WEALTH MANAGEMENT

US exceptionalism highlights **uneven global recovery**

- **Dovish hike from the ECB before a probable hawkish pause from the Fed…**
- **The disinflationary process in the United States was dented by rising energy prices**
- **We increased our allocation to government bonds across profiles targeting a 5-year maturity**

The performance of the main asset classes for the week points to rising concerns about inflation as at the same time growth remains overall resilient. Value outperformed across the board, with the Dow Industrials the only major US index just in positive territory and non-US stocks showing larger gains, while longer-dated yields closed at the top-end of their recent range, and Brent crude held comfortably above USD90/bbl.

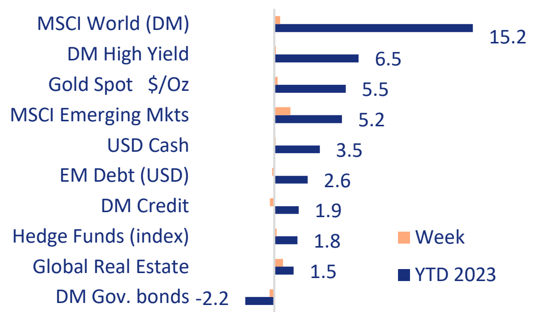
In the United States the relentless rise of energy prices was pervasive in the CPI and retail sales release. Headline inflation shifted higher for a second consecutive month, while the core index continued to fall. Overall, we hold the view that the disinflationary process will continue, with the Fed looking through the impact of energy prices as core inflation showed a nice pace of deceleration. Retail sales rose way above projections in August, yet mainly on rising gasoline sales. Powell is expected to hold rates steady at this week's FOMC meeting, keeping its options open should the energy impulse spread to the broader economy.

In spite of economic conditions bordering on recession the ECB hiked the benchmark rate by 25bps, while in China the economy showed further signs of stabilization with industrial production and retail sales accelerating higher.

As central banks draw closer to peak rates, we increased our allocation to government bonds across profiles, targeting a middle-of-the-curve duration given the resiliency of the US economy.

This week sees many central bank meetings, with the Fed lined up on Wednesday, the BOE and BOJ to follow. The DM flash PMIs will also be closely watched.

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



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Cross-asset Update

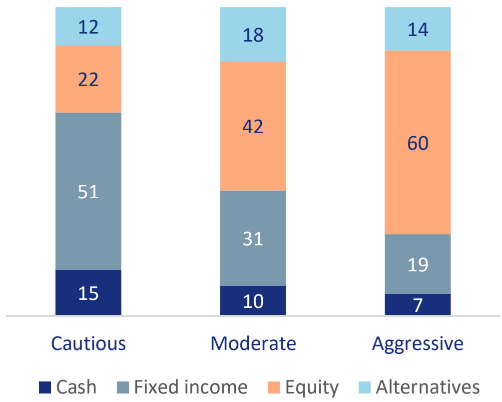
As year-end approaches and investors keep on pondering about the odds of a US recession in 2024, caution abounds following the large to-date equity gains. A widely followed gauge of investor sentiment devised by Bank of America Merrill Lynch shifted towards less bullish readings in the five days through Friday, to be read in a contrarian way as far as the continuation of the current rally is concerned. We would be tempted to see the glass half full, though, as the resilience of the US economy comes alongside growing signs of stabilisation in China, while Europe continues to be mired in stagnation. With both manufacturing and services business confidence picking up in the United States, and still solid labour market dynamics, we hold the view that a moderately positive tone will be set for equities to drift higher, though beyond the fair values we have projected for this year. Earnings growth seems to have bottomed in Q2, with a return to positive growth expected in the coming quarters. Along the same lines, two weeks ago US productivity surprised significantly to the upside for Q2, usually a harbinger of expanding multiples and margins, being for instance price-to-earnings positively correlated with yearly changes in productivity.

This will not come without risks, as the so-called US exceptionalism is exerting upward pressure on yields and could reignite inflation concerns, should a soft-landing scenario change into a no-landing one in investor minds. Yields are already at the highs of the year, supported by rising energy prices, with the crude market expected to be in deficit not only in Q3, but also through Q4 this year. Also, the favourable mix of loose fiscal and tight Fed monetary policy is supporting the US dollar, that has been rising for nine weeks back-to-back. Overall, the level of yields, of energy prices and the higher US dollar are pointing to tighter financial conditions, even as the global recovery remains uneven, being mainly driven by US growth. Against this backdrop we would tend to see an outlook marked by more moderate returns and a rise in risk-asset volatility.

