Winds of change

Global Investment Outlook 2025

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Introduction
WINDS OF CHANGE

We had called 2024 the Year of Answers, and it didn't disappoint: from growth, inflation and central banks to elections and geopolitics, the state of the world gained clarity. And markets appreciated. With +5%, +10% and +13% respectively, our three profiles did well in absolute. They also outperformed both their average global competitor and our own initial expectation for "single digit positive returns".

Markets in 2024 were driven by urgent questions on the current state of the post-COVID world. We believe that 2025 will be different: attention should shift to the medium-term impact of significant emerging changes. New leaders will implement new policies, while the geopolitical picture will evolve, commercially and militarily. National and regional priorities will prevail and create divergences.

On one side, the US enjoys a strong economy, and a "happy late cycle" configuration is a massive consensus, with above-trend growth and modest monetary easing. Looking East, China is committed to stimulate their giant economy, which should be taken seriously, even with trade headwinds. India continues to expand spectacularly, while Japan continues to exit deflation. In between, Europe is weaker: it is as indebted as America, but without the strength of its economy nor the status of its currency, and populations are challenging their political leaders. Finally, the UAE continues to pair economic transformation with diplomatic wisdom, cementing the prospects for steady, sustainable growth.

This looks like a simple investment roadmap for 2025. But there's no such thing. Looking at valuations, visibility is expensive. The multiple premia of US stocks over Europe, or India over China, is massive. From gold near an all-time high to tight corporate bonds' spreads, quality also doesn't come cheap. It includes the safest assets: while cash and dollar Treasury yields are historically attractive, their trajectory may evolve, with emerging risks. Can we repeat the miracle of strong US growth with declining inflation? Is anyway strong growth a given? Since rate hikes didn't break the economy, will cuts really help? And should we start being concerned about public deficits, debt, and the weight of governments in the economy?

We believe that macro-economic uncertainty, driven by political changes, could prove to be much higher than the consensus suggests. This is not adverse for long-term investors: markets overreact on surprises, providing opportunities for those who keep the medium-term picture in mind. Volatility and divergences are a pool of alpha for active allocation and selection. To that extent, your CIO Office has added two new functions in 2024: quantitative tactical analysis to identify short-term signals, starting with FX and commodities, and onshore bespoke discretionary portfolio management, to constantly and swiftly adjust positioning on your behalf, under your guidelines.

We start 2025 fully invested, but with limited active positions. We focus on the most structurally relevant segments and themes within asset classes, while importantly getting ready to act on the future catalysts of what should be a volatile year. Change, which, according to Heraclitus, is the only permanent thing in our world, is not adverse. Actually, as the Arabic proverb says, movement is a blessing (الحركة بركة).

Our experts share their views in the following pages. We wish you a wonderful 2025.

Maurice Gravier
Group Chief Investment Officer

Our Key Views at a Glance

Asset Allocation – Recommended Portfolio Positioning, as of January 2025.
Absolute (TAA – Tactical Allocation), and relative (deviation compared to SAA – Strategic Allocation)

ASSET CLASS	CAUTIOUS		MODERATE		AGGRESSIVE	
	Absolute	Relative	Absolute	Relative	Absolute	Relative
Cash	**10.6**	**0.7**	**5.5**	**0.6**	**3.0**	**0.6**
US Dollar Cash	10.6	0.7	5.5	0.6	3.0	0.6
Fixed Income	**53.6**	**1.0**	**33.0**	**1.5**	**21.4**	**1.7**
Developed Mkts Gov. Bonds	30.8	1.0	6.6	1.6	1.8	1.8
Developed Mkts Inv. Grade	14.7	(0.1)	14.4	(0.3)	4.8	(0.1)
Developed Mkts High Yield	4.1	0.1	5.1	0.1	5.0	0.1
Emerging Mkts Debt	4.0	0.1	6.9	0.0	9.8	0.0
Equity	**22.8**	**0.4**	**42.9**	**0.4**	**60.6**	**0.2**
Developed Mkts Equity	18.1	0.7	35.4	0.8	49.1	1.0
Emerging Mkts Equity	4.7	(0.3)	7.4	(0.5)	11.5	(0.8)
Alternatives	**13.0**	**(2.1)**	**18.6**	**(2.4)**	**15.0**	**(2.5)**
Gold	4.3	0.1	5.3	0.1	5.2	0.1
Hedge Funds	5.0	(2.0)	8.7	(2.2)	5.3	(2.1)
Global Listed Real Estate	3.7	(0.3)	4.6	(0.4)	4.5	(0.4)

Asset Allocation and Portfolio Construction

- We start 2025 with limited active positions, waiting for the new US administration policy moves
- We overweight government bonds and are neutral on other segments of fixed income
- We are fully invested in equities with a slight preference for developed markets to start the year
- We underweight hedge funds within alternatives, while being neutral on gold and real estate
- We carry a modest overweight in cash for its flexibility

Equity

- Under a favourable scenario, upside potential is overall close to 10%
- We start the year with a slight overweight DM, and prepare to be active
- Overweight US and Japan in DM, India and the UAE in EM

Fixed-income

- We maintain our preference for DM government bonds
- We start the year with an increased duration there, typically a 7-10 year duration
- We are neutral on other segments, where we favour carry and selective opportunities

Commodities

- We expect Brent prices to average USD 73/b in 2024, with significant volatility
- Our year-end fair value for gold is USD 2,900/oz but we expect significant volatility

Real Estate

- The outlook is getting brighter for global listed real estate
- This applies to most segments, with also specific opportunities

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Economic Calendar

JANUARY	FEBRUARY	MARCH (Russia elections 17th)
3 : US ISM Manufacturing	3: US ISM Manufacturing	3: US ISM Manufacturing
6: UAE PMI (S&P Global)	5: Caixin China PMI Composite	5: UAE PMI (S&P Global)
6: Caixin China PMI Composite	5: UAE PMI (S&P Global)	5: Caixin China PMI Composite
10: US Monthly Jobs (NFP)	7: US Monthly Jobs (NFP)	7: US Monthly Jobs (NFP)
15: US Inflation (CPI)	12: US Inflation (CPI)	12: US Inflation (CPI)
16: US Retail Sales	14: US Retail Sales	17: US Retail Sales
29: Fed FOMC meeting		19: Fed FOMC meeting
30: US Quarterly GDP		
30: Eurozone Quarterly GDP		

APRIL	MAY	JUNE
1: US ISM Manufacturing	1: US ISM Manufacturing	2: US ISM Manufacturing
3: Caixin China PMI Composite	2: US Monthly Jobs (NFP)	4: UAE PMI (S&P Global)
4: UAE PMI (S&P Global)	5: UAE PMI (S&P Global)	5: Caixin China PMI Composite
4: US Monthly Jobs (NFP)	6: Caixin China PMI Composite	6: US Monthly Jobs (NFP)
10: US Inflation (CPI)	7: Fed FOMC meeting	11: US Inflation (CPI)
16: US Retail Sales	13: US Inflation (CPI)	17: US Retail Sales
30: US Quarterly GDP	15: US Retail Sales	18: Fed FOMC meeting
30: Eurozone Quarterly GDP		

JULY	AUGUST	SEPTEMBER
1: US ISM Manufacturing	1: US ISM Manufacturing	2: US ISM Manufacturing
3: UAE PMI (S&P Global)	1: US Monthly Jobs (NFP)	3: UAE PMI (S&P Global)
3: Caixin China PMI Composite	5: UAE PMI (S&P Global)	3: Caixin China PMI Composite
3: US Monthly Jobs (NFP)	5: Caixin China PMI Composite	5: US Monthly Jobs (NFP)
15: US Inflation (CPI)	12: US Inflation (CPI)	11: US Inflation (CPI)
17: US Retail Sales	15: US Retail Sales	16: US Retail Sales
30: US Quarterly GDP		17: Fed FOMC meeting
30: Eurozone Quarterly GDP		30: Caixin China PMI Composite
30: Fed FOMC meeting		

OCTOBER	NOVEMBER	DECEMBER
1: US ISM Manufacturing	3: US ISM Manufacturing	1: US ISM Manufacturing
3: UAE PMI (S&P Global)	5: UAE PMI (S&P Global)	3: Caixin China PMI Composite
3: US Monthly Jobs (NFP)	5: Caixin China PMI Composite	5: UAE PMI (S&P Global)
15: US Inflation (CPI)	7: US Monthly Jobs (NFP)	5: US Monthly Jobs (NFP)
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30: Eurozone Quarterly GDP		

The Year That Was

Financial markets in 2024

After the devastation of 2022 and the massive rebound of everything of 2023, our expectation for 2024 was for overall modest positive returns, with divergence and volatility.

Our forecast was not all wrong. If anything, equities did better, and bonds worse, both being linked to the positive surprises from the US economy. This, however, validated our key call for very different behaviours between the two major asset classes in 2024. Volatility, as expected, remained elevated throughout the "Year of Answers", with gyrations in market expectations for the Fed, and important elections and political events everywhere.

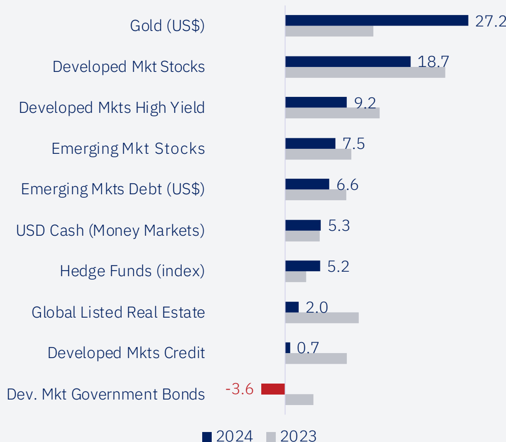
We highlight three phases for the year, in chronological order. The first one was all about US positive growth surprises, which pushed markets to price out most of the (unrealistic) rate cuts expectations they had started 2024 with. Equities did well, while treasury yields adjusted higher. Then a very turbulent late Q3: doubts about the strength of US growth, geopolitical escalation, and a brutal unwinding of the yen carry trade shocked risk assets, at the benefit of safer ones. Following a massive downward revision of US job creations, the Fed ignited a "rally of everything" in September with an unexpected jumbo 50 bps cut and a dovish guidance. At the same time, stocks from emerging markets rebounded when China announced imminent stimulus measures, starting with monetary easing. The third phase started with the holistic electoral victory of Mr. Trump and the Republicans. Divergence came back: optimism for US stocks, concerns for others, and a difficult Q4 for bonds with a "bear steepening" of the US Treasury curve. The Fed's December meeting, which cut both interest rates and any "dovish" guidance, pressured all asset classes.

Interestingly, gold constantly outperformed all other major asset classes last year – in parallel to a massive rally in bitcoin. Seeing a gold rally despite a stronger dollar and higher 10-year yield is not usual. This can probably be explained by a combination of factors, from geopolitical anxiety to a willingness to diversify away from traditional reserve currencies, and maybe also some nascent concerns about sovereign debt sustainability.

Another notable fact was the stellar performance of the Dubai DFM market, with a 30% total return, ahead of all peers. There is also a combination of factors: solid economic growth, combined with reasonable valuation, and a series of IPOs that enhanced the market depth and triggered more interest from global investors.

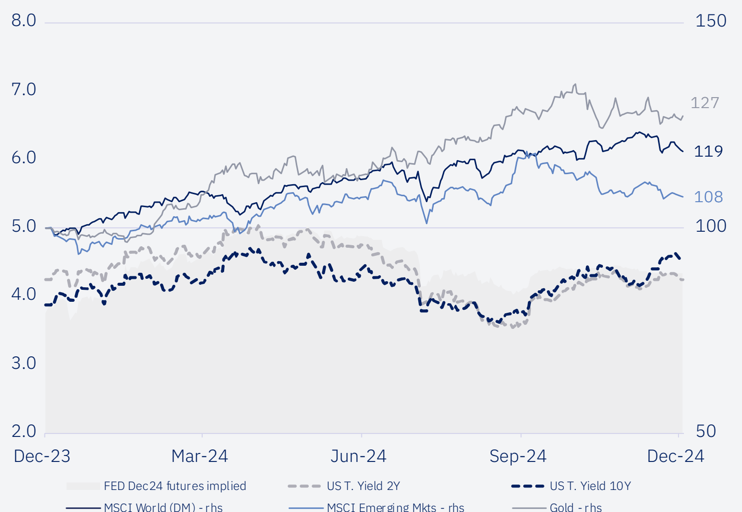
Overall, the negativity of the last trading weeks of 2024 is not bad news for 2025, as it has tempered some excesses in valuations. Nothing is outright cheap as we write, but expectable returns under a favourable scenario have now reconstituted.

2024 Total Return (US$ %) vs 2023



Source: Bloomberg, CIO Office calculations

Key interest rates, equities and gold in 2024



Source: Bloomberg, CIO Office calculations

A look back at our 2024 strategies and results

Asset Allocation
After having been very quiet in 2023, “The Year of Unpredictability”, our Tactical Asset Allocation Committee was very active during 2024, the “Year of Answers”.

We started the year with a slightly defensive bias, a modest underweight in equities and a quality bias within fixed income. We changed it in March by increasing stocks and emerging markets debt against cash. We started the second part of the year by taking profits on equity and adding to gold and to fixed income. Following the September rally, we reduced stocks to a modest underweight, increased cash and again, debt from emerging markets. We changed again following the US elections, adding to stocks and reducing gold. Finally, we ended the year close to neutral on everything, except a modest overweight on government bonds funded by an underweight in hedge funds.

Let’s be honest, this activity didn’t generate massive alpha. Overall, our TAA positioning ended the year very close to our SAA. Our most successful decision was an almost constant overweight in gold, but this was mitigated by our also constant overweight in government bonds.

Still, the respective performances of our Cautious, Moderate, and Aggressive profiles in 2024 were very solid in absolute at +5.2%, 9.8% and 12.7% respectively. This was better than our initial expectation for single digit returns. Our Moderate and Aggressive profiles also did better than our average international competitor, as measured by their respective Morningstar categories, while our Cautious was similar.

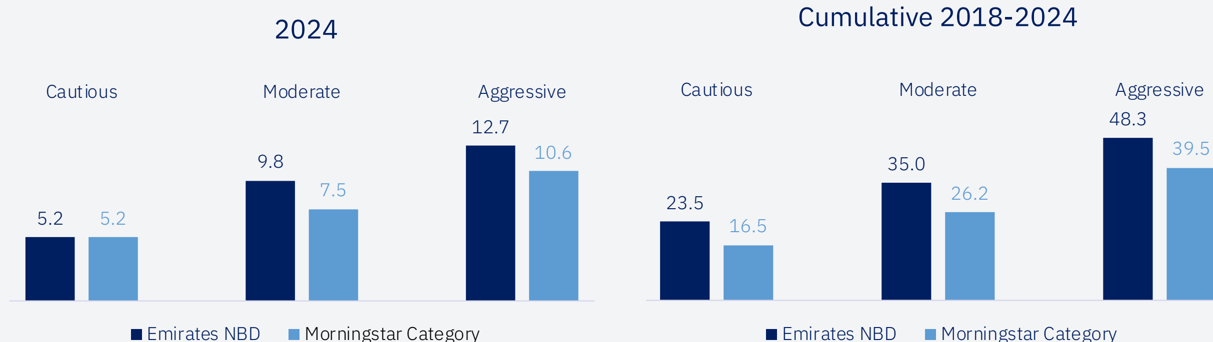
Equity
Our regional allocation to equities was also active in 2024. We implemented an overweight on Japan in the early part of the year, coming back to neutral a bit later. We also tactically increased China to overweight, while neutralising our long-held allocation to India, following the stimulus announcement. This relative preference within emerging markets was also reversed after the US elections. Our regional portfolios were overall in line with their respective universes.

With regards to stock selection, our model portfolios and lists of recommended securities broadly participated to the rally. Our flagship “sustainable growth” portfolio had however a rare yearly underperformance due to the impact of the underperformance of healthcare as a sector, and one of our selected stocks in particular.

Fixed Income
Our tactical allocation within the fixed income asset class was geared towards quality, especially government bonds from developed markets. This was not the best performing segment of the asset class, however both our regional allocation and our active management of duration more than compensated, leading to a positive overall contribution. The latter was particularly significant: we had kept a short duration during most of the first half of 2024, before increasing it at the turn of the summer, which generated a significant outperformance. We took profits on this position and kept a more neutral stance in the last part of the year.

Our bond selection at the security level delivered solid results, not only relative to their respective universe, but also in absolute. We continued to be very active, especially on the primary market, and also had a record number of exits from our lists of recommended securities.

Asset Allocation – Emirates NBD Asset Allocation Performance, compared to global competitors average (from Morningstar)



Source: Emirates NBD, Bloomberg, Morningstar

Winds of Change

Two potential game changers for the medium term

2024, "The Year of Answers" didn't disappoint. Growth was resilient, inflation came down, monetary policies adjusted, and elections delivered a clear outcome. Markets were driven by data unveiling the current state of the world. 2025, we believe, will be about the medium-term implications of significant emerging changes, starting with political leadership and extending to the global balance of power.

