Earnings, central banks, growth: big week ahead

- **Last week was, again, positive on most markets, led by cyclical asset classes**
- **Economic and inflation data reinforced the narrative of slower monetary tightening**
- **This week will see an avalanche of macro and company numbers as well as major central banks' meetings**

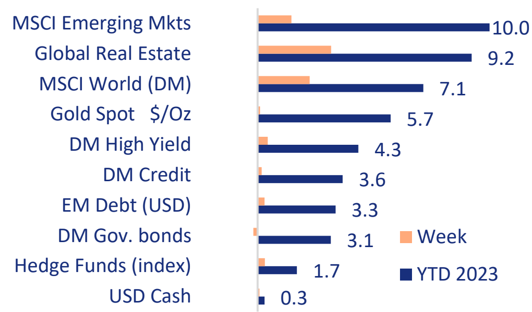
The month of January is about to end firmly in the green, and last week was, again, positive across most asset classes. Apart from DM government bonds, which printed a modest -0.2% weekly decline, all markets were in the green, led by stocks and listed real estate.

It looks like outright optimism. Indeed, the top down narrative is not adverse. Inflation is abating, and the global economy is overall resilient. Of course, US activity has started to feel the pressure from massive hikes in interest rates. But market participants are comforted by the idea that the worst is behind us, and that with a still very strong job market, the world's largest economy can stomach the current slowdown. Elsewhere, flash PMIs were not as bad as expected in Europe, and high frequency data confirms a very dynamic reopening in China. All in, a benign top-down narrative meets a relatively light positioning from market participants.

The earnings season is in full swing and has not been great. Sales numbers are strong, but margins are contracting, leading to, so far, a year-on-year decline in corporate profits. The week ahead will bring much more color on that front, with almost a third of US companies reporting their numbers, including mega tech names. We will also get an avalanche of economic data: from January final PMIs to an update from the IMF, the US job report and Q4 GDP in the Eurozone. Finally, and crucially, rate decisions will come from the Fed on Wednesday, followed by the ECB and BoE on Thursday.

Our 2023 Global Investment Outlook will be out this week, and we hope to welcome you at our client events next Tuesday – we can't wait to interact with you in person after 2 years of virtual format for our flagship annual presentation. Stay safe.

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



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Cross-asset Update

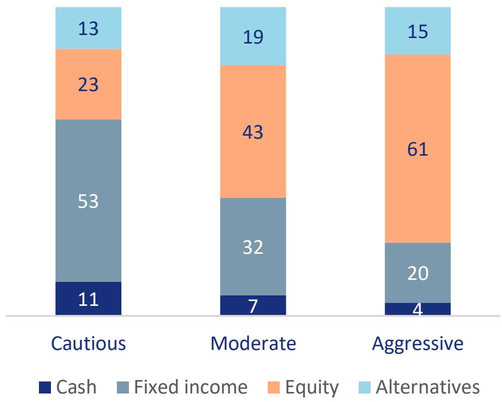
Investor sentiment on gold has been pretty upbeat so far this year, with the yellow metal putting in a 5.6% gain in January and rising by almost 20% from its early November lows. The Fed's drawing closer to the end of its tightening cycle was the main driver of the rally, that at accelerated speed has seen the nearly complete reversal of the losses recorded during the lengthy monetary tightening phase. Our year-end fair-value for gold, at USD1,950/oz, was substantially reached at last week's highs, much ahead of time, and we would see only modest upside from current levels, unless at some point a war risk premium resurfaces.

With the full discounting of peak Fed rates, fresh catalysts are needed for gold to be pushed to new highs. Actually, we foresee a neutral-to-negative scenario in the next few months, with the US economy set to slow and real rates flattish to higher. Real macro variables are starting to deteriorate in the United States, under the lagged effect of tighter policy, as indicated by Friday's 4Q22 GDP report and the falling industrial production and retail sales in the previous week's release. At the same time, the disinflationary process that has finally started to take hold is proceeding apace, and according to the December Summary of Economic Projections, while the real growth rate is forecast to remain stable this year, core PCE inflation should fall towards 3.5%, so 90 basis points from current levels according to Fed projections. The yield on the US 10-year note could only possibly match that drop under a dire recessionary scenario. In summary, the plausible scenario is for real rates to rise or at best stabilize.

As for the US dollar, another key variable accounting for gold trends, most of its weakness due to improvements in global growth should also be behind us. European economic sentiment has improved on milder weather conditions, and China has reopened its economy much less gradually that initially thought. From now on the likely deterioration of the US outlook will play the lion's share in determining the direction of global growth. Also, the cumulative effect of Quantitative Tightening, expected to occur to the tune of USD1tn per year, will at some point make itself felt in terms of lower market liquidity, a net positive both for the US dollar and real rates.

