Emirates NBD
WEALTH MANAGEMENT

The market is always **right**

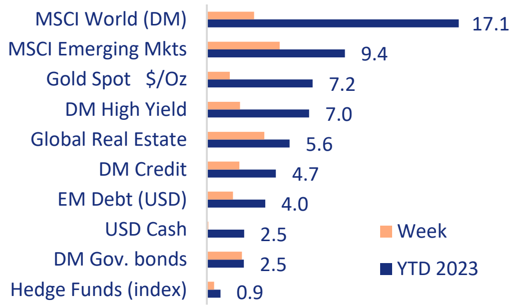
- **Last week was spectacularly positive across all asset-classes, celebrating a slide in inflation**
- **This is good news, confirming the "Goldilocks Interlude", but not a massive game changer**
- **Our TAA is thriving, and our slightly defensive positioning is unchanged in July**

After the best first half of a year since 2000 for US stocks, last week could also be remembered for its celebration of a slide in core inflation. Stocks gained almost 5% in emerging markets and 3% in developed ones, bonds added 2% on average across segments with yields tumbling in a bull flattening pattern, and alternatives were also all positive. A spectacular week.

There are, indeed, very good news: the slide in inflation is broad based, from headline to core, from goods to services, and across regions. US numbers released on Wednesday were the catalyst, with headline CPI now less painful at 3% year-on-year, and core at 4.8%, better than the median forecast of 5%. Is it a game changer? Not necessarily. Inflation in the West remains way too high for central banks, and the positive trend of June will encourage them to keep the pressure until mission is accomplished. The "Goldilocks Interlude" that we have identified is still on, but the next concern will be growth, especially in the West. We therefore keep our overweight on quality bonds, as well as a preference for emerging markets within our slightly underweight allocation to equities. Looking East, China's Q2 GDP growth as well as June retail sales were below expectations, confirming that the recovery is fading, even if June industrial production was a good surprise. Patience is required there, as it looks like the authorities are favoring gradual and targeted policy steps rather than the massive, coordinated stimulus plans that many market participants are expecting.

The week ahead will be all about Q2 corporate earnings, but will also provide big-picture insights: US retail sales and industrial production, inflation and consumer confidence in Europe, and a G20 Finance Ministers and Central Banks meeting in India. Have a great week.

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

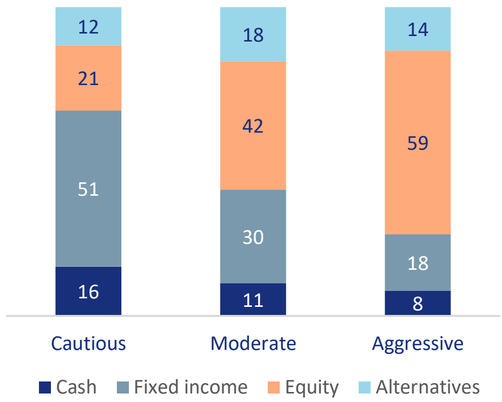
The very benign CPI report followed by a disinflationary PPI print in the United States has reinforced the outlook for a continuation of the Goldilocks scenario, whereby growth remains resilient, and inflation is falling. And the Fed's Beige Book, a nationwide survey of the state of the US economy painting the picture of cooling activity, was yet again a confirmation of easing price pressures combined with still decent growth. Overall, there is reason to believe that markets can grind higher, while yields should eventually fall alongside inflation.

Indeed, short term macro signals are not that underwhelming. The new-orders-to-inventory ratio of the US manufacturing index, the most leading component of business confidence, has been rebounding for a few months now, suggesting a temporary pick-up in economic activity. Also, the Chinese credit impulse, that tends to lead the global business cycle by 3-4 quarters (it stated to rise in late 2021) and measures how fast credit grows versus the economy, has been rebounding as well, however feebly. In short, the impression is that animal spirits could be further heightened by positive macroeconomic surprises, hence the growth slump most were expecting, including ourselves, is being pushed further out, though not outright denied for reasons explained below. If this is indeed the case, the most cyclical pockets of the equity market should catch up with the technology sector that has had an impressive run, while credit spreads are likely to remain tight. The weakening of the dollar is also helping on two fronts. Financial conditions outside of the United States are being loosened, in particular in the emerging countries, while US exports are going to be more competitive.

Yet, we hold the view this improvement should not be extrapolated way too far in the future, as two main pillars of the recovery, loose financial conditions, and excess consumer savings, will not be able to help for much longer. According to most projections excess savings accumulated post-pandemic and in 2021 should be fully depleted at latest by 4Q24, negatively impacting demand. And the real Fed funds rate, the policy rate deflated by real PCE inflation, is now well in restrictive territory at levels last seen in late 2018, when markets cracked under the weight of excessively tight financial conditions. Considering that the Fed is going to hike once more in July, we hold the view that it is only a matter of time before the cumulative effects of the tightening weigh on the economy and markets.

