EMIRATES NBD
WEALTH MANAGEMENT

The pendulum continues to **swing**

- **Sentiment shifted last week with robust US data pushing rates higher and stocks lower**
- **ISM Services for August came out much stronger than forecast and weekly jobless claims fell**
- **We see the levels of US Treasury yields as increasingly attractive in most of the scenarios we consider**

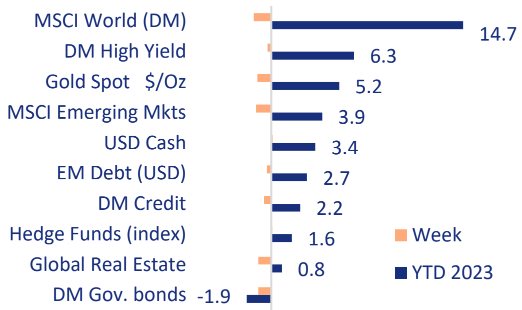
Markets are currently driven by anticipations on central banks' action, central bankers are data-driven, and data is as volatile as ever. The previous week was all about soft landing and an imminent pause in tightening; with the highest ISM Services and the lowest weekly jobless claims, both since February, being released last week, the mood quickly turned. Treasury yields climbed, dragging all asset classes in the red, except cash. A rise in oil prices and in food prices in Asia also added concerns about headline inflation, even if the core inflation trend remains constructive. Bottom-line, good news is bad news, but most importantly, uncertainty is here to stay, and this week shouldn't be an exception, especially as Fed officials enter in a blackout window before the September FOMC.

Our scenario still leans towards a pause from the Fed, and we question the relevance of another hike from the ECB, given the weakening growth there. Whatever happens next week, a pause is anyway close.

The positive consequence for investors is that risk-free yields are back. We have overweighted money market funds for months and are considering adding to other low-risk fixed income vehicles, trying to find the sweet spot in terms of duration: not too short to lock future returns, not too long to keep flexibility. With regards to equities, we maintain our preference for EM. The short-term is less adverse with some stabilization in China, and the long-term is promising with the "re-globalization" trend.

The week ahead will provide the US CPI for August as well as retail sales and industrial production for several countries. We will hold our September Tactical Asset Allocation committee tomorrow, before the crucial FOMC next week.

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



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Cross-asset Update

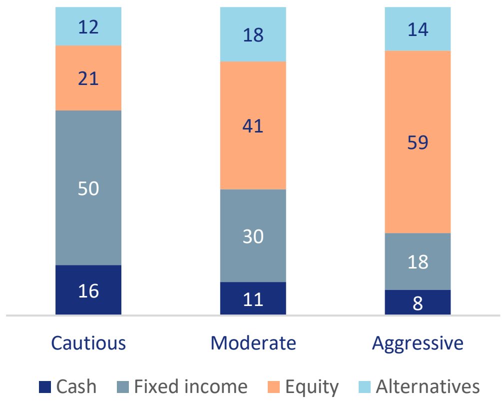
Last week provided more evidence of US exceptionalism, with America's growth still on a solid footing and the major regions in the rest of the world struggling, like China, or stagnating, like Europe. This does not paint a solid picture, as US assets can outperform only so much and the outlook appears to be increasingly fragile, unless growth improves outside of the United States as well. Also, we are reaching the point when good news is seen as bad news, since positive economic surprises are likely to translate in rates kept high for longer by central banks. In turn, financial conditions have tightened, as crude oil, longer-dated yields, and the US dollar have been rising.

Europe does not seem to have much to offer, given excessively tight policy. The ECB is still pondering whether they should hike rates once more at the forthcoming meeting, while the cycle-sensitive manufacturing sector continues to plumb new lows and Germany and the Netherlands are already experiencing a contraction phase. China is holding in, yet it seems it can only avoid the deflationary effects of a balance sheet recession, whereby the private sector reduces demand to bring debt levels down, by doing much more via fiscal policy. For now, Beijing is resisting efforts to go for a big stimulus package. In the US growth is still solid, though once more predicated on the diminishing returns of huge leverage. It is not a matter of organic expansion rates, but rather of Washington throwing money at re-industrialisation efforts, a key pillar of its de-risking strategy with China.

Against this backdrop, US exceptionalism brings about higher yields, as markets discount that the Fed maintains a hawkish pause at the September meeting and higher odds that a recession will be avoided. It also strengthens the dollar, with a very favourable combination of loose fiscal and tight monetary policy, the former supporting the growth differential, the latter the yield differential with the rest of the world. And higher oil prices are a consequence of a market in deficit in Q3, as the Saudis and Russia have rolled over production curbs and on the demand side the narrative has shifted from recession to soft landing. There are no obvious catalysts for these tightening drivers to soften in the shorter term, hence the conclusion that we may have entered a phase marked by much more moderate returns.