In summary, real yields and the dollar seem to be close to exhausting most of their positive impulse for gold. While we advise clients not to add to positions at current levels, we think that partial profit-taking and buying on pullbacks is a wise strategy. With no end in sight for the Russia-Ukraine war, it could be just a matter of time before the conflict becomes exacerbated, with gold in that case trading at a war premium as a primary safe-have asset. Also, inflationary pressures could resume next year, driven by the push for the green economy and deglobalization, secular factors exerting upward pressures on global prices and working against the effects of monetary policy.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

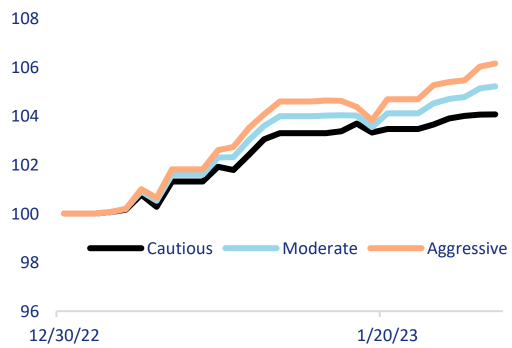


TAA – RELATIVE POSITIONING – MODERATE PROFILE

UW/N/OW:Underweight/Neutral/Overweight

	UW	N	OW
Cash			>>
DM Gov.			>
EM Debt			>>
DM Credit	<		
DM H. Yield	<<		
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

We are in the all-important central bank week, where three major banks finalize their rate decisions. Markets were relatively calm last week while pundits and markets differ on the magnitude of the hike coming from the Fed on 1st February. Some Fed watchers such as El-Erian have suggested the Fed go ahead with the 50 bps hike to front-load the tightening while investors stubbornly cling to the 25 bps narrative. Regardless of the amount of the hike, a downshift doesn't mean a pause. Chairman Powell could remain hawkish in the post-meeting press conference. The speech would significantly push back against rate cut expectations for this year and focus on the perils of early easing. ECB closely follows on the heels of the Fed deciding its rate on 2nd February. BoE also decides on the same day. Both the ECB and the BoE could hike rates by 50 bps. The ECB could downshift a couple of meetings down the line, while the BoE could downshift as early as the next meeting according to market expectations.

Bond markets were relatively calm in the five days through Friday. US 10-year Treasury yields fluctuated around 3.5%. Most of the sub-segments traded in a tight range of OAS spreads. DM Govvies had a muted week as the relentless rally in treasuries stopped. Most of the other segments posted a muted 0.1% to 0.2% return. YTD Global HY leads the returns chart, followed by IG Credit and EM Debt. In a sign of how topsy turvy the fixed income returns have become, last year's best performer, FRNs, sits at the bottom of the chart, while Asian HY, which had the dubious distinction of finishing last in 2022, stands first this year.

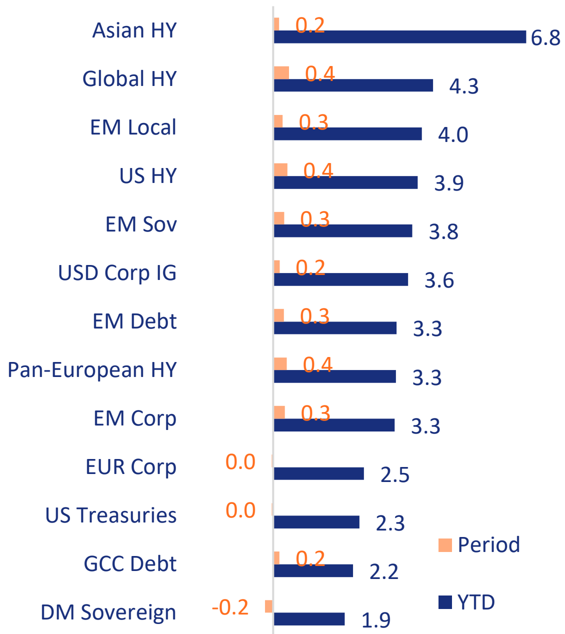
Last week the current US debt ceiling of $31.4 trillion was effectively reached. Subsequently, the US Treasury issued a Debt Issuance Suspension Period (DISP) notice up to 5th June. This provides headroom of $500bn, which, combined with cash reserves of $450bn, gives a runway till November. Without any congressional action, this would be the most severe threat to the economy as we approach default, or what is known as the Drop-dead date. But, unfortunately, the road to legislation is fraught with risks and brinkmanship.

Bond fund flows have remained very strong this year after the c.$250bn outflows that we observed in 2022. The outflow reduced the AUMs by close to 4% for such funds. The outflow was severe for actively managed funds that lost nearly 9.7% of End-2021 AUM, while passive funds or ETFs gained close to 10% of their AUMs. This year we have seen more than $35bn inflows to bond funds with a focus on IG Credit as it provides an attractive yield.

