2022: A Tough Year For Global Stock Markets

BLOMINVEST BANK

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High inflation and tightening monetary policy Shaped Global Equities' Performance in 2022

2022 can be described as a world-shattering year in terms of geopolitical and economic events. The world's main movers saw their stocks heavily fluctuating and falling after the occurrence of several developments topped by Russia's invasion to Ukraine, soaring oil prices to the aggravation of the Chinese zero Covid policy and, most importantly, peak inflation which all together created a supply chain disruption and pushed Central Banks all over the world to adopt a steep hiking cycle. Consequently, markets began to slide and recorded the worst performance since the 2008 financial crisis.

In what follows, we will first discuss the performance of global markets during that year (US market, European Market, and emerging market), then we will analyze the Lebanese market from the performance of the overall market, followed by an in depth analysis of the performance of the Solidere stocks.

GLOBAL MARKETS

US economy

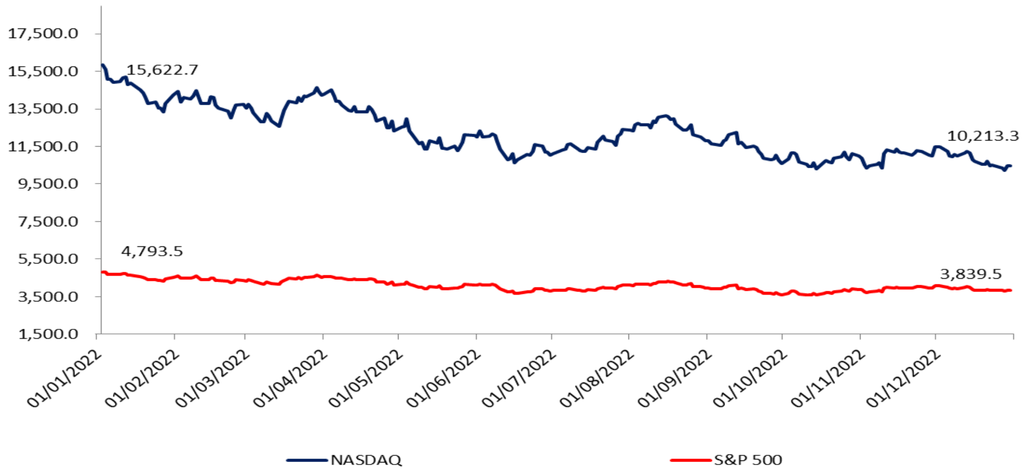
It has been an extremely tough year for US equity as several dynamics shaped its performance for the year 2022. Sticky inflation and aggressive tightening policy adopted by the Fed battered growth, most likely that of the technology sector, and pondered investor sentiment throughout the year. Volatile economic data and rising geopolitical concerns also kept markets on edge although hiring remained strong all year and unemployment reached its pre-pandemic low. However, this is perceived negatively by traders as they became even more worried that a tight labor market means further wage gains that would fuel the already high inflation. As a matter of fact, inflation's surge to 40-year highs sent stocks into a bear market that continued till the end of the year while investors' concerns turned onto a potential recession despite some relief sensed by a possible slowing in Fed's interest rate hike.

Major US stocks' indices fell heavily in 2022 vanishing billions of dollars from the market despite that energy and utilities sectors finished higher on the year end. The worst drops were in communication services and consumer stocks driven by concerns about a possible recession ahead.

In details, the NASDAQ composite recorded the worst performance among the US stocks indexes. Having started the year at 15,832.8 and ended the year 33.89% lower at 10,466.5. Meanwhile, the S&P 500 managed to hold up a little better than the NASDAQ and deteriorated by 19.95% by the end of 2022. The S&P closed the year at 3,839.5 down from 4,796.6 at the start of January 2022. It is crucial to note that the S&P index still has its worst year since its 37% decline during the financial crisis of 2008.

Looking ahead, stocks won't gain ground until the Fed stops its tightening monetary policy. As the market is expecting further rate increases in 2023, stock prices is unlikely to follow an uptrend any time soon as higher rates make safer investments a better bet than risky stocks.

