Emirates NBD
WEALTH MANAGEMENT

A positive week for markets amid rising **geopolitical risks**

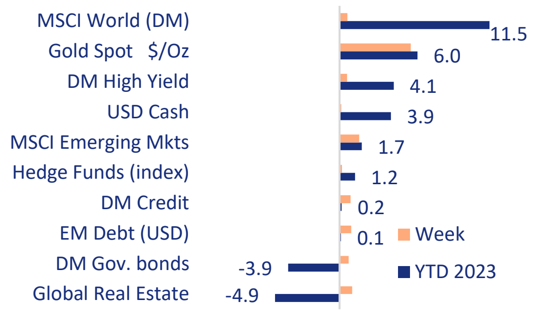
- **Geopolitical risk pushed gold and bond prices higher, the latter also helped by a more nuanced Fed…**
- **… Which in turn supported all asset classes. Markets will clearly weigh the escalation risk this week**
- **We rebalanced the equity allocation of our TAA, going neutral on EM and reducing our DM underweight**

Renewed tensions in the Middle East added another layer of complexity to the current investment landscape, with a somewhat paradoxical consequence: last week was positive across the major asset classes. The run for haven assets is understandable, with gold rallying by almost 6% and US Treasury yields down -10 to -20 basis points on 5-year maturities and longer. Heightened risk however didn't translate into falling risk assets. The relief on interest rates was a positive, especially as US core inflation didn't drift further, while comments from Fed officials and the September FOMC minutes were consistent with an extended pause: not necessarily higher, although most probably for longer.

This is so far not a bad outcome, but it implies that the conflict will not materially spillover. The week ahead will certainly be crucial, with a potential ground attack in Gaza and the associated risk of considerable civilian casualties. Diplomatic efforts are deployed to reduce the risk of escalation which would, to stay in our investment perimeter, propel oil prices and put pressure on risk assets.

Against this backdrop, our October Tactical Asset Allocation Committee decided to cut our long-held overweight on stocks from emerging markets, due to a combination of risks and headwinds (tighter financial conditions, elevated oil prices and strong dollar). But as not even the worst is certain, we increased our positions in stocks from developed markets, keeping our overall equity allocation stable, slightly below neutrality. Investor sentiment is not adverse anymore, the Fed is less hawkish, and earnings could provide support, if the Q3 season continues the positive tone of its early days. Let's hope for peace, monitor earnings and watch geopolitical developments. Stay safe.

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



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Cross-asset Update

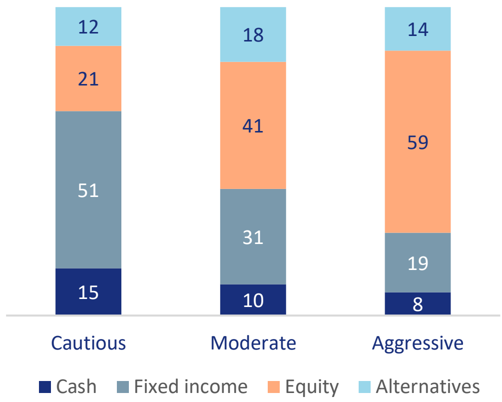
Markets have a long history of looking through geopolitical risks, and in the end macro and micro drivers remain at the forefront of investor minds, as long as such risks remain contained.

A reason for equity investors to continue to climb the wall of worry can be provided by the start of the US reporting season, where the year-long slump in profits is expected to come to an end. Analysts are projecting that companies will report a 1.2% profit contraction in the third quarter, to then see earnings growth rebound by 6.5% in the current one according to Bloomberg. At the same time, the breadth of this earnings recovery could remain weak, as outside of the energy sector further improvements are still needed, in particular amongst stocks sensitive to the business cycle. Yet, if the economy remains resilient, positive surprises could spread more broadly. This should be the case as we approach year-end, considering the latest jobs report that saw a blow-out number of job creations in September, as well as the current rebound in the manufacturing sector. The leading new-orders-to-inventories ratio in manufacturing is rising and pointing to a restocking cycle underway. While we do not think that a sustainable recovery will unfold with Fed policy in restrictive territory, investor sentiment should remain supported, and earnings meantime continue to be revised higher.

Higher yields on a spreading conflict that in turn stokes inflation remain a tail risk. For now, they can be managed as long as they are the reflection of a stronger economy. The expectation is for the longer-end of the curve to be mostly range-bound. The 10-year real Treasury yield, currently at 2.4%, sits well above the trend growth rate of the US economy, at about 1.9%. It is unlikely given the high leverage in the system that that yield can rise much further without doing some damage. And the concern of Fed officials related to overtightening that emerged from the latest FOMC minutes implies that we are close to peak rates, one further reason to think that longer-dated yields are capped. Downside should be limited until the Fed eases, something not seen to happen even in early 2024.

