Emirates NBD
WEALTH MANAGEMENT

The soft-landing scenario turns **consensual**

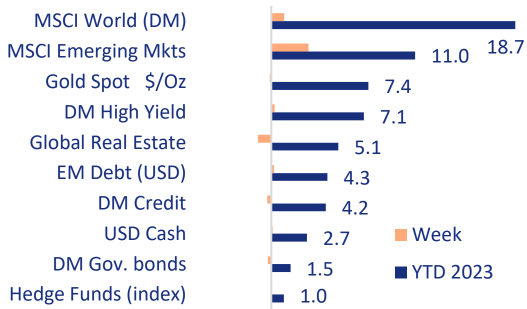
- **Last week's news was positive both on inflation and growth including more stimulus in China…**
- **… Which combined with so far better than expected US corporate earnings supports global stocks**
- **Our positioning in unchanged, detailed in the mid-year update to our global outlook released last week.**

Last week we wrote that markets were enjoying a pause in uncertainty, with growing hopes for a soft-landing scenario. Inflation would normalize as activity remains resilient, allowing for more accommodative monetary policies, in turn supporting the cycle. This ideal scenario was only reinforced last week: in the West inflation showed fresh signs of easing, activity indicators didn't flash red, and the earnings season has so far beaten expectations. Meanwhile, China's authorities took additional steps to support the economy, the latest aiming to boost consumption and support the property market.

What's not to like? Global stocks gained last week, led by the emerging markets. US Treasury yields rose, with the curve steepening: the front-end of the curve expects an imminent pause by the Fed, while the long end is less pessimistic about future growth. The Bank of Japan raised their JGB 10-year yield cap to 1%, in a first step toward some policy normalization.

As detailed in the mid-year update to our 2023 Global Investment Outlook, out last week, our allocations are fully participating in the current context. While we haven't changed our positioning, we do not believe that unpredictability has disappeared: both inflation and growth can surprise in the coming months, as they did for at least 18 months in a lesson of humility for all forecasters. What is quickly vanishing, by contrast, is investor pessimism, that was a key driver behind the current rally. This is a concern, but diversification remains a relevant response to unpredictability. Our three profiles are doing great in absolute and relative to global peers, and we won't take radical action until we have a strong level of conviction in an identified market inefficiency. It's not the case yet. Have a great week.

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



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Cross-asset Update

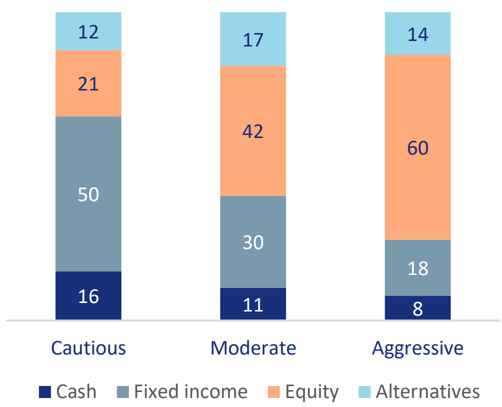
EM stocks have put in an underwhelming performance year-to-date, up only in the high single-digits as against global DM equities showing returns at least twice as large. Concerns about a U.S. recession, and China's sputtering economy, are some of the factors at the forefront of investor minds that can help explain the diverging asset class behavior. What is less in the spotlight is that the EM countries are much more manufacturing driven, while services explain a larger chunk of the DM economies. Indeed, an EM rally requires the comeback of the manufacturing sector, that has been slumping in the post-pandemic recovery phase even as services did thrive.

There are multiple factors pointing to the improving outlook of the sector. Global manufacturing new orders have been rising for months from depressed levels, while inventories have not kept pace, leaving the door open for a pickup in activity. The dollar is more than 10% lower versus last year's highs, a boon for the export-led manufacturing part of the world economy. Also, the Chinese credit impulse, that started its current feeble rebound in late 2021, historically has led global manufacturing activity and should now further contribute along the same lines. Maybe it is not by chance that material and industrial stocks have outperformed since late May this year, possibly anticipating improving conditions in the old economy.

We should also consider that Beijing will leave no stones unturned to achieve the planned 5% domestic growth target for this year. At the late-July Politburo meeting the authorities mentioned further easing, as well as more local government loans, meaning further infrastructure investments, and additional support for the real estate sector. More aid was indeed announced last week, that, though representing piecemeal meaasures, all together should ensure that by year-end the recovery gains momentum, benefitting EM assets.

