The return of **volatility**

- **Volatility came back across the board last week hitting rates harder**
- **All asset classes were in the red and DM treasuries are now the worst performing asset class in 2023**
- **We will be holding our August tactical asset allocation this week**

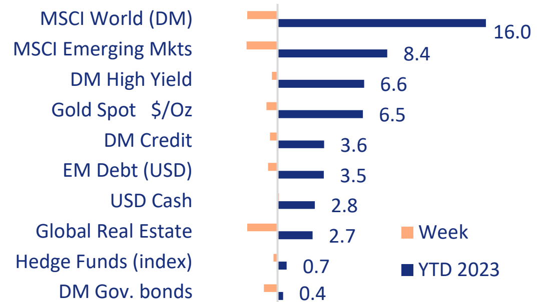
Soaring crude prices and rising yields following a Fitch downgrade of the US government debt saw equities fall for the week, with the Nasdaq recording the largest losses. On the corporate side, though earnings surprised, stocks tended to be punished. Amazon rose 8% on Friday as it significantly beat estimates, while Apple fell about 5% following a mixed report.

The Fitch Ratings downgrade from AAA to AA+ - materially a non-event - drew attention to the ever-rising pile of US obligations, adding to the negative sentiment on the Treasury market that was flooded with more issuance aimed at replenishing the Treasury General Account. The yield on the 10-year note touched a new high for the year at 4.2% to settle on Friday at 4.05%, while the 30-year closed at 4.2%. The yield curve bear steepened, with rising expectations for improved growth. Macroeconomic releases saw the divergence between business surveys, pointing to a slowdown, and real activity grow larger. Factory orders came in strong, while the jobs report, though conveying the message of a notable slowing of the labor market, still delivered 187,000 new payrolls in the previous month.

From a seasonal point of view, we are entering that time of the year when equity volatility is more likely than not to rise, that combined with rich valuations and summer-time illiquidity could make for choppy waters. Yet, improved growth prospects – more investment houses are scrapping their call for a recession in 2023 – should see limited downside on risk assets.

We will be holding our Tactical Asset allocation Committee this week and reassess portfolios in light of the evolving scenario.

ASSET CLASSES USD % TOT.RETURN, YTD 2023 & LAST WEEK



MAURICE GRAVIER
Chief Investment Officer
MauriceG@EmiratesNBD.com

ANITA GUPTA
Head of Equity Strategy
AnitaG@EmiratesNBD.com

GIORGIO BORELLI
Head of Asset Allocation
GiorgioB@EmitatesNBD.com

SATYAJIT SINGH, CFA
Head of Fixed Income Strategy
SatyajitSI@EmiratesNBD.com

Cross-asset Update

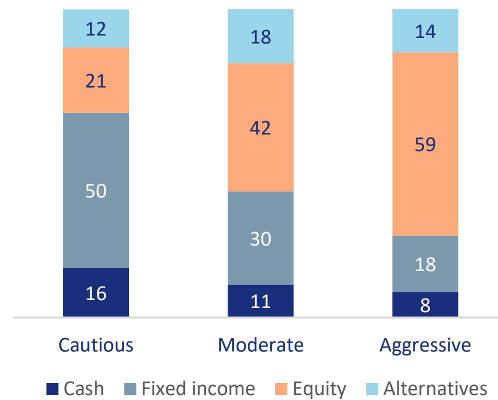
The US outlook is ever changing and now JPMorgan has joined Bank of America in scrapping the call for a US recession in 2023, replaced by a continued expansion this year and "subpar growth" in 2024. The hefty post-pandemic government transfers did tide the consumer over the tightening cycle, the US banking crisis was averted with bailouts and a specific funding program, while government outlays grew substantially.

No recession in 2024 would be a sea-change for asset classes. Take 10-year Treasuries, for instance. Let's assume that the real equilibrium USD cash rate is a mere 0.5%, inflation stabilises at 3%, add a paltry 0.5% term premium and the long-term fair value would be 4%, higher than the 3.4% we had prognosticated, or the 3.5% JPMorgan had worked out for year-end under the previous scenario. Yes, yields could end up being lower versus long-term equilibrium levels, but not by that much if the economy remains so resilient. Credit spreads would stay tight, never mind whether in the lower end of the historical range, as moderate growth would be enough to avoid surging bankruptcies. Equities, though overbought, would not have much downside, and actually we should see the most cyclical stocks catch up with the IT sector. There would be growing chances of a manufacturing rebound, hence of an EM equity rally. And what if the scenario of "subpar growth" comes to pass in 2024? That would be heaven on earth for IT stocks and high-yielding credit, provided inflation stays put.