NASDAQ and S&P 500 performances 2022:



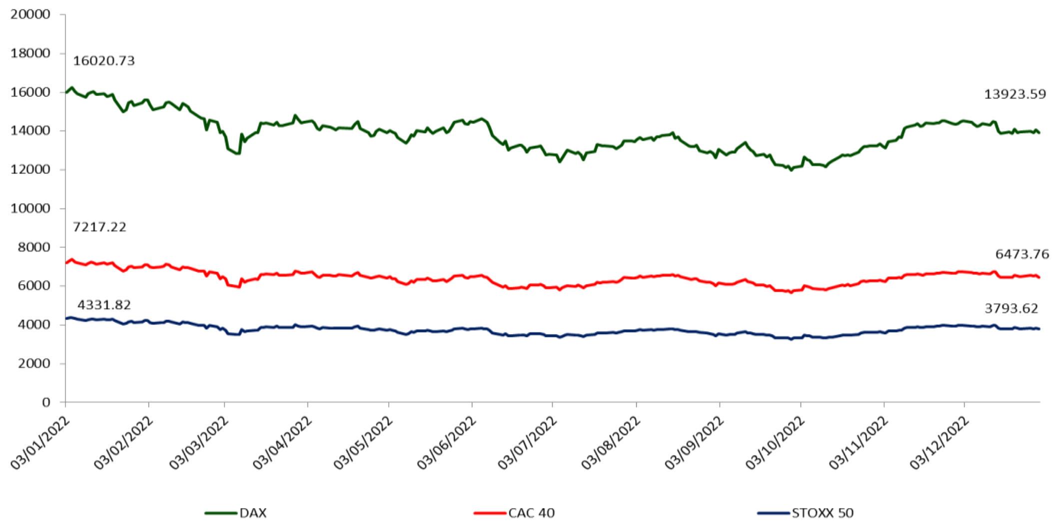
Source: Bloomberg, BLOMINVEST

European Market

When it came to European stock performance in 2022, two major forces were driving the markets: war in Ukraine and inflation. Some countries in Europe were resilient more than others; however the shortage in supply chains and the geopolitical uncertainty has disrupted the market and hurt the economic recovery in 2022. Stock indices in Europe had their steepest drop since 2018 as Central Banks adopted a tightening monetary policy which hammered risky assets and made the year quite shaky. In fact, excluding some small gains made in utilities and energy sector, almost every other sector has been more or less deep in the red this year.

With that said we can conclude that German stock market fell the most during 2022 and recorded a drop of 13.09% from 16,020.73 by start of year to 13,923.59 by the end of 2022. In fact, Germany’ s real GDP added 1.8% in 2022 although inflation recorded an elevated level but growth was supported by a boost in demand followed the post-pandemic economic recovery. Nevertheless, by the end of 2022, real GDP contracted by 0.2% in the Q4 as investment and private consumption did not reach the pre-pandemic levels. In the same token, French GDP held up in the first half of 2021 on the back of a considerable recovery from the pandemic but slowed down in the second half of the year backgrounded by substantial blocks and increasing energy and commodity prices. As such, the French index CAC 40 closed the year at 6,473.76 by 30 December 2022, logging annual losses of 10.30% while the STOXX 50 index closed the last trading day of 2022 down 12.42%, its worst performance since a 13.24% annual decline in 2018.

DAX, CAC 40, and STOXX 50 Performances:



Source: Bloomberg, BLOMINVEST

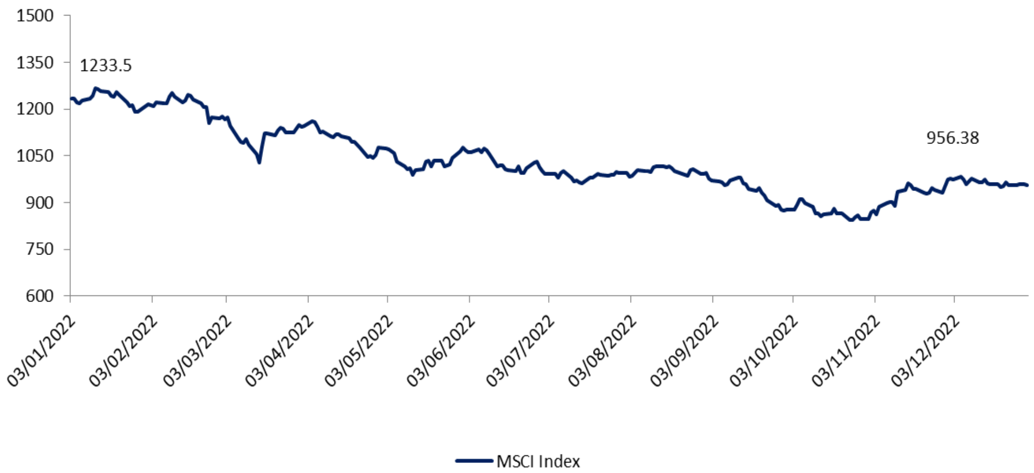
Emerging Market

Inflationary pressures and dollar hike put Emerging Market under pressure in 2022

Emerging markets have had their share of difficulties in 2022; the war in Ukraine, a stronger US dollar, and most importantly, the slowdown in China’ s economy amid the adoption of zero-COVID policy and struggle of its property sector. In more details, Eastern Europe recorded the worst-performing region due to Russia’ s invasion as well as the situation in Poland and Hungary. Weak performance followed in Asia, precisely Taiwan and China, while Peru and Brazil in Latin America were the leaders of the pack.

While global demand had re-picked in 2022 and oil prices peaked following the supply disruption and war in Ukraine, the MSCI index dropped approximately 22.40% but it revealed signs of recovery later in the fourth quarter, and increased nearly 3% compared to the third quarter but ended the year at 956.38 down from 1,233.5 by the start of the year.

MSCI index performance:



Source: Bloomberg, BLOMINVEST

LEBANESE MARKET

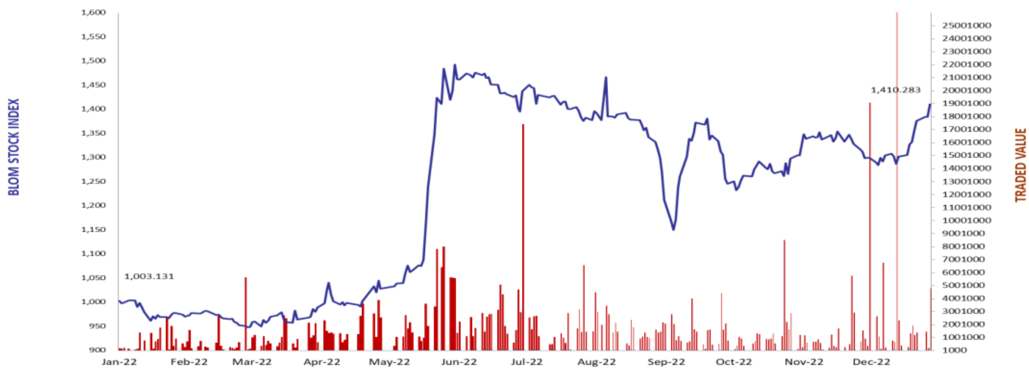
BSI and BSE Performance

It was another turbulent year for Lebanon. The deceleration of the economy was broad-based with some sectors poised to contract while others registered a growth as the situation was readjusting after 2 years of severe turmoil. However, the financial crisis has not been resolved and no recovery plan was put in place. As such, the bourse in Beirut kept its uptrend of 2021 and BLOM Stock Index (BSI) registered another significant yearly increase backed by outstanding performance of Solidere Stocks.

In details, the BSI fluctuated during the course of the year, with a minimum of 947.91 points and a high of 1,493.15 points driven by significant rebound in Solidere prices. Overall, the BSI increased yearly by 40.86% in 2022 compared to an increase of 56.46% the past year and reached 1,410.28 points by 29/12/2022 up from 1,003.13 points in 03/01/2022. In term of volume traded, BSE recorded 21,442,027 by end of December 2022 compared to 29,575,958 by last year while market capitalization added 37% from $10.55B at 29/12/2021 to end up the year of 2022 at $14.45B.