New leaders, new policies, old inflation?

After a global financial crisis, a global pandemic, a global military escalation, the economic weight of governments has immensely increased in recent years – and so has the impact of fiscal and monetary policies. Their pandemic-era synchronised generosity triggered an inflation crisis in the West. Central banks fought it with higher policy rates, but governments continued to spend abundantly which supported their economies. The US landed a miracle: inflation fell to reasonable levels, without pain for the economy. The cost was elsewhere: considerable fiscal deficits and stellar levels of public debt. It's not business as usual. We enter 2025 with the Fed talking about a "new phase" of policy, in response to a stalling disinflation. At the same time, many political leaders are replaced or challenged, from Europe to Japan or Korea and of course, crucially for markets, in the US. Donald Trump and the Republicans were elected on a disruptive platform, and given full powers to implement it.

"America First" combines a domestic boost, through tax cuts and pro-business regulation, with protectionism, through reduced immigration and broad trade tariffs. A simplistic conclusion would be that US growth exceptionalism will continue, at the expense of the rest of the world, but that the situation on both fiscal deficits and inflation will deteriorate. The latter is a serious threat: the US will not import disinflation anymore through "cheap" foreign workers and goods, especially if China manages to stimulate its way out of deflation. A material second wave of inflation, as we saw in the seventies, would be devastating: no rate cuts anymore, higher borrowing costs hitting mountains of public debt, and of course, a market turmoil.

Fortunately, there is more to consider. First, political pragmatism: inflation was the most important economic reason for Democrats to lose the election. Another cost-of-living crisis would be punished by American voters in the 2026 midterms. The new administration is aware and may be cautious.

Second, and most importantly, the newly created Department of Government Efficiency (DOGE) is tasked with reducing wasteful federal spending, slashing excess regulations, and restructuring Federal Agencies. DOGE's official status is not clear, but the pedigree of its two leaders is unambiguous: Elon Musk, who needs no introduction, and Vivek Ramaswamy, a wealthy entrepreneur, former hedge fund manager turned politician. Assuming a material reduction in government spending would be a game changer. Of course, the immediate impact would be recessionary – government money is big, as the size of the current public deficit is not far from the actual increase in nominal GDP. Activity and employment would initially suffer. But then, benefits could be considerable. Pressured demand would limit inflation. Interest rates would fall across the curve, with central banks cutting, and bonds becoming "great again" for investors. This would create the conditions for a strong and fundamentally sound rebound of activity down the road, driven by a rejuvenated private sector. There are historical examples of such sequences of initial shock and subsequent prosperity: Reagan and Thatcher in the 1980s, Schroeder when Germany reunited, and likely Milei in today's Argentina. The Republicans may remember that despite triggering a devastating recession in 1981, Reagan was triumphally reelected in 1984, and that decades of American economic, financial and cultural leadership followed.

There is however a difference with these historical examples: the US has no current crisis to fix. On one hand, its economy can "afford" a shock, with unemployment currently around 4%. But on the other, short-term electoral calculations would advise against. Time will tell, but this is most probably the biggest "wild card" of 2025 with potentially massive, long-lasting implications for financial markets.

A changing world order and its consequences

The first decades of the millenary were all about a shrinking world with economic globalisation, and increased military interventionism from the West. Not anymore. Let's be realistic: the conflict in Ukraine shows the limits of Western military power. More generally, between sanctions, "America First" external policies, and the rise of alternative powerhouses, the idea that the US would ensure prosperity and protection to the world in exchange for alignment, as well as business and investments in US dollars is being challenged. The ongoing rebalancing of global power could accelerate under the new US administration.

President Trump is clear: US military interventionism must dramatically shrink. This implies prioritising key battles, most probably support for Israel in the short-term and a redeployment of deterrence towards Asia in the longer term, while making compromises on others, especially Ukraine. For the latter, Russia is probably in a strong negotiating position. Under this assumption, they could only sign a peace plan combining no Ukraine NATO membership with territorial and economic items. The alternative is a continued war that the US doesn't want, and that Europe cannot afford. In the Middle East, the US also wants de-escalation. It may happen through diplomacy (Elon Musk met Iran's ambassador to the UN in late 2024), through "maximum pressure", or both, but ultimately the US intends to reduce its military presence in a region which also became less strategic for energy-independent America.

The combination of reduced military interventionism with increased trade protectionism is a significant change. It

increases the incentives, for many countries, to rebalance their commercial and financial relations with the US, especially as the BRICS+ simultaneously expand. Paradoxically, “America First” policies may unlock growth potential for the rest of the world, reorganising trade in a genuinely multipolar way, rather than prioritising a dominant player. This is a “Ricardian” growth situation, where countries specialise on what they are best at, creating mutual benefits to them and to the ecosystem. This also seriously mitigates the global impact of US-centric tariffs.

This “free market” dream has implications on currencies. From a 2022 Goldman Sachs projection, the world’s top five economies in 2050 will be China (GDP of USD 42tn), the US (USD 37tn), India (USD 22tn), followed by Indonesia (USD 6.3tn) and Germany (USD 6.2tn). Under this assumption, would it be rational for China, India and Indonesia to trade between themselves in US dollars, and to invest their surpluses in US government bonds? Probably not, unless there is no alternative.

Is there one? Not one. No other single existing national currency has the power and the features to replace the dollar in its current role for international trade. The point is anyway not to transfer the privilege to another hegemon. But trades between nations in their own currencies, peer-to-peer, should continue to increase in a multipolar world. So should other, independent, stores of value: gold works for millenaries, standardised resources and energy, and to some extent digital assets. A future combination is not unimaginable: an independent unit of value for international trade, on a transparent blockchain, backed by audited resources such as physical gold held in a trusted place.

So, is it a threat for the dollar? Will it have the same fate as the previous dominating currencies in history, Florin, Peso, Guilder, or more recently the British Pound?

Certainly not before long. Beyond trade, it is vital to the world’s unprecedently vast and intricated financial system, from central banks’ reserves to collateral mechanics or international debt issuance. It is also the reference for an immense majority of investors, and the US is also the world’s first source of quality financial assets, by far.

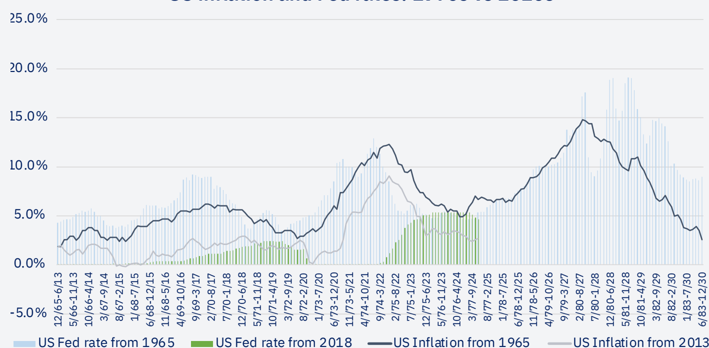
To that extent however, last November saw a meaningful event: China’s issuance of dollar denominated sovereign bonds in Saudi Arabia (also listed in Dubai). This is, first, a confirmation of the current financial status of the dollar. But it is also a warning. Investors oversubscribed by a factor of 20, much more than a typical US Treasury auction, despite a microscopic yield premium. China essentially demonstrated a potential to compete with the US as a provider of high-quality dollar bonds. Is it a threat to US Federal funding, and another reason for the DOGE to act decisively? Could China go further, and use both issuance and their ample reserves to repay the dollar debt of some of their partners and ask for reimbursement in yuan, resources, or infrastructures? Is China implementing a genius strategy, using the dollar against itself while strengthening their own influence? Finally, issuing in the Middle East also conveys a double message. To the US, Treasury bonds are not the only destination for petrodollars. To the BRICS+, and to the world: the Gulf is a major financial centre for you, the place where China meets the dollar.

As a conclusion, we see 2025 as a year of transition to a more balanced world, where national and regional agendas will prevail over global ones. It implies divergences, which is potentially good news for portfolio diversification benefits. But also risks: on inflation, of course, on growth, a bit everywhere, on international relations and their geopolitical consequences, especially as an overtly less interventionist America reduces deterrence for some aggressive actors. Central Banks will also diverge and surprise, being data-driven in an evolving world, and markets will be differentiating and volatile.

Yet, potential benefits are also considerable. The US, and potentially the entire “West”, could start addressing both their public finance and political issues, by prioritising the interest of their people. The BRICS+ could develop further through increased cooperation and autonomy, unlocking an extraordinary potential for a broad area around the Indian Ocean in particular. The UAE should benefit and thrive, as a financial, economic and diplomatic powerhouse.

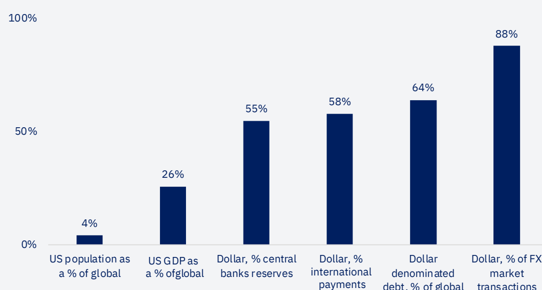
The investment conclusions are certainly not tactical but strategic, which is why we do not start the year with massive active positions. It’s about understanding the winds of change to sail them on a longer journey, especially when volatility and markets’ instant reactions will provide opportunities to take positions for the long-run.

US inflation and Fed rates: 1970s vs 2020s



Source: Bloomberg, US Bureau of Labor Statistics, US Federal Reserve, CIO Office calculations

The weight of the US and the dollar - a global perspective



Sources: Bloomberg, World Bank, IMF, BIS, Atlantic Council, Fed - as of 2023

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Macro Outlook

Global Macro Outlook

Stable but moderate growth expected in 2025

Global growth is expected to remain stable, if still somewhat lacklustre, in 2025, with continued tight monetary policy weighing on growth. The IMF´s January World Economic Outlook forecasts global growth of 3.3% in 2025, a slight pick up from 2024. Within that there are material differences between major economies. Most notably is that the US will remain an outperformer with growth of 2.7% while the Eurozone will struggle to gain momentum with GDP growth of just 1% expected in 2025. Emerging market economies are forecast to see growth of 4.2% in 2025 with China expected to slow marginally and India´s pace of activity to be stable.

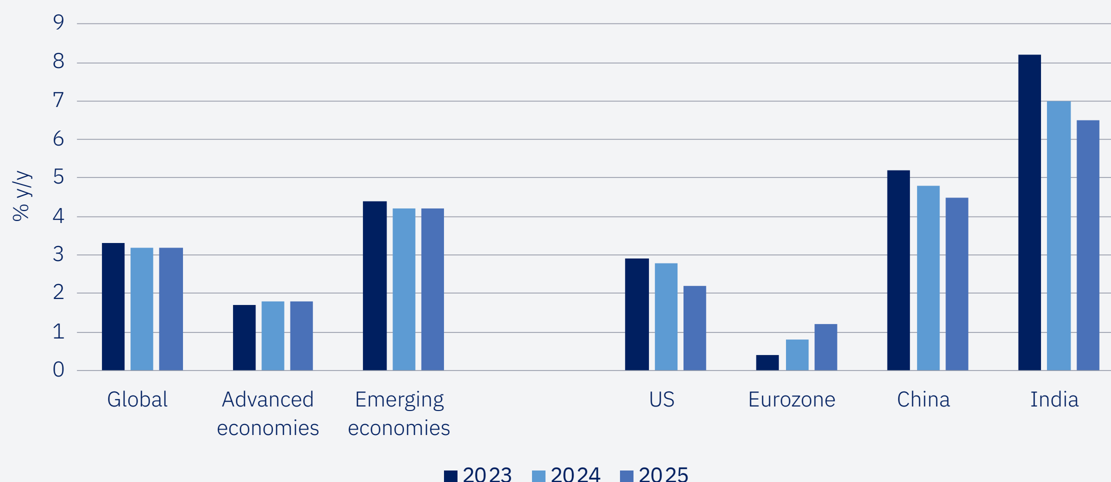
Global central bank decisions likely to diverge

Monetary policy will continue to play a crucial role in determining the outlook for 2025, with increasing divergence in central bank decisions likely, after several years of working in relative harmony to tackle inflation. The most notable stand out will be the Federal Reserve. While the US economy appears to have achieved a soft landing, a situation thought almost impossible when the Fed began to aggressively hike interest rates in 2022, the central bank's tone has become increasingly hawkish in recent months. Despite the US economy entering 2025 with significant momentum and a labour market generally in a strong condition, in its final FOMC meeting of 2024, the Fed dot plot outlined just two additional cuts this year, with Fed chair Jerome Powell noting that progress on inflation had gone "sideways".

With the Fed's current policy stance remaining restrictive in real terms, we expect the FOMC will choose to keep cutting rates in 2025, following the 100bps worth of reductions seen in 2024, but that they will extend pauses between rate cuts and be sensitive to the incoming policies of the new Trump administration and the inflation risks they may bring.

After briefly falling below the 2% target in September 2024, inflation in the Eurozone economy picked up once more at the end of last year. Given this was largely a result of higher energy prices rather than rising domestic price pressures, we expect that the European Central Bank will remain on track for a sequence of further rate cuts this year, as it looks to support an underperforming Eurozone economy. We expect the ECB to make a further 125bps worth of cuts to the deposit rate over the course of 2025.

Global growth holding steady



Global GDP growth (%y/y) holding steady - Source: IMF WEO, Emirates NBD Research

A second Trump administration a key source of economic uncertainty in 2025

The global economy is likely to be buffeted by significant uncertainty in 2025, with the start of the second Trump administration. While President Trump set out a wide range of potential policies during the election, there remains material uncertainty as to which will be implemented and to what extent he will impose them.

The incoming administration's plans for both lower taxes and less regulation are likely to boost the US economy in the short-to-medium term. Trump's tax plan aims to cut taxes across the board, both for individuals, by making permanent the tax cuts introduced in 2017 under the Tax Cuts and Jobs Act, and for corporates, by reducing the headline rate to as low at 15% for companies that meet certain domestic manufacturing conditions. In addition, the incoming administration has promised a material reduction in red tape, committing to large-scale de-regulation across the US financial sector, in particular.

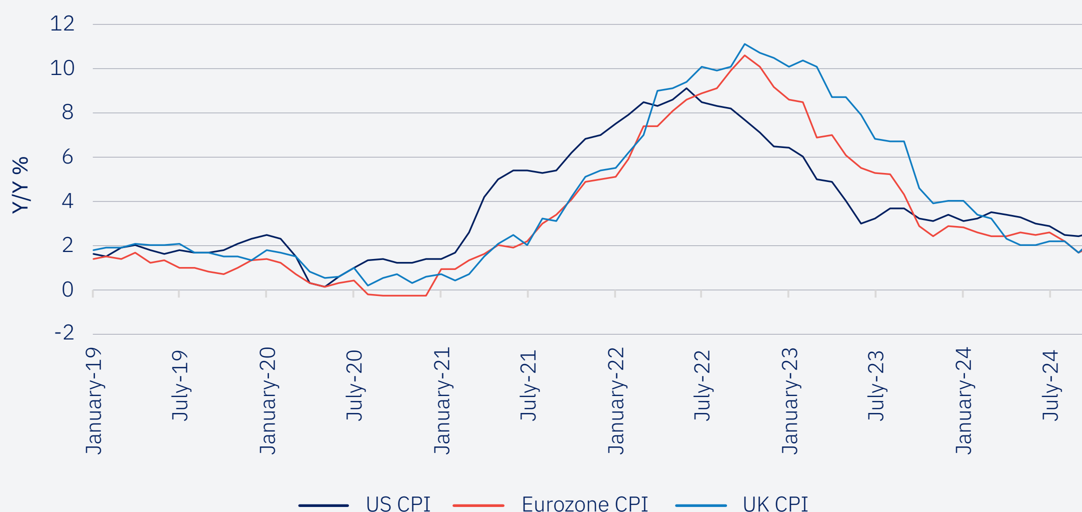
While markets have welcomed the prospect of lighter-touch regulation, there remains significant concern about the potentially detrimental impact of tougher immigration plans and tariff hikes on the prospects for US inflation. Prior to the November election, the Peterson Institute for International Economics estimated that under Trump, inflation could peak at between 4.1 and 7.4 percentage points higher than a counter-factual scenario (with a baseline inflation rate of 1.9%) by 2026. President Trump has in recent weeks made threats to hike tariffs on Mexico, Canada and China, in an attempt to get them to get tougher on illegal immigration and drug trade.

The Chinese economy coming under increasing pressure

In addition to potential inflationary concerns arising from additional tariffs on US imports, the ratcheting tension between the US and key trade partners may spur the start of a wider trade war, with reciprocal tariffs and non-tariff barriers being put in place. Canada, Mexico and China were the top three destinations for US exports and top three sources of US imports in 2023, suggesting that the introduction of further broad-based trade protectionism measures could have significant negative consequences across the board.

