preferred mechanism to where enhancing market liquidity is a key factor. Overall model selection requires a full assessment across the market context and key needs.

**The Investor: What are the key levers to incentivize market makers?**

**Upadek:** Market makers are typically offered incentives around market making economics and risk management requirements to make market making an attractive proposition. From a economics standpoint, key incentives for market makers is the bid-ask spread and arrangements relating to liquidity and volume rebates. Risk management arrangements to improve the attractiveness of the market often include relaxing maximum spread requirements, reducing frequency of quote updating, easing on time market requirements and stopping loss controls.

*Kai Upadek is a partner with Oliver Wyman, based in London.*

# Boursa Kuwait tackles investor relations, transparency as part of growth strategy


*Effective Investor Relations (IR) adds a median premium of 10 % to the valuation of a company, while ineffective IR can cost a median discount of almost 20 % to the valuation of a company.*

**By Nawara Fattahova**

Improving communication and transparency, especially between Kuwait's publicly listed companies and asset managers and analysts is a key aspect of Boursa Kuwait's growth strategy. During a seminar titled "Investors relations, the link between companies and investors: Best practice considerations for the Kuwait market", The Investor interviewed Noura Alabdulkareem, Head of Markets, Boursa Kuwait to learn more about why investor relations is critical and how it is changing companies in Kuwait. Some excerpts:

**The Investor: What is the situation with the market maker?**

**Noura Alabdulkareem:** Three companies have received pre-licensing and are undergoing testing with regards to the system and technicalities. Once they conclude this, they will get their full license, be registered on the shares or securities they choose and will start operating immediately.

**The Investor: What is the overall view and investor interest in Boursa Kuwait?**

**Alabdulkareem:** The interest is great as we have been holding many meetings with investors who are flying into Kuwait. Also, we have been flying out to meet potential investors and asset managers who are interested in emerging markets and investing in Kuwait. The feedback has been positive. We are expecting KD 2.8 billion in passive money to enter the market following the MSCI upgrade of Kuwait to emerging markets status, which will be in May 2020. We have already completed all the requirements which were set for us by MSCI and everything is ready for the inclusion.

**The Investor: What are the challenges facing Boursa in 2020?**

**Alabdulkareem:** Some of the major challenges that the bourse faces are to do with education and knowledge. We have created the Boursa Academy to tackle this issue, in addition to holding regular training and seminars for market participants in order to be aware of all the changes that we are implementing.

**The Investor: Any other expectations or plans for 2020?**

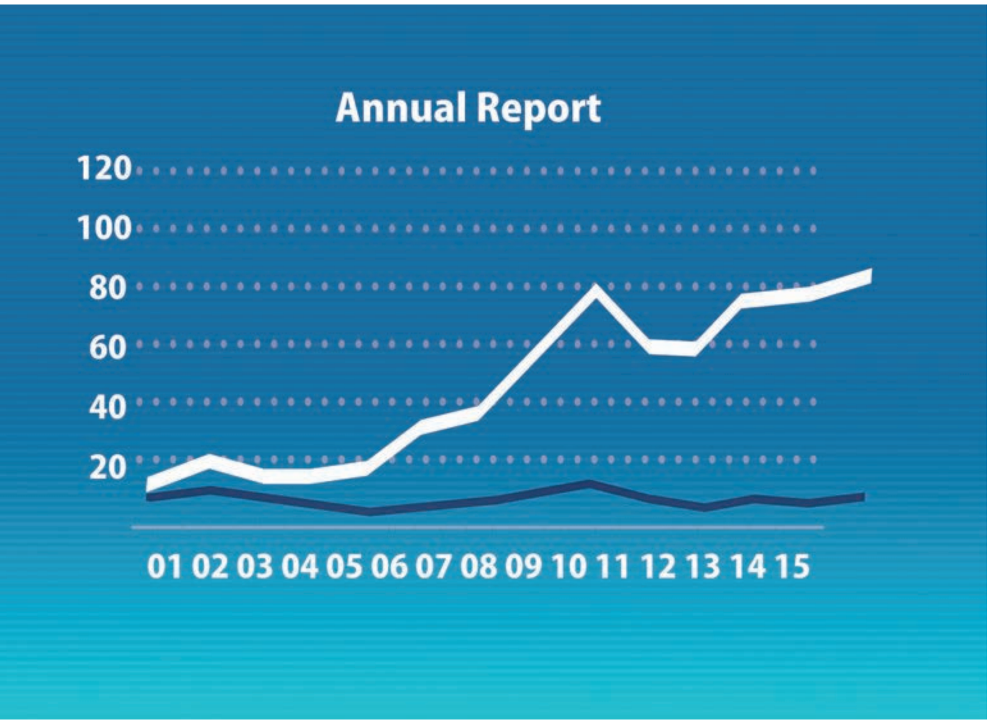
**Alabdulkareem:** We will continue working with the market development program and bring new products to the market, and hopefully it will all go well.

**The Investor: Tell us about Boursa Kuwait's recent upgrades and prospects on investor relations.**

**Alabdulkareem:** Boursa Kuwait was officially privatized recently, and since 2016 is operating the Kuwait Stock Exchange. Prior to that, we were working on the strategy and initiatives that Boursa Kuwait needs to address in order to upgrade the market in terms of infrastructure, attract more issuers, and other issues.

One of the main things that we identified was the lack of transparency. This was due to unavailability of bilingual disclosures and the non-present investor relations function. The changes in the market wouldn't have been possible without market participants, the support of Kuwait Clearing Company, investment companies and brokerage firms. There are a lot of changes that we implemented for the recognition of international index providers and investors started being more aware of the Kuwaiti market.

May 2016 witnessed the first set of changes which the market implemented, which were mostly to do with infrastructure. These changes included unification of the settlement cycle and international style





corporate action which made a lot of international investors understand how the market operates. For the first time, a trading rule was published. It aggregated all the valid market regulations into rules that can be viewed in both Arabic and English, which increased the attractiveness of our market.

The market adjusted for these infrastructural changes. The first international acknowledgment came through the inclusion of Kuwait into the FTSE emerging markets global indices. With such privilege comes great responsibility, and as part of Boursa Kuwait's strategy and continuing the momentum of developments, almost a year later we launched market segmentation. We got a lot of resistance in the market in this regard, but market segmentation enabled us to distinguish between companies and their capabilities in terms of their continuous obligations on one hand, and on the other hand to update the listing requirements for companies and issuers to join the market.

One of the main issues that we faced in the market with regards to international investment was their accessibility to information and transparency in the market. This was due to publication of disclosures in Arabic only. So a lot of investors missed out on the opportunity. It was made mandatory for all companies in the premier market to have all their disclosures in Arabic and English. In addition to that, we had quarterly analyst conferences, under which companies are obligated to publish their complete presentations on the Boursa Kuwait website.

## The setup of our strategy:

It measures Kuwait's ability to be covered by analysts and researchers. Unfortunately in 2014, Kuwait came up short in terms of cover by researchers and analysts, whether it was by the number of analysts covering Kuwait or covering the companies themselves. We barely averaged one analyst for the top 80 percent of trading companies in Kuwait. That was an alarming indicator for us to tackle this issue.

## Cycle:

Having information available transparently shows how effective it will be on a company and the research and coverage


it gets by investors, researchers or asset managers. In terms of measuring or co-ordinating the effect of investor relations to the performance of the company, we found that effective Investor Relations (IR) adds a median premium of 10% to the valuation of a company, while ineffective IR can cost a median discount of almost 20% to the valuation of a company. Discount is more of lost opportunity for the company if they don't address the needs of international investors and their questions with regards to transparency and information.

As for effective IR, it's a subject not set in stone. It can be measured either by IR function or by how it's translated into quality and quantity of meetings that the IR has with a company, which will be reflected on the company itself. It will always be translated into an increase of the company's liquidity and performance.

Increased interaction, quarterly analyst conferences, and roadshows and conferences that Boursa Kuwait sponsored all contributed to increased trading activity and performance of companies in Kuwait. At Boursa Kuwait it's our duty to promote Kuwait's market and its constituency. We have participated in a lot of roadshows.

## Initiatives of Boursa Kuwait:

Infrastructure, transparency, upgrade of Boursa Kuwait website and publication of reports. We track the increase of international investors in the top banks of Kuwait. Some banks started with 3% of foreign investors featured in the report, which went up to 11%. This highlights the effective communications between the IR officers in Kuwait and these companies.

## Future of improving of market in general:

We proposed to the Capital Markets Authority to include the IR function as a mandatory function for companies listed in the premier market. All companies will have one year to comply with these requirements in order for them to set up. In addition, there is a huge increase in demand for environmental, social and corporate governance. Companies are advised to have an ESG program, which is one of the things we will be focusing on in 2020. Furthermore we are planning some roadshows in East Asia in 2020, in addition to our New York, London, and Dubai events.