A decisive change in China policy with a large fiscal stimulus would represent a positive shift, reigniting global growth and weakening the dollar against the major peers. But nothing of the sort is in sight as Beijing is being careful not to add excessive leverage to the already vulnerable real estate sector. And for now, China is stabilising but not recovering due to the deepening housing slump partially offsetting improvements in other parts of the economy.

Overall, we reiterate the advice to remain up in quality across asset classes, to navigate what could be a choppy market environment into year-end.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

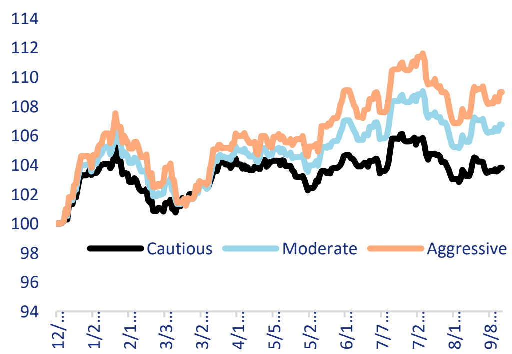


TAA – RELATIVE POSITIONING – MODERATE PROFILE

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

Ahead of this Wednesday's anticipated "Hawkish Pause" by the Fed, the ECB delivered a "Dovish Hike" last week. The Central Bank increased rates for the 10th time to take the policy benchmark to 4%. Lagarde mentioned, "With today's decision, we have made sufficient contributions, under the current assessment, to returning inflation to target in a timely manner," though later she added that the focus would be on duration, and this may not be the peak. The ECB cut the growth outlook for the Eurozone till 2025, while inflation was forecast to weaken to an average of 3.2% in 2024 and then 2.1% in 2025. This kickstarts the central bank season in the developed markets, with as many as six policy decisions due in the next five days.

Last week, the US CPI numbers advanced 0.3% MoM, the first acceleration in six months. Gasoline contributed to more than half of the gain in US CPI in August. The so-called super core rate, which looks at core services prices excluding housing and has been a focus for Fed policymakers, rose 0.37% in August on a monthly basis. That's the most since March. Again, a depressing figure for the Fed. However, the silver lining in the data was shelter prices, the biggest services component, which accounts for about a third of the overall CPI index, increased 0.3%, the smallest gain since early last year. A moderation in housing costs is essential for a sustained downward trend in core inflation.

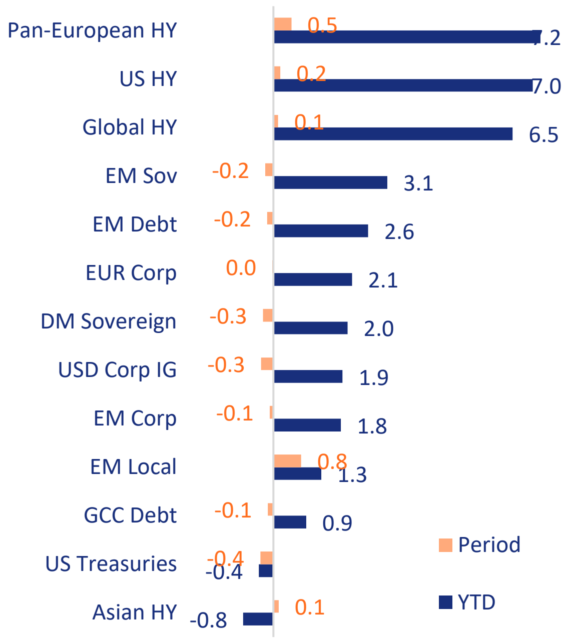
Swap contracts referencing the November Fed meeting date are around 5.41%, eight basis points higher than the effective Fed funds rate of 5.33%. That repricing suggests odds of about 31% that the US central bank will raise its policy rate to a range of 5.5% to 5.75% by November. As of Friday, interest-rate futures show a slightly higher expected end-2024 rate for the Fed's benchmark, at 4.54% against 4.43% the week before. So, futures still reflect bets that the Fed will lower interest rates next year. As for the rest of this year, futures suggest a 40% chance of one more rate hike.

EM debt spreads compressed and currently trade lower than their 3-month median as China's economic activity gathered pace in August amid a summer travel boom and in the wake of a stimulus push. Industrial production rose 4.5% from a year earlier, while retail sales jumped 4.6%. Fixed-asset investment grew 3.2% in the first eight months of the year. In addition, the PBOC lowered the Reserve Requirement Ratio, the amount of cash lenders must keep in reserve for the second time this year by 25 bps, partly to beef up banks' ability to buy bonds and support government spending. The PBOC also injected a net 191 billion yuan ($26.2 billion) via the medium-term lending facility into the interbank market.