Overall, it seems that the factors that were holding EM equities back are going to fade by the end of the year. Investors should take notice and take advantage, as it is by far not all baked in the prices yet.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

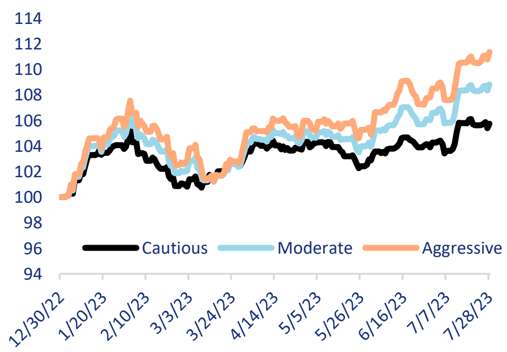


TAA – RELATIVE POSITIONING – MODERATE PROFILE

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 big central bank week provided few surprises. The Fed did not surprise with a 25bps hike that takes the policy rate to a target range of 5.25% to 5.5%. Powell pushed back against the expectation that the Fed would raise rates at alternate meetings and repeated the data-dependency nature of future rate hikes. There is a longer interval of eight weeks before the September meeting; policymakers will have two more jobs and consumer price reports by that gathering. However, the Jackson Hole Symposium will be next month, when markets expect Powell to provide more direction. There was no significant change in the official statement, where officials mildly upgraded the assessment of the economy to say activity has been expanding at a "moderate pace," compared to June's "modest" pace. Powell did mention that he doesn't envisage inflation returning to the Fed's 2% inflation goal until 2025.

The US economy is resilient. US Q2 GDP grew at 2.4%, faster than almost everyone expected. Last week, jobless claims surprised with a decline to 221,000 from 228,000. Durable goods orders growth came in at 4.7% versus 1.3% estimated. The only blip was personal consumption, that dipped to 1.6% from the prior 4.2%. The solid data points make the job more challenging for Fed. The Treasury yields adjusted accordingly rising to their highest levels. The yield curve bear-steepened as the long-dated yields moved up. The 30-year crossed 4% while the 10-year flirted with the 4% mark. There were no significant changes to the future rate path till the end of this year, though 2024 rate-cut bets were slightly trimmed.

The credit spreads have been resilient. According to a recent GS report, with one-third of the companies having reported second-quarter earnings, profit margins for IG-rated issuers continue to show tangible signs of stabilization. Of the issuers that have already reported, the year-over-year change in margins (net income/sales) for the median firm declined 1.5%, and reported margins were roughly flat versus consensus, albeit off the weaker estimates. While most issuers have yet to report, analysts take comfort in the continued inflection in one-year ahead rolling EBITDA expectations. In fact, 2023 year-over-year EBITDA growth estimates for the median IG issuer have increased from 4.6% at year-end 2022 to 6.1% in the first quarter and 6.6% in the second quarter.

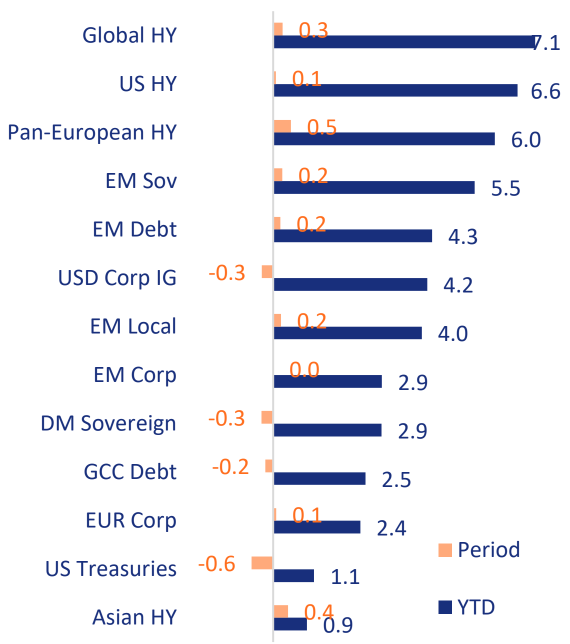
After the Fed decision on Wednesday, it was the turn of the ECB to meet market expectations yesterday. The ECB raised rates by 25 basis points in a unanimous decision. Like the Fed, Lagarde mentioned the September decision would be data-dependent, but she added that the near-term outlook for the economy has deteriorated due mainly to weaker domestic demand.

In a longer-than-expected meeting on Friday, the BoJ kept rates unchanged and, in a surprise move, tweaked its YCC, effectively raising the yield cap to 1%. That effectively makes the band the JGB can trade at much wider than anyone expected. Earlier in the day, Tokyo's July CPI report showed core price gains slowing to 3%, slightly above consensus. This move from BoJ must be seen in the context that the central bank has taken notice of the sticky inflation and that the Japanese monetary policy is not on auto-pilot anymore.