The outlook for 2024 on the other hand is more concerning, as restrictive Fed policy in the end will weigh on the economy. With this perspective in mind investors should add to their gold positions. As we approach year-end markets are likely to start discounting some rate cuts for 2024, as more and more doubts about the viability of 'high for longer' emerge: one more positive catalyst for gold.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

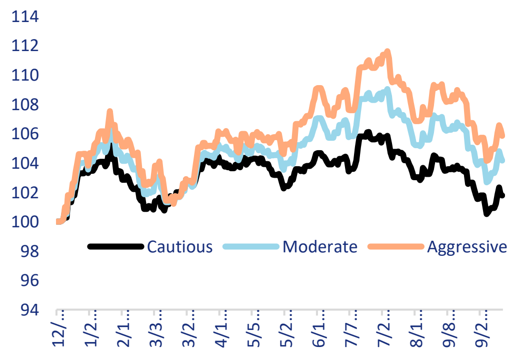


TAA – RELATIVE POSITIONING – MODERATE PROFILE

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.

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WEALTH MANAGEMENT

Fixed Income Update

An eventful week with robust inflation prints, escalating geopolitical conflict, FOMC meeting minutes, and relevant FedSpeak that led to volatile yields. The week started with dovish comments from Fed Vice Chair Philip Jefferson, who said officials could "proceed carefully" following the recent rise in Treasury yields. Dallas Fed President Logan noted the surge in long-term rates might mean less need for further tightening. The treasury curve bull-flattened as the long-end moved down by over 15 bps. The 2-year yield moved below 5%. It was the best day for treasury markets since March, when Bank run scares had spooked investors. Treasuries rallied till Thursday, with various Fed speakers maintaining a dovish stand.

However, CPI data released on Thursday turned the narrative on its head. The CPI rose 0.4% in September from August, slightly more than the 0.3% pace economists expected, while the core rate excluding food and energy came in at 0.3%, the consensus. The annual CPI inflation rate held at 3.7%, notably above where it was in June and July. The core annual inflation rate was 4.1%, the slowest pace in two years. Housing costs made up more than half of the overall increase. The so-called super core inflation gauge, which looks at services prices excluding shelter, picked up steam in September, with a 0.61% monthly gain that was the biggest in a year. The stickiness of US inflation argues for the higher-for-longer scenario for interest rates. The yield curve again bear-steepened, with the 10-year yield increasing by 14bps. The 2-year regained the 5% mark. However, on a weekly basis, the 10-year ended 19bps down at 4.61%, and the 30-year ended 21 bps down at 4.75%.

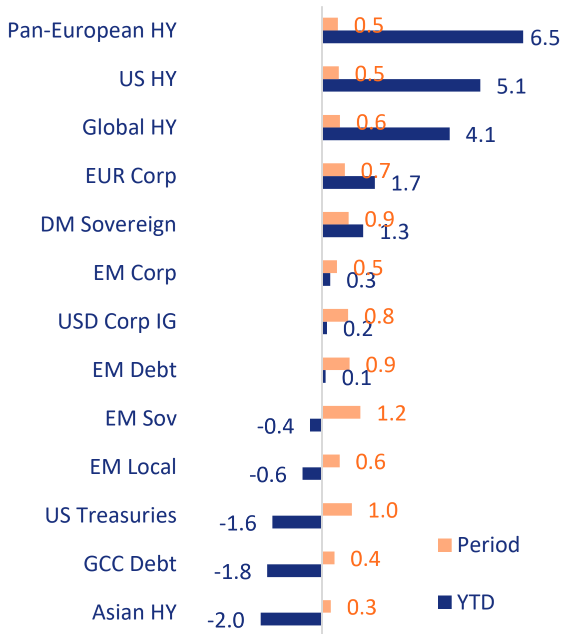
High-Grade bond spreads have been in a narrow 3bps range over the past week despite several economic and geopolitical events that might have been expected to cause some spreads volatility. Neither the strong payrolls report the previous Friday, stronger inflation readings last week, the 20bp decline in 10yr UST yields from their recent peak, nor the jump in rates since last Friday has led to much change in spreads. This is because the market does not view these events impacting economic growth or Fed policy in the coming months. Growth is already forecast to slow in 1H24, and the market pricing of the likelihood of Fed hikes at the next meeting remains below 10%.

Coming to GCC sovereign credit spreads, the largest impact of the recent geopolitical tussles is on Qatar CDS spreads. We saw the 5-year Qatar CDS spreads widen by 33 bps, followed by Bahrain at 32 bps. Oman CDS spreads were relatively stable, widening by 15 bps only, while the Abu Dhabi and the KSA CDS spreads widened by around 20 bps. GCC primary issuance took a pause as volatile yields and credit spreads kept issuers nervous. We expect the markets to reopen this week with PIF, the KSA sovereign wealth fund, issuing a mandate to sell dual-tranche inaugural $-sukuks. We should see significant investor demand for this new issuance.

