Emirates NBD
WEALTH MANAGEMENT

Soft-landing **confidence** continues to rise

- **Last week was relatively quiet, and shortened in the US by a holiday…**
- **… But it was positive as the soft-landing narrative continued to support all asset classes**
- **Our positioning has so far fully benefited from the rally and we are working on the 2024 outlook**

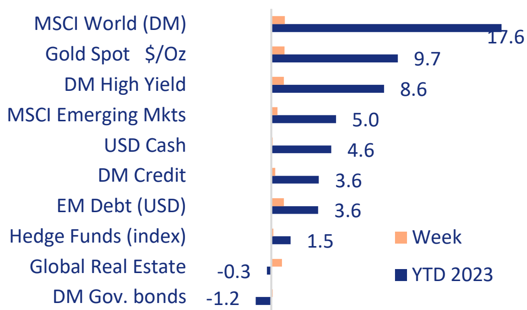
"There are decades where nothing happens; and there are weeks where decades happen." There are also weeks, like the one which just ended, where not much happens, especially when the world's leading financial market is closed for Thanksgiving.

Still, we had some food for thought. First, the flash PMIs for the major regions were consistent with the current scenario of a soft-landing: the main divergences compared to forecasts were some softness in US and Japanese manufacturing, and a bit more resilience than expected for activity in Europe. A surprise came from China, as authorities are reported to have drafted a list of 50 developers eligible for specific financing support, and to encourage banks to offer unsecured loans to cover the working capital needs of the real estate sector. Markets have not really reacted yet, but if confirmed, this could address one of China's most critical issues. Finally, the week ended with the start of a 4-day truce in the Gaza war, which could hopefully be extended.

Markets appreciated. All asset classes gained last week, especially in dollar terms, as the greenback was -0.6% weaker against trade-weighted counterparts. Our three profiles fully benefit from the recent rally, up respectively 5%, 8% and 10% (with a bit of generous rounding) so far in 2023. We haven't changed our positioning into year end, and are obviously dedicating our efforts to 2024. However, as the consensus gets stronger on a benign top-down scenario, we note that pessimism is quickly dissipating in investor positioning, creating vulnerability to any bad news.

The coming days will provide November PMIs, inflation data for the US and the Euro area, and will see the COP28 kick-off in Dubai. Have a great week.

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



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Cross-asset Update

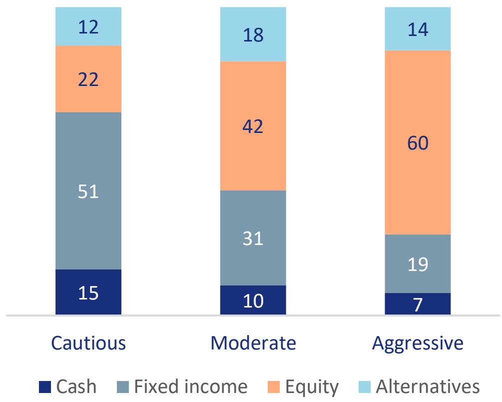
After the recent rally that sees global equities up about 15% year-to-date and technology gaining twice as much, investors may be wondering whether the current positive phase can be sustained into 2024. Though there are reasons to see the glass half full as well as half empty, we would tend to err on the positive side for the next few months.

Investors that prefer to be cautious usually base their assessment on leading indicators at depressed levels and on rich valuations. It is indeed true that business confidence indicators, in particular on the manufacturing side, are pointing to a contraction in the Western countries, especially in Europe, while in China they suggest ongoing stabilisation with not much economic momentum. Yet, at least in the United States the services sector is expanding, accounting for an economy that is not in recession despite woes elsewhere. And this time it is different: pre-Covid when manufacturing was contracting services followed, with the former playing a leading role in signalling a contraction. But now the services sector is still in expansion mode, decoupling from manufacturing due to the post-pandemic changed dynamics. So, unless we see services inflect lower too, we cannot draw bleak conclusions about the outlook. As for valuations, in theory we should be concerned, as bonds have become much more appealing in terms of their yield versus equities, that have not derated much in aggregate. Yet, though sensible on paper, expecting that the earnings yield rises simply because the bond yield did rise does not work in practice.

It rather seems to us that, barring a recession that is not in sight now, markets should be supported. Investors are following the disinflation narrative, whereby inflationary pressures are abating, hence central banks are expected to be on hold. Also, US earnings are exiting a contraction phase, one more positive factor against the recovery backdrop. As long as disinflation does not turn into deflation, there should be no concerns about growth and the focus should remain on the Goldilocks scenario. Now, going back to the glass half empty, as steep as the credit impulse that caused inflation was on the way up, it is on the way down. And since it leads inflation by more than one year, it suggests that disinflation could temporarily turn into deflation, about mid-2024. Hence, while we think it is too early now to be pessimistic, at some point next year we should be prepared for a bumpier ride.