A rock and a hard place

# The UK must negotiate two international trade deals, and how that spells opportunity for the GCC

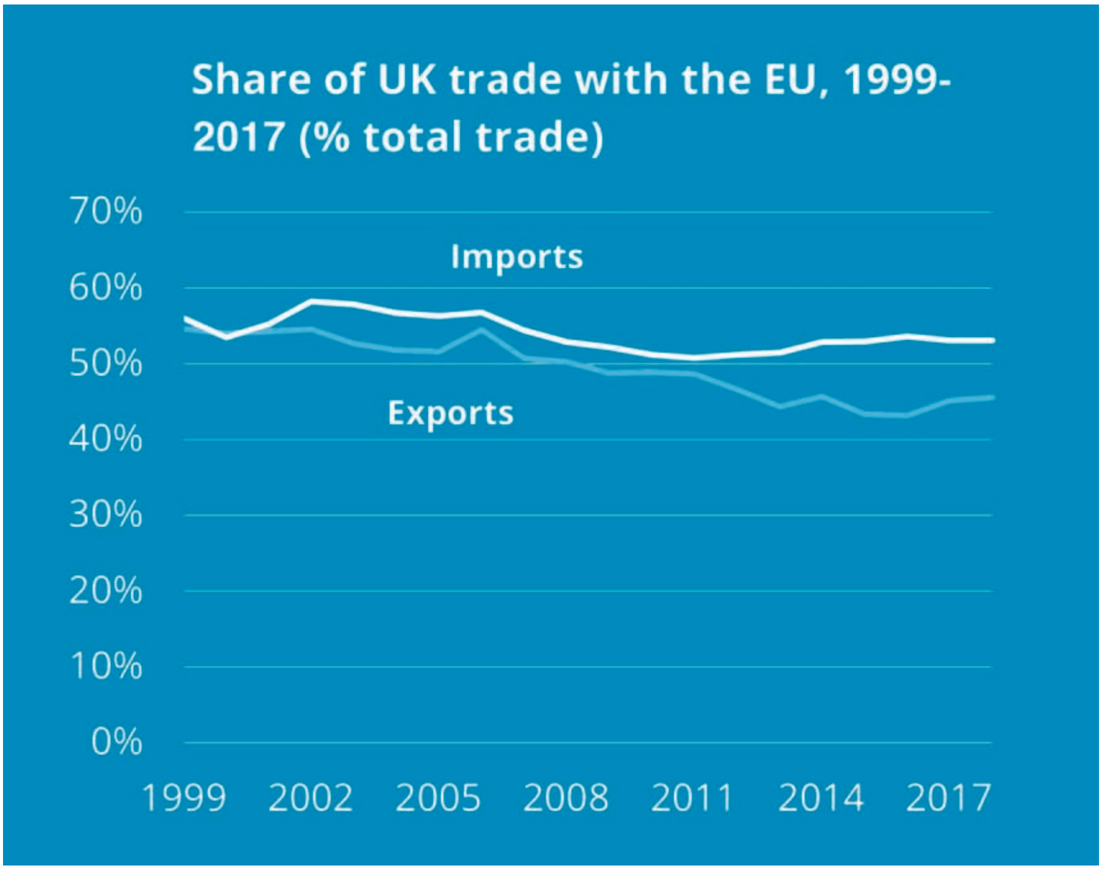
*Britain is going to be actively seeking new deals in the next three years.*

**By Giles Coghlan**

## The UK has two international trade deals to negotiate

Brexit has now officially happened, and the UK is no longer part of the European Union. However, this does not mean the end for the GBP's recent woes as considerable uncertainty remains and is felt by London investors. In a survey conducted on behalf of HYCM, 71% of all London investors felt that international politics was increasing in volatility. This has meant that 59% of London investors are looking at restructuring their portfolios in 2020.

The key issue for the UK is that it must negotiate not just one, but two major international trade deals; the EU-UK trade deal and the US-UK trade deal. As if this wasn't enough, on top of these two deals, UK's PM Boris Johnson




has set a target of wanting 80% of all UK trade covered by free trade agreements within the next three years.

## The problem of negotiating two deals simultaneously

Despite having left the EU on January 31, 2020, the UK needs to negotiate a trade deal with the EU before December 2020. The UK is seeking a 'Canada-style' free trade deal. If the UK fails to negotiate a trade deal before that time, a 'hard Brexit' will occur. In these circumstances, trade relations between the EU and the UK will exist on World Trade Organization terms.

This will be a distinctly negative outcome for the GBP. This is because the EU, when taken as a bloc, is the UK's largest trading partner. 45% of all UK exports go to the EU and 53% of all imports come from the EU. See the chart above from the House of Commons UK trade briefing paper from November 2019.

At the same time, the UK must also arrange a trade deal with the US. The USA is the UK's largest export market, with over £120 billion in goods and services heading to the US, which makes up over 19% of all UK exports. See the chart on Page 16 for the list of the UK's top export markets.

This figure is set to grow because, unlike his White House predecessor, President Trump has said that he is keen to support the UK post-Brexit with strong trade deals. With the UK and the US enjoying a 'special relationship' it should, in theory, be simple for the UK and the US to strike a deal. However, the reality is now slightly more complicated with the geopolitical upheaval Brexit has caused. The UK is now standing more alone in the world.

Shrewd political observers used to say that the UK being part of the EU made the UK more attractive to the US. So, the UK's newfound independence from the EU has its strengths and its weaknesses. If you remember, in the run-up to the 2016 referendum, President Obama tried to dissuade the UK public from leaving the EU.

### How will the UK avoid becoming America's 51st state?

A special relationship can't become a dependent relationship for the UK. The UK must work very hard now to not become a satellite state of the US. During John Major's era as Prime Minister in the UK (1990-1997) there was a strong desire for Britain not to be viewed as the US's poodle. In other words that the 'special relationship' did not subsume Britain's identity. This risk has now returned with Britain's isolated international standing post-Brexit.

The key danger for the UK is that in order to get support for a trade deal from the US, the UK will need to give political support to the US. We have seen this already materialize as there are obvious tensions between the US and UK over the UK government's decision to allow Huawei to supply equipment for the UK's 5G network infrastructure. The US, on the other hand, is concerned about China 'spying' on the US via Huawei. The Financial Times reported that Donald Trump vented 'apoplectic' fury at Boris Johnson and his decision to allow Huawei a role in its 5G mobile phone networks.

On top of this recent concern, the UK may face pressure to support the US in its recent conflict with Iran or against China in the US-China trade war. None of these challenges are insurmountable, but they are significant for the UK to navigate, especially in achieving a trade deal.

### The UK presents opportunities for the GCC region

Britain is open for business and the GCC region should take note. After Britain left the EU PM Johnson has stated an aim to have 80%

**Top 25 UK export markets, 2018**

Goods and services

| | £ billion | % total |
|---|---|---|
| USA | 120.9 | 18.8% |
| Germany | 56.0 | 8.7% |
| Netherlands | 44.3 | 6.9% |
| France | 41.7 | 6.5% |
| Irish Republic | 35.1 | 5.5% |
| China | 22.6 | 3.5% |
| Italy | 20.7 | 3.2% |
| Switzerland | 20.2 | 3.1% |
| Belgium | 19.1 | 3.0% |
| Spain | 18.0 | 2.8% |
| Japan | 13.8 | 2.2% |
| Hong Kong | 11.6 | 1.8% |
| Australia | 11.2 | 1.7% |
| Canada | 11.0 | 1.7% |
| United Arab Emirates | 10.6 | 1.7% |

of UK commerce covered by free trade deals within three years. Britain is going to be actively seeking new deals in the next three years. According to the House of Commons briefing paper from 2019, the UK exports a total of £10.6 billion to the UAE and £8.4 billion to Saudi Arabia. The UK also imports £6.6 billion from the UAE.

Furthermore, as part of Brexit preparation, the UK has explicitly stated a national ambition to transform current levels of 30% GDP exports to 35%. According to Dr. Liam Fox, '90% of global economic growth is expected to come from outside the EU in the next 10 to 15 years'. The UK will be seeking to expand its export market to meet this ambition.

So, the GCC region can take advantage of this opportunity by taking initiative and approaching UK companies now. Many UK companies are unprepared or only partially prepared for UK independence and will welcome conversations with new export and import partners. Fortune now favors the brave and those who carpe diem.

## GCC countries should look for goods that meet EU regulations

One of the key sticking points for the UK and EU trade deal is going to be the extent to which the UK will have to abide by EU regulation and yet still have access to the market. If a GCC manufacturer can supply a good to the UK that also meets relevant EU regulation, then this will be of greater appeal to the UK. This is because the UK importer can then move the goods on more easily to Europe.