Therein lies the rub. The main implication of a recovery scenario is price pressures coming back again. In the 2010's muted growth and inflation were the norm, when globalisation, restrained fiscal policy, and range-bound commodity markets were amongst the factors contributing to keeping price pressures in check. The 2020's are starting in a different way, with resource scarcity across the board, deglobalisation, aggressive re-industrialisation policies in the United States and Europe, and war-like economies at least so far. Against this backdrop inflation can easily reaccelerate. Indeed, the year-to-date week dollar would be playing in this direction via looser global financial conditions, as well as a Chinese recovery possibly gaining traction on the cumulative effect of countless piecemeal support measures.

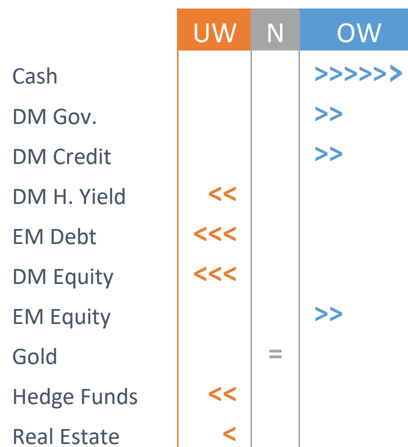
Inflation resurgence would keep recessionary risks alive and kicking through further central-bank tightening, that would be coordinated, hence generating an even worse growth slump further down the road. Also, the risk of the delayed effects of past hikes on business activity remains. But for now, the scenario is leaning towards rates high for longer alongside a resilient for longer economy, with positive implications for risk assets. And the growth slump is shifting towards being a tail risk, rather than a base case.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING



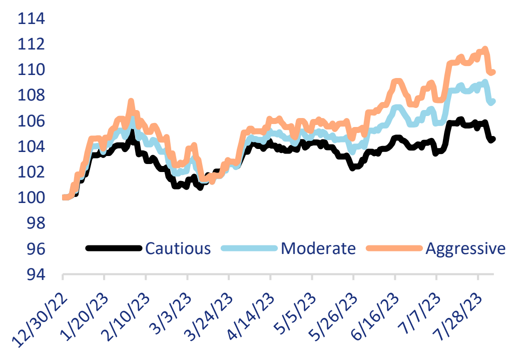
TAA – RELATIVE POSITIONING – MODERATE PROFILE

UW/N/OW: Underweight/Neutral/Overweight



	UW	N	OW
Cash			>>>>>>
DM Gov.			>>
DM Credit			>>
DM H. Yield	<<		
EM Debt	<<<		
DM Equity	<<<		
EM Equity			>>
Gold		=	
Hedge Funds	<<		
Real Estate	<		

TAA – 2023 INDICATIVE PERFORMANCE



Source: Bloomberg. CIO Office calculation based on TAA applied to market indices, net total return in USD.

Fixed Income Update

The increase in yields post the US GDP data gained momentum last week as the Treasury announced its upsized auction and Fitch downgraded the credit rating of the USA from AAA to AA+. According to BCA Research, Greater Treasury coupon issuance coming at a time of slowing economic growth and inflation would probably not move yields, but investors get spooked when more bonds are issued at a time when economic growth appears to be re-accelerating. There was an extraordinary bear steepening as long-end yields approached their highest levels since November 2022. The 10-year yields reached a high of 4.20%, and the 30-year yields peaked at 4.32%. Friday's mixed unemployment data reversed the trend slightly, as the report had something both for Hawks and doves. The long-end yields crashed before resuming their increase, as we write.