Equities and credit should benefit from the disinflationary phase, as long as it lasts. Yields should finally find a peak, and gold hit new all-time highs with central banks on hold and expected to ease policy at some point.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

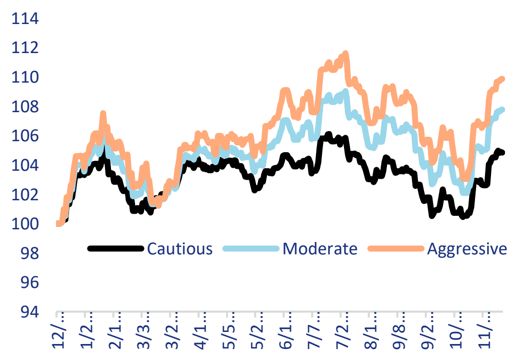


TAA – RELATIVE POSITIONING – MODERATE PROFILE

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

US Treasury yields are up from their weekly lows. UK Gilts and European bond markets led the sell-off in the second half of the week as the PMI numbers came in stronger than anticipated. UK consumer confidence also bounced back in November. Moreover, supply concerns continued to weigh on the market as Bloomberg reported Germany will suspend its debt brake, and the UK supply announcements were more than expected. The benchmark 10-year treasuries hover around the 4.5% mark. Last week's 20-year auction was uneventful. However, the traders would look at the 2 and 5-year note auctions due this Monday to gauge market concerns about growing supply. The Bloomberg Govies index is up 2.5% in November headed for the best monthly gain since March. There isn't much top-tier economic data on the docket this week, though traders will get the PCE deflator, which is the Fed's preferred inflation measure and is forecast to show a step down in the pace of price growth. Next week, though, will be more critical as the November job data is due after the unexpected decline in October.

Since last year, the Fed's balance sheet has shrunk by roughly $1.2tn to $7.8tn, and balance sheet runoff has proceeded smoothly. In 2022 the Fed's balance sheet shrunk via lower bank reserves, while in 2023 it shrunk through lower RRP balances. Goldman Sachs analysts have come out with an interesting report on QT timelines. According to the report, FOMC would begin considering changes to the speed of runoff around 2024Q3 to slow the pace in 2024Q4 and to finish runoff in 2025Q1. The necessary condition for this shift is for Bank reserves to move from abundant to ample. GS estimates bank reserves to be around 12-13% of bank assets and the Fed's balance sheet to be about 22% of GDP then (vs. approximately 30% currently and 18% in 2019). The key risk will be disruptions in the Treasury absorption due to higher issuance volumes. This may force the Fed to stop the QT earlier than expected.

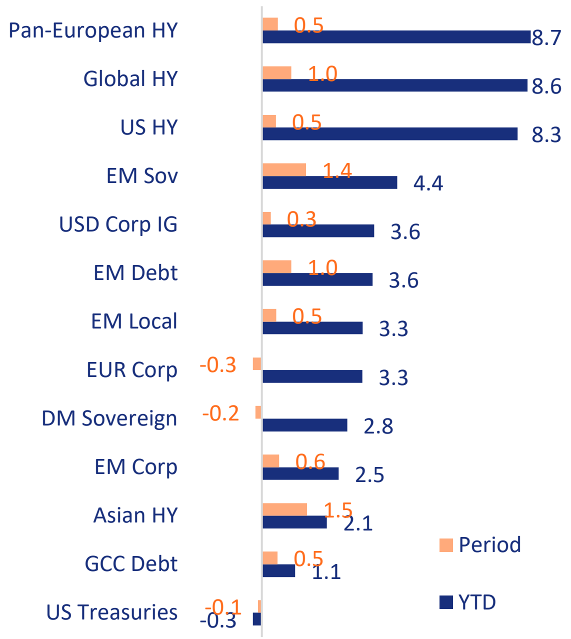
Risk-on sentiment led to the riskier Fixed Income segments outperform the safer ones. Treasuries underperformed as yields rose towards the second half of the week. Investment Grade followed suit as spreads compressed by 3 bps, with the primary market remaining closed since Wednesday. A total of $80bn IG debt has been priced this month. High yield and EM Debt spreads compressed by 14 and 12 bps, respectively, leading to positive returns in both indices.

China's policymakers appear to be racing to fill a liquidity gap facing developers, which some analysts estimate to be 15% of GDP. The government has apparently prepared a list of 50 real estate developers eligible to receive a range of financing support, including unsecured loans from banks. Asia HY index spreads have compressed by 150bps since the announcement. However, according to Bloomberg, the banks have been reluctant to lend to the property sector despite recent encouragement from the regulators. This may indicate that the effort to rejuvenate the sector is far from over.

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 fourth positive week for global equities making it a spectacular November so far, +9% month to date, with outsize gains from the technology sector continuing. A largely broad-based rally, however pockets of outperformance with US equities up 10% in November (20% year to date) and the Nasdaq a little better in November (almost double the S&P 500 YTD). The Russell 2000 while rallying recently, still lags the large cap US indices.