At least the regulatory framework will not be a hindrance. This is particularly important in supplying components of a larger product that would later be sold in Europe. Now, this adherence to EU regulation might not always be cost-effective so the risk and opportunity benefits will have to be weighed on a case-by-case basis.

## Potential negative impact on GCC financial markets

If we see a scenario where the UK fails to negotiate a deal with either the US or the EU, then expect risk-off flows in financial markets. The risk markets will see inflows into the yen, Swiss franc, and the risk commodity of gold. In this unlikely event, we will see a wider fallout in terms of global growth and further pressure on oil prices. As the GCC region is obviously such a key exporter in oil this would inevitably impact the GDP of the GCC countries.

In 2019, the World Bank forecast overall GDP growth in the GCC to drop to 0.8% compared to 2% in 2018. This was due to both muted oil prices and excess supply. Any added UK trade concerns could make a bad situation worse. This scenario is unlikely but should still be kept in mind. The UK is an attractive trade partner and the EU needs the UK to remain so.

*The GCC region can take advantage of this opportunity by taking initiative and approaching UK companies now.*

With somewhere between 8-18% of the EU's GDP coming from its trade with the UK, both the EU and the UK will want to strike a deal and avoid a hard Brexit. The US too will be willing to strike a deal, but at what political cost? The GCC region has an opportunity to capitalize on the UK's spare capacity for new and expanding trade.

*Giles Coghlan, Chief Currency Analyst, HYCM*

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A supply shock followed by a demand shock:

# This is how the coronavirus pandemic will push Kuwait and the global economy into recession in 2020

**By Tariq Al-Rifai**

Markets around the world kicked off 2020 with a lot of optimism. Not only was it the beginning of a new decade, it was also the start of what is hoped would be another great year for stock markets around the world. This was unlike 2019, which kicked off with rising worries on a global economic slowdown, Brexit concerns and a trade war between the US and China.

This new year optimism, however, quickly faded as the coronavirus outbreak in China spread around the world leading the World Health Organizations (WHO) to declare this a pandemic on 11 March 2020. World leaders, international organization such as the International Monetary Fund (IMF) and leading economists expect this pandemic to have a short-term effect on the global economy and have adjusted their forecasts slightly downwards for the rest of the year. They believe that this pandemic will be short-lived and the global economy will quickly recover. There is mounting evidence, however, that their outlook for 2020 is too optimistic.

## Global economic slowdown in 2019

In early 2019, several leading agencies, including the IMF, World Bank, European Central Bank (ECB) and US Federal Reserve, voiced their concerns over a global economic slowdown that began in 2018 and spilled over into 2019. Both the Federal Reserve and the ECB were forced to lend additional support to their respective markets. The Federal Reserve lowered interest rates for the first time in 12 years while the ECB reaffirmed its commitment to continue with its asset purchase program.

Though the global economy began slowing down before the US-China trade war began in early 2018, central banks were concerned that the trade war coupled with uncertainty over Brexit would accelerate the slowdown. Gross domestic product (GDP) growth in the US, EU and China have been consistently slowing down from 2018 to this day. Other

major economies have reported anemic growth in 2019, including the UK, Japan, Singapore and South Korea.

It is true that the US and China reached a Phase 1 trade deal and elections in the UK gave some certainty to investors that it will be leaving the EU, but it did not change the fact the global economy was still slowing down as we entered 2020.

In spite of this negative economic news, stock markets around the world had a stellar year in 2019, with many markets recording new record highs. In 2019, for example, the S&P gained 28% reaching a new record high. Germany's DAX Index and France's CAC40 index both were up 25%. Other top performing markets in 2019 were Greece's blue-chip index up 50%, Japan's Nikkei up 18% and the UK's FTSE 100 up 12% despite all the Brexit worries.

## China's economic health has been deteriorating for years

China has been a concern for many years. Its double-digit economic growth ended a decade ago. Since then, its economy has been consistently slowing down year after year. While many economists would point out that its latest GDP growth figures of 6% is well-above most other countries, it is a major problem for China.

The main reason this is a problem for China is because this GDP slowdown over the past 10 years coincides with a record rise in debt across all sectors; government, corporate and consumer (Figure 1). According to McKinsey Global Institute, the country's debt to GDP ratio is approaching 300%, and is mainly corporate debt.

Following the Global Financial Crisis, China stimulated its economy by encouraging its companies, led by its exporters, to take on more and more debt for growth and expansion. The hope was to drive up economic growth as it did in the previous decade. This time, however, it was not working. Companies took on more debt but it did not lead to higher economic growth.

While global growth remained lower than historic averages following the financial crisis, China focused inward to build up its consumer base. The country invested heavily in building local infrastructure and in creating a more consumer-driven economy. This too has failed to yield the desired results. Fixed asset investments and retail sales have been steadily falling for the past 10 years (Figure 2).

## Coronavirus pandemic and its effect on the economy

What we have learned from history is that market optimism can quickly change, especially when an unknown risk suddenly sparks a global panic, or in today's case, a pandemic. The coronavirus outbreak was first identified in China in December 2019, but it did not raise international concern until January this year when it began to spread rapidly across the country.

This brings us to today's dilemma; not only is China facing a major health crisis, but in fact, the world is now facing a once in a lifetime health crisis, the effects of which will be felt around the world for many years to come. From an economic perspective, the coronavirus is shaping up to be the perfect storm to hit the global economy.

The Chinese government's swift reaction to contain the spread of the virus seems to be working, but has caused a global supply shock. As the virus spreads around the world, other countries will be forced to follow China's stringent containment measures. In doing so, this will create a demand shock. The world economy is not prepared for either shock and now it must face both simultaneously.

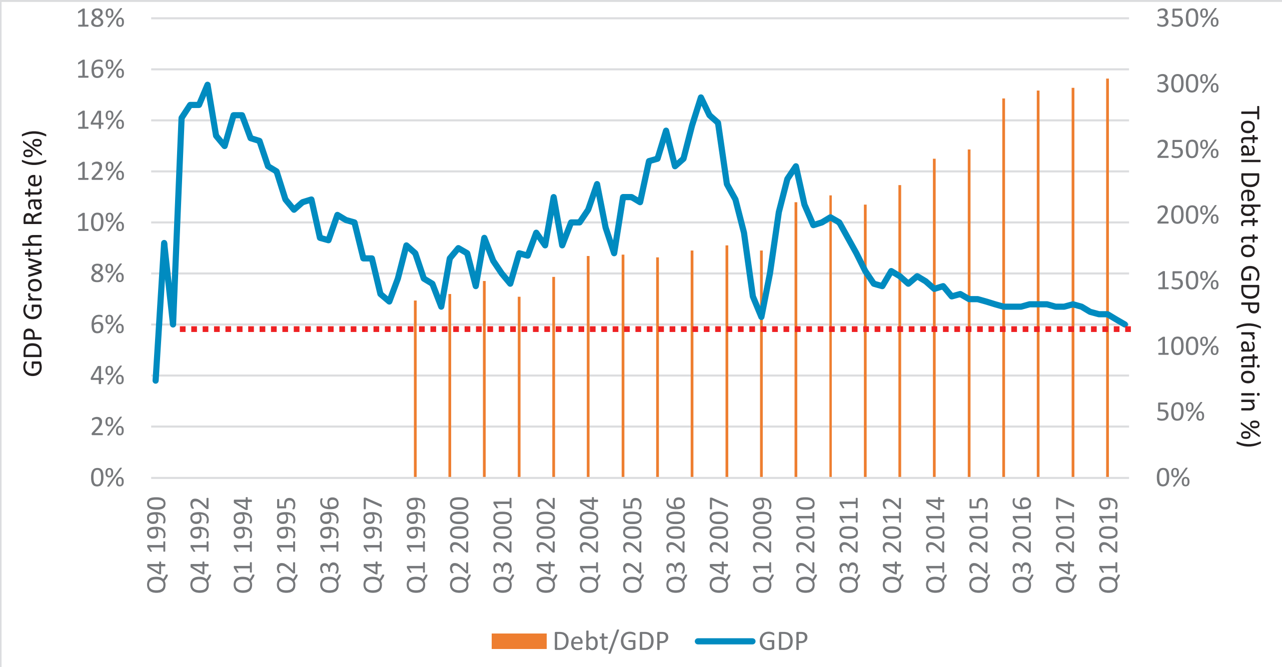



Figure 1: China's GDP growth from 1990 to 2019 compared to total debt to GDP ratio. Data source: Trading Economics and McKinsey Global Institute.