Investors should optimize their portfolios by being up in quality across asset classes, that is by being overweight cash within risk-free assets because of its carry, overweight some pockets of the IG corporate space as less exposed to the cycle, and underweight-to-neutral equities overall given the fragility of the outlook. Although gold is a safe-have asset, it is unlikely to shine until we draw closer to the time when the Fed will be easing.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

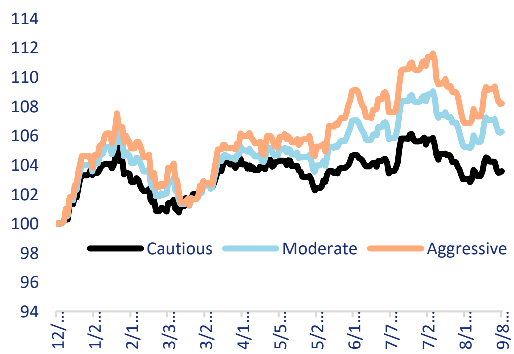


TAA – RELATIVE POSITIONING – MODERATE PROFILE

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

This is a crucial week before the 20th September FOMC rate decision. The all-important US CPI is out on Wednesday, with consensus estimates projecting an increase of the Headline CPI to 3.6% from the prior 3.2%, while Core CPI could moderate to 4.3%. The market doesn't expect any rate hikes at the September FOMC meeting. However, a pause may be followed by a hawkish press conference to manage market expectations. The US Treasury yield curve has bear steepened in line with the higher-for-longer paradigm. The 2-year hovers around the 5% mark, and the 10-year trades around 4.3%.

Besides the Fed, the BoE will be announcing its rate decision next week on Thursday. We will see the UK jobless claims and the average weekly wage growth, crucial to BoE's rates decision due next week. Analysts anticipate a 25bps hike in the meeting. However, the situation is unclear for the ECB, which has its rates decision due this week on Thursday. The decision is the most suspenseful since the ECB began its tightening campaign over a year ago.

Continuing with the theme of central banks, BoJ governor Ueda mentioned that the central bank may have enough information by year-end to judge if wages will continue to rise — a critical factor in deciding whether or not to end its super-easy policy. As a result, the Yen strengthened, and 10-year JGBs increased to 0.7%, the highest level since January 2014. However, wage growth unexpectedly slowed in June, indicating that Japan's labour market may be easing. Analysts believe that it may be possible for the BoJ to abolish the yield curve control this year while continuing its negative interest rate policy.

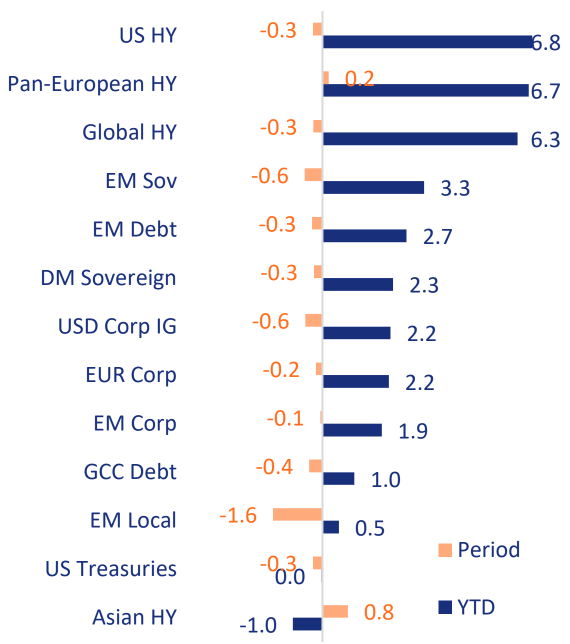
Within Emerging Markets, from a relative value standpoint, we see a pickup in China Tech names even though sentiment towards Chinese property issuers improved last week as Cogard narrowly avoided a default, and another slew of property easing measures was announced. China tech companies posted strong 2Q23 results, improving EBITDA margins, strong cash flow, and resilient balance sheets. BBB-rated China tech still provides ~100bps of spread pickup against the same-rated US tech companies. For investors looking to add duration in the Asia credit space, we like the 7-10Y part of the China A-rated Tech issuer credit, which provides ~70-80 bp of spread pickup against A-rated Chinese SOEs (e.g., Sinopec and State Grid).

The GCC primary issuance markets have gathered steam post-summer opening. We saw DP World pricing a long 10-year sukuk while ADCB issued a 5-year Green bond. Both bonds priced in the mid-5s and registered robust investor interest from the region. The Sukuk space heats up this week as the Govt of Sharjah and Energy Development of Oman announced 10-year $ sukuks with pricing expected this week if markets remain favorable.