In general, the year was somehow positive for Beirut Stock Exchange backed by higher real estate stock prices. Meanwhile, negative investors 'sentiment would prevail due to rising concerns about the continuous economic meltdown but strong demand over real estate stock would remain aggressive, the outlook for BSE is up.

BLOM Stock Index (BSI) and Traded value:



Source: BLOMINVEST

Real Estate Sector in Lebanon

An equity backed by real asset is definitely considered less shaky and more reliable compared to other stocks listed on the bourse of Beirut. In fact, Solidere has fundamentally succeeded to improve its financial performance, as the revenue has been increasing for two consecutive years, 2019 and 2020. Nevertheless, a loss of $21.5M was recorded for the year of 2021 due to unrealized and uncalculated additional sales concluded during the year of 2021 at a value of about $63M, amid failure to complete the administrative transactions related to it as a result of the continuous closure of the Cadaster and public real estate departments.

Overall, it was a back and forth year for Solidere. Real Estate stock fluctuated during the course of the year but ended the year relatively higher than the previous one. In details, Solidere A registered an increase of 93.52% from 31.47$ at the start of 2022 to a high of 60.9$ by end of December 2022, with a peak of 65.3$ at 27 May 2022 just after the toothless election results that gave no sign of solution on the political front nor on the financial front as both the exchange rate and Solidere prices went up in their fastest pace ever.

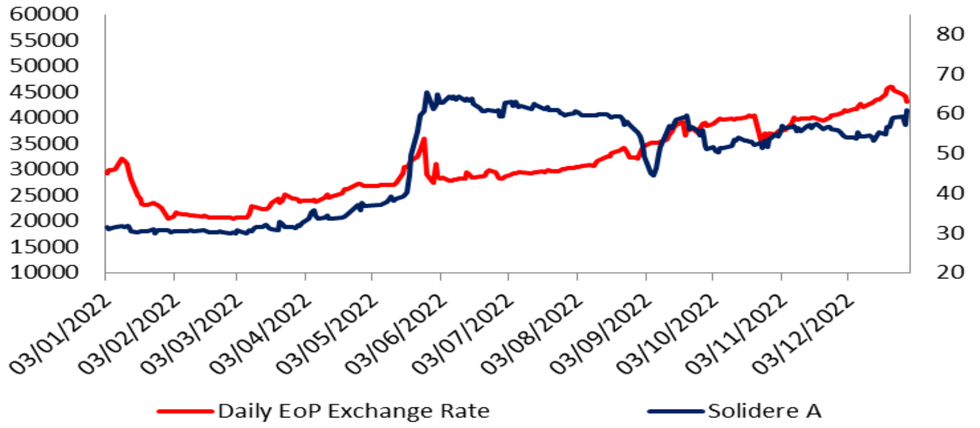
On the whole, the positive trend should continue in the coming period due to the economic meltdown in the country; however the real estate sector in Lebanon would be one of the first sectors that would directly rebound once the situation stabilizes. Ironically, should the situation continue to deteriorate, this would be interpreted as a rise in both Solidere' s share as well as in the value of the real estate portfolio, as local dollars would lose their worth more.

Exchange rate USD/LBP and Solidere price

In addition to the upright financial performance and surprising standing for Solidere in the middle of the turmoil, the devaluation of the Lebanese exchange rate was certainly driving the price up. It is clearly evident in the below chart the strong correlation between the daily exchange rate and Solidere prices, albeit not perfectly during 2022 compared to 2021. The correlation coefficient between the exchange rate LBP/USD and price of Solidere A is 85%. The solid correlation can be explained through several factors; the uncertainty regarding the whole economic situation especially after the elections which harmed the confidence in the Lebanese lira as well as depositors' sentiment remained extremely cautious towards protecting the value of their assets by converting their cash into Solidere stocks. Rational investors stood on alert against any disruptions or negative event and used Solidere as a way of hedging against any economic or political turbulence.