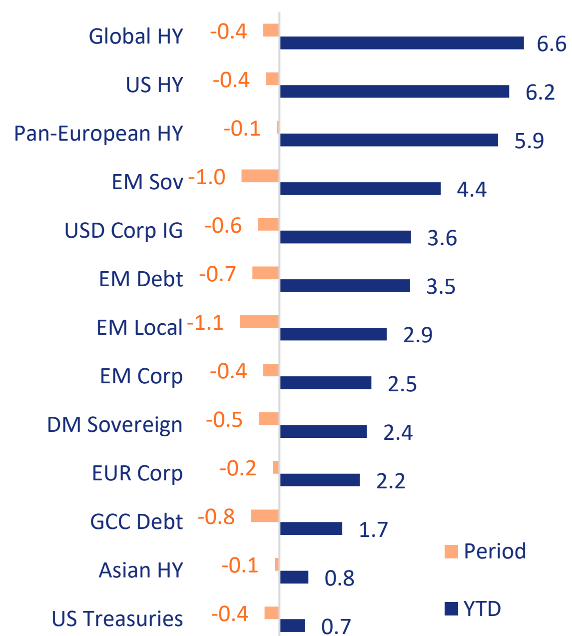
It may be tempting to tactically trade these higher yields, but we advise investors to be patient before jumping in as seasonality is not in favor, with Sep/Oct being the worst months for long-dated treasuries historically. In the last 10 years, there have been only 3 instances when Treasuries have given a positive return in September or October, while January and March have been the best months for adding duration. If investors have a longer horizon, then buying the dip makes sense since these levels of yields have only traded sustainably around 2011. If we take the various credit measures and the Senior Loan Officers survey, there does seem to be a credit crunch in the offing. Moreover, provisions increased sequentially at nearly two-thirds of the banks included in an S&P Global Market Intelligence analysis that examined results from publicly traded companies with at least $10 billion in assets that reported second-quarter earnings by July 28. But according to analysts, unless we see Jobs creation come below +100k, the Fed would not move towards lowering rates. That would provide a backstop to yields.

Focusing on Europe, the European Banking Authority recently released its bank stress test results. The findings suggest that most European banks will be able to increase dividend payouts and share buybacks, thanks to their resilient capital buffers, according to analysts. The regulator found that under a hypothetical adverse scenario, the aggregate common equity Tier 1 ratio of the 70 banks examined would drop 459 basis points to 10.38% in 2025 from 14.97% at the end of 2022. The stress tests also show that banks' exposure to the hospitality and construction industries is the biggest asset quality threat. In the adverse scenario, nonperforming exposures in the accommodation and food service segment would total 11% of performing exposures. In the construction industry, exposures would total 8.2%. The EBA believes banks are well-positioned to withstand an unfavorable operating environment. This should give comfort to AT1 bondholders who had every reason to be nervous post the CS AT1 debacle.

FIXED INCOME KEY CONVICTIONS

DEVELOPED MARKETS
OW Quality corporates
OW Government Bonds
UW High Yield
EMERGING MARKETS
Overall UW EM Debt
Favor quality and selectivity
OW Selectively Asia,

FIXED INCOME SUB ASSET CLASS RETURNS (YTD, LAST WEEK)



Source: Bloomberg

Equity Update

An eventful week for equity markets with Fitch downgrading US long-term credit rating, mega tech earnings and the BoE raising interest rates. The S&P 500 ended a run of three-weeks of positive returns and finished last week down –2.3%, the FTSE 100 and Eurozone equities fell similarly. A shift seen recently from tech (Nasdaq +33% year to date) to a broader rally (global equities rose c.4% in July), with the tech sector flat last month and energy (with Brent back above $85/barrel) and financials outperforming. Higher yields are benefitting bank stock performance. Emerging markets fared no better, with only the UAE equity indices up last week. China and India equities ended down a percent. China's central bank said it would increase funding to support the property industry and the policy approach has shifted away from supporting small cities to mega cities. It is estimated the key 14 cities make up 24% of China's GDP.

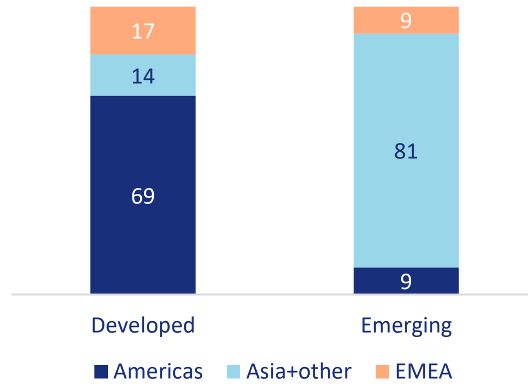
We are close to neutral positioning on equities (small underweight) with a preference for the emerging markets. We are neutral EM Asia with a preference in EM for the UAE and India. An emphasis within DM, where we are neutral, on staying invested in the US. Positive tailwinds are growth (slowing), a trough in earnings, no further bank collapses and the end of the tightening cycle in sight. Amongst regions Brazil, the first to change direction, and they cut rates by 50bps last week. What remains a worry for the earnings outlook is the higher borrowing rates for corporates, consumers and house buyers.