Overall, investors can enjoy the Goldilocks interlude for longer, mindful that enthusiasm should be termed by year-end.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

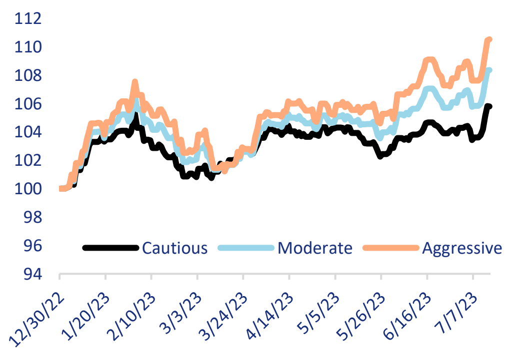


TAA – RELATIVE POSITIONING – MODERATE PROFILE

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 June CPI release surprised with lower-than-expected numbers. Headline CPI rose 0.2% MoM and 3.0% YoY, slightly below consensus expectations for a 3.1% increase. Core CPI decelerated to 0.2% MoM and 4.8% YoY versus expectations for a 0.3% MoM increase and 5.0% YoY increase. Following the CPI numbers, both the 2-year and the 10-year yield shed more than 15bps and 20bps, respectively during the week. The downward surprise in CPI, along with other positive macro indicators such as lower-than-expected nonfarm payrolls, job openings, and higher initial jobless claims, contributed to the decline in yields. However, despite these factors, the hawkish comments from Federal Reserve members continue. With a high probability of another rate hike in the July meeting, investors are closely monitoring key macro indicators leading up to the September meeting. While investment-grade (IG) spreads remained steady at 122 bps, the global high yield and emerging market spreads compressed by 21 bps and 8 bps respectively during the week.

The market is increasingly focused on potential policy changes at the Bank of Japan's upcoming Monetary Policy Meeting scheduled for July 27-28. The 10-year Japanese Government Bond yield has risen to 0.475% during the week from 0.36% at the end of June, nearing the upper limit of the BOJ's acceptable range of 0.5%. Additionally, the 10-year overnight swap has increased by 16 basis points over the past month, reaching its highest level since March. We suggest avoiding duration exposure in JPY since the Japanese central bank may need to normalize their dovish policy to take account of the strong growth and higher inflation numbers.

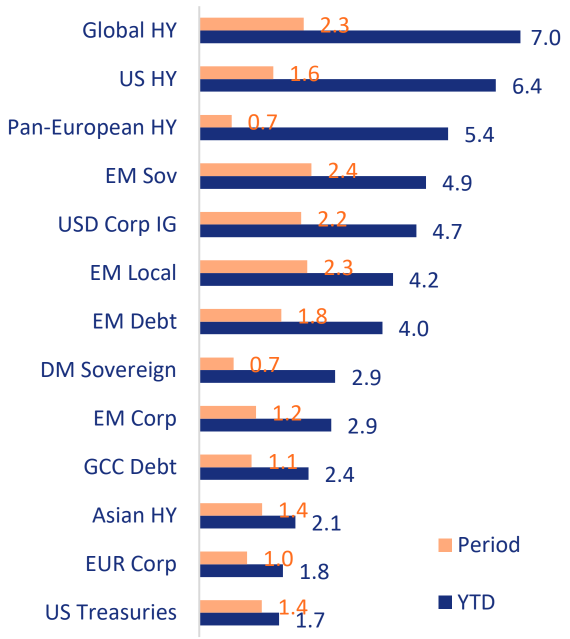
In Asia, India experienced a rise in its Consumer Price Index inflation for the first time in five months, reaching 4.81% in June 2023. The increased inflation exceeded market expectations of 4.58%, primarily driven by a less supportive base and a surge in vegetable prices. However, the CPI print remains below the upper tolerance limit of 6% set by the Reserve Bank of India (RBI). Food inflation spiked to 4.49% in June, which contributes around 50% to the whole index. Market expects that inflation increase reduce the probability of rate cuts during the year in region.

Coming to the region, Egypt's sovereign curve experienced a significant decline of 200 basis points to 400 bps following the Egyptian government's privatization program, which involved selling state assets worth $1.9 billion. These developments are crucial for meeting the conditions of the IMF program. Separately, Egypt's headline inflation rose to 35.8% YoY in June, up from 32.7% YoY in May, surpassing market expectations of 34.5%. Though the market believes there are signs that inflationary pressures may have started to abate, and that headline inflation may be peaking. We saw ADIB and ADCB hitting the market last week, while Dar al Arkan has issued the mandate. ADIB witnessed strong demand and was oversubscribed by more than nine times. Dar Al Arkan is expected to hit the market this week.