Alternatively, the crisis is still a good opportunity for this company to thrive. Despite that Solidere was about to lose its momentum as real estate stock prices recorded some falls during the year while, however, the Lebanese exchange rate continued its adverse trend, and overall Solidere stocks reaffirmed in the market their positive correlation with the Lebanese exchange rate. In short, Solidere would keep showing strong trade on the exchange market due to the rising uncertainty of the outlook as complete absence of recovery plan would keep the Real Estate Company on the spotlight in Lebanon. After all, Real assets are the best bet in crisis times!

Solidere A prices (right axis) and Daily EoP Exchange rate (left axis):



Source: Lira Rate, Beirut Stock Exchange, BLOMINVEST

Banking and Industrial Stocks

The banking sector is still at the core of the Lebanese crisis. Banks' stocks are still a fragile alternative for most of the investors. The largest gainer in terms of value was BEMO Bank; in details, the share price increased by 9.09% compared to last year and reached $1.20 up from $1.10, with a total volume for this period reaching 83,200 by the end of December 2022. As for the rest, prices generally dropped due to the continuous turmoil the sector is experiencing. For bank Audi and BLOM, stock prices significantly decreased yearly by 33.04% and 29.07%, respectively, to reach $1.54 and $2.66 with a total volume of 1,773,149 and 286,825 by the end of December 2022. Looking at the financial results in 2022, Blom bank net profit came to $4.936 million, compared to $4.416 million last year while financial results for the same year for Byblos bank recorded a loss that amounted to $969.98 million against losses of $17.76 in 2021. Meanwhile, Bank Audi' s incurred losses amounting to $811.23 million for Q3 2022 compared to $107.32 million in Q3 2021.

Moreover, Audi GDR and BLOM GDR both registered a drop in share price by 26.84% and 16.92% annually to stand at $1.39 and $2.75, with a total volume of 1,252,651 and 1,317,544, respectively for year of 2022.

As for the Industrial Sector, the value of Ciment Blanc and HOLCIM shares surged respectively by of 109.09% and 60.37% on an annual basis, up from $5.50 and $19.33 to $11.5 and $31 by end of December 2022 despite a relative low volume for this period reaching 82,750 for Ciment Blanc and 125,923 for HOLCIM. So, the results came largely as expected with banking down and real estate and industrial up.

CONCLUSION

Despite overall unstable economic and political fronts, BSI reached one of its highest levels during the year. However, the outlook of the Lebanese bourse will remain highly dependent on political and financial developments, whether positive or negative. As long as the situation is going downward, Solidere will remain an alternative option for depositors as it will push the index up. On a different note, the Beirut Stock Exchange need enhancement as to be fairly trusted by investors as well as by more private companies to be motivated to list their securities on BSE. Till today, investors remain hesitant to invest in the Lebanese Stock Market leaving Solidere stocks the only shining company listed on BSE. In parallel, trading activities will be tied to recovery plan, Government formation, and the stability of the Lebanese currency.

On the global market, the latest economic developments have been mixed, mirroring both improved conditions and sticky downside risks, mainly centered on inflation and geopolitical uncertainty. As for energy prices, it has come down at the end of the year resulting in slowdown in inflation in both developed and emerging economies, however core inflation readings remain high, and central banks are sticking to their commitment to a course of policy tightening. The Federal Reserve signaled that further increases is expected in 2023 while the Bank of England already lifted its key interest rate three-quarters of a point on February 2, 2022, the highest it has been in 14 years. Same for the European Central Bank that raised its key refinancing rate by a half point. In short, after a surprisingly strong first month of the year, risk of recession is still looming, probably, in the second half of 2023; as such, traders will keep a close eye on the leading economic indicators despite that the economy has been resilient to tightening monetary policies. Global stock markets are expected to fall slightly in 2023 against the setting of a possible cut to earnings and concerns over the outlook of monetary policy as what drives long-term performance is more likely to be the earnings instead of valuations. ***In short, it looks like a tough year is ahead For Stocks!***

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