The Middle East: a region under transformation

Notes from the road

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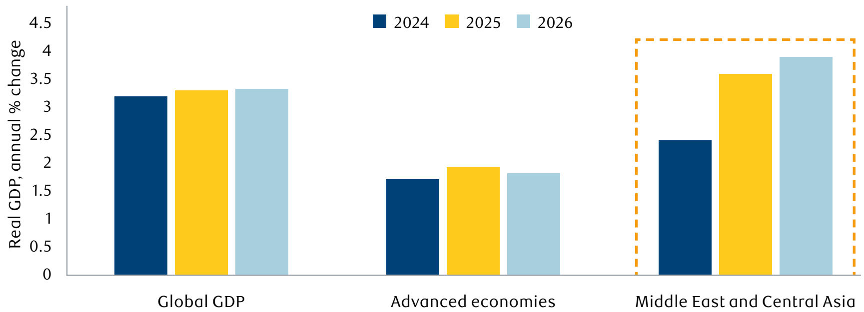
The first thing that struck me on my journey to the Middle East was at the boarding gate at Heathrow Terminal 5: the attire was universally business. The flight was oversold, and the airplane was packed, with two-thirds of the seating dedicated to business class and a handful of economy rows squeezed in at the back as an afterthought.

We landed in Riyadh, the vibrant capital of Saudi Arabia and main headquarters of the Gulf Cooperation Council (GCC). It was 11pm on a Monday night and the city was bustling with activity. Shiny fast food joints decorated the roadside, ironically intertwined with a concoction of private hospitals and pharmacy stores. In a country with amongst the highest levels of obesity and diabetes in the world, I couldn't help but think that prevention may be more effective than the cure.

During our week, we were set to visit three of the six GCC countries: Bahrain, Kuwait, and Saudi Arabia. Described by the International Monetary Fund (IMF) as 'a bright spot in the global economy'[1], the GCC is becoming an increasingly important player on the global economic and geopolitical stage.

Exhibit 1: Economic growth projections show accelerating growth in the Middle East



Source: IMF, World Economic Outlook Update, January 2025. 2024 estimate, 2025 and 2026 projections. www.imf.org/en/Publications/WEO/Issues/2025/01/17/world-economic-outlook-update-january-2025

[1] www.imf.org/en/News/Articles/2025/02/11/sp021125-shaping-future-gulf-cooperation-council-economy-amid-regional-global-challenges

Economic growth is expected to accelerate in the coming years, increasingly driven by non-oil revenues as government investment and structural reforms bear fruit (Exhibit 1). While on the surface the GCC represents a regional, political, and economic union of largely autocratic monarchies, Muslim populations, and oil-based economies, under the surface, each member country has its local dynamics and quirks, and is at varying stages of economic development. I was keen to be on the ground and discover more.

Saudi Arabia – the powerhouse of the Middle East

Saudi Arabia is the largest country in the GCC in terms of both land area and population. It also has the largest economy thanks to its expansive oil reserves which are the biggest known in the world. What's interesting is that Saudi has been amongst the most proactive countries in recent years in terms of diversifying its economy away from oil.

The kingdom is undergoing a transformation since Crown Prince Mohammed bin Salman's rise to power in 2015, with a series of social and economic reforms and government investment under his ambitious Vision 2030 initiative. The kingdom's evolution is reflected in the Global Economic Diversification Index, with Saudi Arabia improving by more than 30 ranks between 2000 and 2023[2].

"Several of the investors we met informed us they are increasing their allocations to China, and generally had a positive outlook for EM equities over the coming years."

Driving through Riyadh, I observe a low and expansive cityscape dotted with the occasional futuristic skyscraper which could quite easily be mistaken for a work of art. This is a city in transformation, with construction underway at every corner. Indeed, a considerable amount of infrastructure will be required to accommodate the population growth expected under Vision 2030. My imagination runs away with me; what will this city look like in five years' time?