Intensification of trade tensions with the US would further hurt an already weakened Chinese economy, which has been struggling with weak domestic demand and a continuing residential property market slowdown. While the Chinese government has taken steps in recent months to provide additional stimulus, the impact on the economy has thus far been fairly muted.

Inflation is slowing down but remains a risk



Headline CPI (%y/y) trending lower - Source: Bloomberg, Emirates NBD Research

GCC Macro Outlook

A solid outlook, with an acceleration in non-oil sectors

In 2025, we forecast that headline GDP growth in the GCC will accelerate to 3.5%, from an estimated 1.6% last year, as the non-oil sectors continue to perform strongly and the drag from the oil sector diminishes. OPEC+ oil production curbs continued to weigh on headline output in the GCC in 2024, but the drag was not as large as in 2023 (we estimate -1.9% in 2024, compared with -5.6% the previous year) meaning that headline growth accelerated. We estimate real GDP growth for the GCC at a weighted average of 1.6% y/y last year, up from 0.5% in 2023. Non-oil growth across the bloc was strong, especially from the UAE and Saudi Arabia (an estimated 5.0% and 4.0% respectively) which together account for around three quarters of the total GCC economy.

The recent decision by some OPEC+ members, most notably Saudi Arabia, to further extend their additional production curbs through Q1 does mean that hydrocarbons growth will not be as strong as we might otherwise have expected, but most countries should see an uptick in production over the year nonetheless and we forecast oil GDP growth in the bloc at 2.8%. This would mark the first positive expansion in three years following contractions in 2023 and 2024.

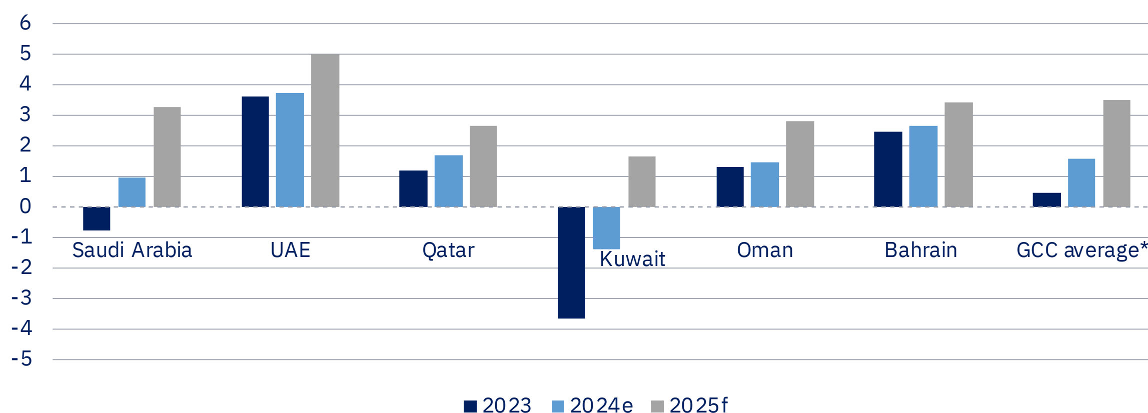
The outlook for the GCC's non-oil economy remains fairly robust and we forecast growth of 4.3% this year, up from an estimated 4.0% in 2024. Once again this will be driven by the UAE and Saudi Arabia where we forecast growth of 5.0% and 4.5% respectively. Both countries are benefitting from growing populations, strong levels of project developments from both the public and private sectors, expanding tourism industries, and the growth of nascent tech industries. Falling interest rates should also be supportive of increased household consumption and business investment, as will expansionary budgets. While the threat of a global trade war following President Donald Trump's accession to the White House could pose some challenges, we expect that if these do materialise it would be later in the year.

Budget

The budget surpluses that the GCC enjoyed in 2022 and 2023, the first in around 10 years, have given way to renewed deficits as downwards pressure on global oil prices impacts revenues. From a weighted average budget surplus equivalent to 0.5% of GDP in 2023, we estimate that this tipped to a 1.6% deficit in 2024 as oil prices trended lower and oil production in the bloc declined. The shortfall was driven by Saudi Arabia chiefly, with Bahrain and Kuwait also seeing deficits. By contrast, Qatar, the UAE, and Oman look set to have recorded budget surpluses once more, albeit smaller than the previous year.

In 2025, we forecast an average Brent futures price of USD 73.0/b, down around 9% on the USD 79.9/b projected in 2024. Combined with the recent OPEC+ production curb extension, we expect that budgets in the GCC will be further constrained. Largely, we expect that GCC governments will continue to spend even in the face of lower oil revenues, contributing to the wider fiscal deficit for the bloc next year. A large proportion of the diversification drive is being pursued through off-budget sovereign wealth spending, but budgets also look fairly expansionary in 2025. The UAE and Qatar will record surpluses once more, but smaller than in 2024, while we forecast that Oman's budget will return to a deficit once again in 2025. Saudi Arabia, Bahrain, and Kuwait will also record deficits, with KSA's projected to widen to 5.6% of GDP.

GCC Real GDP growth, % y/y



Source: Haver Analytics, Emirates NBD Research

Inflation

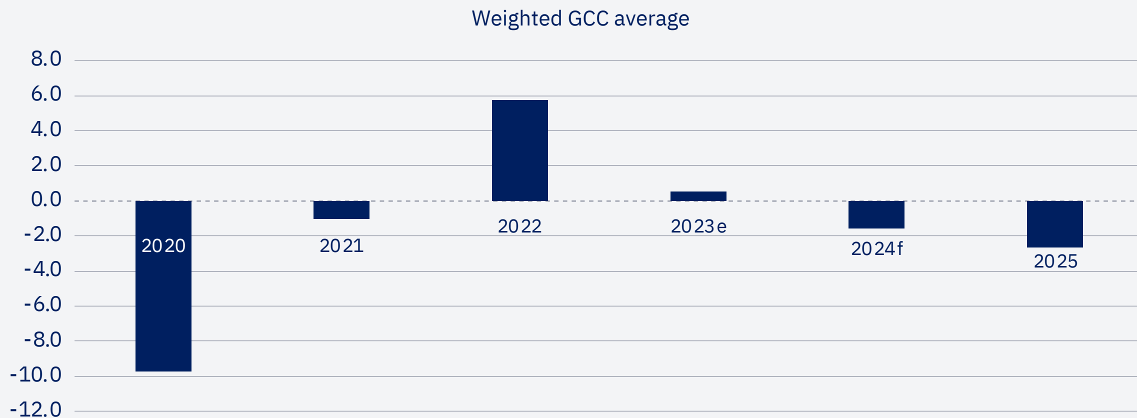
We estimate that CPI inflation in the GCC slowed to a weighted average of 2.1% y/y last year, predicated on January to November data. This marked a significant slowdown on the 3.4% and 2.6% averaged in 2022 and 2023, following the global trend of moderating price growth post the recent post-pandemic spike. In 2025, we project that inflationary pressures will remain fairly constant, forecasting a second consecutive year with an average 2.1% inflation rate across the bloc.

The drivers of inflation in the bloc have differed somewhat from country to country, with notable differences between the smaller economies and their larger counterparts. Both Dubai and Saudi Arabia have seen notable increases in their housing prices, averaging almost 7% and 9% respectively over January to November 2024, driven by rapid population changes. By contrast, housing inflation in Oman and Kuwait has averaged closed to 1% over the same period while in Qatar it has been outright deflationary.

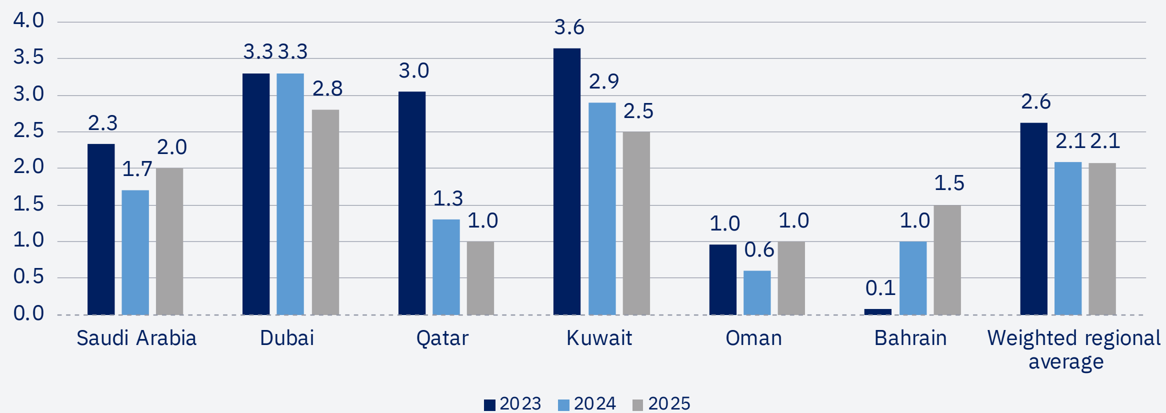
Another notable driver of inflation throughout the GCC in 2024 has been disruptions to supply chains through the Red Sea and Suez Canal. The impact of this has varied depending on the size of the economy, its economies of scale, and the ability of its businesses to absorb higher costs. In the UAE and Saudi Arabia there was little apparent pass-through to consumers, with PMI surveys confirming that firms were choosing to weather those higher costs themselves. The impact was far more evident in the smaller economies, however, with food inflation in Bahrain and Kuwait over January to October averaging 3.8% and 5.5% respectively.

We expect that the price pressures related to Red Sea shipping disruptions should alleviate this year, while lower oil prices will also be supportive of lower transport costs. Ongoing dollar strength should also help keep price growth limited. On the other hand, increased pressures on GCC government budgets could prompt adjustments to subsidies or VAT rates which would accelerate inflation.

GCC weighted average budget balance, % GDP



GCC average CPI inflation, % y/y



Source: Haver Analytics, Emirates NBD Research

PRIVATE BANKING

Asset Allocation

Asset Allocation

The Long-term Picture

- Expected returns are lower across profiles on richer equity valuations
- HY credits are more immune to inflation uncertainty than higher-quality bonds
- Gold, a favoured hedge of decade, as governments must inflate debt away
- Absolute-return strategies will come into their own amidst continued volatile markets

CIO Office updated long-term capital market assumptions

Expected Returns compared to history (annualised)			
	2024 - 10Yr	Sharpe Ratio	Historical Returns*
USD Cash	3.1%	-	2.1%
DM Government Bonds	3.8%	0.55	3.0%
DM Corporate IG	4.4%	0.60	4.2%
DM Corporate HY	6.3%	0.72	6.7%
EM $ Debt	5.9%	0.61	6.8%
DM Equity	7.3%	0.43	7.7%
EM Equity	7.6%	0.35	6.3%
Gold	5.3%	0.24	8.0%
Hedge Funds	4.9%	0.45	3.9%
Global Real Estate	8.0%	0.47	7.1%

**Total return 31/12/97 - 30/11/24*

Source: CIO Office quantitative models, Bloomberg, as of Novembre 2024

The exercise of working out the Longer-Term Capital Market Assumptions can be interpreted mechanistically, simply by calculating expected return and risk for the whole portfolio via time-tested models, whose results are then taken and implemented at face value. It can also be carried out more holistically, by cross-checking capital-market assumptions against the prior knowledge of what is deemed to be a plausible longer-term outlook. What is it that underlies projected lower equity returns, still appealing corporate bond gains, and a more favourable risk-reward ratio for gold? Why are there concerns about the diversification benefits of government bonds? Answering these questions would help the reader understand why our projected gains for the decade ahead are now on average 20bps lower across risk profiles, Cautious (+5.1%), Moderate (+6%), and Aggressive (+6.7%).

We hold the view that the global economy should have transitioned from a regime of lower growth, lower interest rates and inflation, to a new one marked by stronger and more volatile business activity, by higher rates, and stickier price pressures. Against this backdrop traditional asset classes like equities and government bonds, that tend to perform best under conditions of moderate growth and low inflation, would be losing some of their appeal. Stocks, specifically in the developed markets, are showing very high valuations, that historically have weighed on future long-term performance. And the higher yield of global Treasuries may still not be enough to offer some degree of protection against growing uncertainty about future price pressures. Our scenario-agnostic calculations point to an expected average yearly return of 5.6% for US equities in the decade ahead, more subdued than the high single-digits delivered historically, and some 20bps lower than our previous estimate. DM ex-US stocks, as well as the emerging markets (EM), should deliver more than their US peers, exhibiting a higher risk premium. Overall, DM equities should gain 7.3%, while EM slightly more, just 7.6%. In terms of possible scenario Rest-of-World risk assets would indeed have an increased likelihood of outperformance under higher growth-inflation conditions. At the same time, EM stock model-based returns would be quite subdued versus our previous estimates, reflecting higher uncertainty about the Chinese outlook. As for higher-quality bonds, checking how global treasuries performed historically against their starting yield level provides an expected return of 3.8%. Should inflation in the DM countries lean more towards 3% than the ideal 2% target, an increasingly likely prospect, the diversification benefits of government bonds would be severely diminished. Cash investment would be suboptimal as well with inflation consistently eroding their nominal value. Under these conditions, it would be advisable to go up the risk spectrum in order to gain an inflation buffer via a larger coupon. Indeed, adding an equilibrium credit spread level to government rates would leave us with a 6.3% projected gain for HY credits, translating into the best risk-adjusted return across asset classes.

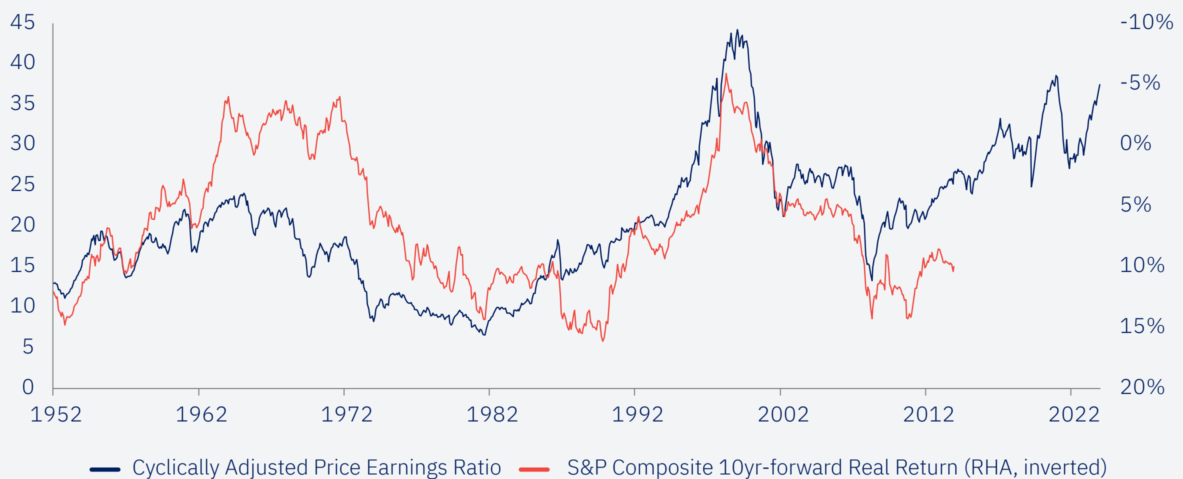
Important political choices should account for the portrayed macro regime change.

It has become almost existential for Western governments (not forgetting Japan) to be able to

reduce high debt levels in a socially acceptable manner by inflating them away. And in the process, yields would have to be kept in check by central banks to avoid excessive costs for servicing debt. This would make the monetary cycle subservient to fiscal policy, a sea change as against the recent past. Gold would then become the asset class of choice to hedge currency debasement risks. Our projections for gold (+5.3%) are based on historical data, hence under this scenario they would be overly conservative. Also, the political will that drives the building of stronger domestic industrial bases in DM countries would be equally disruptive. Should governments mandate that part of national savings must be invested in the local economies, some of those savings would have to be withdrawn from the globally crowded US markets. One more sea change in sight: the demise of US exceptionalism. Meanwhile, the alternative and still US-centric scenario looks too good for it to persist in the longer term. Unusually strong AI-driven productivity gains would be required to allow for the chipping away at debt burdens without inflation becoming much of a notable issue.