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

Global equities, for the most part, ended the week slightly positive yet Friday brought all indices down, pressured by a spike in oil prices and rising inflation expectations. Consumer sentiment data was released early Friday showing a slump in October, bringing stocks down from their session highs. Oil prices spiked on fears of geopolitical risks escalating to the surrounding areas. Investors are taking a cautious stance as the current conflict continues to escalate into a new week.

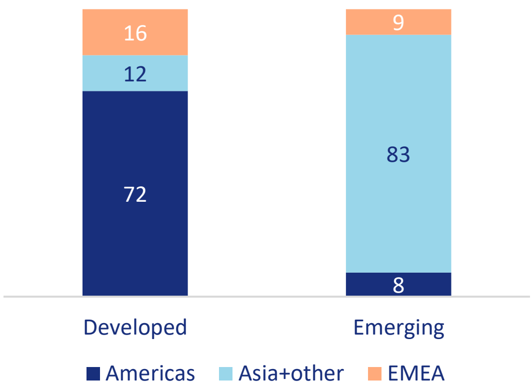
The upcoming weeks will be crucial as investors will closely eye Q3 earnings results. The season was kicked off by big banks on Friday largely on a positive note with JPMorgan, Wells Fargo and Citigroup all beating estimates. 6% of the S&P 500 have reported Q3 results so far, with 81% beating estimates. This week, 54 companies within the S&P 500 will report results, including Goldman Sachs, Morgan Stanley, and Netflix. The results will be important as Wall Street continues to contend with the fallout and as the closure of the Silicon Valley Bank drove concerns for the broader sector earlier this year. Regional banks are pressured as Treasury yields reached multiyear highs, raising the cost of borrowing. Signs of narrowing NIMs or deposit flights would be reason for heightened concern.

The big 7 mega-cap tech stocks drove much of the market rally in the first half of 2023, with Nvidia being the biggest start in the group. Over the past month, The S&P 500 index dropped more than 2% while the big 7 are up 0.5%. This earnings season will provide some indication on whether investors can rely on the strength of this group through the end of this year, starting off with Netflix this week.

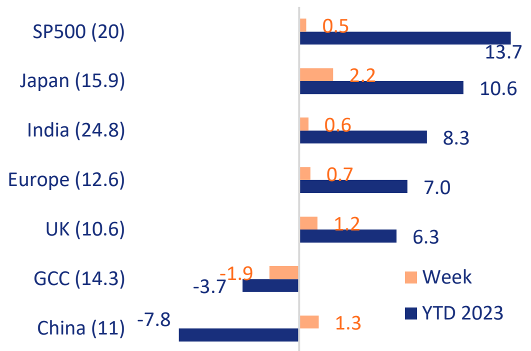
The DFM and ADX indices both ended the week in the red. The DFM index reached a nine year high earlier this month, going above the 4200 level, to only drop down to 3965 on Friday (-5.6%) due to the current geopolitical environment. 2023 has been very volatile for the ADX index as it currently stands at -5.4% YTD versus +24.5% YTD for the DFM Index.

Within Asia, markets were further pressured on worries of higher dollar borrowing costs and a slowdown in China's economy. Deflationary pressures persist as data on Friday showed that China's consumer prices were flat in September, while factory-gate prices shrank at a slower pace. China's economic recovery remains uneven. Earlier data in the quarter contained promising figures, yet consumer prices returned to the brink of deflation and home sales failed to turnaround. As such, some brokers have started downgrading and revising some of the bigger Chinese stocks, while investors wait to see how much additional stimulus China will roll out to support the economy. The Hang Seng and CSI 300 Indices are down -6.8% and -3.2% YTD respectively.

EQUITY RECOMMENDED REGIONAL POSITIONING

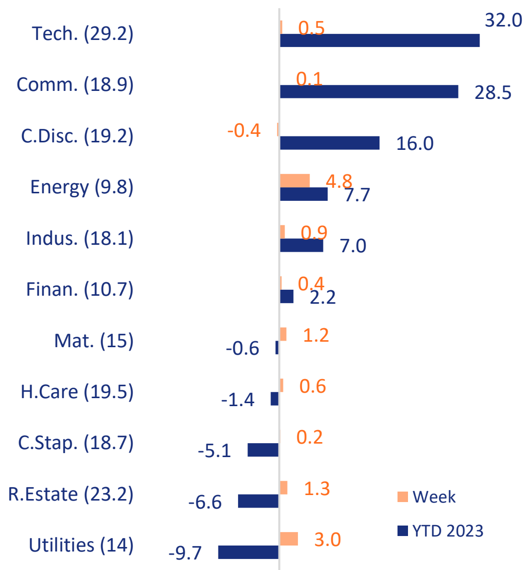


MAJOR INDICES PERFORMANCE (TR, US$) AND 2023PE



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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