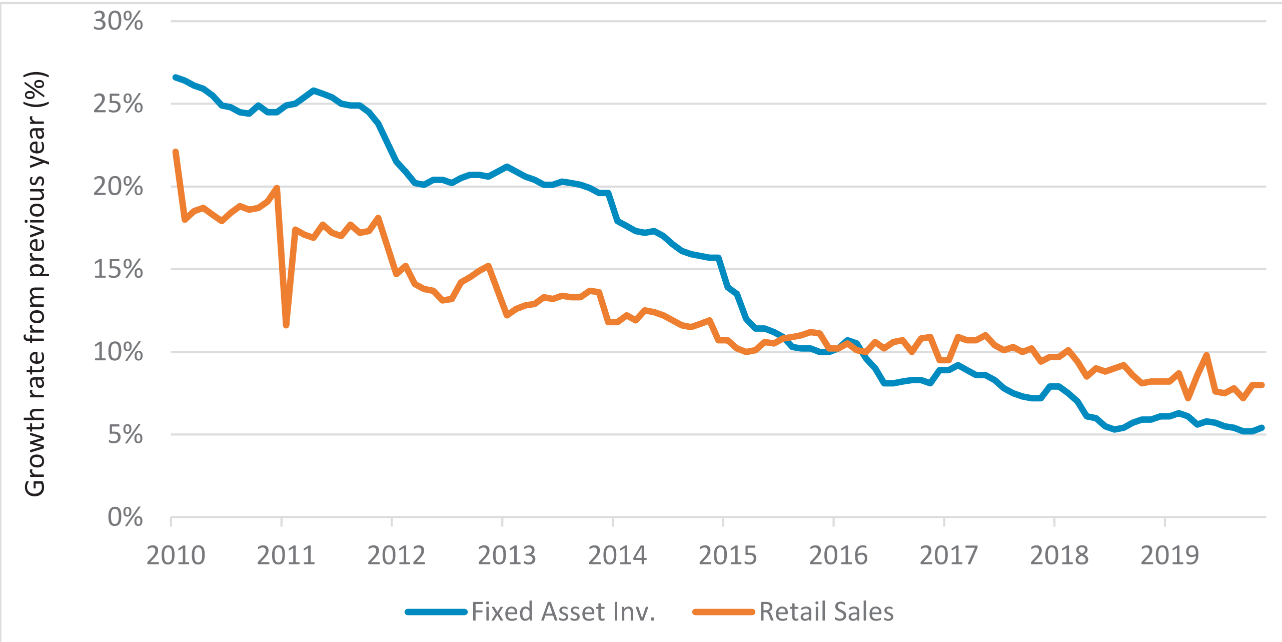



Figure 2: Growth in China's fixed asset investments and retail sales from 2010 to 2019. Data source: Trading Economics.

## Supply shock

The economic effects of this outbreak will impact the Chinese economy severely this year. The severity of which will not be known for months to come. However, we can see the effects today and how they are beginning to spread throughout the global economy.

In their attempts to halt the spread of this virus, Chinese officials quarantined several major cities, shut down factories and cut off transportation links. Foxconn, for example, the manufacturer of iPhones, has closed its factories in the country along with Samsung. Airbus, General Motors, Toyota and Volkswagen also closed their Chinese factories. Auto manufacturers Hyundai and Kia have been forced to halt production in their South Korean factories due to supply-chain disruptions with their Chinese auto parts suppliers. This is what is most worrying to the global economy. As factory closures extend for weeks or months, the damage to global supply chains and economic growth will be significant.

Last month, China reported its Manufacturing PMI figures, which is an index that tracks manufacturing activity, as well as the New Orders index, which tracks new orders received in the manufacturing sector, the backbone of China's economy. The reported figures were the worst on record as can be seen in Figure 3. This was a clear sign that China's economy was frozen.

According to a 21 February 2020 Fortune Magazine survey, 94% of Fortune 1,000 companies (the largest companies in the US) are seeing supply chain disruptions from China. Some of the largest companies in the world have already announced factory closures and disruptions outside of China including; Fiat Chrysler, General Motors, Honda, Jaguar Land Rover, Nike, … and this list goes on.

As soon as Chinese authorities were able to slow the spread of the virus, they ordered their companies to reopen and get back to business as usual as quickly as possible to lessen the damage to the economy. However, a study published by the Institute for Supply Management on 11 March 2020, reveals the virus' supply chain effects. Companies were struggling to get back to business as usual. In the study, manufacturers reported operating at 50% capacity with only 56% of normal staff. This was nearly one month since the government announced the orders for companies to get back to work (on 13 February).

The world depends on China more than ever. For example, China is currently the world's largest manufacturer of pharmaceuticals and their ingredients. A report published by the Council on Foreign Relations in August 2019, warns about America's dependence on China for pharmaceuticals. The report highlights the fact that 97% of antibiotics sold in the US come from China, while 80% of the active ingredients pharmaceutical companies use to make drugs come from China. India, which is the second largest producer of pharmaceuticals, is also dependent on China as it received 75% of the active ingredients it uses in its industry.

The rapid slowdown in supplies of manufacturer goods coming from China is what is known as a supply shock. The sudden drop in supplies have a ripple effect on other economies as they depend on these goods for their economies to function efficiently.

## Demand Shock

The commodities markets are already sounding the alarm on China. Industrial commodities such as copper, iron, steel and zinc have all fallen since the beginning of the year. However, the most affected commodity to date has been oil. The price of Brent Crude, the benchmark for oil, has fallen by over 50% in January 2020. This collapse in price has been attributed to the drop in demand from China, estimated to be 2 million barrels per day, as well as the start of an oil war between Saudi Arabia and Russia. For oil producing countries like Kuwait, such a drop

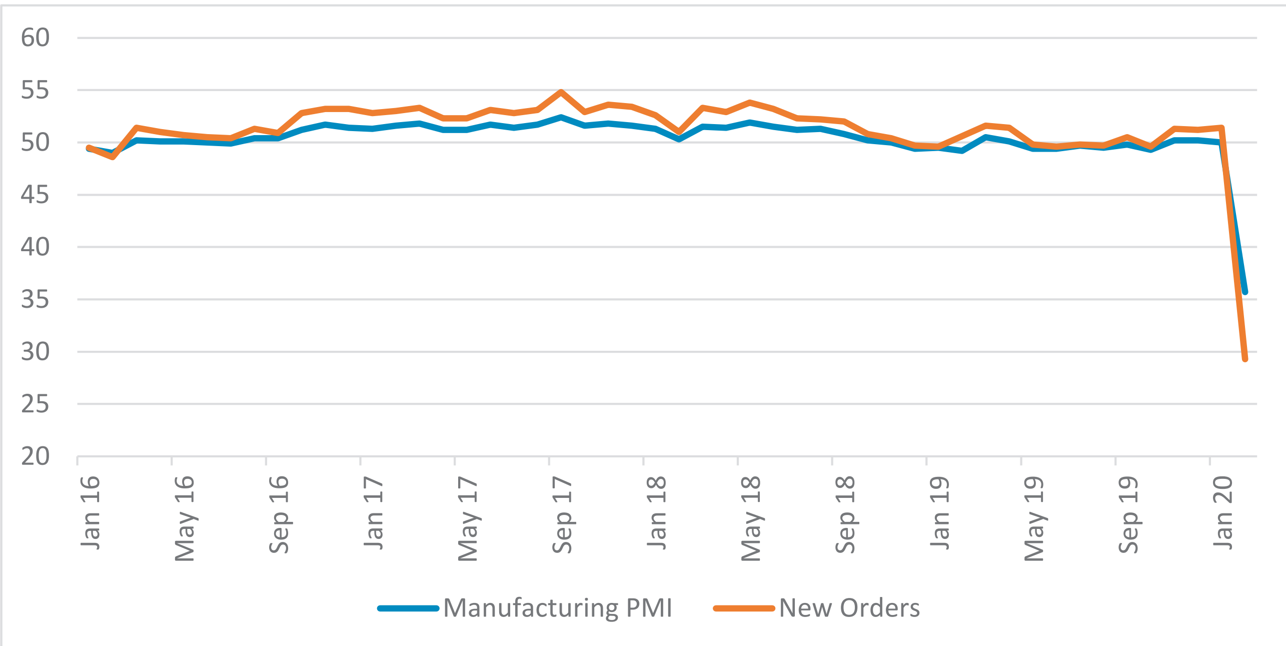



Figure 3: China monthly Manufacturing PMI and New Orders indices from Jan. 2016 to Jan. 2020. Data source: Y-charts and Trading Economics.