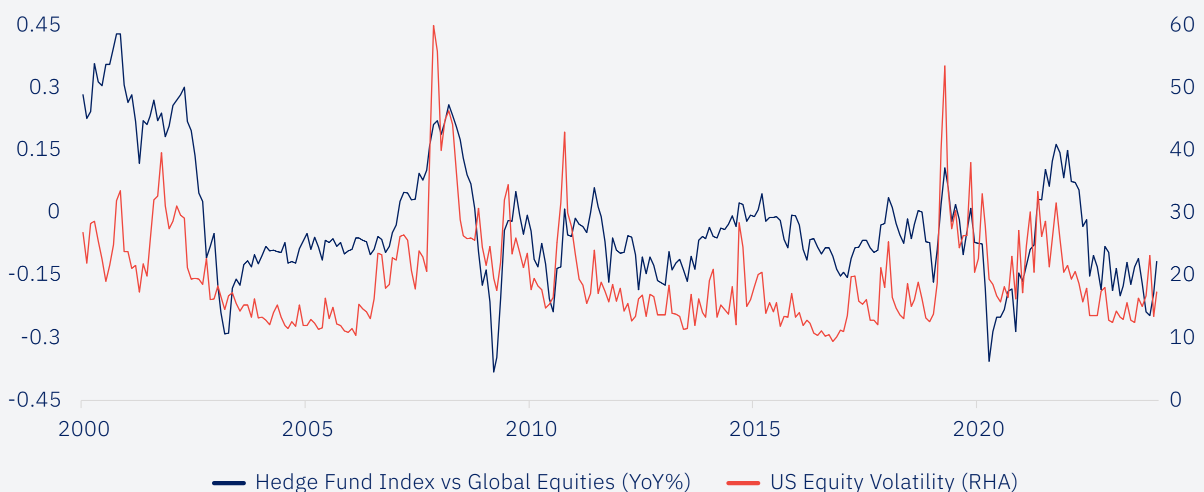
In summary, we hold the view that quite some changes could be in store, that can hardly be neglected as we read the tea leaves of our model driven LTCMAs. With change comes along heightened asset volatility, and it is not by chance that we have now come up with slightly lower Sharpe ratios across asset classes. One more conclusion we are inclined to draw is that absolute return strategies will be gradually rediscovered and thrust into the limelight as a means to stabilise portfolio returns.

Robert Shiller CAPE ratio versus 10-year ahead real US equity return



Source: CIO Office, Robert Shiller as of December 2024

Hedge funds maximise relative performance against equities when volatility is highest



Source: CIO-Office, Bloomberg as of December 2024
Hedge Fund Index is the HFRX Global Hedge Fund Index; US Equity Volatility is the CBOE VIX Index

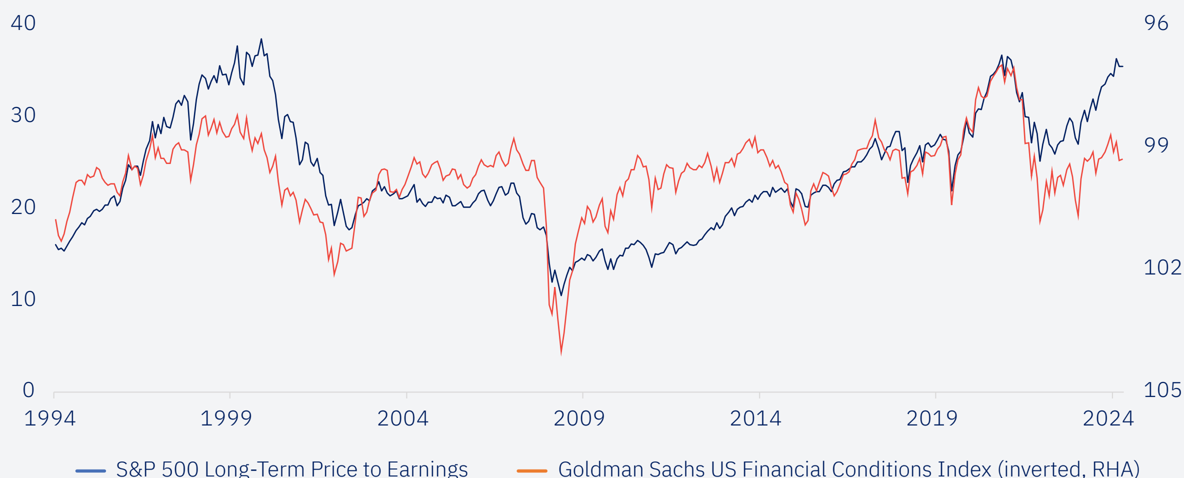
Asset Allocation

The Year Ahead

- We are hard put to extrapolating US exceptionalism for too long
- We assume President Trump will want to deliver on deals versus an overly aggressive stance
- Focus could shift from America to China and Europe and their stimulus measures
- Tail risk is some cracks in the US economy or too little to be surprised about from China
- Eventually inflation to resurface?

Past year's outsized market returns, driven by disinflation and the start of a global easing cycle, constituted a positive surprise that saw American exceptionalism still firmly in place. Dollar-centric assets in general outperformed. They were not least helped by rising budget deficits and the expectation that Trump's Make-America-Great-Again policies would enhance the growth profile of the US economy versus the rest of the world. Love for anything AI-related, one more made-in-America theme, brought valuations to new heights. At the same time, other major markets had little to offer, from Europe mired in a new crisis starting from its core, to China tackling its deflationary malaise only very gradually. Although the temptation is to extrapolate and project more of the same for the current year, we hold the view that 2025 could shape quite differently, as a year of changes, rather than of continuity. US assets are expensive, liquidity has been turbocharged, and the implications of Trump's new policies have to an extent already impacted asset class returns. We may have to look elsewhere to find reasons for optimism, like China and Europe that will be stimulating their economies, potentially reviving their expansion rates while exhibiting much more accessible valuations. It could be the so-called second derivative that counts, the growth of growth, rather than its absolute level. Decisive stimulus in the non-US world would be the antidote to Trump's policies attacking other countries' external demand, hence their need to support domestic demand. We must make some assumptions about what President Trump's policies will be like. We suspect they will be less disruptive than announced, as making deals would bring advantages to America, so the President's blustering claims could rather make room for compromise to extract concessions and leave a positive legacy as a President. At the same time, excessive focus on new tax cuts or stimulative policies could rekindle inflation, while the new administration was rather elected to contain it. We will also assume that the American economy will continue to slow down, though it is rather difficult to see the big US ship carry on indefinitely just below gentle cruising speed.

Risk assets are most expensive when liquidity is most plentiful



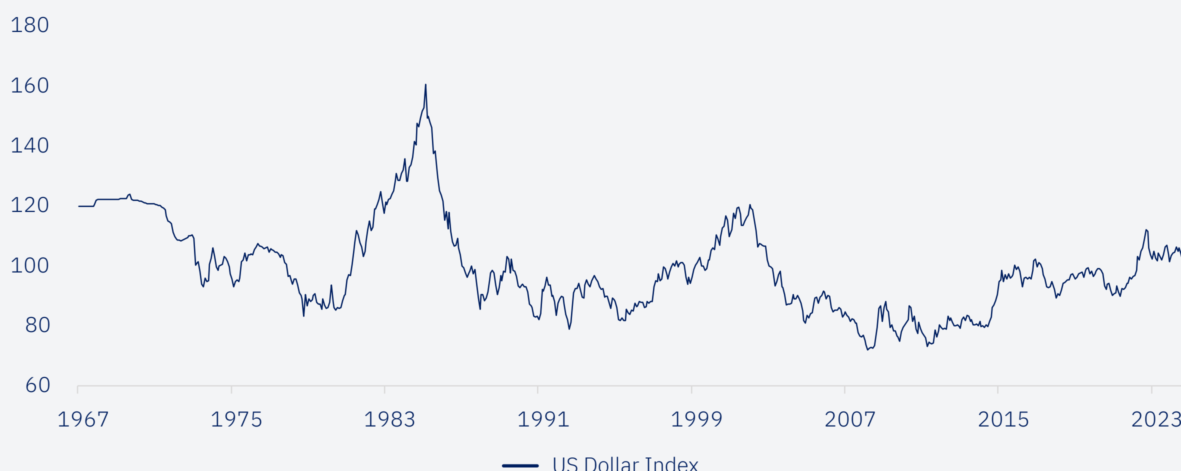
Source: Bloomberg, as of December 2024

The past administration was the fortune of the dollar with tight monetary and loose fiscal policy. The current one is going to flip things around, by prioritising cuts in expenditure and lower rates, that would turn out to be quite negative for the global reserve currency. We suspect this is the mix the new Treasury Secretary would be strongly advising for, trying to convince the president that a weaker currency would bring about more advantages than steep tariffs. And here we are now with a potential base case scenario, that would still see some residual US exceptionalism, though possibly not for the entire year. Following that, risk-on sentiment would be driven globally by meaningful fiscal stimulus by Beijing aimed at countering the effect of the tariffs President Trump would to an extent anyway be pushing for. And this would be accompanied by significant easing by the ECB, assailed by an economic and political crisis both in Germany and in France, the loss of the energy advantage for the common area, and the prospect for a trade war. We also suspect that most US allies would be willing to strengthen their currencies in relative terms, something that someday could be undone, rather than being permanently slapped with tariffs, and all the more so Europe, the weakest link in the global picture. Our base case would then still see some US outperformance in the earlier part of the year, then leaving room for outperformance elsewhere, driven by China, to an extent Europe, and a weaker dollar. It would all tie in with manufacturing getting stronger again, and cyclicals outperforming technology. Yet, we would be hard put to seeing durable "ex US" resurgence. It might be patchy and not even long lasting, with China unwilling to create further imbalances via excessive stimulus, yet forced to engineer a cyclical recovery, and Europe structurally impaired. Under this scenario we tend to see Treasury yields being steady in the earlier part of the year, in the wake of the presidential election results, to then fall and stay above 4% if a mild slowdown is confirmed.

The transition from US exceptionalism would be far from smooth, and actually marked by investors' anxiety about the rest-of-the-world's ability to steer the new course. Assuming our base case holds, we would be buyers on weakness, especially in non-US markets. We are starting the year basically with neutral tactical positioning in risk assets, an overweight in high-quality bonds, and a lighter positioning in hedge funds. We could then easily shift to a more definite stance, pro-risk if the opportunity arises.

Tail risks to the scenario are plentiful. The United States has consistently imported disinflation, and a global cyclical recovery could put an end to that. Tariffs accompanied by tax cuts and only symbolic reductions in government expenditure would be inflationary as well. The risk persists that China could do too little, or only the bare necessary to counteract tariffs with limited spillover-over effects. Last but not least, US bears have all capitulated, so the odds may be higher this time that consensus could be too optimistic about US resilience. In the case of little help from the rest of the world, and with American financial assets expensive, it would indeed be a year of change, but from bullish trends to volatile ranges. Investors are advised to buy gold on weakness, as a hedge to multiple portfolio risks coming from many fronts, from uncertainty related to Trump's policies, to possible inflation resurgence.

US Dollar Index and theoretical 8-year cycle peaks



Source: CIO Office, Bloomberg as of December 2024

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Equity Strategy

The Year Ahead

- We expect returns in 2025 to follow earnings growth with stable valuation multiples
- Growth will stay in focus: U.S. to drive innovation, structural momentum in India, Japan and UAE
- Selectivity is paramount as markets pivot toward broader growth and diffuse concentration

Global equities gained 18% in 2024, primarily driven by developed markets at 19% vs 7.5% for emerging regions. Geographically the U.S., China, and Dubai stood out, the last delivering an impressive 34% total return. Gains were largely skewed towards big tech, evident from the S&P 500 market-cap weighted index performance of 25%, outstripping the 14% gain of its equal-weighted counterpart. In 2025, we expect gains to be driven by broader participation across sectors and regions, even as overall returns moderate.

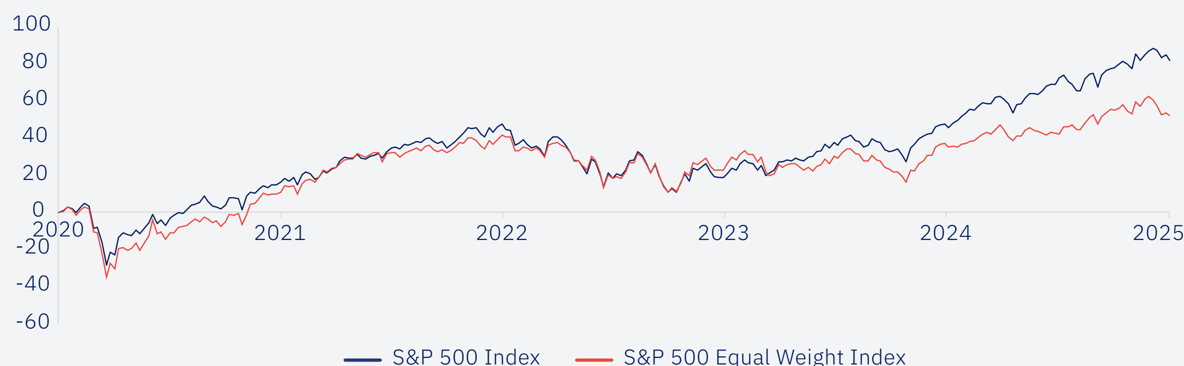
Equity indices: CIO Office estimates & 2025 year end fair values

Region/ Index	US:S&P 500	MSCI Europe	Japan: Topix	UK: FTSE	MSCI EM	MSCI China	MSCI India	MSCI GCC
Currency	USD	EUR	JPY	GBP	USD	HKD	INR	USD
Index End 24	5882	170	2785	8173	1075	65	2844	723
2024 performance	25.0%	9.2%	20.4%	9.6%	8.0%	19.0%	15.7%	4.1%
CIO OFFICE YE 2025 ESTIMATES								
EPS Growth	12.0%	4.0%	6.0%	5.0%	12.0%	7.0%	15.0%	6.0%
Price/Earnings	23.8	13.6	15.4	12	12.8	11	24.5	15
Index Fair Value	**6450**	**170**	**3000**	**8600**	**1170**	**70**	**3175**	**770**
Upside/Downside	9.7%	0.1%	7.7%	5.2%	9.3%	8.2%	11.6%	6.5%
Dividend Yield	1.2%	3.3%	2.3%	3.8%	2.7%	2.9%	1.1%	3.8%
Estd. Return 2025	**10.9%**	**3.4%**	**10.0%**	**9.0%**	**12.0%**	**11.1%**	**12.7%**	**10.3%**

Source: Bloomberg, CIO Office, Dec 31, 2024, Index Performance is net returns

In 2025, equity gains are expected to reflect regional and sectoral differentiation, with earnings growth expanding across a wider range of sectors and becoming more evenly distributed. The U.S. remains central, driven by a broadening AI ecosystem extending beyond mega-cap tech (enablers) into adopters across various industries, enhancing productivity and margins. Structural reforms and economic growth position India and Japan to deliver low double-digit returns. In Europe, growth prospects remain tepid at best, with unknowns on overall trade dynamics, while easing monetary policy and selectively attractive valuations provide modest support. Trade policy shifts and uncertainty under the new administration may introduce episodic volatility, but resilient corporate fundamentals and evolving earnings drivers should provide support. Emerging markets benefit from China's recovery efforts and India's structural resilience. With elevated valuations and shifting policy dynamics, we recommend focusing on companies demonstrating robust earnings growth, diversification, and adaptability to navigate a complex global landscape.

AI-led rally widens gap between equal and cap-weighted S&P 500



Source: Bloomberg, Dec 31, 2024

Market Health Checklist: Equity outlook centred around earnings growth

Positive	Neutral	Negative
Earnings growth broadening	DM Slower pace of rate cuts	Performance concentration
AI improving productivity	AI disruptors	High valuations
Corporate margins	Deregulation	Tariffs/deglobalisation
Consumer resilience	Geopolitics	Tougher YoY comps
Lower tax environment (U.S.)	Slowing Economies	US Policy uncertainty

Developed Markets: Overweight U.S., Japan, neutral UK, underweight Europe

U.S.: The U.S. continues to lead global equity markets, with earnings growth spreading beyond mega-cap tech as AI adoption accelerates across industries. For 2025, our baseline forecast for the S&P 500 is to deliver a total return of ~11%. Policy uncertainties and macro data will trigger episodic volatility. At the same time, the administration's pro-business stance, including favorable tax policies and deregulation, is expected to support capital spending, mergers, and broader investment activity. Declining inflation and monetary easing further enhance market conditions, solidifying the outlook for growth. Selectivity will be key, with a focus on sectors demonstrating resilience and benefiting from AI-driven productivity gains.

Eurozone: Domestic demand continues to face challenges, and geopolitical uncertainties weigh on growth prospects. Current valuations for the index are below long-term averages, and we see opportunities in sectors like luxury goods and healthcare, which are supported by global demand trends. Earnings growth is low and macroeconomic stability will be critical for any further upside, leading to our underweight positioning.

UK: Attractive valuations and strong income-paying sectors add appeal to UK equities. High exposure to energy and commodities, combined with a stable service-oriented economy, positions the region for moderate growth in the year ahead.

Japan: Structural reforms and improving corporate governance, particularly a focus on return on equity, continue to drive Japan's equity market. A gradual recovery in the yen and strengthening domestic demand, alongside leadership in robotics and AI, support expectations of low double-digit returns in 2025, maintaining an overweight view.

Emerging Markets: Overweight India, neutral GCC, China

India: India's structural growth story remains intact, supported by robust economic momentum, fiscal initiatives, and rising domestic incomes. With strong earnings resilience and growing outsourcing demand, industrials and consumer sectors are poised for growth. Stable urban demand and improving rural conditions support our overweight position, especially for the long-term, to smoothen the volatility risk from high valuation.

China: Global policy uncertainty, especially around tariffs and trade restrictions, continues to influence China's outlook. Valuations remain attractive, and fiscal stimulus could bolster domestic demand. Recovery is uneven, yet targeted measures may provide a lift, balancing risks and supporting a neutral stance.