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, LatAm

FIXED INCOME SUB ASSET CLASS RETURNS (YTD, LAST WEEK)



Source: Bloomberg

Equity Update

Markets in January have seen outperformance from Asia (China), technology, (semiconductor and EVs) and the consumer sector. Overall, sentiment was risk-on, with better than expected economic and earnings growth, and softening inflation alongside lower rate increases expected from the Fed, while the ECB that began tightening later has more to go. EM equities have outperformed at +10% YTD with the China rally +17% YTD. Sentiment around China has further improved during the Lunar New Year break with a strong rebound in holiday travel and consumption. Next focus is the National People's Congress in March, with a growth-friendly policy environment expected. India markets are down on account of the sharp selloff of Adani group stocks but it's too early to comment on whether this would affect the broader market. We are tactically and strategically overweight India.

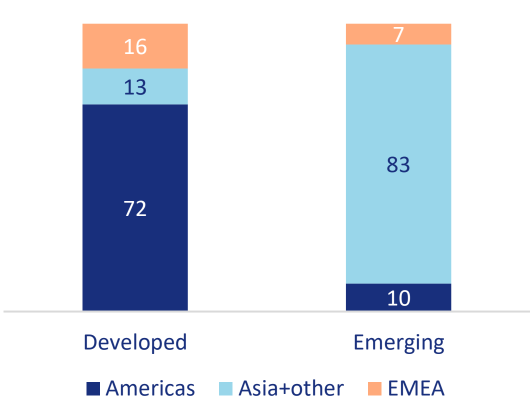
DM equities +7% YTD with the US indices bouncing back last week, following the previous negative week. The S&P 500 gained 2.5% with the Nasdaq almost double that. Tech performance was buoyed by EVs i.e. Tesla, Rivian and Semiconductors with the recent importance of OpenAI application to industry. Also, a soft landing is being priced in the US as data reinforce hopes that the US economy will cool enough to satisfy the Feds goal of slowing inflation, but not slip into a recession. Markets in Europe were mostly higher, adding to the region's strong start to the year. The Fed and ECB meetings this week are important for market direction, in terms of future direction and commentary on the economy.

Earnings are in focus with the UAE bank profits growing up to 40% y/y backed by strong net interest income gains and increased consumer lending. Dividend increases were announced. This has been one of our preferred investments and we see 2023 as another strong growth year for the UAE economy and equities as oil prices remain supportive and the increasing expat population is adding to consumer spend and personal borrowing.

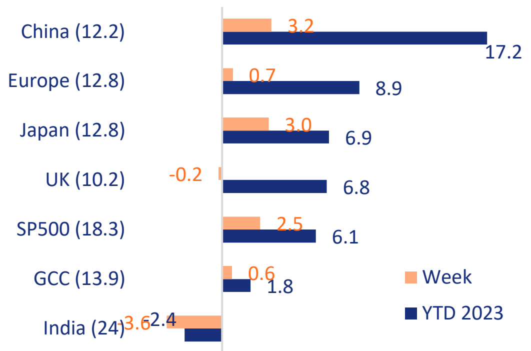
US earnings have been mixed. Layoffs from the tech sector were back in focus, on lower IT demand post the pandemic's accelerated digital shift and more broadly expense reduction plans. 26% of S&P 500 companies have reported Q4 2022, and the blended earnings decline is -5.0%, while the revenue growth is at 3.9% . Visa's earnings beat but, like Mastercard, its card spending slowed. IBM exceeded expectations and Dow Inc and Intel disappointed. Tesla offered an upbeat outlook. European earnings saw the semi companies with strong earnings growth and in the luxury segment LVMH had slower sales growth but organic sales exceeded estimates.

During the upcoming week, 107 S&P 500 companies are scheduled to report including big tech i.e. Apple, Amazon Meta and Alphabet. Tech margins remain above pre-pandemic levels but top-line growth is weak, especially for more cyclical segments like semiconductors and hardware. In 4Q, tech is expected to post 24.2% net margin vs 12.2% for the S&P 500 index. This is well above its pre-pandemic peak but below the Q4 202's 26.4% mark. Semis and electronic equipment are likely to be the most below their pre-pandemic highs in 4Q22.

EQUITY RECOMMENDED REGIONAL POSITIONING

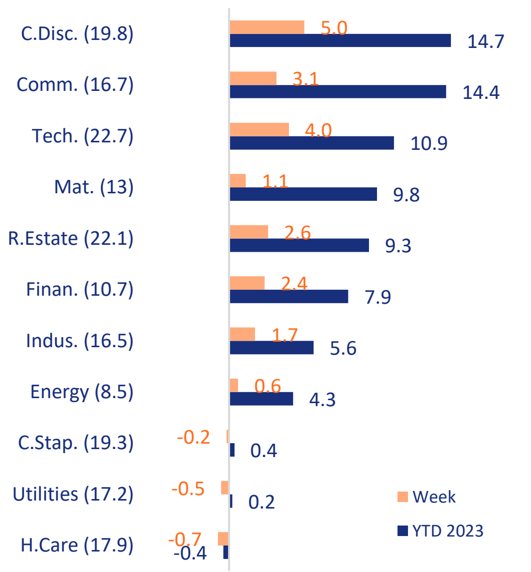


MAJOR INDICES PERFORMANCE (TR, US$) AND 2023PE



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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