

Perspective from
Franklin Templeton ETFs

Saudi Arabia opens markets to all foreigners

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Marcus Weyerer, CFA
Director of ETF Investment
Strategy EMEA
Franklin Templeton ETFs



Dina Ting
Head of Global Index
Portfolio Management
Franklin Templeton ETFs



Toward the end of last year, [our analysis of Saudi Arabia's equity market](#) highlighted a structural disconnect: Despite years of reform and benchmark inclusion, foreign ownership of Saudi equities remained exceptionally low relative to emerging market peers. That imbalance reflected access constraints rather than a lack of investor interest.

The backdrop was challenging. Saudi equities closed out 2025 down nearly 8% in US dollar terms even as most global markets rallied.¹ The underperformance versus emerging market peers was stark: relative to the FTSE Emerging Index, Saudi equities lagged by roughly 34% in 2025 amid volatile oil prices and heightened regional geopolitical tensions.²

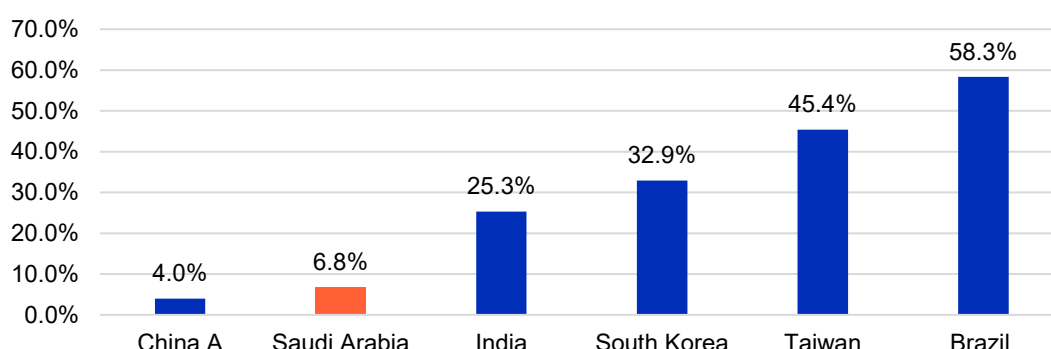
This week, however, Saudi Arabia's Capital Market Authority (CMA) directly addressed a key disconnect. By removing eligibility restrictions on foreign investors, the CMA opened the Kingdom's equity market to all non-resident participants—marking a meaningful shift for global investors, particularly those allocating through indexed and rules-based strategies. The reform comes alongside a valuation reset. Saudi equities currently trade at approximately 16.7x trailing earnings, representing roughly a 13% discount to their three-year average price-to-earnings ratio.³

Market accessibility is a core determinant of portfolio inclusion and long-term capital allocation. With eligibility barriers removed, Saudi Arabia's market enters a new phase. We believe this new chapter is one in which participation is no longer restricted by investor classification, but determined by fundamentals, liquidity and index mechanics.

Saudi stocks jumped almost 3% in midday trading on January 7, the first trading session after the announcement, with broad-based gains led by financials.⁴ The CMA explicitly framed the move as an effort to “expand and diversify the base of investors ... thereby supporting investment inflows and enhancing market liquidity.”⁵

The significance of the reform is underscored by how low foreign participation remains today. Overseas ownership of Saudi equities continues to trail that of major emerging market peers by a wide margin.

Saudi Equities: Low Foreign Ownership Leaves Much Room for Institutional Inflows vs. EM Peers



Sources: China - estimates range between 3%-5%. China A-shares are shares of mainland China-based companies traded in RMB on the Shanghai and Shenzhen Stock Exchanges. Initially restricted to local investors, A-shares opened to select foreign investors through the Qualified Foreign Institutional Investor (QFII) system in 2003. Saudi Arabia - Bloomberg, January 7, 2026 and analysis by Franklin Templeton. India - NSE, December 2025. Figure includes 8.3% "Foreign Promoters. South Korea - Financial Supervisory Service, 2025. Taiwan - TWSE, 2025, data as of 2024. Brazil - Valor Int., November 2025.

Until now, foreign investors faced a dense web of constraints, including a 49% cap on foreign ownership in listed companies and a minimum assets-under-management threshold of US\$500 million—effectively limiting participation to the largest global institutions. As a result, foreign ownership hovered around just 7% in the third quarter of 2025.⁶

Crucially, the CMA has also signaled that further steps toward full liberalization—including the potential for majority foreign ownership—could follow. We view this as a significant potential development. Ownership caps mechanically constrain the weight Saudi stocks can carry in global equity indexes, limiting inflows from passive vehicles tracking benchmarks from major index providers such as FTSE and MSCI. Relaxing these limits could therefore unlock incremental, and more durable, foreign demand.

These reforms sit squarely within Saudi Arabia's broader Vision 2030 agenda, which call for reducing dependence on hydrocarbons, fostering tourism and domestic consumption, and positioning the Kingdom as a regional financial hub. From an equity market perspective, the latest measures represent a meaningful step toward deeper integration with global capital markets. We are encouraged by the move and believe sustained liberalization could materially improve liquidity, valuations and long-term investor confidence, provided economic fundamentals remain sound.

Endnotes

1. Source: Bloomberg, January 2026. Calculated based on the FTSE Saudi Arabia 30/18 Capped Index. The FTSE Saudi Arabia 30/18 Capped Index represents the performance of Saudi Arabian large- and mid-capitalization stocks. Securities are weighted based on their free float-adjusted market capitalization and reviewed semi-annually. Past performance is not an indicator or a guarantee of future performance. Indexes are unmanaged and one cannot invest directly in an index. Important data provider notices and terms available at www.franklintempletondatasources.com.
2. Source: Source: Bloomberg, January 2026. The FTSE Emerging Index is a free-float adjusted market-capitalization weighted index that tracks the performance of large- and mid-cap companies in emerging market countries. Past performance is not an indicator or a guarantee of future performance. Indexes are unmanaged and one cannot invest directly in an index. Important data provider notices and terms available at www.franklintempletondatasources.com.
3. Source: Bloomberg, as of January 2026.
4. Source: Source: Bloomberg, January 2026. Calculated based on the FTSE Saudi Arabia 30/18 Capped Index. The FTSE Saudi Arabia 30/18 Capped Index represents the performance of Saudi Arabian large- and mid-capitalization stocks. Securities are weighted based on their free float-adjusted market capitalization and reviewed semi-annually. Past performance is not an indicator or a guarantee of future performance. Indexes are unmanaged and one cannot invest directly in an index. Important data provider notices and terms available at www.franklintempletondatasources.com.
5. Source: Saudi Arabia Capital Market Authority, January 2026.
6. Source: Bloomberg, January 2026. Analysis by Franklin Templeton.

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