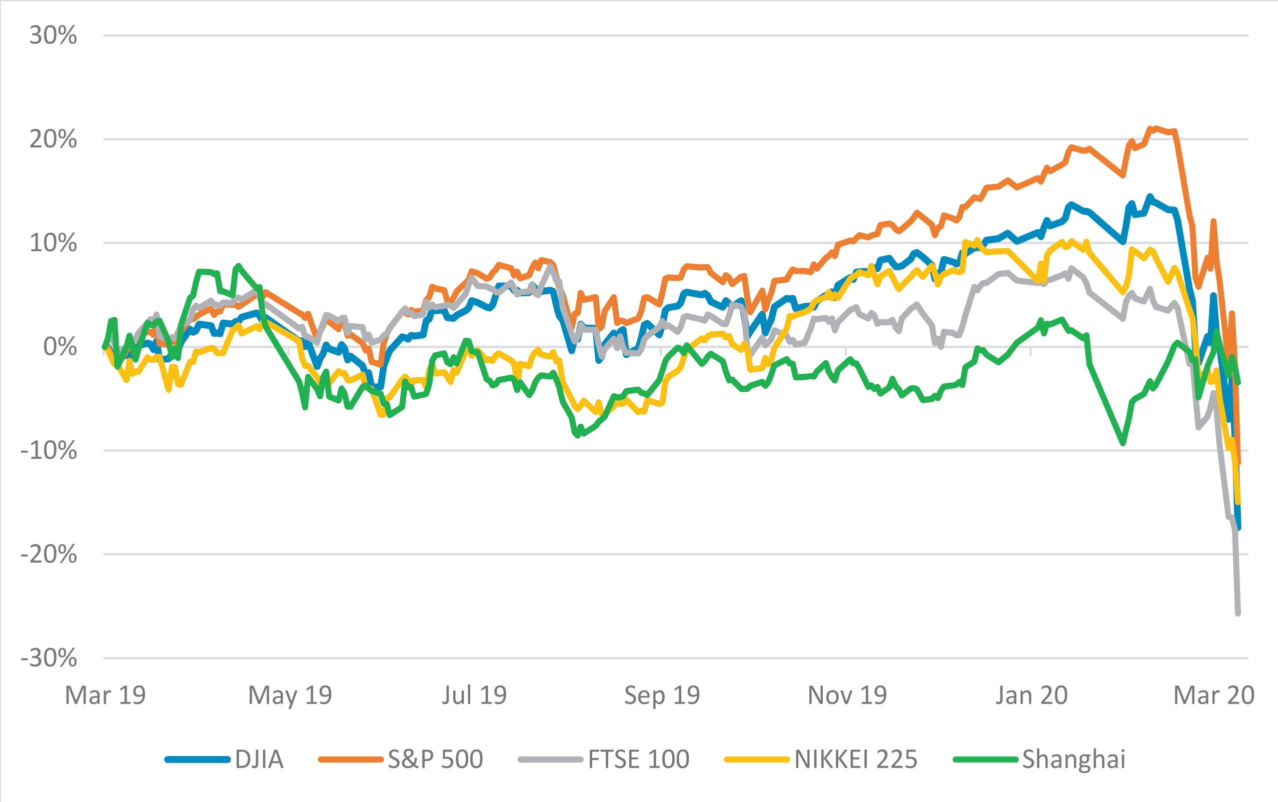



Figure 4: Performance of select stock indices over the past 12 months (12/3/2019 to 12/3/2020). Data source: Trading Economics.

in the price of oil is guaranteed to push the economy into a recession.

Global financial markets, which just one month earlier were dismissing the effects of the supply shock from China, continued to rise despite all indicators pointing to serious problems on the horizon. It was not until the virus began spreading rapidly outside China did financial markets finally take note.

During the last week of February 2020, stock markets around the world crashed (Figure 4). The oil war only added more fuel to the fire. US stock markets, for example, have not witnessed such as crash since 1987.

As the virus spreads around the world, countries will be forced to take on stringent containment measures as in China. This includes, travel bans, school and work closures, and shop and restaurant closures. Though the media has been reporting on the severe impact this is having on global air travel and tourism, it is also having a severe impact on overall consumer spending, the engine of most economies. Thus, the slowdown in spending will erode demand just as China is attempting to repair its supply chains. This is the demand shock.

This demand shock together with the supply shock will impact Kuwait's economy in 2020 and maybe longer. In 2018, 15% of Kuwait's total exports went to China, or USD 953 million, and 17% of the country's imports came from China, or USD 5.98 billion, making China by far Kuwait's largest trading partner. This is according to the United Nations COMTRADE database on international trade.

## Conclusion

The impact of the coronavirus pandemic on the global economy will be more severe than international agencies, such as the IMF are predicting. Their expectation of an economic slowdown in the first half of this year followed by a rise in growth is overly-optimistic. The supply shock from China is only now being felt around the world and the demand shock that will follow could be the perfect storm that pushes the global economy into its worst recession since 2008. This could also be the year in which China experiences its first recession since 1974.

Sustained lower oil prices throughout the year are enough to negatively impact the economy in Kuwait and the GCC. Thus, these countries should be prepared to weather this storm by continuing to implement their future development plans as stated. This investment and support of the local economy will ensure a stronger recovery.

Overall, 2020 is shaping up to be the most challenging year not only for Kuwait's economy, but also for the global economy since 2008.

Oil market outlook remains 'stable' despite volatility

# Crude production to continue with minimal disruption and adequate supply

*The world is accelerating its transition to a more sustainable, secure and affordable energy system. As a result, global energy production is witnessing a paradigm shift and oil producing countries are compelled to rework their strategies to produce energy.*

**By Sajeev K Peter**

Oil prices are expected to remain largely 'stable' throughout 2020 and beyond, despite the market volatility and uncertain geopolitical situation in the Middle East, especially with the abundance of energy supply in terms of oil and gas across the world. Many industry analysts are of the view that despite the cuts coming from OPEC+, there will be a surplus of at least one million bpd of crude oil around the world this year, keeping the price at a comfortable level of $60 per barrel. However, according to recent IMF projections, lower oil prices and an uncertain output in the region might cloud the market outlook in the medium term and prices could decline further to about $56 per barrel by 2023.

"Nobody is expecting a dramatic rise in oil prices, at least in the short-term, although the market will continue to be on guard in view of the uncertain geopolitical situation in the Middle East and the outbreak of the coronavirus in China," said Bovan K George, an oil market professional.

While any regional geopolitical tension could spike oil prices resulting from a 'fear premium' due to concerns about oil supply, incidents like the coronavirus outbreak could send the prices lower over worries about a potential decline in demand for oil in China, one of the largest oil consumers in the world. Oil prices slipped by almost three percent immediately after the outbreak as fears over a potential slowdown in crude demand pressured prices. A slowdown in China's economy would impact oil demand, since it is the world's largest crude oil importer and the world's second-largest oil consumer, according to data from the General Administration of Customs.

## Market balance

A 'fear premium' fueled a sharp $3 surge in oil prices immediately after the killing of Iran's general Qasem Soleimani in a US drone attack and the subsequent developments in the region. Given the current geopolitical situation, the chances are remote for a sudden and definitive escalation that could result in a 'fear premium', since the United States retains its 'escalation dominance'. Many market analysts point out the fact that the markets regained their composure sooner than later and prices dropped around 5% in the week following the attack.

"Nobody is anticipating a full-scale conflict between the United States and Iran although both countries have claimed they are prepared for an all-out confrontation. In all probability, the countries might pursue a strategy of 'escalation and control'," said an oil engineer in Kuwait on condition of anonymity.

According to him, Washington could ratchet up sanctions against Iran and Tehran might possibly attempt to resort to some sporadic attacks on US military bases or oil facilities in the region. "The net result is that the oil market will perennially be in a state of caution and anxiety, keeping prices at a comfortable level. As a result, oil production in the Middle East is expected to continue with minimal disruption and adequate supply, maintaining stability in the market and keeping crude prices from rising dramatically," he argued.

It may be recalled that the attacks in 2019 on a tanker in the Strait of Hormuz and on oil installations in Saudi Arabia had only a short-lived impact on prices because of abundant shale production and a slowdown in oil consumption growth globally. Although the volume of Iran's crude exports has dropped drastically following international sanctions, the shortfall was largely compensated by increased output from Saudi Arabia and a significant rise in shale gas production in the US.

"With the oil companies in the US and other places mastering shale oil technology and making it cost effective even at $50 per barrel, oil prices will always be under pressure whenever it rises. With the shale oil boom, the US has become the largest producer and a net exporter of crude oil. So in the long-term, crude oil price is bound to be around the breakeven cost of shale oil at that time. Also, with the development of electric cars, the demand for oil will come down in the long-term", said George, an oil industry professional working with an oil company in Qatar.

