Soft-landing scenario to face **key data in the week ahead**

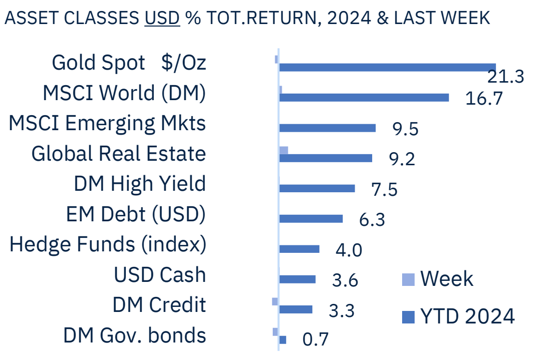
- **Last week was a relatively quiet conclusion to the tumultuous month of August**
- **Most data kept hopes of a soft landing alive, while Nvidia results were no game changer**
- **The week ahead will provide important data: monthly PMIs and the crucial US jobs report**

August started with a turmoil, followed by a strong rebound of everything with radical expectations for US rate cuts, and ended with a relatively quiet week. Weekly returns were flat for global equities, and modestly negative for global bonds, with a 10 basis points increase in the long dated US Treasury yields, to 3.7% for the 5-year and 3.9% for the 10-year.

Indeed, the data released last week, from a stronger than expected US consumption in Q2 to a reassuring core PCE inflation in July and improving consumer confidence, all reinforced the scenario of a soft-landing, rather than an imminent recession. Disinflation is slow but unchallenged: our 2024 scenario is unfolding, and markets are right to expect Western central banks to materially ease their policies.

Now, the concerns. While we remain confident in our scenario, we see the current market implied 100 bps of US policy rate cuts for 2024 excessive. We expect 50. This comes at a time when most asset classes are fairly priced for this very scenario. This is not bad news, but this leaves little potential for upside.

What it leaves, by contrast, is potential for volatility: economic data, geopolitics and of course an extremely tight race in the US November US elections are all potential catalysts for turbulences. Those may not prove much more terrible than what happened in early August, but it's good to be prepared for it. The week ahead will matter, with the final monthly PMIs being released for all major regions, and the important August job report on Friday. Bad economic news may be bad for stocks, while good could affect bonds. We are slightly defensive, and highly diversified. Stay safe.



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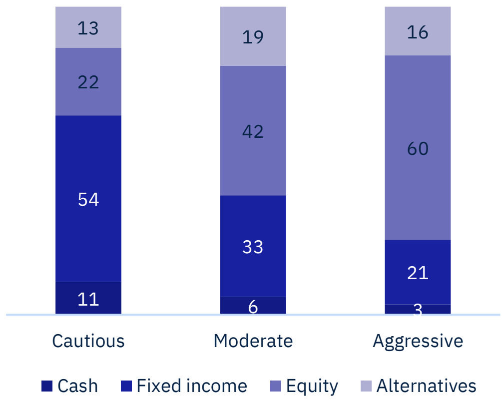
Cross-asset Update

Following Fed chair Powell's dovish speech at Jackson Hole, markets have continued to discount at least one Fed cut at the September meeting with almost certainty. The start of an easing cycle is going to have significant implications across asset classes, including stocks, bonds, and the US dollar. In the case of a no recession history points to equities being strong twelve months out, outperforming bonds that would anyway be showing gains on falling yields. The dollar should be weakening, with investors selling safer dollar-denominated assets to buy non-US equities. Markets have quickly recovered from their almost 10% fall recorded in August, with leadership shifting from technology to other sectors. While IT stocks and the so-called Magnificent Seven are still below their August peak, that is not the case for industrials and financials, and the same holds for the cap-weighted S&P 500 that has yet to record new all-time highs, versus the S&P 500 equal-weighted, that has already cleared its August highs. Market volatility has worked in favour of the average stock, supporting a broadening of the rally that was in the making even before the August swoon. The change in leadership in favour of the more pro-cyclical pockets of the market would be confirming investor's conviction that a recession is not in the offing, giving hope for the sustainability of the rally. This view ties in with the resilient macro data, from non-farm payrolls growing firmly above 100k per month despite the latest hefty revisions, to the Q2 GDP revised higher, as well as personal expenditure growing faster than consumer income as per the latest PCE report.

But resilient growth is not a good recipe for depressed yields. The 10-year yield below 4% is already discounting slowing activity, and its deeper fall would require a contraction of the economy, currently not visible on the forecast horizon. Money markets are discounting four Fed cuts into year-end, that may well be in excess of what chair Powell could be considering as a prudent course of action to avoid stoking up price pressures. Yields are rebounding from oversold levels, and the dollar is following suit. As long as the US economy exceeds expectations, the number of market-implied rate cuts will have to be revised somewhat down, further supporting yields and the US dollar.