GCC: Economic diversification and reforms in non-oil sectors underpin quality growth across GCC markets. Within the region, the UAE has strong economic growth presenting select opportunities in real estate, industrials and banking.

CIO Office regional earnings and valuation projections for 2025

Source: CIO Office, Dec 31, 2024, Regional earnings growth and valuation estimates for 2025

Equity Strategy

Focus: US

- Market leadership is likely to shift to a more balanced and diversified earnings base
- We expect earnings growth to drive returns with minimal room for multiple expansion
- Pro-growth policies, including tax reforms and deregulation, support profitability

As 2025 unfolds, the U.S. equity markets looks to build on two consecutive stellar years of over 20% into a year of balanced opportunities. While we don't expect returns of the same magnitude this year, we remain optimistic about another positive year ahead, with gains likely to be around half that level as the market takes a more measured path forward. Our forecast for the S&P 500 is a total return of approximately 11%, ending the year at 6,450.

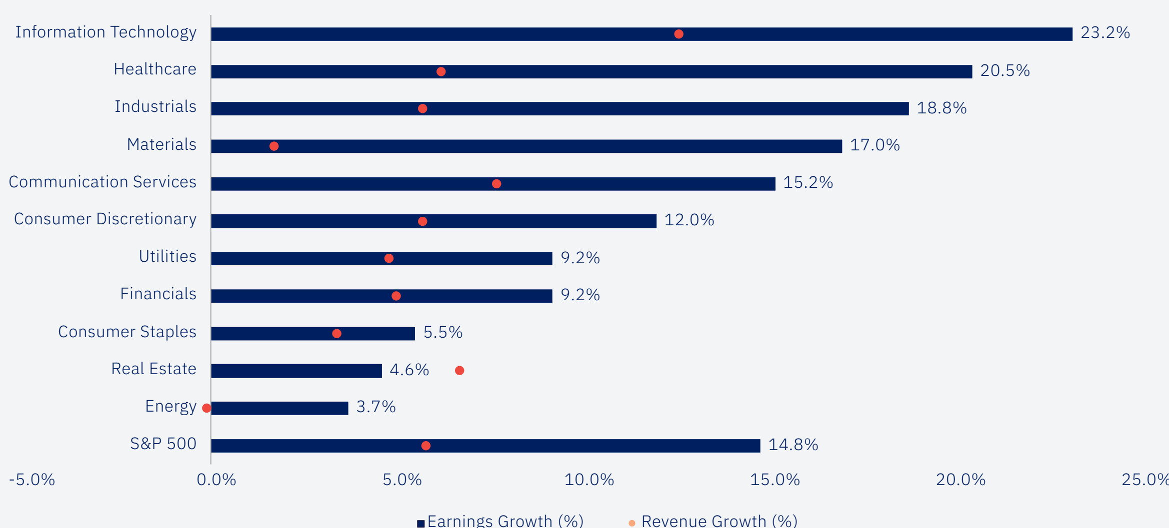
This year's narrative is one of transition. The leadership that defined 2024, heavily concentrated in the "Magnificent Seven" tech companies, is expected to broaden. Earnings growth remains at the heart of our outlook, with an anticipated 12% increase for the S&P 500. We see this growth extending beyond the tech sector to include areas like manufacturing, industrials, and consumer goods, aided by an economy that continues to show signs of resilience.

We start the year with valuations that remain elevated, particularly among the largest S&P 500 names, which trade at significantly higher multiples than the rest of the index. While this limits room for multiple expansion, it highlights the importance of earnings growth to sustain market performance. We expect smaller and mid-sized companies, which lagged in 2024, to recover as financial conditions improve, creating opportunities for investors who focus on diversification and selectivity. While the tech sector is expected to continue benefiting from the monetization of AI, we believe other sectors will play a more meaningful role in driving the market this year.

Policy developments under the new administration are also part of our outlook. Tax reforms, deregulation, and measures to boost domestic manufacturing are expected to provide tailwinds to corporate profitability and investment. Infrastructure initiatives may take longer to materialise, but they reinforce the long-term attractiveness of sectors tied to industrials and materials.

Challenges are not absent. Trade tensions and geopolitical risks remain sources of potential volatility, and investors will need to navigate these carefully. That said, the broader market backdrop of easing financial conditions and strong earnings growth provides reasons to remain constructive on U.S. equities.

Overall, we see 2025 as a year of steady progress, one where the market's performance reflects a balance between opportunity and prudence. It is a year that will likely reward careful positioning, broad diversification, and a focus on quality, as the U.S. market continues to play its leading role in the global economy.



Source: FactSet, Jan 3, 2025

Equity Strategy

Focus: UAE

- The UAE economy is benefiting from population growth, continued diversification and government support
- Relatively lower valuations and high dividend yields support a constructive view
- We expect banks, Industrials and real estate sectors to outperform in 2025

A key driver of economic growth for the UAE is its expanding population. A vibrant labour market, long-term resident visas, coupled with best-in-class infrastructure for corporates, encourage white collar workers to shift to the UAE. This steady influx of residents boosts consumption across real estate, telecom, retail and hospitality, supporting sustainable economic growth. Tourism is a key contributor to the economy with Dubai on track to approach 18 million arrivals in 2024. The Ministry of Economy expects tourism to expand contribution to GDP, from 9% currently to 15% by 2031.

The UAE's economic outlook for 2025 is constructive, (in-house forecast at 4% y/y GDP growth for 2025) driven by policy reforms targeting economic diversification away from oil, a growing affluent expat population, a focus on FDI and trade and the UAE becoming a leading global financial hub. Real non-oil GDP growth has averaged 6%+ in the post-pandemic era, with gains across real estate, construction, trade, transport, and financial services. The overall trend remains favourable, supported by moderate inflation, while declining interest rates will help bolster domestic activity, mitigating the impact of modestly lower oil prices.

We favour plays on the population growth theme in Dubai, i.e. banking, utilities and real estate companies, as well as government-backed entities in Abu Dhabi, such as the ADNOC group of companies. The local banks are likely to experience a goldilocks scenario: favourable economic activity supports credit growth, while the Fed's marginal rate cuts ahead do not threaten overall margins. The sector also trades at undemanding valuations: 11.3x 12-month forward P/E and 1.7x P/B.

The real estate sector is poised for continued expansion. The Emaar group (residential, hospitality and malls) with high dividend yields, has a strong track record to monetise their land banks and sizable backlogs of sales that ensure strong dividend pay-outs with expanding backlogs, accelerating off-plan takeoffs, and timely payments point to ongoing demand for Dubai real estate, supported by favourable demographics, and infrastructure development. While transaction volumes and selling prices may moderate from elevated levels, especially with rising supply, the sector still looks set for a positive run in the near term. Abu Dhabi industrials i.e. the ADNOC Group have stable earnings outlook, with the logistics business expanding in tandem with the LNG business.

The Dubai Index offers reasonable valuations, growth and high dividend yield

Index	CCY	Country	Level	Total return 2024	Forward P/E	Forward P/B	Dividend Yield	Daily Traded Value 6 month Local Mn
DFMGI	AED	UAE	5,158	34.5%	10.0	1.4	5.2%	378
ADSMI	AED	UAE	9,352	0.5%	15.1	1.9	3.9%	1,393
MSCI UAE	USD	UAE	851	19.6%	9.0	1.5	5.5%	156
Tadawul	SAR	KSA	12,092	3.3%	17.2	2.3	4.0%	6,498
MSCI EM	USD	EM	1,073	8.0%	13.5	1.7	2.8%	87,040

Source: CIO Office, Bloomberg, Dec 31, 2024

Equity Strategy

Theme – AI moves to adoption

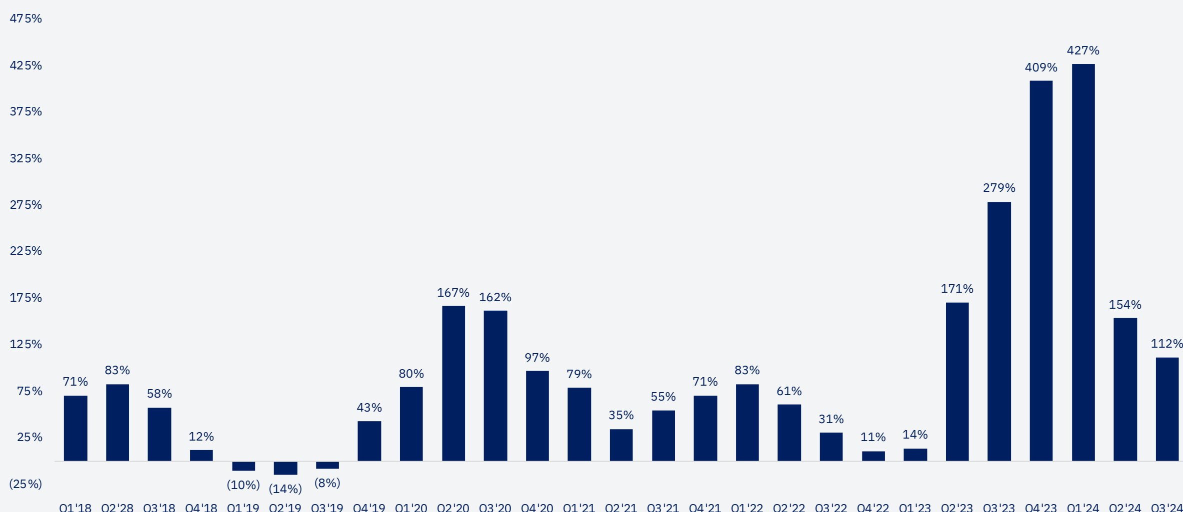
- AI narrative to gradually shift from capex-heavy investments to adoption, execution and ROI
- Collaborative AI agents to reshape industries with double productivity
- Enterprise adoption to drive investments in data centers and sustainable power solutions

The AI story continues to evolve, and while 2024 lacked a defining moment like ChatGPT's explosive debut, the momentum around artificial intelligence has been undeniable. Stocks tied to AI infrastructure—semiconductors, data centers, and utilities—delivered outsized returns, as did early adopters in industries like analytics and e-commerce. In the relentless pursuit of AI dominance, tech titans Amazon, Alphabet, Meta, and Microsoft are set to pour a staggering USD 500 bn into their AI ambitions over the next three years. This extraordinary capital outlay has drawn comparisons to the internet investment frenzy of the late 1990s—a period marked by both groundbreaking innovation and speculative excess. Today, the question lingers—will the AI market follow a similar trajectory, with a pullback looming on the horizon? Mega trends like the personal computer, mobile phone, and cloud computing have often been underestimated in their long-term impact. In fact, early projections for these technologies undershot their eventual market size by large percentages. We believe AI market's true scale is massive because of its potential and applicability in diverse industries.

As we turn to 2025, the narrative is shifting. Markets are moving from the excitement of initial breakthroughs to a more measured focus on monetisation and return on investment for the billions spent on AI infrastructure. We see this year to be pivotal for adoption as enterprises integrate AI tools at scale across industries. Healthcare firms are already leveraging AI to reduce costs and enhance outcomes, from faster drug discovery to more accurate diagnostics. Consumer-facing companies are using AI to create hyper-personalised shopping and entertainment experiences, while industrial sectors are optimising production cycles and reducing waste through smarter supply chain management. The rise of collaborative AI agents, where multiple systems work together to solve complex problems, is further expanding the range of applications. For investors, this is a call to focus on sectors where AI is transitioning from potential to execution, such as healthcare technology, industrial automation, and personalised consumer platforms.

The path to monetisation will require patience and selectivity. In 2025, we recommend staying invested in semiconductor leaders with a strong AI focus, cloud and data centre companies offering scalable AI services, such as Amazon Web Services and Microsoft Azure; and utility companies providing stable, carbon-neutral energy solutions and entering long-term partnerships with AI-driven companies, positioning themselves as indispensable parts of this ecosystem. We also see opportunities in industries that will be early beneficiaries of AI adoption, including healthcare, logistics, and entertainment.

Nvidia Data Centre Growth: peaked but still +100% y/y



Source: Alphawise, Company Data, CIO Office, Jan 2, 2025

Growth themes for the long-term

- Obesity medications have a USD 100 bn global market potential for the long-term
- Cybersecurity remains critical to an interconnected and cloud-intensive world

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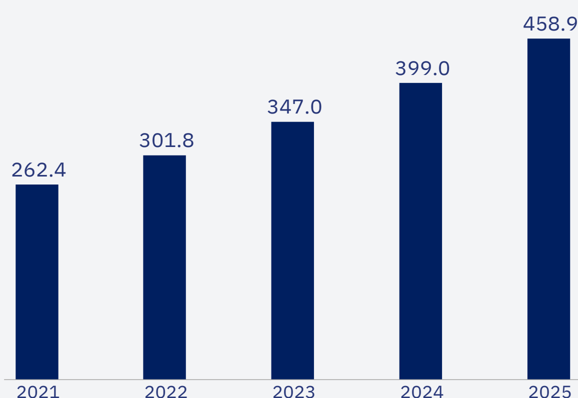
Obesity therapies: Obesity imposes a staggering burden on global health systems and economies. More than one billion people worldwide are living with obesity, and the World Health Organization estimates a 2.4% drag on global GDP from its associated impacts. In the U.S. alone, healthcare spending has reached USD 4 tn annually, with 90% of these costs tied to chronic conditions such as diabetes and cardiovascular disease—many linked to obesity. But innovation is turning the tide. GLP-1 receptor agonists have emerged as a breakthrough in obesity treatment, offering effective solutions that not only reduce weight but also alleviate related health conditions. These therapies, championed by leaders like Eli Lilly and Novo Nordisk, are transforming the industry. Together, these companies hold 84% of the market, with significant capital investments fueling further innovation, including advancements in oral formulations that expand accessibility. Forecasts suggest that the GLP-1 therapy market could exceed USD 100 bn by 2030, reflecting the growing demand and broader acceptance. So far, Eli Lilly has emerged as the provider with the superior efficacy profile. We believe this catalyst provides the ultimate upside potential for other players such as Amgen, Viking, etc. to make a name for themselves and expand into the market. Another catalyst this year would be label expansions, potentially allowing the GLP-1 drugs to serve as treatments for multiple health conditions rather than purely morbid obesity.

Cybersecurity: The digital world faces its own challenges. The rapid adoption of cloud computing and AI has fundamentally reshaped how businesses operate, but it has also introduced vulnerabilities. Cybercriminals are now exploiting AI to launch more sophisticated attacks, with phishing emails that are better written, more natural, and nearly impossible to distinguish from legitimate communications. Corporates bore USD 12.5 bn in cybercrime losses in 2023, and with AI entering the equation, the threat could grow exponential, amplifying the urgency for proactive corporate cyber defenses. On the other hand, AI is also enabling new forms of protection, with real-time threat detection and automated responses becoming critical tools in defending against these evolving risks. The market is growing rapidly, with cloud security alone projected to expand at a 24% compound annual growth rate to reach USD 16 bn by 2027. Industry leaders like Palo Alto Networks and CrowdStrike are at the forefront, while nimble startups such as Wiz and Orca are capturing attention with their own solutions. With IDC forecasting USD 2.1 tn in total IT spending in 2025, up from USD 1.9 tn last year, cybersecurity accounts for less than 5% of that, with close to 75% being cloud security. The room for growth is vast in this space.

Global Cybersecurity spend USD, bn



Source: Cyber Security Ventures, Dec 31, 2024

Obesity Prevalence Adults, bn

	2020	2025E	2030E	2035E
Overweight (BMI 25 to 30)	1.39	1.52	1.65	1.77
Obese (BMI > 30)	0.81	1.01	1.25	1.53
% of adult Population	42%	46%	50%	54%

Source: World Obesity Federation, Dec 31 2023

Fixed Income

Fixed Income Strategy

Finding Opportunities Under Regime Changes

CIO OFFICE 2025 YEAR-END FAIR VALUE ESTIMATES

	Current Yield	Current Spread (Bps)	End 2025 Yield/Spread estimates
US 10y Treasury Bond	4.61%	-	4.30%
Global Investment Grade	4.67%	82	75-100 bps
Global High Yield	7.42%	318	350-375 bps
Emerging Markets Debt (USD)	6.71%	216	225-250 bps
GCC Debt	5.52%	101	100-125 bps

Source: CIO Office, Bloomberg Data as of 31st Dec 2024

2024 was a year of aberrations for Fixed Income investors. The market has fluctuated between hope and despair about the number of rate cuts, marking volatile moves in the US Treasury yields. The Fed started its long-awaited rate-cut cycle in September. However, stalling of disinflation and US exceptionalism combined with policy uncertainties triggered an unconventional bear steepening of the yield curve. The 30-year Treasury yield rose by 75 basis points in 2024, even as the 1-year fell by 63 basis points – a rare magnitude for a 30/1 bear steepening. Since the early 1960s, there have only been four other years where long yields have risen during a period of easing short rates. The 10-year has also gone up sharply post the start of the recent easing cycle compared to the past five occurrences.