After downbeat outlooks from most investment houses when the year started, a turnaround from some which see further gains or the S&P 500 holding these levels into year end. Our S&P 500 fair value is at 4,500 for year-end and for the 10-year Treasury yield at 3.4%. Treasuries tend to rally when stocks are falling, but the one-month correlation between the Bloomberg US Treasury Total Return Index and the S&P 500 is 0.82, where a score of 1 is a perfect correlation.

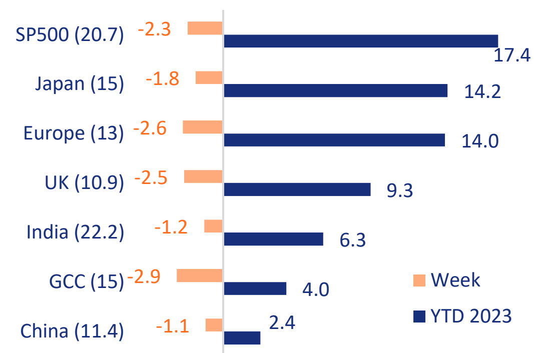
The first week of August has seen a fall in equity returns and that's not unusual, following a very strong June and July. Total YTD returns still significant at +15% for the ACWI (global equities) and the Dubai index leading at +27% YTD, and the S&P 500 (the largest weight in global equities) +18% YTD. An imminent recession isn't very likely and that reduces the downside concerns about corporate earnings, but it increases the downside potential for the stock market's valuation multiple if the bond yield continues to rise. We will likely see more volatility this summer.

Still the year for tech and AI linked updates. Apple, now at $2.8tn market cap, shares+ 40% YTD , saw profits grow last quarter with services contributing. The number of paying subscribers for digital services grew to over one billion users. Amazon revenue and profits accelerated with an 11% increase in revenue, with EPS 65 cents, compared to a loss of 20 cents the year before. Stronger-than-expected online sales along with cost-cutting, and large-scale lay-offs earlier this year helped. Growth at AWS slowed to 12% compared to 29% for 2022. Amazon shares are +66% YTD.

EQUITY RECOMMENDED REGIONAL POSITIONING

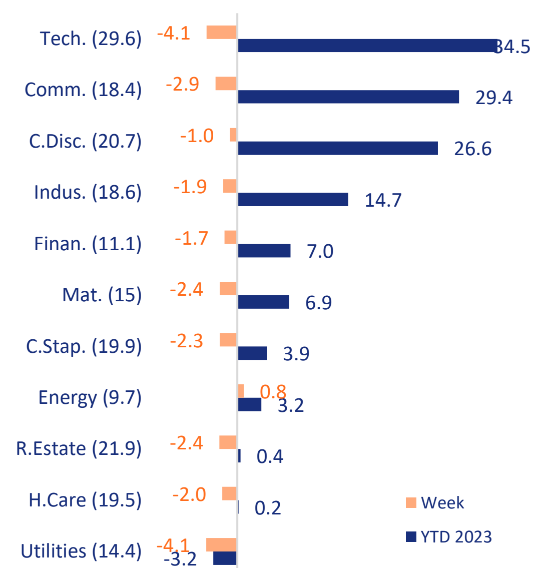


MAJOR INDICES PERFORMANCE (TR, US$) AND 2023PE



Source: Bloomberg consensus. MSCI Indices unless specified.

GLOBAL SECTOR PERFORMANCE (TR, US$) AND 2023PE



Source: Bloomberg consensus. MSCI All Country World sectors US$.