According to International Energy Agency (IEA) Executive Director Fatih Birol, a surplus of one million barrels per day (bpd) of oil is expected to keep a lid on prices in the first half of 2020. He does not expect prices to rise significantly under 'normal conditions', although unexpected geopolitical developments could alter the situation.

### OPEC+ production cuts

Recognizing the demand-supply imbalance, OPEC+ deepened production cuts by a further 500,000 bpd to 1.7 million bpd, OPEC reduced output by a further 372,000 bpd from baseline and the Russian-led non-OPEC group cut production by an additional 132,000 bpd. Saudi Arabia, Iraq and Nigeria brought their own output down to the new target levels. The total OPEC+ output adjustment would therefore amount to more than 2.1 million bpd. OPEC+ will meet time-to-time to assess compliance and the state of the oil market.

The IEA forecast an increase of 100,000 bpd in supplies from non-OPEC members in 2020 and oversupplies from non-OPEC producers would be adequate to sustain any possible geopolitical shocks to oil prices. More than two million bpd of oil is expected from non-OPEC countries such as the United States, Brazil, Norway and Guyana in the next few years. US crude production has reached a record high of 13 million bpd. While OECD inventories also stood at 9 million bpd above the five-year average, Norway's oil production increased to a 9-year-high of 1.76 million bpd.

According to George, prediction of future crude oil prices has always been very risky mainly because oil price depends on many

unknown factors. "Prices are basically determined by the demand-supply scenario at that given time. In the short-term (a few months to one year), oil price is impacted by geopolitical events like the US-Iran conflict, attacks on Saudi oil facilities and oil tankers, disturbances in Venezuela, attacks on Nigerian oil facilities and pipelines, concerns over the coronavirus, etc," he said.


In the medium term (from one year to 10 years), the economic growth/slowdown of major oil consuming countries like China, India, etc plays an important role in either boosting or dwindling demand for oil. In the long-term (more than 10 years), factors like 1) finding new oil reserves, 2) new methods of crude production like shale oil, 3) development of new technology, eg deep water, 4) development of fuel efficient/alternate energy cars, 5) search for greener energy to reduce the carbon footprint/global warming, etc play an important role, George explained.

## The paradigm shift

According to industry specialists, the world is accelerating its transition to a more sustainable, secure and affordable energy system. As a result, global energy production is witnessing a paradigm shift and oil producing countries are compelled to rework their strategies to produce energy. The emerging trends and technologies are changing the way energy is produced, delivered and consumed.

*The net result is that the oil market will perennially be in a state of caution and anxiety, keeping prices at a comfortable level.*

The new IMO regulations that came into effect on January 1, 2020, limit sulfur emissions in fuels used by seagoing vessels (bunker fuels) to 0.5% from 3.5%, and consequently, the price of medium/heavy sour crudes, which yield refined products containing a greater percentage of sulfur (eg high sulfur fuel oil - HSFO), is expected to drop in future compared to light sweet crudes. As experts point out, renewable energy is the way of the future as fossil fuels will eventually run out. A shift to renewable energy looks inevitable for oil producing countries in view of the exhaustibility of natural resources and long-term cost savings, in addition to helping provide a better planet for future generations.

*"We are encouraged by the continued interest of Kuwaiti fund managers in Australia's renewable energy sector."*

Growth opportunities for investments with Kuwaiti-Australian ties

# Kuwait-Australia investments and trade relations on the rise

*Growth areas for Australian-Kuwaiti investments include agriculture, education, food security, infrastructure and renewable energy.*

*Political ties between Australia and Kuwait is warm, friendly and strong.*

**Interview by Jamie Etheridge**

Australia is an important trade partner for Kuwait in the areas of food security, education, agriculture and increasingly infrastructure, health and tourism. The Investor spoke with HE the Ambassador of Australia to Kuwait Jonathan Gilbert to learn more about Australian investment opportunities for Kuwaiti investors and likewise what Australian investors are looking for in Kuwait.

**The Investor: How would you describe the scope of current Australia-Kuwait economic relations? What are the key aspects of trade, investment and business and what is your expectation for growth in the next 12 months?**

**HE Jonathan Gilbert:** Australia and Kuwait have a longstanding and mutually beneficial trade and investment relationship. Australia continues to be Kuwait's food partner of choice with approximately US$300 million in agricultural exports each year. Every day, Kuwaiti households enjoy Australian lamb, beef, grains, fruits and vegetables around their dining tables.

On investment, Kuwait recognizes Australia as an open, stable and well-regulated country with strong links to the Asia-Pacific region – the engine for global economic growth. The result has been a steady increase in Kuwaiti investment in recent years, including in the energy and infrastructure sectors.

Looking ahead a year, there is scope to further grow the trade and investment relationship. And while regional tensions and subdued global economic conditions may impede some of this growth, the overall trend is positive. Pleasingly, within Kuwait there is a growing appreciation and recognition of Australian food and beverage brands and concepts. On investment, we are encouraged by the continued interest of Kuwaiti fund managers in Australia's renewable energy sector.

We also want to see more Kuwaitis visit and holiday in Australia. It's an unforgettable tourist destination, ranging from metropolitan cities to pristine coral reefs and beaches to

mountains to rainforest to desert. While some areas have been recently affected by bushfire, most of this huge continent remains untouched and open for business!

**The Investor: Trade between Australia and Kuwait focuses primarily on wheat and meat (imports) and fertilizer (exports). Are there plans to expand trade relations and in what areas?**

**Ambassador Gilbert:** Meat and wheat, and food generally, continue to be an important part of Australia's trade with Kuwait. Nonetheless, there are other growth areas. For example, Australian firms are working in cooperation with other international partners on some of the landmark infrastructure projects in this country, including the new airport terminal (T2). It is also great to see the ongoing

*Over 700 Kuwaitis study in Australia and here in Kuwait over 4,000 students study at Australian-affiliated institutions.*


success of educational institutions such as the Australian College of Kuwait and Box Hill College Kuwait.

**The Investor: Kuwait's FDI in Australia reached A$10 billion and Australian FDI into Kuwait was A$82 million in 2018. What sectors is Canberra interested in promoting for Kuwait investment and what are Australian investors interested in with regards to Kuwait? And when it comes to Kuwait's longer term development goals, the New Kuwait 2035 development plan, where does Australia hope to participate and what are some of the sectors or activities it's involved in thus far?**

**Ambassador Gilbert:** Investment from Kuwait to Australia is growing. Kuwaiti investors are attracted to Australia's remarkable record of 29 years of uninterrupted economic growth. And the good news is that they are being rewarded with strong financial returns, whether in energy, infrastructure or real estate sectors. With regards to Kuwait, Australian investors are taking a close look at the New Kuwait 2035 vision and some of the opportunities that it presents, including in the health, infrastructure and environment sectors.

**The Investor: What trade or investment policies in Kuwait do you see as a challenge to Australian investors? What can be developed or changed to help attract more Australian investors to Kuwait?**

**Ambassador Gilbert:** The biggest impediment to Australians investing in Kuwait is the limited knowledge of the country. Greater promotion of investment opportunities in Kuwait would help. We have a sizeable Australian business community in the United Arab Emirates, but unfortunately only a small number are familiar with Kuwait and its economy.

While the embassy works hard to promote Kuwaiti investment in Australia (and vice-versa), there is really no beating visiting Australia itself to truly get across the broad range of opportunities available and to forge business links. While you're there, you could visit our many unforgettable tourist destinations!

**The Investor: Are there specific bilateral trade or investment agreements in the works that investors can be watching for in the coming 12 months? What are your thoughts overall on Kuwait-Australian investment and trade ties and what do you foresee as important developments expected within the coming months?**

**Ambassador Gilbert:** I am hoping there will be further Kuwaiti investments in the energy sector over the coming 12 months, including in LNG and renewables. On trade, I look forward to working with Kuwait on ensuring Australia continues to be a key food security partner. There is also an important body of work to be done on further deepening the education relationship between our two countries.

Over 700 Kuwaitis study in Australia and here in Kuwait over 4,000 students study at Australian-affiliated institutions (Australian College of Kuwait and Box Hill College Kuwait). Australia's practical and collaborative approach to higher education, and with seven universities in the world's top hundred, means that it's the right choice for many young people as Kuwait looks to its future.

**The Investor: For would-be investors from both countries, what do you think they should be considering or watching out for and what are the challenges and opportunities you foresee?**

**Ambassador Gilbert:** Regional tensions will likely remain a concern for both Australia and Kuwait. Investors, like most people, don't like doubts and uncertainties. Add to this the current OPEC oil production cuts and global economic gloom, and 2020 begins to look like quite a challenging year. On the positive, many countries in the region, including Kuwait, are looking forward and progressing ambitious national development plans, including the New Kuwait 2035 vision. This provides opportunities for investors, including Australians, to deepen their engagement with the Middle East.