The increase in yields puts a spanner in the implementation of President Trump's policies. His second term could be vastly different from the first one. If the debt ceiling debate is an indication, lowering taxes is not going to be easy and even extending 2017 tax cuts, as the cost of servicing debt increases. Moreover, lower taxes may not boost business spending while higher tariffs are unlikely to boost reshoring immediately, leading to a potential increase in inflation expectations. Rising debt service costs may lead the administration to cut social benefits. Hence, markets could envisage seeing a combination of slower growth with stickier inflation in 2025.

Higher for longer rates and sky-high optimism priced in the spreads means a defensive Fixed Income allocation is our recommended approach for this year. Looking at the past, a great year for Treasuries often follows occurrences of material bear-steepening instances. Hence, we like to have overweight positioning in developed market government bonds. Tight credit spreads limit potential capital appreciation from bonds and hence we remain neutral on credit segments and emerging markets debt.

Overweight Developed Market Government Bonds

The fastest policy rate hike cycle in the history of the Fed is now followed by an expected shallow rate cut cycle. Currently, markets anticipate less than two rate cuts in 2025. This has been the sharpest rate of increase in 10-year yields in the first three months of a rate cut cycle as investors remain cautious about the sequence of policy implementations by the new administration and their impact on both growth and inflation dynamics. A positively sloped US Treasury yield curve reduces carry costs for outright long duration exposure. At current level of long-end yields we like a duration exposure between 7 to 10 years for portfolios. We are overweight on Treasuries as above 4.5% yields for the 10-year is attractive in a multi-asset portfolio especially when short-term rates are expected to dip below 4% soon.

Neutral Investment Grade Credit

The biggest question the investors currently have is how low the spreads can go for investment grade (IG) credit. We believe there isn't a lot of scope for the spreads to hit the lows of 2007. The biggest risk of IG credit is rating downgrade and analysts have calculated that historically investors need to be compensated by 80 bps over Treasury for mitigating this adverse possibility. Investors buy IG bonds for yields and not spreads. With yields remaining above 5%, the demand for IG credit from Real money players should remain

similar to 2024 whereas according to analyst estimates the supply could be down by 25% providing technical support to the already tight spreads.

Neutral High Yield

High Yield as an asset class expanded for the first time in 2024 largely due to favourable debt market dynamics after contracting for two consecutive years. High Carry, strong balance sheets and low defaults are expected to offset tight valuations. According to S&P, the 4.8% distress ratio in HY bonds warrants a 3.5% default rate by next September which is similar to the 3.4% average default rate observed in the last 20 years. However, the net Supply would increase with yield-hungry capital markets. Moreover, 36% of HY bonds maturing by FY26 belong to issuers rated B3 or lower. Higher issuance combined with lower trend growth is expected to lead to a slight widening of spreads.

Neutral Emerging Market Debt

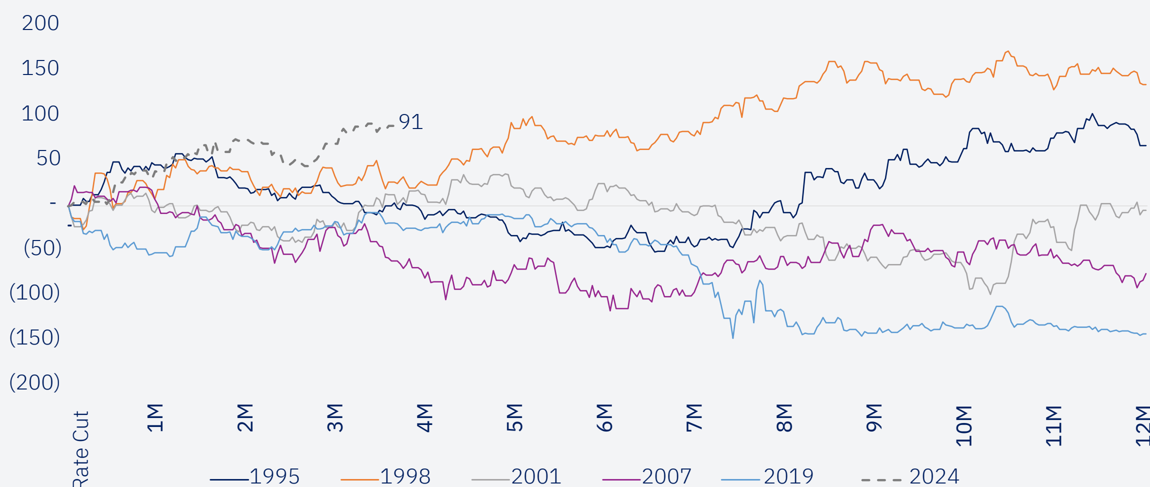
EM Debt headwinds include a strong dollar, tariff and tight valuations. China is in the crosshairs of Trump's punitive trade policy. Countries are expected to counter this with a combination of fiscal stimulus, monetary policy changes and/or FX intervention. China's recent change after 11 years to move to "moderately loose" policy is an example of this. If Trump's tariff policies are pragmatic, we may see strong growth in some the EM countries. Moreover, we don't expect large scale defaults in 2025 from EM sovereigns while robust balance sheets in EM corporates should keep spreads range bound. Attractive carry and long duration mitigate risks from optimistic valuations.

GCC debt supply should remain similar to 2024's with around USD 47 bn of bonds maturing in 2025. KSA is again expected to lead the volumes. However, demand should remain strong as local investors continue to focus on all in yields. The spreads would depend significantly on oil prices. We expect spreads to widen from the current levels but remain contained if oil prices stay above USD 60/b, which is our base case.

Risks to our outlook

We see sticky inflation and higher US fiscal deficit as significant risks to our positioning. If inflation doesn't come down, or at least stabilises, as expected, the Fed would be forced to remain restrictive: yields and spreads would materially rise, leaving no quarters for investors to hide. Similarly, any unanticipated increase in US fiscal deficit could result in an unruly increase in long-end yields hampering our long-duration positioning.

10-year US Treasury Yield changes (in bps) after the first rate cut

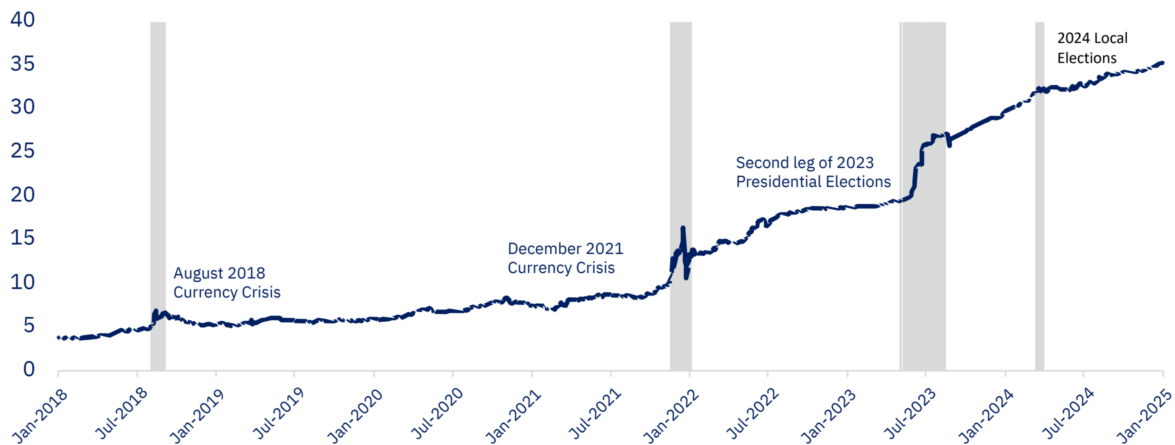


Source: CIO Office, Bloomberg Data as of 29th Dec 2024

Fixed Income Strategy

A turnaround in Türkiye

Turkish Lira vs USD Currency Moves Since 2018



Source: CIO Office, Bloomberg Data as of 03rd Jan 2025.

Since 2023, Türkiye has made notable strides by implementing orthodox, rule-based economic policies aimed at reducing inflation, addressing external imbalances, and reforming monetary and fiscal frameworks. As a result, the country received a two-notch credit rating upgrade in 2024 and is currently rated B1/BB-/BB- by Moody's/S&P/Fitch, with Moody's assigning a positive outlook. In December, the Central Bank of the Republic of Türkiye (CBRT) initiated a rate-cutting cycle with a 250bps reduction, exceeding the consensus expectation of 175bps followed by another 250 bps rate cut in January. This move reflects growing confidence in improving inflation dynamics.

In December, annual inflation eased to 44.4%, compared to consensus estimates of 45.2%, and remained slightly above the CBRT's short-term target of 44%. Core inflation also decreased to 45.3% from 47.1%. While the CBRT highlighted improvements in core and services inflation, it maintained a cautious outlook, projecting inflation to end at 21% in 2025, and 12% in 2026.

On other macroeconomics parameters, Türkiye's current account deficit has improved significantly, narrowing from a peak of 5.2% in 2022 to 3.6% in FY23. S&P expects further improvements, projecting a deficit of 1.2% for FY24, 1% for FY25, and 1.8% for FY26. The debt-to-GDP ratio is low at 29%, and the budget deficit is targeted to decrease to 4% of GDP in 2025 from 5.1% in 2024, driven by reduced earthquake-related expenditures.

Türkiye has also rebuilt its foreign reserves, with gross foreign exchange reserves reaching a strong USD 91 bn as of December 2024. However, real GDP growth remains moderate, with forecasts of 3.1% in 2024 and 2.3% in 2025.

The Turkish lira offers the highest carry-to-volatility ratio among emerging markets, making it attractive for short-term carry trades despite FX risks. While further rate cuts and potential currency depreciation are anticipated, investors could achieve double-digit returns over a short holding period. Floating-rate bonds linked to overnight rates, currently at 45%, are particularly appealing. These bonds reset daily within a +/- 3% range and offer quarterly coupon payments. From an FX perspective, the period from 2019 to 2023 represented a challenging regime for the Turkish lira, characterised by low interest rates amid rising inflation. However, the current environment of reform-oriented policies and high carry potential provides a more favorable setup for tactical investments.

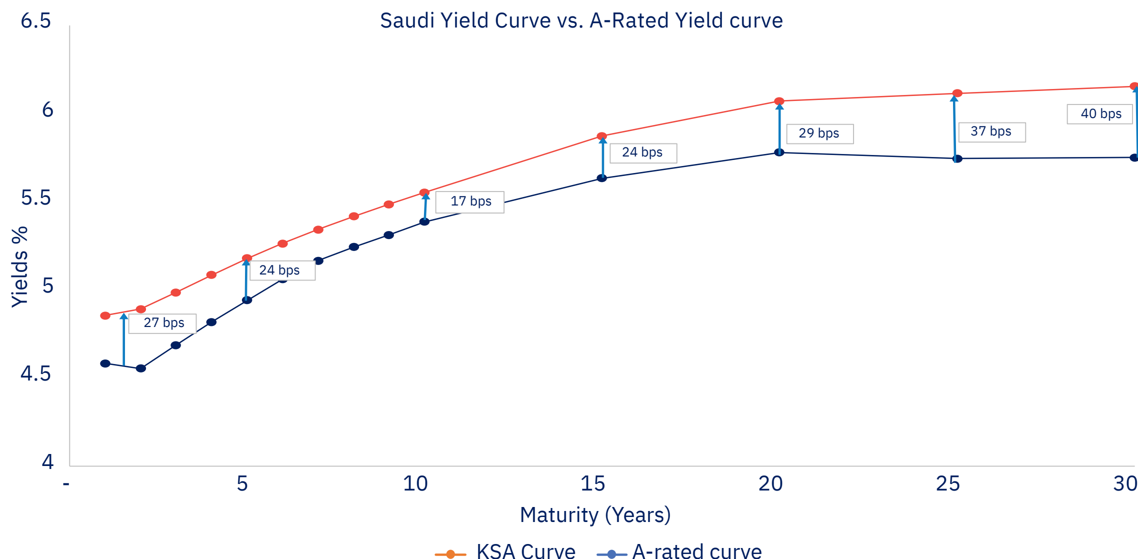
Additionally, the banking sector and Türkiye's sovereign wealth fund present opportunities. Sovereign wealth fund spreads over sovereign bonds stand at approximately 100bps, offering an attractive opportunity. In the banking sector, we favour the top seven banks and institutions with strong parental backing.

Source: CIO Office, Bloomberg, S&P.

Fixed Income Strategy

Saudi Arabia: High yielding opportunities in a changing world

KSA Yield curve vs A-rated Yield curve



Source: CIO office, Bloomberg as of 6th January 2025, S&P

The bond market in Saudi Arabia has been a focal point in recent years, reflecting The Kingdom's ambitious economic reforms and its fiscal adjustments in response to the global economic shift. Saudi Arabia's total debt has grown significantly in the last 5 years, with debt-to-GDP ratio rising from 18.7% in 2019 to 23.8% in 2024. This increase is driven by the government and its related entities issuing bonds to finance the budget and long-term development projects across various sectors—such as infrastructure, tourism, technology, and renewable energy—to diversify revenue away from oil under Vision 2030.

Despite high oil revenues in recent years, Saudi Arabia has experienced increased budget deficits due to elevated spending on reforms, social initiatives, and subsidies. This trend is expected to persist given the continued implementation of Vision 2030 as well as additional expenditures required for hosting global events such as FIFA World Cup 2034 and Expo 2030. In December 2024, the OPEC+ decided to delay production increases until the end of the first quarter of 2025. According to our internal research team, the average brent oil price is expected to be at USD 73 per barrel in 2025. For Saudi Arabia, a flatter increase in oil production presents downside risks to real GDP growth; however, continued development of the non-oil sector is a powerful mitigating force. Emirates NBD Research expects non-oil sector growth in KSA to be around 4% & 4.5% and real GDP growth to be around 1% & 3.7% in 2024 and 2025, respectively. The Kingdom also received a credit upgrade from Moody's, reflecting confidence in its ability to implement structural reforms; however, prudent fiscal management remains critical to navigating the challenges of a debt-financed transformation.

In 2024, the government of Saudi Arabia and its government-related entities raised around USD 48 bn—compared to USD 34 bn in 2023. Of this total, 55% was contributed by Saudi government and the Public Investment fund (PIF). Currently, yields for KSA sovereign and government-related-entities (GRE) trade above those of other comparable A-rated bonds by at least 15 basis points, largely because of the elevated level of debt issuance. This dynamic reflects market concerns about the pace of fiscal consolidation and the potential risks associated with higher borrowing levels. We expect the trend to continue into 2025, with Saudi Arabia leading GCC debt issuances, given that USD 11 bn of KSA domiciled bonds are maturing in 2025.

Within KSA, we prefer strong credits from the financial sector and GREs. We pick up additional yield by going down the capital structure of the champion banks and get an extra 20-50 basis points spread offered by the GREs above maturity-matched sovereign bonds. We also like the secured bonds issued by the gas and oil pipeline operators from the country which have project finance type covenants.

PRIVATE BANKING
Global
Topics

Quantitative Outlook: FX & Commodities

A mixed bag of opportunities

- Commodities neutral for now but uptick in volatility expected ahead
- Precious metals in uptrend amidst otherwise uninspiring asset-class technicals
- Dollar bullishness dominates across major FX pairs
- EM FX shows more promising potential against dollar than DM peers

Global commodities saw a strong post-pandemic rally, emerging from a 5-year base before pulling back into the current low-volatility period. The positive trend that characterized 2021 and 2022, marked by prices above key long-term averages, turned negative in 2023. Currently, the Bloomberg Commodity Index shows sideways movement with a slight negative-to-neutral bias (exhibit X1). We expect volatility to rise before a breakout establishes a new directional trend. While the future direction remains uncertain, the absence of negative momentum in technical indicators supports a constructive outlook. Among individual sectors, only precious metals show strength, with energy indicating early signs of recovery. Industrial metals remain range-bound and at depressed levels, while agricultural commodities have continued to move sideways. This technical analysis aligns well with the current disinflationary trends in major economies.