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

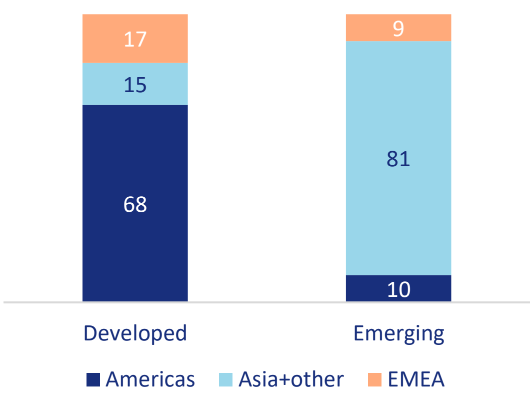
A rally of everything last week: from regional banks, to technology, and both emerging and developed markets. Global equities gained 3.4%, that's what would be usual in a quarter or half a year. Better eco data all around except China and falling sovereign yields supported equity gains. Leading market gains regionally is the Dubai Index, +25.5% year to date with real estate developers continuing to sell off plan residential property at higher rates, malls seeing higher footfall and hotels better occupancy. The additional supply in all three has been quickly absorbed with UAE population on the rise. China still has negative year-to-date returns but a stellar week, aiding EM returns. India continues to build on global relationships and has tied up with the UAE for local currency trades. Indian returns have been muted this year, but we see stable returns for the next few years with its mix of younger demographics, digital shift and foreign policy. As at June-end our revised fair values indicated 10% returns across EM and 1 to 2% for DM in H2.

US markets are seeing further gains in July after a spectacular H1, with the S&P 500 up 18.5% year to date and the Nasdaq +35%. The "Super Seven" stocks: Apple, Microsoft, Google, Meta, Nvidia, Amazon and Tesla continue to lead with exponential returns. Treasury yields lower, as last week's US CPI print confirmed the pattern for falling inflation and a soft landing and a possible culmination of rate hikes in July.

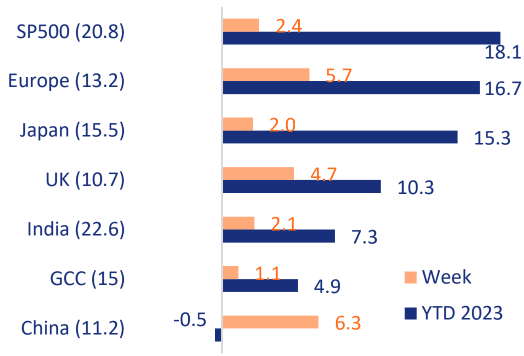
Consensus expects a 7% y/y decline in S&P 500 EPS for Q2, driven by flat sales growth and margin compression. Ten of the 12 S&P 500 companies that reported last week beat expectations. 40% of S&P 500 are companies reporting this week. Negative EPS revisions for 2023 and 2024 seem to have bottomed and revision sentiment has improved. Our estimates for 2023 S&P 500 EPS remain flat y/y ($220). Key areas to watch in earning calls are margin maintenance, should be steady as inflation recedes, the impact of bank stress on credit and lending, potential uses of AI and the spending pattern of the US consumer (lower on goods and more on services). For 2024, FactSet's analyst consensus is for earning growth of 12% for the S&P 500. US banks JP Morgan Chase, Citigroup and Wells Fargo reported on Friday and beat expectations, JPM benefited from solid loan growth, trading, and net-interest income. CEO Jamie Dimon is optimistic on the economy, but highlighted risks around consumers using up their cash and the continuing Ukraine Russia conflict. Higher provisioning all around in US banks.

On July 24, the Nasdaq-100 will undergo its second ever Special Rebalance "to address the high concentration weight of the largest 7 stocks in the index which will be reduced by 12% (56% to 44%). Nvidia and Microsoft will be reduced by 3% As per Goldman Sachs data $261bn in mutual fund and ETF AUM is benchmarked to the NDX, while hedge funds have an estimated $20bn of net short exposure. The 2011 special rebalance experience suggests the stock-level impact will be limited.

EQUITY RECOMMENDED REGIONAL POSITIONING

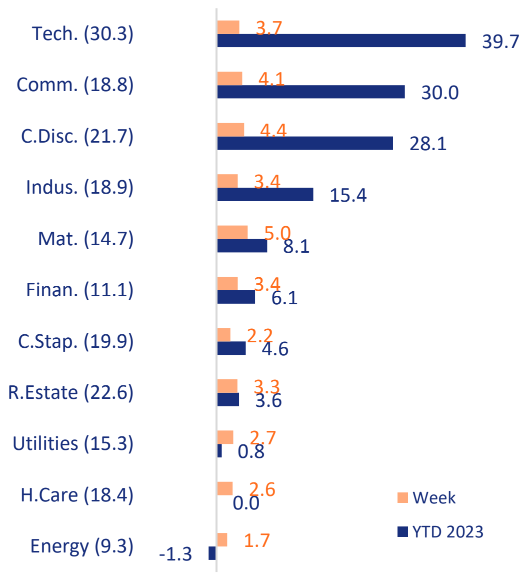


MAJOR INDICES PERFORMANCE (TR, US$) AND 2023PE



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**