**The Investor: How do you see the Australia-Kuwait political relationship growing/ changing within the coming year and what are the key concerns you foresee, if any?**

**Ambassador Gilbert:** The political relationship between Australia and Kuwait is warm, friendly and strong. It is a genuine partnership that benefits both countries and is underpinned by a shared commitment to upholding peace, prosperity and stability. Australia is proud of its involvement in the coalition that liberated this country in 1991. And this is something that Kuwaitis have not forgotten. Australia and Kuwait are both big believers in the multilateral system and the international rules-based order – we congratulate Kuwait on its recent successful term as a non-permanent member of the UN Security Council over 2018-19.

**The Investor: What is Australia's long term view of the region as a whole, politically and economically, and its key areas of interest and investment?**

**Ambassador Gilbert:** While Australia is obviously heavily engaged in the Asia-Pacific, our country also has strong political, trade, investment, education and defense interests in the Middle East, including in Kuwait. And with over 160 direct return flights per week between Australia and GCC countries, it is increasingly connected to the region. Given the large youth population in the Middle East, there is significant scope for Australia to do more on education in the region and to further grow the already strong connections. A sizeable portion of Australians are originally from the Middle East, and many of them are the bridge with the region, forging people-to-people and commercial links.

# What are the benefits of investing young?

*If you begin investing at a young age, you will end up with far more than those who invest later in life.*

*The principle of diversification means having a diverse portfolio with investments distributed among different financial instruments.*

**By Dr Wafaa Sbeiti**

"Often greater risk is involved in postponement than in making a wrong decision." Harry A. Hopf

Very often when you wait very long to do something, you will miss out on the entire opportunity. If you procrastinate because you are fearful of making a poor choice, life goes on without you and you might end up regretting your procrastination.

When you're younger, investing for something that's years away such as retirement may not seem important. But that is exactly when you should start investing. The more money you invest, the more time it has to grow. And one of the ways to give money a chance to grow over the long term is by investing.

Investing from a young age is one of the most important lessons in personal finance. Investing at a young age isn't always easy, but the benefits are numerous and can't be overlooked.

Here are four benefits of investing early:

### 1- Time is on your side:

One of the biggest benefits of investing young is that you get more time. Time is a valuable asset in the world of investing, and luckily, young people have it in abundance.


Even if you start small, you'll be surprised to know what a difference it can make if you invest now, instead of 10 years later.

In particular, if you begin investing at a young age, history tells us that you will end up with far more than those who invest later in life. Having time on your side means having a longer period of being able to save money to invest and a longer period of being able to find investments that can increase in value over time.

There is a reason that compounding - the ability to grow an investment by reinvesting the earnings - was referred to by Albert Einstein as "the eighth wonder of the world". The magic of compounding allows investors to generate wealth over time, and requires only two things: The reinvestment of earnings and time.

Compounding returns are extremely powerful over the long run, and the earlier you get started the greater your chance is to take advantage of this. Put more simply, this is the power of the time value of money.

For example, if you are 25 years old right now, and you invest $250 every month, after 10 years you will have saved $40,969 (at an interest rate of 6 percent, compounded monthly). If you begin to invest the same amount when you are 30 years old, then you will have only $17,442

by the time you are 35. That's a difference of 43 percent!

You can easily see that the earlier you start investing, the longer you will be in the game. Time is the secret ingredient in compounding. The more time you have to invest, the wealthier you will be.

## 2- Learning from experience

Experience is the key, most of us learn best from experience. Sure, we can read and learn from books and the vast amount of material on the Internet. However, it's not the same as going through various situations personally.

Starting to invest when young provides you great exposure to how the financial market works. Whether you choose to invest in the stock market, ETFs, mutual funds or get a savings account, it helps to know your way around how everything works. Knowledge is power, and an experienced investor is a smart investor.

Once you get an appropriate amount of market experience, it will help you identify new avenues of investment. You can also distinguish between authentic investment opportunities versus superficial ones. This automatically helps you make better choices in terms of the risk and return of an investment.

Over the years, you also tend to understand the trends in the markets. When you are new to investing, it's easy to panic. For example, if there is a drop in the stock market, you may want to sell your securities to salvage at least some part of your investment amount. This is an amateur move. A seasoned investor always buys when the market is undergoing a crisis. They know that the market will eventually return to its original position (or go even higher). When it does, they can sell their securities and earn a significant return.

Young investors have the flexibility and time to study investing and learn from both successes and failures.

## 3- Managing your money better

When you start investing young, you automatically begin to understand the value of money. An investor knows the difference between an unnecessary expenditure and a lucrative investment. As a result, every investor tends to take on a strategic approach in how they handle their money. They develop good spending habits and do not waste money. In the long run, this is one of the best wealth accumulation techniques - investing early definitely helps develop positive spending habits.

Those who invest early are less likely to have issues with overstepping their boundaries in spending over the long run. Investing early teaches important lessons, and the earlier you are able to learn those lessons, the more you can benefit. If you are a young investor you are putting yourself ahead in the world of personal finance as a whole. By growing your investments over time, you will be able to afford things that others can't. Your personal finances are bound to get tight at times throughout your life, and investing at a young age can help in those tight times.

### 4- Recovering from bad investments

Investment is based on two basic principles: Risk and return. As an investor, you naturally try to minimize your risk and maximize your returns. However, not all investments end up being lucrative and may backfire. The good news is you still have time to recover from any setbacks caused by a bad investment. You can take a break and wait until you are able to accumulate money for investing again. This also applies to when the market is down, and there are a limited number of investment options available. Instead of rushing into it, you can wait for the market to recover and invest at an appropriate time.

An investor's age influences the amount of risk he or she can withstand. Young people, with years of earning ahead of them, can afford to take on more risk in their investment activities. While individuals reaching retirement years may gravitate towards low-risk or risk-free investments, such as bonds and certificates of deposit (CDs), young adults can build more aggressive portfolios that are subject to more volatility and stand to produce larger gains.

### What are the best practices to observe for young investors?

Investment can be a great way to accumulate more wealth, but it can quickly turn into a nightmare if you don't know what you're doing. Make sure you set some investment goals beforehand. This will help you plan out your investments and take a decision accordingly. You can also set up an automatic investment plan. This lets you allocate a fixed sum of money for investing each month. Read on to learn more about some of the best investing practices for a young investor:

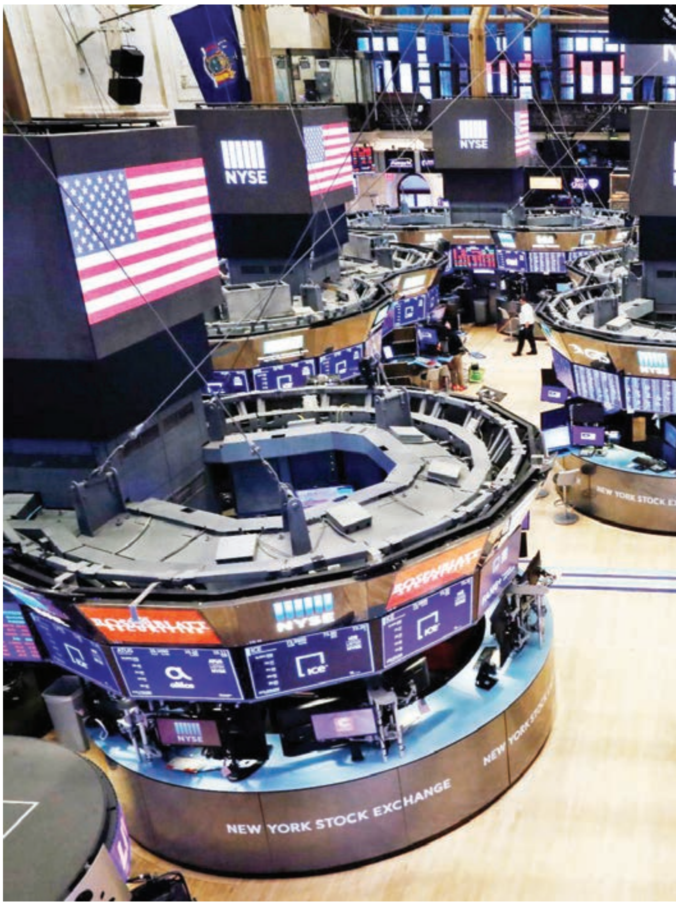
### 1- Avoid any unnecessary risk in the beginning

As a young investor, you don't want to jump into risky stocks or try out unconventional investment opportunities such as buying cryptocurrency. Remember, an investor's risk appetite grows proportionately to their wealth. If an initial investment goes wrong, you could end up losing all your money.