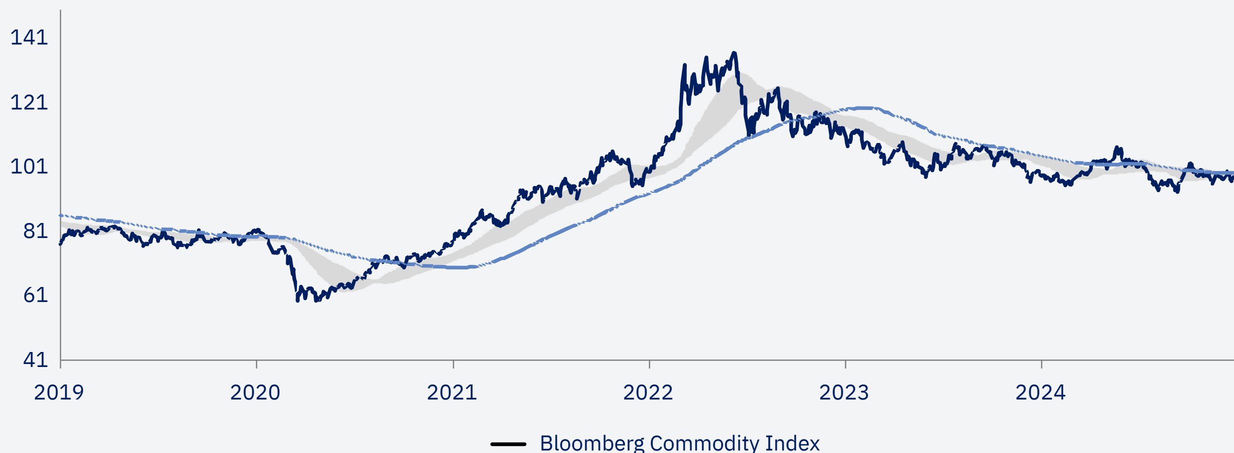
The US dollar's bullish trend continues to dominate foreign exchange markets. While there's no immediate sign of weakness, indicators suggest the trend may be nearing exhaustion, with the currency trading at the upper end of its range in overbought territory. The recent surge suggests some consolidation ahead with possible further gains. However, a multi-year rally seems unlikely from current levels, given that major cycles are approaching their peaks, and the real effective exchange rate is at historical highs. Although major developed market currencies appear oversold against the dollar and could weaken further, the emerging markets FX benchmark shows neutral conditions and potential for recovery from current levels.

Our in-house quantitative analysis of the probable price ranges for FX and commodities over the next 12 months is in the table. Markets may experience significant fluctuations due to unexpected policy changes, demand, and supply shocks, which can shift direction and expand the price range over the 12-month period. This is shown as the Expected Total Range. Within this range, prices are expected to stay within a narrower band called the Expected Value Range for 70% of the time, excluding extreme price movements and edge cases. From 2024 data, we have calculated a pivot price based on the most frequently traded level, which is expected to act as key support or resistance throughout the year. The market's movement towards or away from this pivot price will determine overall trends.

Gold's performance over the past two years has been exceptional. The strong momentum from 2024's powerful rally suggests the upward trend will likely continue after a brief consolidation period in early 2025. Our analysis indicates potential upside reaching USD 2,770, while any pullbacks could find support near USD 2,480, where key moving averages converge. The metal's long-term bullish structure remains solid as long as prices stay above the critical USD 2,500 level, important technical foundation for its upward trajectory. From our fundamental analysis, our 2025 year-end fair value stands at USD 2,900.

WTI Crude oil begins 2025 with strong upward momentum that could drive prices as high as to USD 85 per barrel. However, this initial strength appears unsustainable when viewed against

Bloomberg Commodity Index in neutral regime



Source: Bloomberg data as of 31st December 2024

Projected commodity price ranges for 2025 and most frequently traded price as pivot

Markets	Expected Total Range				
		Expected Value Range			
			Pivot Price		
Copper	3.7	3.8	4.2	4.5	4.7
Silver	23	26.7	31	33.9	37.5
Gold	2350	2480	2500	2770	3040
Crude	65	68	78	78	85
Natural Gas	2.5	2.6	3	4.2	5.5
Corn	410	420	430	470	550
Wheat	450	480	550	600	660
Soybean	860	920	990	1050	1150
Dollar	102	103	104	109	111
EURUSD	1.011	1.025	1.08	1.06	1.08
GBPUSD	1.225	1.235	1.27	1.27	1.29
USDJPY	145	149	150	154	165

Source: Bloomberg

longer-term bearish trends. As the year progresses, prices are expected to reverse course and could decline to around USD 64 per barrel. While oil's early rally may capture attention, the broader market forces would point towards lower prices through the year. From Emirates NBD Research's fundamental analysis, the price of Brent crude is expected to average USD 73 in 2025.

As a metal highly sensitive to macroeconomic conditions, copper faces immediate challenges, particularly from risk premia being factored in due to China-related tariff concerns. This pricing adjustment needs to run its course before any significant upward momentum can take hold. Throughout the year, the market is expected to follow a pattern where upward moves toward USD 4.50 are likely to face resistance and gradually drift back down, potentially reaching levels as low as USD 3.80. This oscillating pattern reflects the ongoing tension between copper's fundamental value and current market headwinds.

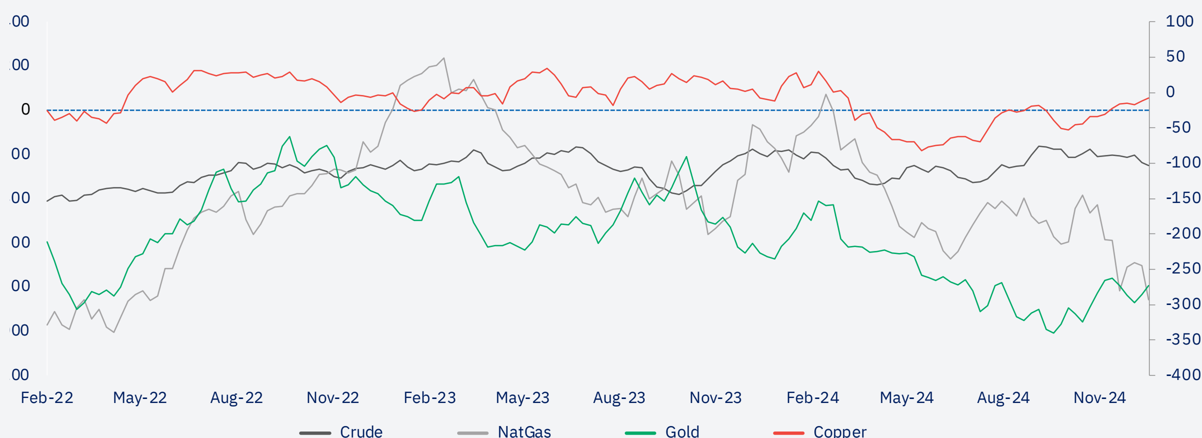
Natural Gas market shows a promising outlook, continuing the upward momentum that began in late 2024. Price projection for 2025 span a wide range, with a conservative estimate setting the lower bound at USD 2.60 per unit, while an optimistic forecast suggest price could reach as high as USD 5.50. This broad range reflects the market's significant potential for growth, building upon the positive trajectory established in 2024.

The Euro has continued to face significant challenges and headwinds due to its overall bearish technical structure. The currency's 2024 pivot level of 1.08 serves as a major resistance point, marking our most optimistic price target. However, our analysis strongly suggests a move towards lower price levels, with a significant possibility of the Euro reaching parity with the US dollar.

GBP strength against the US Dollar into Q3'24 was offset by steep losses in Q4. Looking ahead, this negative momentum may transpire as persistent dollar strength. The key level to watch is USD 1.27, a crucial resistance point that needs to be cleared for any sustained upward trend to develop.

While the dollar maintains its established upward trend against the yen and is likely to see further gains in early 2025, the ascent could be capped around the 165 level. The pair could reach as reach low as 149 without materially changing the upward uptrend.

Net futures positioning of commercials – commodity producers – across commodities



Source: Bloomberg as of Dec. 2024 (note: Advancing position bearish and declining position bullish for corresponding markets)

Oil Outlook

- We expect oil demand growth to remain moderate amid an overall slowing economy
- Supply is being adjusted, but it may not be enough to support prices
- Our forecast is for Brent crude oil to average USD 73 in 2025, down from USD 80 in 2024

Global oil demand growth will be moderate in 2025, with projections from the IEA at just 1.1m b/d. While that represents an improvement on 2024 when demand growth was estimated at 900k b/d, the 2025 level is still below trend levels and well off the rapid pace of recovery-driven demand seen in 2021-22. Consumption is wholly driven by emerging economies: the IEA's projection has their demand at 1.1m b/d while developed markets will see an outright decline in consumption as markets like Europe or Japan return to a pre-pandemic trend of declining oil demand.

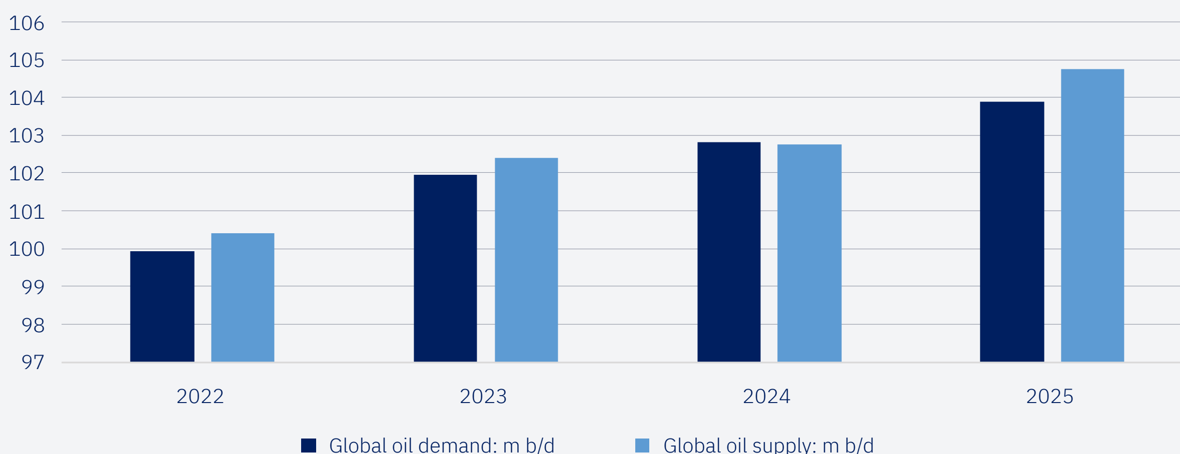
Consensus projections for major economies in 2025 is a slowdown in activity. For China, growth is projected to dip to 4.5% from consensus estimates of 4.8% in 2024 even as the government is taking significant stimulus steps to try and improve consumer and investor confidence. The US economy is set to cool to 2.1% real GDP growth in 2025 from 2.7% last year as the Federal Reserve attempts to keep a soft landing in place.

While the headline growth numbers don't imply an outright collapse in activity, they don't build a robust case for oil demand. Oil consumption had outright declined for several months in China as travel and industrial fuel demand was limited. An even slower Chinese economy in 2025 will threaten moderate demand growth projections of about 220k b/d from the IEA, which will largely come from petrochemicals consumption. An even larger structural challenge for robust oil demand in China will be the take-up of hybrid and electric vehicles. Total sales of new energy vehicles rose to 45% of total sales in 2024 from 35% a year earlier, denting the outlook for gasoline consumption in particular which had been holding up relatively better than distillate demand.

Beyond China, few other major oil consumers will show robust demand in 2025. India will be the strongest case for higher oil consumption in 2025 with the IEA expecting 220k b/d of growth, providing more than a fifth of forecast demand growth. But elsewhere, the long-running trends of diminishing oil demand, particularly for transport fuels, will make themselves felt again with demand set to decline in European economies as well as Japan.

Members of OPEC+ that have been making additional voluntary cuts to their production have agreed to extend their curbs until the end of March 2025. The UAE, Saudi Arabia, Russia, Iraq,

Global oil supply to outpace demand in 2025



Source: IEA, Emirates NBD Research.

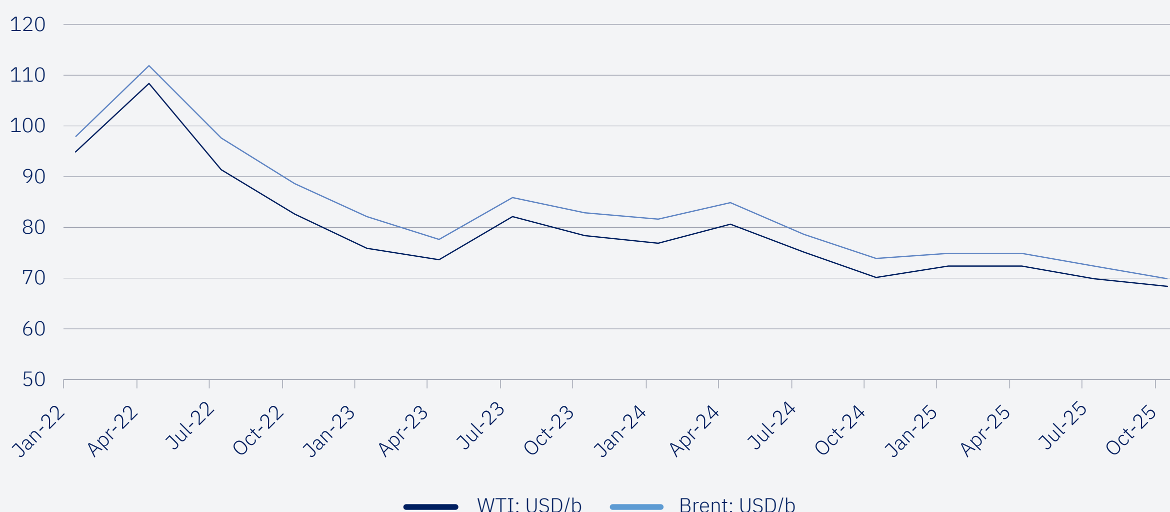
Kuwait, Kazakhstan and a few others have been making these additional cuts since May 2023 to prevent global oil inventories from expanding but have had to delay increasing production three times. Previous plans for an increase in October and January ran up against unfavourable conditions in oil markets.

The latest agreement means that production will phase in slowly over the rest of 2025 and into 2026 as well. The original target levels for the end of 2025 have now been delayed until September 2026, meaning output will only trickle back into markets. For end of 2025, most producers making the voluntary cuts will have output between 2-5% higher compared with the end of 2024. The UAE has a larger increase though at nearly 8% to reflect a new higher "required production level" that compensates for substantial upstream capacity investment.

Assuming that all OPEC+ members fully comply with their targeted production for 2025, oil markets will still be in a considerable surplus based on projections for oil demand and non-OPEC supply growth from the IEA. We estimate a "full compliance" scenario would result in a surplus on average of about 700k b/d in 2025, weighted toward the end of 2025. Compliance with targets is as ever essential for OPEC+ to have a meaningful effect on oil markets and they noted in the statement following the official OPEC+ meeting the "critical importance of adhering to full conformity and compensation mechanism", which would account for previous periods of over-production.

Our oil outlook for this year is for prices to drift lower from current levels and to record an average of USD 73/b in the Brent market compared with an average of USD 80/b in 2024. Downside risks to the outlook are growing. President Donald Trump has pledged to be an ally of the US oil and gas industry which could allow for easier permitting for drilling and production on federal lands or fewer regulations. We don't think President Trump's election is necessarily a game changer in terms of the outlook for US production but the new administration is unlikely to put many barriers in place on increasing output. That sets the US up for another few years of steady production increases which are likely to weigh on prices.

Oil prices to drift downward in 2025



Source: Bloomberg, Emirates NBD Research.

Real Estate

Global Outlook 2025

- Inflation and interest rate expectations were the key drivers of real estate markets last year
- Operational performance of underlying property has remained resilient despite share price volatility
- 2025 should be a better year for both real estate and infrastructure assets as headwinds recede

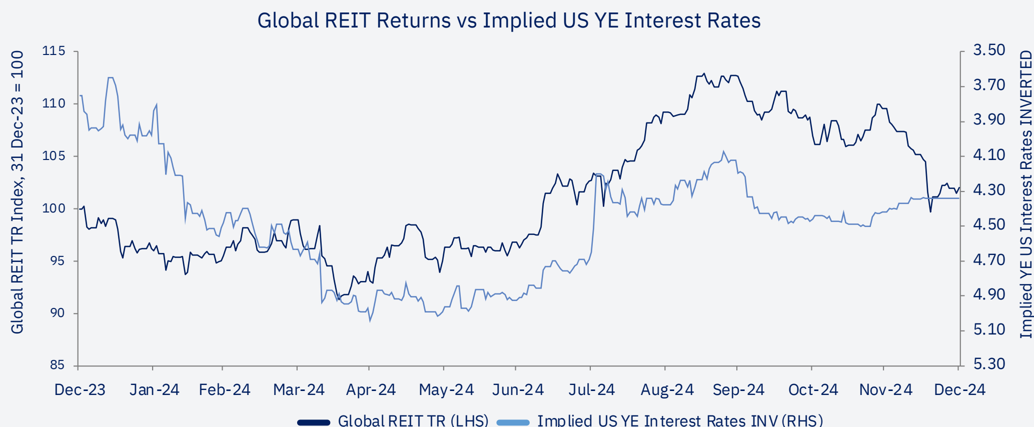
The performance and prospects of commercial real estate have been intimately tied to inflation and interest rate expectations for the past few years. Having rebounded strongly in the aftermath of the COVID-19 pandemic in 2021, the asset class has subsequently fallen out of favour with investors due to high inflation, rising interest rates and yields, changing working practices and concerns about levels of debt. As inflation fell over the course of 2023, real estate rebounded strongly towards the end of the year and this momentum carried over into the first half of 2024. However, global inflation has stayed persistently 'sticky' over the course of the year, albeit at a far lower level from its peak in mid-2022, and a subsequent slowdown in the pace of rate cuts by central banks has led to a pullback in performance in the fourth quarter.