DISCLAIMER

Reliance

Emirates NBD Bank PJSC ("Emirates NBD") uses reasonable efforts to obtain information from sources which it believes to be reliable, however, Emirates NBD makes no representation that the information or opinions contained in this publication are accurate, reliable or complete and should not be relied on as such or acted upon without further verification. Opinions, estimates and expressions of judgment are those of the writer and are subject to change without notice. Emirates NBD accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this publication. Data/information provided herein are intended to serve for illustrative purposes and are not designed to initiate or conclude any transaction. In addition this publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to the determination of whether a particular investment activity is advisable. This publication may include data/information taken from stock exchanges and other sources from around the world and Emirates NBD does not guarantee the sequence, accuracy, completeness, or timeliness provided thereto by unaffiliated third parties. Moreover, the provision of certain data/information in this publication is subject to the terms and conditions of other agreements to which Emirates NBD is a party. Anyone proposing to rely on or use the information contained in this publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts. Further, references to any financial instrument or investment product are not intended to imply that an actual trading market exists for such instrument or product. The information and opinions contained in Emirates NBD publications are provided for personal use and informational purposes only and are subject to change without notice. The material and information found in this publication are for general circulation only and have not been prepared with any regard to the objectives, financial situation and particular needs of any specific person, wherever situated

Confidentiality

This publication is provided to you upon request on a confidential basis for informational purposes only and is not intended for trading purposes or to be passed on or disclosed to any other person and/or to any jurisdiction that would render the distribution illegal. The investor may not offer any part of this publication for sale or distribute it over any medium including but not limited to over-the-air television or radio broadcast, a computer network or hyperlink framing on the internet without the prior written consent of Emirates NBD or construct a database of any kind.

Solicitation

None of the content in this publication constitutes a solicitation, offer, opinion, or recommendation by Emirates NBD to buy or sell any security, or to provide legal, tax, accounting, or investment advice or services regarding the profitability or suitability of any security or investment and further does not provide any fiduciary or financial advice.

Third party

The security or investment described in this publication may not be eligible for sale or subscription to certain categories of investors. This publication is not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law or regulation. It is the responsibility of any person in possession of this publication to investigate and observe all applicable laws and regulations of the relevant jurisdiction. This publication may not be conveyed to or used by a third party without the express consent of Emirates NBD. The investor may not use the data in this publication in any way to improve the quality of any data sold or contributed to by the investor to any third party.

Liability

Anything to the contrary herein set forth notwithstanding, Emirates NBD, its suppliers, agents, directors, officers, employees, representatives, successors, assigns, affiliates or subsidiaries shall not, directly or indirectly, be liable, in any way, to you or any other person for any: (a) inaccuracies or errors in or omissions from the this publication including, but not limited to, quotes and financial data; or (b) loss or damage arising from the use of this publication, including, but not limited to any investment decision occasioned thereby. Under no circumstances, including but not limited to negligence, shall Emirates NBD, its suppliers, agents, directors, officers, employees, representatives, successors, assigns, affiliates or subsidiaries be liable to you for direct, indirect, incidental, consequential, special, punitive, or exemplary damages even if Emirates NBD has been advised specifically of the possibility of such damages, arising from the use of this publication, including but not limited to, loss of revenue, opportunity, or anticipated profits or lost business. This publication does not provide individually tailored investment advice and is prepared without regard to the individual financial circumstances and objectives of person who receive it. The appropriateness of an investment activity or strategy will depend on the person's individual circumstances and objectives and these activities may not be suitable for all persons. In addition, before entering into any transaction, the risks should be fully understood and a determination made as to whether a transaction is appropriate given the person's investment objectives, financial and operational resources, experiences and other relevant circumstances. The obligations relating to a particular transaction (and contractual relationship) including, without limitation, the nature and extent of their exposure to risk should be known as well as any regulatory requirements and restrictions applicable thereto.

Forward looking

Past performance is not necessarily a guide to future performance and should not be seen as an indication of future performance of any investment activity. The information contained in this publication does not purport to contain all matters relevant to any particular investment or financial instrument and all statements as to future matters are not guaranteed to be accurate. Certain matters in this publication about the future performance of Emirates NBD or members of its group (the Group), including without limitation, future revenues, earnings, strategies, prospects and all other statements that are not purely historical, constitute "forward-looking statements". Such forward-looking statements are based on current expectations or beliefs, as well as assumptions about future events, made from information currently available. Forward-looking statements often use words such as "anticipate", "target", "expect", "estimate", "intend", "plan", "goal", "seek", "believe", "will", "may", "should", "would", "could" or other words of similar meaning. Undue reliance should not be placed on any such statements in making an investment decision, as forward-looking statements, by their nature, are subject to known and unknown risks and uncertainties that could cause actual results, as well as the Group's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements. Estimates of future performance are based on assumptions that may not be realized.