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

Equity markets finished in the red last week, weighed down by continued concerns over China's economic growth, US inflation and Apple's plunge. China has banned the use of iPhones in government-backed agencies and state companies, and is planning to expand the ban, which wiped out about $190 billion of Apple's market value in only two days. Apple is the biggest component in major US equity indices, which has sparked a broader sell-off in the market. Apple's growth heavily relies on China, and if this crackdown intensified, it may pose big problems for other mega cap tech companies that also rely on sales and production in China. It may be too early to see any material financial impact on Apple from these restrictions; however, we keep an eye on the development of the extent of the crackdown.

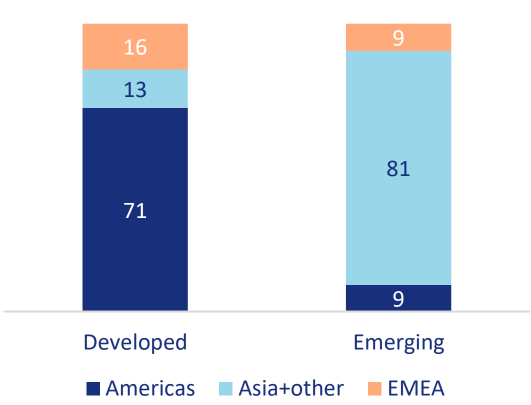
Equity investors will be watching this week's inflation data, which could determine the medium-term path of a wobbly equity rally in the recent weeks. Signs of the Fed able to bring down inflation without damaging growth has so far helped the S&P 500's 16% YTD gain. Last week, employment data showed that the job market remains robust, and reduced concerns that the Fed will need to hike rates more to battle inflation. The S&P 500 lost about 5% from its July highs due to a tech-led drop. In terms of valuations, forward PEs for 10 out of 11 of the S&P 500's sectors have dropped in August. However, the broader market forward PE remains higher at 20, versus 17 in 2022. Investors will be watching macroeconomic reports this week, including PPI, CPI, retail sales and inflation data.

European stocks ended Friday slightly higher, after the longest streak of losses since 2018. The biggest drag was ASML Holding, a semiconductor company based in the Netherlands, as the tech sector was hit by China's ban on Apple's iPhone. Other European semiconductor companies also ended lower. European stocks have had a bad start with the Stoxx 600 down 0.9% so far the month, after declining 2.7% in August. The euro-area barely grew in Q2, with weak export performance forcing downward revisions to overall growth numbers for the region.

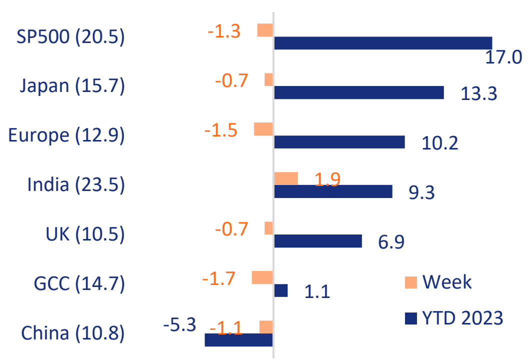
Asia-Pacific markets closed lower for the week as investors assess trade data from China and Australia; and Japan released Q2 GDP numbers that showed slowing growth. The Nikkei 225 erased all weekly gains on Friday after extending a fall by 1.2% by week-end. Japan's economy grew 4.8% in Q2, lower than estimates of 5.5%.

Within the GCC, Tadawul and ADX ended lower, while the DFM kept flat for the week. UAE markets however nudged higher on Friday on reports of a possible rail and port deal which could redefine trade between the Gulf and South Asia. Oil prices, a key catalyst for regional markets, have surged to $89.8 a barrel for Brent futures, as Saudi Arabia and Russia commit to extended production cuts.

EQUITY RECOMMENDED REGIONAL POSITIONING

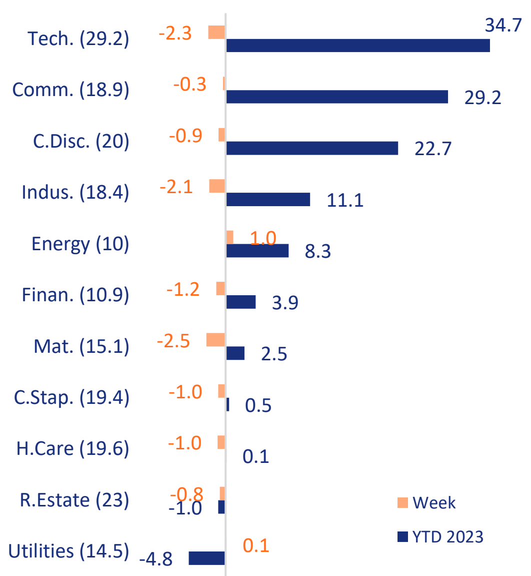


MAJOR INDICES PERFORMANCE (TR, US$) AND 2023PE



Source: Bloomberg consensus. MSCI Indices unless specified.

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



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

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