Despite all of this, we believe that 2025 should be a far more positive year for global real estate as many of the factors holding back the asset class abate:

> Yields have peaked: although global estimates can be challenging due to the market consisting of a mixture of REITs (which pay dividends) and Real Estate Operating Companies (which do not), the implied capitalisation rate for the US market (66% of the global market cap) has fallen by 100bps since its peak of 6.42% in Q3 2023[1] . This reflects the recovery in share prices as well as underlying Net Operating Income ("NOI") growth and offers an attractive spread over underlying government bond yields. Likewise yields on private real estate have also stabilised and will likely harden as transactional activity and evidence improves.

> Operational performance has been resilient: despite the turmoil in financial markets, the operational performance of underlying real estate assets has mostly remained robust with high occupancy and consistent rental growth – the main exception being office assets (see below).

> Transactional activity in private markets is recovering: year-to-date, global direct investment volumes were up 6% to USD 471 bn with a pronounced 26% year-on-year rise in Q3 2024[2] , the first increase in over 2 years. Investment markets have been largely frozen during a period of falling values but the new year will see an increase in activity now that yields have stabilised and term borrowing rates have fallen. As transaction evidence for direct property increases, this should give investors confidence in the value of underlying REIT portfolios and demonstrate potential from their current share prices.

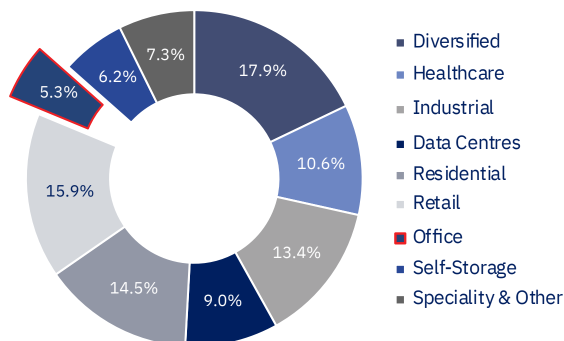


Source: Morningstar, Bloomberg 2025

> Debt concerns are overblown: REITs are professionally managed companies and firmly learnt their lessons from the global financial crisis regarding use of leverage. Today, Loan-To-Values ("LTVs") remain at reasonable levels with a high proportion of fixed rate or hedged debt and a prudent maturity profile. REITs also have a distinct advantage over private real estate assets through access to public debt and equity markets, further reducing the risks of leverage.

> Offices are a smaller part of the universe now: changing working practices have had a profound impact on the occupancy rates and rental prospects for the office sector, particularly for markets with skyscrapers with large floorplates like Manhattan, San Francisco and Canary Wharf. Offices are not all the same though and pockets of growth can still be found in certain sub-markets such as London's West End where high quality office space is at a premium and occupier demand remains high. Regardless, standalone offices now only make up just 5% of the global investable universe and a diversified investment in REITs grants access to sectors with far healthier fundamentals and better rental and growth prospects such as warehouses, healthcare, living and self-storage.

Global REITs Sector Breakdown

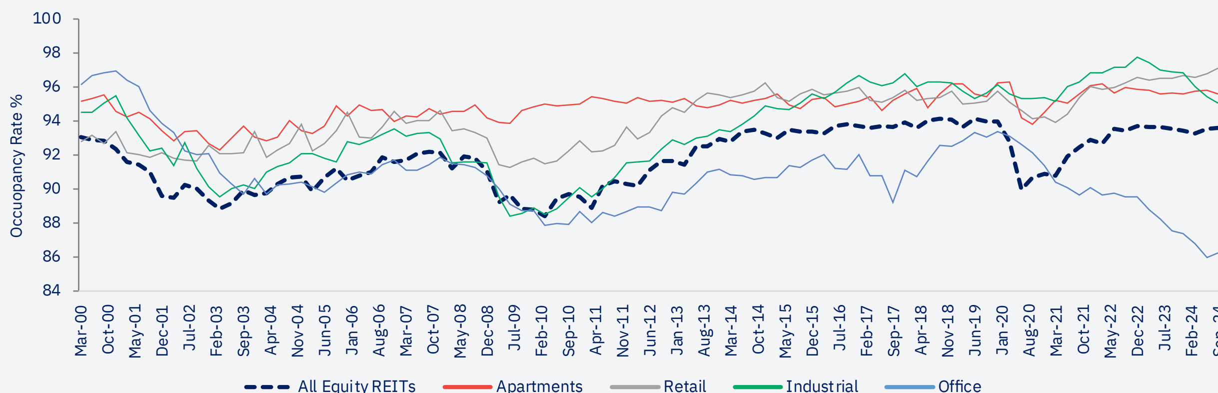


We remain favourable to growth focused sectors: industrial warehouses, healthcare (including life sciences) and housing and housing-related assets (collectively known as the 'living' sector). Underlying occupier demand and rents in these sectors have remained robust, supported by long-term trends of changing consumer habits, demographics and the success (or failures) of government policy decisions e.g. housing policy. Retail is also experiencing a bit of a renaissance following some long, difficult years of adjustment to consumers' habits with increased demand for prime space as physical shopping recovers. We also continue to support infrastructure assets, particularly in the digital space. Infrastructure has many crossovers with real estate – tangible assets with predictable income streams - and has therefore also been impacted by many of the same factors affecting the property market. It should also be on a better footing in the coming year. Digital infrastructure in particular, the so-called 'plumbing of the internet', is a key enabler of growth in the technology sector by providing the critical hardware of cables, data centres and telecommunication assets to both transfer and store data.

Downside risks remain though from a return of inflation due to policy decisions, with some risks from the new US administration, and the impact of any potential economic slowdown on rental prospects. Nevertheless, an era of falling interest rates, lower inflation and economic growth are all positive factors for REIT and infrastructure prospects in 2025.

[1]*Data as at end Q3 2024. Source: NAREIT, 2024*
[2]*Data to Nov-24. Source: JLL, 2024*

US Sector Occupancy Rates



Source: FTSE Russell, 2024

UK Outlook

Room for improvement

- UK economy remains in poor health
- Asset Valuations at discounted levels relative to international peers
- Capital markets and real economy performance can diverge
- Monetary policy changes could surprise markets and act as a catalyst for re-pricing

Despite a solid run in 2024, UK equities remain disconnected from global peers. Companies listed on the London Stock Exchange continue to trade at significant discounts to those listed elsewhere. Stocks listed on the FTSE 250 are valued 34% cheaper than the equivalent MSCI World Index based on price-to-book values . This reflects the negative sentiment towards the economy and expectations of a poor set of outcomes for the UK market.

At first glance, it's easy to see why. GDP has barely grown since the pandemic and has even fallen on a per capita basis. Increased energy and shelter costs have eroded households' propensity to spend and the heightened cost of living continues to hurt consumers. To make matters worse, there is little room for a fiscal policy fix. The government's expansionary Autumn budget – which resulted in a GBP 500 net spend per household – was met with concern for increased borrowing costs, rather than any sense of optimism.

Struggling economy

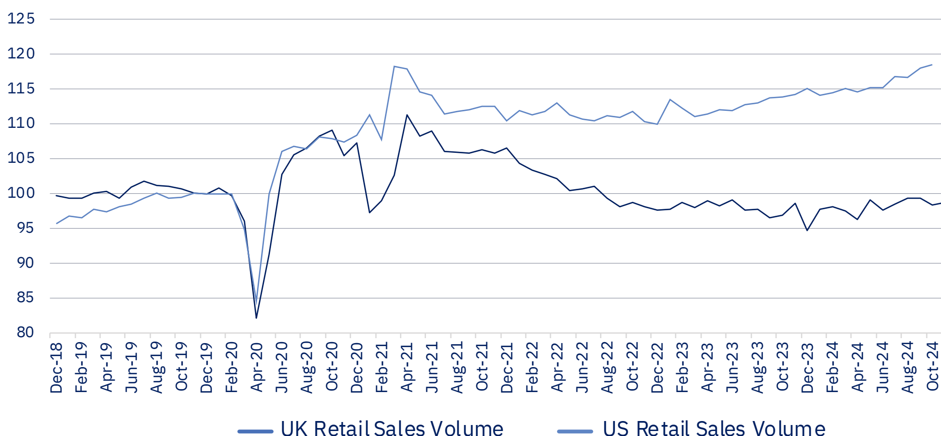
Equities are searching for a catalyst to recover. Although British companies make attractive takeover targets and policymakers have faced pressure to reform pensions to increase local investment, the most likely candidate is the normalisation of interest rates. Market expectations anchor Bank of England (BoE) base rates to Fed Funds in the US, but the two economies are in very different conditions, and a policy divergence could become a key theme this year.

Like in America, tight labour markets have caused wages to grow uncomfortably fast and headline inflation sits stubbornly above the central bank's target. However, this is where the similarities end. While the US economy continues to print solid growth numbers, things look far shakier in the UK. Retail sales volumes remain below pre-pandemic levels, with consumers curtailing spending due to increased housing costs. Mortgage rates are higher than at any point during the past decade and, where American households are sheltered by 30-year mortgage terms, British homeowners refinance on 3–5 year cycles so are far more sensitive to prevailing rates. As a result, the effective interest rate across all UK mortgages has risen 1.44% vs 0.10% in the US since the end of 2019.

A lack of appetite for consumption challenges corporate earnings and limits the potential for further wage growth. It could also coincide with a

Sales volumes in the UK have not recovered since the pandemic, contrast to strong growth in the US. Source: ONS, US Census Bureau, 2024.

Retail Sales Volume ex-auto fuel, Index rebased Dec 2019



Source: Bank of England and the Bureau of Economic Analysis as at the 31st December 2024

loosening of the labour market. At just 4.3%, the unemployment rate remains low and is comparable to that of the US. However, while the US labour market is tight due to strong economic demand the UK market is tight due to weak labour supply.

There are two main causes. One is the removal of access to the European labour market – the flow of EU workers has become a net negative to the UK workforce as more people now leave than arrive. The other is the drop in participation due to a notable increase in long-term sickness. Since the pandemic over 700,000 workers have left due to ill health, almost enough to every vacant job position across the entire economy today (see chart 2). Bringing just some of these individuals back into the fold would considerably reshape market dynamics.

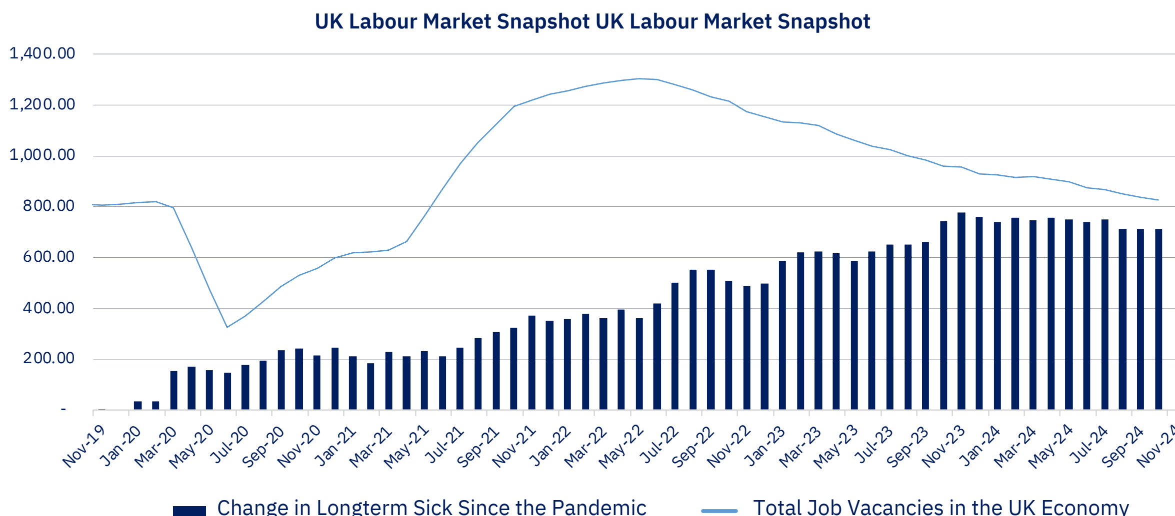
Prices can recover with changing sentiment

We therefore see an economy that is struggling under the higher interest rate environment, and that it is an acute labour shortage causing wage growth rather than any underlying demand driver. These conditions should not prevent the Bank of England transitioning to lower rates.

Consumption levels are not sufficient to sustain wage growth into the medium-term and the Central Bank will need to look through this data in order to stick their own soft-landing. Something that Governor Andrew Bailey signalled at the end of 2024 in forecasting 100bp worth of rate cuts this year – rather than the 50bp priced into markets. This leaves room for market expectations to be reassessed through the year as focus moves away from inflationary pressures and toward growth concerns.

Asset prices do not always move in-line with the performance of the underlying economy and UK equities may still prosper despite a difficult year ahead. A softening rate environment could become a catalyst for re-rating valuations and closing the gap to international peers by reducing the discount on future earnings and the cost of financing liabilities. In the meantime, investors get paid to wait through attractive dividends yields. The FTSE100 – an index made up of the largest companies on the London Stock Exchange – offers a dividend yield of 3.8% which compares favourably to the main indices of Europe (3.3%) or the US (1.3%) . Those willing to look outside of the FTSE100 can find even more attractive yields on offer, especially in areas such as listed infrastructure where companies are trading beneath their book values presenting an interesting opportunity.

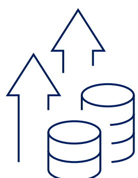
The recent increase in workers that are inactive due to long-term sickness could almost fill all the vacant positions in the UK.
Source: ONS, 2024



European index is the EuroStoxx 50, US index is the S&P 500. 31st December 2024

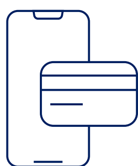
Five Key Risks To Our Scenario

Each of the five risks we identified for 2024 generated market volatility at one point or another, but fortunately, none proved critical. Here are the five ones that could shake markets in 2025.



A COME BACK OF (US) INFLATION

The post COVID inflation spike is pretty much over. Levels are acceptable, and prices should be quieter, moved by less volatile supply and demand again. But two giants could be playing with fire. The "America First" agenda combines a domestic boost with tariffs on imports. China will respond while stimulating their economy: they won't export deflation anymore. The Fed talks about a "new phase" of monetary policy, with inflation back on their radar screen. Could we see 2022 again, in worse, as higher cost of capital could now question sovereign debt sustainability? We hope not, but markets may be scared, which could, good news, provide nice entry points on many assets, including gold, the best "currency debasement" hedge for millenaries. Monthly (US) CPI reports are the key metric to watch.

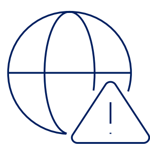


A DIGITAL-FINANCIAL CRISIS

From artificial intelligence to crypto assets, 2024 was another stunning year for everything digital. While fundamentals are bright, some valuations suggest they will remain so forever. Markets could want to verify. So far, the hundreds of billions invested in computational power haven't delivered proportionated cash-flow returns for AI hyperscalers. The crypto world is filled with both "subprime" speculative assets and gravity-defying predictions for higher quality ones. Remember when the 2000 dotcom bubble burst triggered a holistic market crash, because markets had overestimated the short-term (while, paradoxically, underestimating the long-term). We'll watch earnings trends, guidance and stock price action from tech leaders and seek confirmation that investments generate actual business and technological benefits.

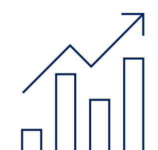
A GLOBAL RECESSION, OF COURSE

Europe is on the brink of contraction, China struggles to reach its 5% growth cruise speed, so that the US is the only strong engine of the three. America's continued miracle is a massive consensus. A cyclical accident there is an overlooked risk: low probability, but strong impact. It took only a couple of disappointing monthly data to ignite recession fears in July 2024. A decline in confidence, a few bad employment numbers, material cuts in government spending could quickly raise concerns. Stocks and high yield would suffer, but safe bonds would benefit. Central banks would soon come to help, kicking the can of western public debt sustainability further down the road. US consumption and employment are the key metrics to watch.



GEOPOLITICS GOING OUT OF CONTROL

Ending conflicts is high on President Trump's agenda, which is certainly good news. But even with the combined military power of the US and the energy of its commander in chief, it requires a perfect combination of compromise, pressure, timing, with both adversaries and allies. Missteps are possible and could spiral. We are reasonably optimistic for 2025 on that front but will keep an eye on potential escalation between the West and Russia, Iran, with China not far. We will probably never stop allocating to gold.



BACK TO THE 1980s

The last major rise in inflation happened 50 years ago. Back then, the US got rid of it with a ruthless monetary policy, which combined, under the Reagan administration, with tax cuts and a reduction in government spending. It triggered a recession but paved the way for decades of prosperity and global hegemony. The new US administration follows some of these lines, and given the calibre of its team, it's worth watching what the Department of Government Efficiency will do. If we take the (strong) assumption that public deficits materially fall, it will shock the economy before starting a secular rally for US bonds, stocks, the dollar, at the detriment of all the rest, from gold to non-US assets. Unless it's a global renaissance?

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Global Investment Outlook

2025

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