If the US keeps on surprising to the upside, the opposite is true for the Chinese economy. Consensus GDP forecasts have been revised down and there is increasing doubt that the 5% growth rate set by Beijing for 2024 will be achieved. As much as the May real estate rescue package temporarily revived local equities, the now rumoured refinancing of mortgages to lower borrowing costs for millions of families to boost consumptions should achieve the same. Chinese equities should respond, with valuations cheap and sentiment quite depressed.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

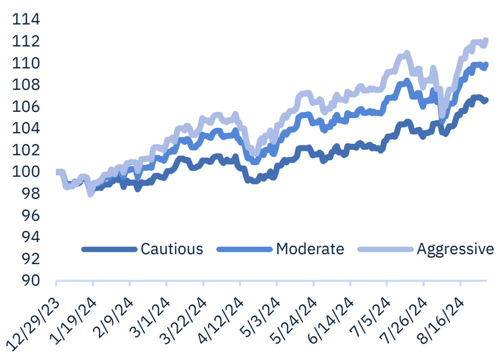


TAA – RELATIVE POSITIONING – MODERATE PROFILE

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 – 2024 INDICATIVE PERFORMANCE



Source: Bloomberg. CIO Office calculation based on TAA applied to market indices, net total return in USD.

Fixed Income Update

In the last Weekly, we had mentioned that the number of rate cuts priced in seem to be excessive if markets believe in the 'soft landing' paradigm. The Q2 US GDP estimates released last week exceeded expectations printing at 3% due to strong consumption numbers. There has been a slight downward revision of the number of cuts priced in since then. The US Treasury yield curve has bear steepened as a result. The 3-year curve increased by 5 bps whereas the long-end 30 year has increased by more than 10 bps. The US 10-year is trading around 3.9%, very close to our fair value estimate of 4% for this year. This Friday's Jobs data holds the key to gauge near term movement in the yields. The median estimate according to Bloomberg is 165k with the difference between min and max estimates at more than 100k indicating the possibility of large variation.

Research from GS has published some interesting data points about credit fundamentals post the Q2 earnings season on US domiciled bond issuers. We present some selected data points from the report below. In summary, the fundamentals remain within historical range and robust. Net leverage for the median IG-rated issuer remains largely stable near the high-end of its historical range at 2.7x but down from its all-time peak of 3.2x during the pandemic. Interest coverage ratios among IG issuers are slightly below their long-run average at 5.5x and have decreased for 10 consecutive quarters.

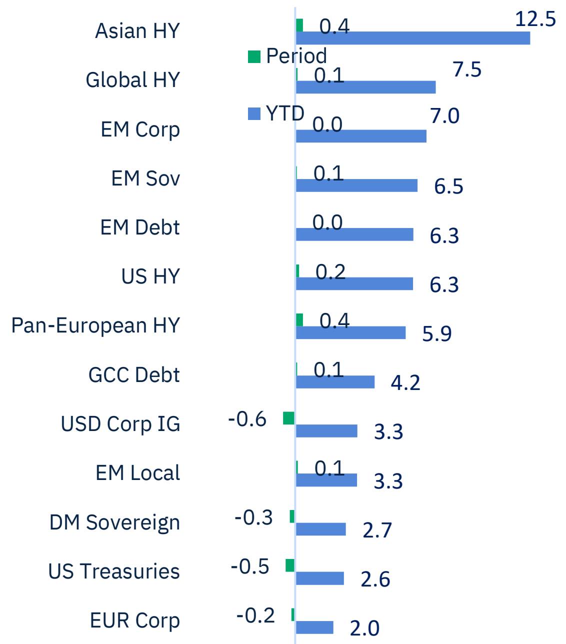
The median HY issuer also held its leverage steady quarter over quarter, at the lower end of its historical range at 3.4x. HY issuers increased their debt servicing capacity quarter over quarter, levelling out the trend after 6 consecutive quarters of decreasing interest coverage. Balance sheet liquidity has largely remained flat this quarter in both IG and HY. Of note, the divergence in profit margins between IG and HY has continued, with net margins among HY issuers compressing further down to 4.1% this quarter while expanding for the median IG issuer up to 10.7%.

Since last week, we have seen multiple mandate announcements from UAE Entities including RAKBANK, ADCB, BOS and ADNOC, with pricing expected to occur during this week. Both RAKBANK and ADCB have announced tier-2 bonds, sized at $250 million and $500 million, respectively. ADNOC Murban, a wholly owned subsidiary for ADNOC, has also issued a mandate announcement for a multi-tranche, USD notes for 5-, 10-, 30-year bonds. Bank of Sharjah has issued a mandate for 5-year senior unsecured bond. We expect to have multiple strong pipeline issuers from the GCC during September to take advantage of lower yield and tight credit spreads.