On the first day of our trip, we attended a conference where the topic of our panel discussion was whether investors have enough global diversification (Exhibit 2). It is clear that emerging markets (EM) have a considerable role to play in this, constituting a diverse group of countries offering a range of domestically driven, structural growth opportunities. The location of the discussion was also fitting, with the equity markets of the Middle East rapidly growing in prominence in EM equity benchmarks (their aggregate weight in the MSCI EM Index has risen from 4% only five years ago to 7% currently).

Exhibit 2: Investor conference in Riyadh, the capital of Saudi Arabia.

A domestic flight on Saudia, the local carrier, took us to Dammam, the capital of the eastern province of Saudi Arabia, situated on the coast. We observed a casually clad group of chattering teenage girls who, we were subsequently informed, were the Saudi under-17 national female football team. They were due to play Bahrain. This felt quite remarkable in a country where females weren't allowed to drive or attend sporting events only a few years ago.

We met with an investor managing the pension and insurance assets of a large corporation who told us that, second to Dubai, Saudi is now in fierce competition with Abu Dhabi where business and tourism are currently booming. What was also interesting is the very different attitude towards EM equities observed amongst the investors we met; being part of the region themselves, they seemed more receptive to the investment opportunities on offer from the fast growing, young economies in EM.

Bahrain – a small but diversified economy

An hour's drive from Dammam was Bahrain, an archipelago of over 30 islands situated in a bay on the southwestern coast of the Arabian Gulf. In many ways, Bahrain is the opposite of Saudi Arabia. Unlike the vast landmass and economy of Saudi, Bahrain is home to the smallest population (approximately 1.5 million) and economy in the GCC[3]. With relatively low oil reserves, the economy is more diversified, with financial services, banking, manufacturing, and tourism amongst the larger sectors. It also seems less dynamic, with limited reforms witnessed in the country. In contrast to the arid climate of Saudi Arabia, Bahrain had a lush and tropical feel; given its proximity, we were told it was a popular weekend destination for Saudis. (Exhibit 3).

Interestingly, several of the investors we met informed us they are increasing their allocations to China, and generally had a positive outlook for EM equities over the coming years. This marks a significant shift in sentiment to what we have been hearing in recent years.

[2] economicdiversification.com/wp-content/uploads/2025/02/global-economic-diversification-index-2025.pdf
[3] thebusinessyear.com/article/bahrain-2025-economic-overview/

Kuwait – a regional laggard in global competitiveness

Our final stop was Kuwait, situated at the head of the Arabian Gulf, bordering Iraq to the north and Saudi Arabia to the south. The tired architecture and cumbersome visa process at Kuwait City airport created quite a different impression to our seamless experience so far. Looking at global competitiveness rankings suggests first impressions do count. The economies of the Middle East generally stack up very well on this measure, with the UAE ranked 7th, Qatar 11th, Saudi 16th, and Bahrain 21st, but Kuwait lags behind in 37th spot[4]. Perhaps related to this is the country's political system, which on the one hand seems more democratic than some of the other GCC nations, comprising a National Assembly alongside the Emir (the Head of State), but on the other, there has been significant political volatility which has stalled much-needed investments and reforms.

The local institutional investors we spoke to were vibrant and friendly, and told us it was refreshing to meet female asset managers. We also discussed the local equity markets and highlighted valuations and liquidity, as well as corporate access and disclosure, as key areas where we currently identify challenges in terms of investing in the Middle East region.

Summary

As I reflect on my week, I recognise this is a region of considerable promise. From an equity investor standpoint, while developed in certain aspects, these markets offer significant growth potential given under-penetration in many segments and a still largely informal economy.

Exhibit 3: Manama, the capital and largest city of Bahrain.

They also offer an attractive top-down story, with economic growth becoming increasingly structural, as these countries implement social and economic reforms to diversify their revenues away from oil.

While our exposure to the region is currently limited, we do believe over time it could grow, as the equity markets evolve, and corporate disclosure and investor relations strengthen.

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[4] www.imd.org/centers/wcc/world-competitiveness-center/rankings/world-competitiveness-ranking/

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