DISCLAIMER

Risk

Data included in this publication may rely on models that do not reflect or take into account all potentially significant factors such as market risk, liquidity risk, and credit risk. Emirates NBD may use different models, make valuation adjustments, or use different methodologies when determining prices at which Emirates NBD is willing to trade financial instruments and/or when valuing its own inventory positions for its books and records.

The use of this publication is at the sole risk of the investor and this publication and anything contained herein, is provided "as is" and "as available." Emirates NBD makes no warranty of any kind, express or implied, as to this publication, including, but not limited to, merchantability, non-infringement, title, or fitness for a particular purpose or use.

Investment in financial instruments involves risks and returns may vary. The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, prices and other factors and there is the possibility that you may lose the principle amount invested. Before making an investment, investors should consult their advisers on the legal, regulatory, tax, business, investment, financial and accounting implications of the investment.

In receiving this publication, the investor acknowledges it is fully aware that there are risks associated with investment activities. Moreover, the responsibility to obtain and carefully read and understand the content of documents relating to any investment activity described in this publication and to seek separate, independent financial advice if required to assess whether a particular investment activity described herein is suitable, lies exclusively with the investor.

Intellectual property

This publication has been developed, compiled, prepared, revised, selected, and arranged by Emirates NBD and others (including certain other information sources) through the application of methods and standards of judgment developed and applied through the expenditure of substantial time, effort, and money and constitutes valuable intellectual property of Emirates NBD and such others.

All present and future rights in and to trade secrets, patents, copyrights, trademarks, service marks, know-how, and other proprietary rights of any type under the laws of any governmental authority, domestic or foreign, shall, as between the investor and Emirates NBD, at all times be and remain the sole and exclusive property of Emirates NBD and/or other lawful parties. Except as specifically permitted in writing, the investor may not copy or make any use of the content of this publication or any portion thereof. Except as specifically permitted in writing, the investor shall not use the intellectual property rights connected with this publication, or the names of any individual participant in, or contributor to, the content of this publication, or any variations or derivatives thereof, for any purpose.

This publication is intended solely for non-commercial use and benefit, and not for resale or other transfer or disposition to, or use by or for the benefit of, any other person or entity. By accepting this publication, the investor agrees not to use, transfer, distribute, copy, reproduce, publish, display, modify, create, or dispose of any information contained in this publication in any manner that could compete with the business interests of Emirates NBD. Furthermore, the investor may not use any of the trademarks, trade names, service marks, copyrights, or logos of Emirates NBD or its subsidiaries in any manner which creates the impression that such items belong to or are associated with the investor or, except as otherwise provided with Emirates NBD, prior written consent. The investor has no ownership rights in and to any of such items.

Emirates NBD (P.J.S.C.) is licensed and regulated by the Securities & Commodities Authority and subject to regulation, supervision and control of the Authority. Head Office: Baniyas Road, Deira, PO Box 777, Dubai, UAE

United Kingdom

This publication was prepared by Emirates NBD Bank PJSC in the United Arab Emirates. It has been issued and approved for distribution to clients by the London branch of Emirates NBD Bank PJSC which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority in the UK. Some investments and services are not available to clients of the London Branch. Any services provided by Emirates NBD Bank PJSC outside the UK will not be regulated by the FCA and you will not receive all the protections afforded to retail customers under the FCA regime, such as the Financial Ombudsman Service and the Financial Services Compensation Scheme. Changes in foreign exchange rates may affect any of the returns or income set out within this publication.

Singapore

This publication was prepared by Emirates NBD Bank PJSC in the United Arab Emirates. It has been issued and approved for distribution to clients by the Singapore branch of Emirates NBD Bank PJSC which is licensed by the Monetary Authority of Singapore (MAS) and subject to applicable laws (including the Financial Advisers Act (FAA) and the Securities and Futures Act (SFA). Any services provided by Emirates NBD Bank PJSC outside Singapore will not be regulated by the MAS or subject to the provisions of the FAA and/or SFA, and you will not receive all the protections afforded to retail customers under the FAA and/or SFA. Changes in foreign exchange rates may affect any of the returns or income set out within this publication.
Please contact your Relationship Manager for further details or for clarification of the contents, where appropriate.

For contact information, please visit **www.emiratesnbd.com**