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

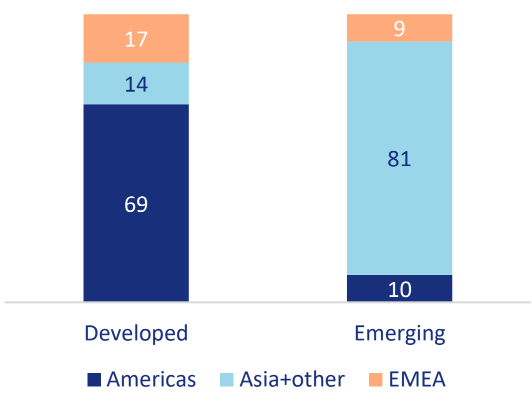
In July, global equities are up 3.4%, with one trading day left. Emerging market equities are up c. 6%, with the MSCI China on track for +10% gains in July. Central banks raised rates as expected last week (the ECB, Fed), while the Bank of Japan kept rates unchanged and tweaked its YCC, effectively raising the yield cap to 1%. US Treasury yields were higher. Yet equities broadly rallied last week, with US regional banks and the technology sector the notable out performers. Policy tightening is seen to be close to peaking in the US, with inflation declining, though oil prices have risen recently. Lower PCE numbers and strong GDP growth led to a rally in US stocks on Friday, turning a flat performance for the week into gains, 1% for the S&P 500 and 2% for the Nasdaq. Eurozone equities were also up, with Euro area inflation on the downturn, primarily driven by lower food prices.

UAE equities gained c. 1% last week supported by banks' stellar results with strong profit growth, higher NIM's and increase in both deposits and loan growth. Indian equities were flat. We remain overweight the UAE and India in EM and Japan in DM, though they have had comparatively muted gains in July.

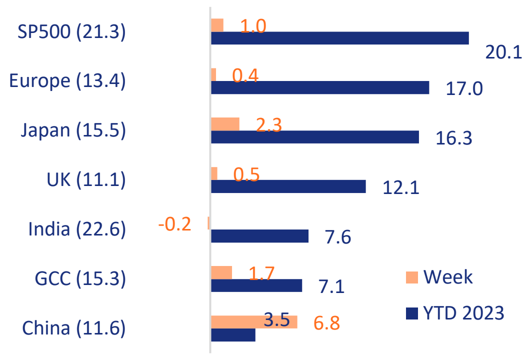
China markets should continue a near-term rally. PMI numbers were not great, and the government should announce more measures to boost consumption. The MSCI China rose +6.7% last week and the Golden dragon Index +13.6% as the Politburo meeting suggested more stimulus to come. While challenges in economic growth were highlighted, the emphasis is on efforts to improve domestic demand. Emphasized the need to fine-tune housing policy given a shift in supply-demand dynamics, and first homes home purchase restrictions in Tier-1 cities to be eased. Boost to infrastructure and usage of LGSB (local government special bonds). Continued monetary easing, room for further cuts in RRR and interest rates, as well as sector specific PBoC relending. More consumption incentives on autos, electronics, and home appliances. This led to a rally in China EV stocks. France has incentives planned for local manufacturers to counter imports of cheaper Chinese EV's. We recommend many global EV company stocks and see this as the watershed year for EV adoption.

Strong market technicals, and a bottoming earnings cycle support US equity. The 2Q earnings season has brought in a more positive view, both sentiment and fundamentals, with the bar extremely low coming into this earnings period. Consensus expectations were for S&P 500 YoY EPS growth to fall by 9%, currently tracking at -7.3%. 51% of the S&P 500 have reported (65% of market cap) and last week was the busiest week of the season. This week, Apple and Amazon post earnings. So far tech has not disappointed, and rallies were seen post earnings from Intel, Meta and Alphabet taking global tech performance to +40% YTD. Oil majors Shell, Chevron and Exxon reported falling profits on lower oil prices. Tesla has resumed a rally (some sell off post earnings) with the electric truck getting large orders. Consumer companies such as P&G are adding to market breadth and it's a broadening rally, away from tech. In Europe Hermes declared strong growth, bucking a luxury stock sell off. Earnings season continues with close to 20% of SP 500 companies reporting this week.

EQUITY RECOMMENDED REGIONAL POSITIONING

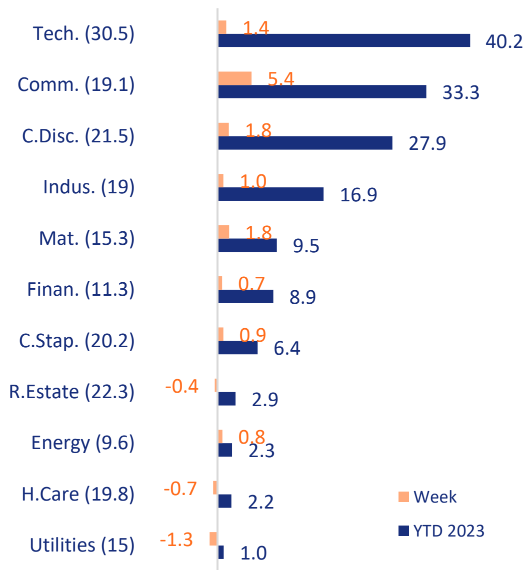


MAJOR INDICES PERFORMANCE (TR, US$) AND 2023PE



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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