FIXED INCOME KEY CONVICTIONS (2024)

DEVELOPED MARKETS
Overall overweight DM FI
OW Government Bonds
Neutral corporate (IG & HY)
EMERGING MARKETS
Overall UW EM Debt
Favor quality and selectivity
Including in GCC

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



Source: Bloomberg

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Equity Update

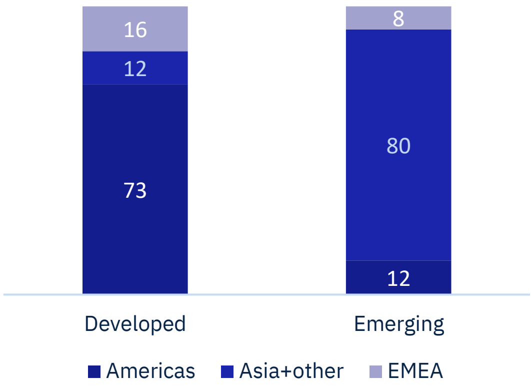
August ended positively for equities (+2.5%), though a flat performance last week following the prior 3 weeks' recovery from the early August selloff. All major regions gained with a stronger performance from the Eurozone, the UK and India. Mag 7 stocks were close to flat while the Russell 2000 (mid cap) and regional banks lagged the broader market with negative returns. Last week, the S&P 500 settled 0.27% higher, close to its all-time high, as a reacceleration in growth for Q2 and a resilient US consumer gives greater conviction the economy is holding up fine. DM central banks on a more certain rate cut path – better for consumer credit, mortgages, and corporate borrowing. In the Euro area, the STOXX 600 rose 1.4% and the ECB looks likely to cut again. Japan's TOPIX continued to recover losses from its selloff in early August, closing a percent higher.

Emerging markets saw disappointment around China tech –results from PDD (Temu) took the stock down 28% on the day. India saw new highs – a slow and steady year, The UAE has some interesting equity issuance before year end which broadens the market and dividend payouts remain key.

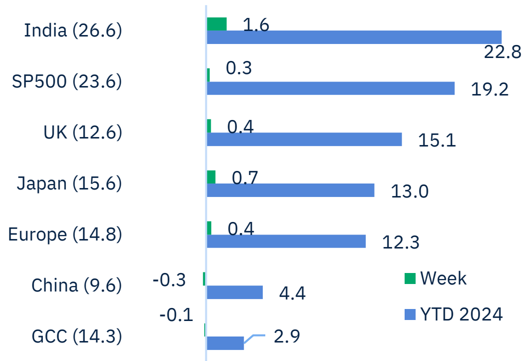
We are neutral equities with a preference for the US in developed markets and India and the UAE in emerging markets. All global sectors are positive year to date, and 6 of the 11 in the US are at 52-week highs (financials, utilities, industrials, healthcare, materials and real estate). Berkshire Hathaway became the first US company in non tech to reach a $1tn valuation and represents the more domestic US economy. The Tech sector recently lost momentum but is still the best performing sector year-to-date. The three most popular themes in the market right - now are Obesity, AI and Defense. AI looks fairly valued, while semis are outperforming, and we see plenty of industry adopters that should gain in the next few years. Obesity and healthcare overall had a great August, and the leaders Eli Lilly and Novo Nordisk continue to get upgrades on revenue and EBITDA growth. Another sector we add to the mix is Defense, with nations spending more and see more potential along with cyber security.

NVidia released quarterly numbers and guidance. Nvidia beat on revenue and earnings and guidance was also very solid. The stock lost 6% last week but is still +140% YTD following a 240% gain last year. It has led the AI boom to reach a $3 trillion market cap, the leader in high end chips and data centers needed to train and operate AI systems. Demand for generative AI products in large language models, images and personal assistants has supported sales of Nvidia's specialized chips. Big Tech companies have boosted their capital spending as they build the infrastructure supporting AI. Microsoft, Alphabet, Amazon, and Meta spending in H1 was at $106bn. This has caused concerns recently whether the AI spend will lead to commensurate earnings and concerns that valuations among the Mag 7 have become stretched.

EQUITY RECOMMENDED REGIONAL POSITIONING

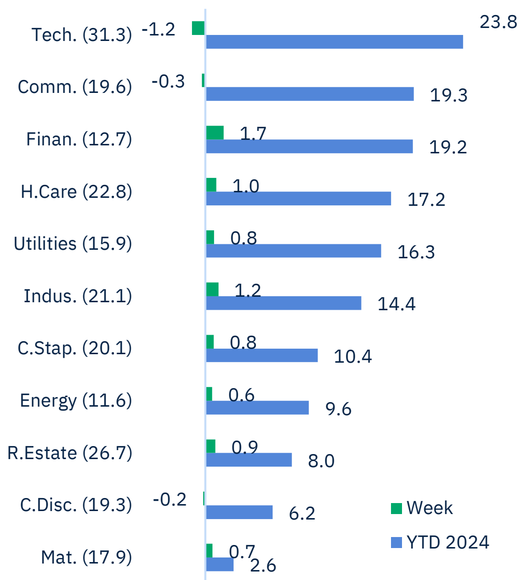


MAJOR INDICES PERFORMANCE (TR, US$), P/E in brackets



Source: Bloomberg consensus. MSCI Indices unless specified.

GLOBAL SECTOR PERFORMANCE (TR, US$), P/E in brackets



Source: Bloomberg consensus. MSCI All Country World sectors US$.

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