



The region's young population, flush with cash from this century's oil price boom, gives much of it an enticing demographic and economic outlook: Qatar's economy is forecast to grow by more than 18 percent in 2010 according to an April estimate from the International Monetary Fund (IMF); Saudi Arabia has embarked on a \$400 billion infrastructure spending programme as it seeks to diversify from energy.

Universities, science and technology parks and supermarket chains are among the projects attracting foreign investors to an investment story that, while it may be underpinned by oil, runs from infrastructure to finance and consumer goods.

"Gulf markets do not command a valuation premium because the transparency is not great," said Ghadir Abu Leil-Cooper, Head of EMEA Equities at Baring Asset Management.

"We believe that in the next decade, because of these demographics and the infrastructure spend, these markets should open up and there should be better corporate transparency."

After trading at a discount to the developed world since late 2008, the MSCI Arabian markets index trailing p-e ratio of just over 20 times at end-April was a nose ahead of developed markets.

Where the global crisis has brought equity markets crashing down in unison, some analysts believe Middle East stocks could return to a historic trend that is -- at least to a degree -- decoupled from world and emerging markets.

For this to happen, oil prices would have to arrest a recent sharp slide. The strong link between Gulf equities and oil, itself closely tied to the world economy, means Middle East stocks are to an extent driven by global fundamentals.

Haissam Arabi, chief executive and fund manager at Gulfmena Alternative Investments in Dubai, argues that today's investment environment is similar to that of early last decade. Then developed economies slashed interest rates to stimulate growth in the wake of the dot-com crash, and Saudi stocks surged as oil prices rallied.

"Bank deposit rates were at 0.5 percent, so investors chased dividend yields," Arabi said. "Nothing has changed, it's just that the magnitude of this crisis was higher and more prolonged -- it's the same boom-bubble-burst scenario."

"We are correlated to major news on global markets -- at any point there will be a correlation, but it's the magnitude of correlation that matters."

U.S. crude oil is expected to average \$81.06 a barrel in 2010, according to a Reuters poll in April: oil is trading at around \$68 now. Growing demand in emerging economies, especially China, are prime drivers.

"Qatar leaves China in its dust," said Daniel Tubbs, co-manager on Blackrock's emerging market fund, which handles in excess of \$2 billion in emerging markets and whose investments include Qatar and Saudi stocks.

"Qatar has been growing extremely rapidly. Although it may not sustain that rate forever, we think it is a lot more sustainable than a lot of other markets in the Middle East."

The population of Qatar, already the world's richest per capita thanks to its exports of liquefied natural gas, is expected to nearly double to 3 million by 2022.









Saudi Arabia's economy is forecast by the IMF to expand 3.7 percent this year, while more than a third of its 29 million people are under 15 and its population is growing by nearly 2 percent a year.








"From our point of view, it's an underdeveloped consumer story," said Baring's Leil-Cooper. "With high oil prices, there is enough cash to carry on with infrastructure investment to support the population growth."

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