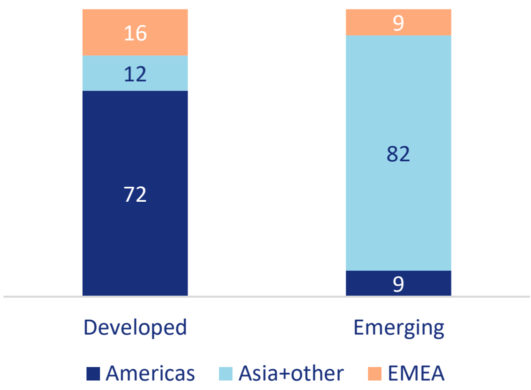
Underlying is the conviction that the Fed is done raising interest rates and will start cutting them in 2024, contiguous with the ECB and BOE. Fed minutes published Tuesday reinforced unity among policymakers in proceeding "carefully" as they seek to rein in inflation back down to their 2% target. The Fed looks willing to pause here and look through the strong data: a soft-landing scenario is increasingly ours and a consensus view too. The recent weaker USD has also been a factor in the global equity rally.

The resumption of earnings growth in the US at 4.3%y/y for Q3 marks the end of a trough in earnings, and revenue growth at 3.3%, and with S&P 500 margins at 12.1%. depicts a still buoyant consumer. With the S&P 500 forward Price/ Earnings multiple at 21X and the Index just above our 4500 fair value we need earnings to rally for this level to be sustained into 2024 and to see further upside. Also, though recession fears are currently less in focus, (fewer companies spoke in Q3 guidance), higher rates for longer means that earnings need to be resilient to weather the higher borrowing costs. US 10-year Treasury yields are 10% below beginning November level, however volatility in yields could continue with a small spike seen at the end of last week. Also needs to be watched, the S&P 500 has a Tech bias with the Magnificent 7 accounting for nearly 30% of the benchmark and risks include high valuations: the top 7 stocks trade at 35x trailing PE vs. 17x for the rest of the index.

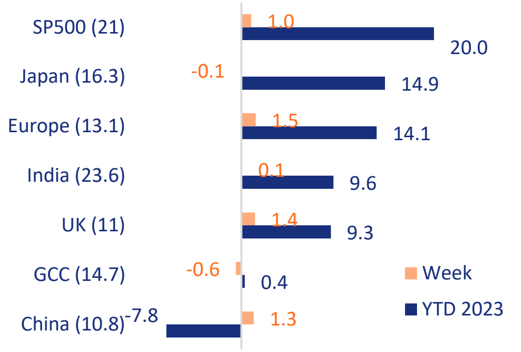
We increasingly look to Japan as it transforms its capital market strategy. A strengthening Yen is also positive for USD denominated returns. The Tokyo Stock Exchange has asked the 4000 listed companies to submit comprehensive plans outlining key performance indicators (KPIs) such as asset and capital allocation, return on equity, and dividend policies, among many others as many companies trade below book value. This should unleash value and a bull market phase. Japanese equities are + 25% YTD in local currency and our recent neutral stance was positioning resulting from the earlier Yen weakness. The Japanese economy has experienced a structural shift—deflation is gone and seems to be not coming back anytime soon. This will lead to companies releasing much hoarded cash and investing it for growth.

We are still on the fence on China, low valuations are attractive and property developers get a liquidity boost however new high-profile insolvencies emerging and subdued growth at Chinese industrial companies in October y/y. Also, Zhongzhi Enterprise Group, a large shadow banking lender under investigation, declared a shortfall of $36.4 billion in its balance sheet adding to property sector woes.

EQUITY RECOMMENDED REGIONAL POSITIONING

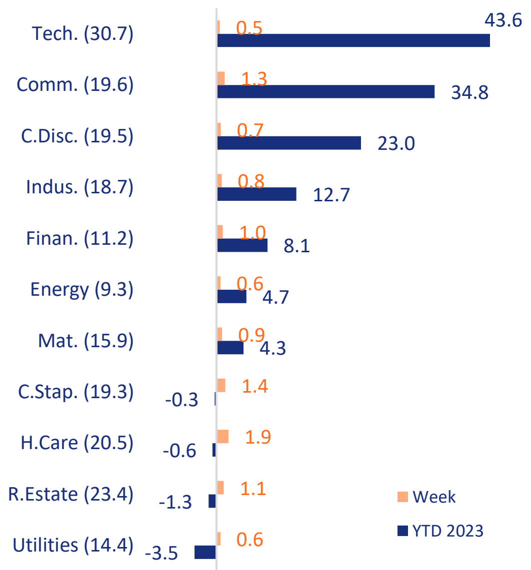


MAJOR INDICES PERFORMANCE (TR, US$) AND 2023PE



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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