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

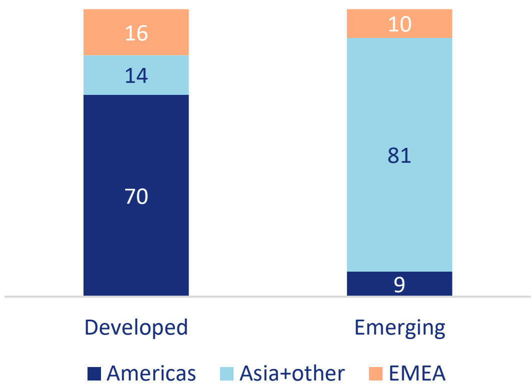
Last week saw rate rises in the Eurozone, upbeat China economic data, the successful listing of Arm Holdings in the US, though it wasn't a good week for tech and other chipmakers. Global equities rose half a percent last week and September hasn't seen too much volatility, with month to date little change in returns. US equities remain range bound, with the S&P 500 hovering around the 4,500 level and the Nasdaq +32% YTD. But down by 2% this month to date as US treasury yields have been more volatile, rising last week in anticipation of the Fed's higher for longer mantra. US equities saw inflows last week and China has seen foreign holdings in assets consistently fall from a Dec 21 peak. Best performers in September to date are India and the UAE markets.

Our fair values for the main equity indices predicate flat returns from DM and c.10% from EM into year end. Our positioning is close to neutral on equities (small underweight) with a preference for EM. We don't see any major negative catalysts into year end and see returns maintained for DM, with the US our preference. U.S. consumers' "resilience" has been the buzzword for the S&P 500. The earnings decline of 5% for Q2 could represent a bottom, with consensus calling for flat earnings growth next quarter and then high-single-digit growth by 4Q, and an optimistic return to the double digits next year. The S&P 500 rally at +17% YTD returns has been led by the 7 tech behemoths, with optimism around the AI evolution continuing.

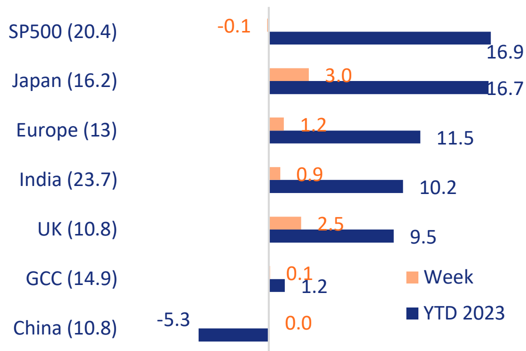
In EM we like India and the UAE and await better visibility on China. Regional diversification works this year, with very different macro dynamics and valuations between countries. India fundamentals remain attractive, and the market will soon start focusing on the upcoming general elections as its key driver. As per Bloomberg data August marked the sixth straight month of buying by foreign institutional investors (FIIs) in Indian equities -- with inflows of $1.7 bn, the highest among emerging markets -- amid India's rising appeal as an alternative to China. Utilities and industrials were the most-bought sectors.

China stocks rallied on Friday, though closed the week flat. On Friday China retail sales and industrial production surprised to the upside, though the RRR cut of 25 bps was not seen as a big fillip as it applies only to banks that don't already have a 5% reserve ratio. European consumer stocks rose for the week and on Friday on a beta to China's upbeat economic numbers. However, an anti-subsidy investigation by the European Commission was announced as China EV brands are dominating the lower end of the European market. The average price of a Chinese EV in the EU is $48,000 compared to $67,000 for a locally produced EV (The FT). China automakers are quick to adapt to global requirements, have dominance in battery innovation and production and are able to roll out cheaper models more quickly and this would affect European EV makers market share in their own countries.

EQUITY RECOMMENDED REGIONAL POSITIONING

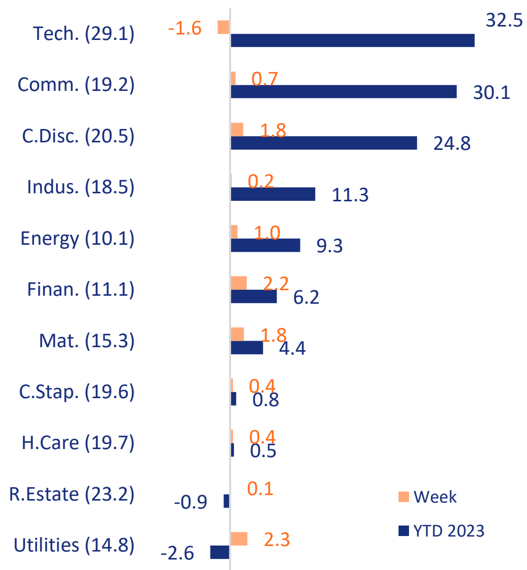


MAJOR INDICES PERFORMANCE (TR, US$) AND 2023PE



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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