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International Investors Wake Up To Gulf Story

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The "tipping point" for investors thinking about the Gulf has arrived, and the potential for increasing exposure to the region is considerable, the author of the article argues.

The chairman of the ***Gulf Investment Fund*** *Anderson Whamond, is unsurprisingly keen on the Gulf region's investment potential. (We* ***interviewed*** *this organisation recently.) As wealth managers know, the region is already taking big strides as a financial hub and home to high net worth and ultra-HNW individuals. Tourism and other sectors are flourishing. Of course, there are downsides – real estate prices can swing dramatically, and have done so in the past. There are also the geopolitics of the region to bear in mind.*

To make sense of all this, Whamond considers recent events, what the future holds, and the investment implications. The editors of this news service are pleased to share these views. The usual disclaimers apply to views of guest writers. Email tom.burroughes@wealthbriefing.com if you wish to respond.

Tipping point (noun): when a series of small changes becomes significant enough to trigger a larger, more important change.

The Gulf – the Gulf Cooperation Council that includes Saudi Arabia, UAE, Kuwait, Qatar, Bahrain, and Oman – is now at its tipping point. That may seem odd to say as the Hamas-Israel war rages to the north and Red Sea attacks on world shipping continue. But consider this. International investors are keen to diversify away from markets priced-for-perfection (step forward the US and India) or chronically growth-challenged (that's Europe and Japan).

Contrast that with the GCC. The IMF expects it to grow 3.7 per cent in 2024. And, in a world where all markets seem to move together, the GCC is relatively uncorrelated with developed markets. In the three years to the end of 2023 the GCC was 0.37 correlated with the US S&P 500.

There is a tendency to regard the Gulf and the Middle East as the same region. Not so. The Saudi capital Riyadh is 3.5 hours flying time to Tel Aviv. The same distance from London to Athens.

Signs of the tipping point were evident last year. As of May 2024, Dubai is now home to more than 50 hedge funds making it one of the top 10 hedge fund locations globally. Large European and American investment names are now opening shop. BlackRock recently launched an investment platform in Riyadh with the help of a $5 billion anchor investment from Saudi Arabia's Public Investment Fund.

The appetite for investing in the region has been spurred on by both the post-Covid regulatory framework encouraging firms to increase their foreign investment, and the region's determination to smooth the process of setting up businesses. These reforms encourage the creation of the treasured 'cluster effect' as Gulf economies become favoured places to do certain types of business.

The GCC's 10 largest sovereign wealth funds now total close to $4 trillion – greater than the GDP of France or the U.K. This gives them vast spending power. And they are encouraging international investors to co-invest alongside them. Just this week it was announced that Saudi's PIF is offering another $12 billion of shares in Aramco to international investors.

The region is characterised by huge infrastructure projects. In Q1 2024, GCC project awards increased by 20.3 per cent year-on-year to reach $45 billion compared with $37.4 billion in Q1 2023. This is all putting the GCC on the map for venture capitalists, private equity players and startup founders. In March, Saudi's non-oil private sector PMI continued to be strong, leading the region with 57 (anything above 50 signals growth).

Geopolitically, and despite the harrowing images of the Gaza/Israel conflict, and the Houthi rebel attacks in the Red Sea, the Gulf still offers investors relative stability. The larger GCC states such as the UAE and Saudi Arabia are major players among the middle power countries and maintain good relations with both the Western world and Russia and China alike. This helps them to maximise advantages in trade and political influence; the UK is reportedly close to signing a trade agreement with the GCC region.

Another pointer to the GCC's growing influence was the UAE's hosting of COP28 last autumn. Despite being energy-rich, the UAE and Gulf states are working to advance the technology and investment needed to facilitate the clean energy transition, part of which is the $30 billion ALTERR deal aimed at driving sustainable investment in the global south[1].

Oman has invested over $50 billion in renewable energy, notably green hydrogen[2], and Qatar, as well as funding a multi-billion-dollar clean energy joint venture with the UK's Rolls-Royce, is planning the development of world's largest blue ammonia facility, a future alternative to LNG. The global energy transition debate is clamorous. But the GCC is putting hard cash to work – at scale.

A significant factor that is attracting international investors is the power and strength of the regional workforce, combined with significant employment reforms. For example, the Saudi private sector workforce has grown, reaching 2.3 million by end of 2023. Female employment more than doubled from 17.4 per cent in 2017 to 35.5 per cent by end of 2023.

Unlike in Europe, this growth in labour inclusion did not spark unemployment – in fact unemployment decreased as Saudi women embraced job opportunities in almost every sector of the economy. This trend has grown across GCC. Governments have simply made it easier for women to join the workforce.

Add to this the region's policy of diversifying economies away from oil and gas. While the GCC region GDP grew 0.4 per cent in 2023, non-oil GDP was seen to be 3.8 per cent in 2023, with 3.6 per cent and 4.5 per cent growth in 2024 and 2025 respectively based on IMF estimates. Saudi Arabia recorded a 156 per cent increase in international arrivals in 2023 compared with 2019. Saudi is aiming for tourism to contribute 10 per cent of GDP by 2030.

The GCC weight in the main emerging markets index, the MSCI EM was 1.2 per cent in 2017. That figure is over 7 per cent today and predicted to be north of 11 per cent by 2026. On top of this 94 companies IPO'd in the region in 2022 and 2023.

A tipping point is usually a question of not if but when. For international investors in the Gulf, the when has arrived.

Footnotes

[1] COP28, "UAE commits $30 billion in catalytic capital to launch landmark climate-focused investment vehicle at COP28"
[2] Times of Oman, "$50 billion investments expected in green hydrogen in Oman: Dr Firas"