To avoid this, we suggest you begin by investing in mutual funds or open a savings account. The returns may be small, but there is minimal risk here. Investing in mutual funds is particularly useful. A mutual fund is an investment vehicle where multiple investors invest in multiple securities. It can include everything from stocks and bonds to money market instruments.

### 2- Have a diverse investment portfolio

You might be familiar with the phrase "Don't put all your eggs in one basket". The principle of diversification works in the same way. Hav-

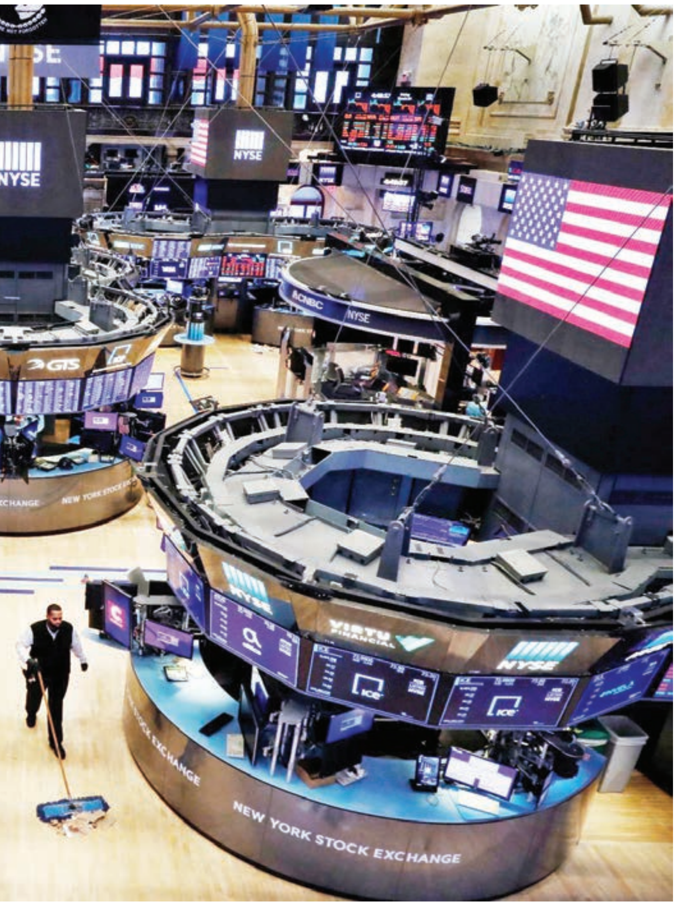


ing a diverse portfolio means that you have distributed your investments among different financial instruments. These financial instruments tend to react differently to changes in the economic environment.

For example, macroeconomic factors such as political instability can have a significant effect on the stock market. However, it may not have the same impact on the commodities market. This helps reduce risk. It also helps in maximizing returns. This is another significant advantage of investing in a mutual fund. A mutual fund is composed of different kinds of stocks, bonds and money market securities. As a result, your investment portfolio gets diversified.

### 3- Make use of technology

There are many online tools and techniques available that can help you at the onset of your investing journey. Try and peruse financial websites and stay up-to-date with what's happening in the financial market. Educating yourself about investment vehicles and typical trends of the market will also prove to be useful.




There are many platforms available for online trading as well. These help you analyze investment opportunities and gauge the risk and return attached to each. You can also use mobile trading apps that can automate the whole thing for you. These digital investment apps are simple, accessible and highly convenient to use. If you find yourself too overwhelmed by your daily routine, you can use these apps for quick investment decisions.

### 4- Be patient

Investing today does not mean you will wake up as Warren Buffet tomorrow. Patience is important. If you have bought a company's stock and it doesn't give you any instant returns, don't sell it. As far as stock investing is concerned, the rule of thumb is to do nothing. You can make a lot of money by simply holding stocks instead of buying and selling them. When the value of your stock rises, the value of your investment portfolio rises as well. So, sit tight, and wait for the returns to come.

### Let's sum it up

Starting to invest when young can change your life. You won't have to worry about your retirement and you can maximize your wealth without making too much effort. Even if you aren't earning a lot right now or have loans to pay off, it is important to direct some of your money towards investing.

It may appear hard in the beginning, but eventually, you will thank yourself for it. You also have less financial responsibility to bear when you are younger. As you grow older, your expenses will increase as well, and you may find it harder to allocate money for investing. Here's a quick recap of the benefits of investing from a young age:

- You can earn more money in the form of compound interest and dividend growth
- You can recover from the repercussions of a bad investment decision
- You can learn about how the financial market works and make better investment decisions over time
- You can learn to control your expenses and be smart about how you use your money

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اتحــاد شركــات الاســتثمــار

# UNION OF INVESTMENT COMPANIES

### Overview

During the last two decades, the investment companies have been an immense impetus within the local and regional economy. They have provided financing and investment services, asset management, in addition to the financial investment services, such as mergers & acquisitions and more. Furthermore, they have rapidly extended their business operations in the regional and international markets, including the provision of financial services in accordance with the provisions of the Islamic regulations.

According to the statistics provided by the Central Bank of Kuwait, the number of investment and financial services companies reached 72 companies, including 27 listed companies in the Boursa Kuwait, where they altogether manage assets of around 19.9 billion Kuwaiti Dinars.

The investment sector is considered the second largest sector in the Boursa Kuwait after the banking sector in terms of the size of its capital, as it is the third largest sector after oil and manufacturing industries as well as banks in terms of contribution to GDP.

Given the importance of this sector emerged the idea of establishing the Union of Investment Companies (UIC) in January 2005, which currently holds 32 investment and financial services companies within its membership. 18 Companies listed in Boursa Kuwait.

### Mission

Adapting the appropriate atmosphere for developing the efficiency of the investment sector and financial services in consistency with developments in the international markets, including legislation and autonomous regulations to serve national economy.

### Objectives of Union of Investment Companies (UIC)

- Activating the involvement and participation with all formal and informal establishments in the country as well as working with them to develop a clear strategy to transform Kuwait into an advanced financial center to create a competitive atmosphere for all investment companies.

- Providing and suggesting draft proposals to update and reform legislation on the financial sector (the Capital Markets Authority law, corporate law, and the foreign investor law, etc.)

- Working to complete the institutional structure of a mature financial market, which operates to protect the investments and improve the investment environment and stability of transactions, raising confidence in the economy.

- Working to increase the number of UIC members, and to provide detailed data on member companies.

- Expanding the investment base for investment companies and assisting the investment sector in launching its investment projects and overcoming all obstacles facing investments and the promotion of the investment companies inside and outside Kuwait.

- Encouraging investment companies and financial markets on growing their activities and widening their financial instruments (various funds, fixed income debt instruments, convertible bonds, Islamic bonds, etc.) to assist investors in diversifying their operations and investment choices.

- Seeking arbitration to settle internal disputes that may arise between UIC members.

- Direct communication and establishing joint committees with all the official entities that are relevant to the investment sector (Central Bank of Kuwait, Capital Markets Authority, Ministry of Commerce and Industry, Ministry of Finance, Kuwait Chamber of Commerce and Industry, Committee of Finance and Economic Affairs in the National Assembly, Financial Committee at the Council of Ministers, Workforce Program and Restructuring, and more).

- Activating the role of Investment Studies Center (ISC) to provide services and trainings to those interested in the investment field.

# UIC Members

1. Arzan Financial Group for Financing & Investment
2. National Investments Company
3. Al-Safat Investment Co. K.S.C.C.
4. KAMCO Investment Company (KAMCO Invest)
5. Kuwait Investment Company
6. Amar Finance & Leasing Company
7. Al-Ritaj Investment Company
8. Al-Fanar Investment Company
9. A'ayan Leasing & Investment Company
10. Al-Imtiaz Investment Company (A.I.I.C)
11. Kuwait Clearing Company
12. Kuwait Financial Centre S.A.K.C.
13. The Securities House Company
14. KFH Capital Investment Company
15. Kuwait & Middle East Fin. Inv. Co. KSCC
16. Wafra International Investment Company
17. Osoul Investment Co. (K.S.C) closed
18. Al-Tamdeen Investment Co. K.S.C.C.
19. Al-Manar Financing & Leasing Company
20. Kuwait Pillars for Financial Investment
21. UniCap Investment and Finance
22. Watani Investment Company
23. The Investment Dar Company
24. Dimah Capital Investment Company
25. Adeem Investment & Wealth Management
26. Boubyan Capital Investment Company
27. Noor Financial Investment Co.
28. First Investment Company (FIC)
29. Kuwait Finance & Investment Company (KFIC)
30. Aref Investment Group
31. Coast Investment & Development Company K.S.C.P
32. Rasameel Investment Co.

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|---|---|
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