بنك الإمارات دبي الوطني
Emirates NBD

A massive positive surprise from the **US labor market**

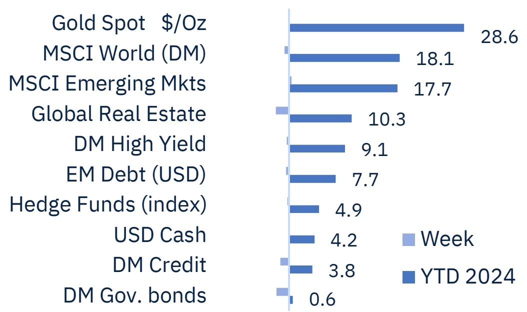
- **Last week was volatile with geopolitical escalation and an avalanche of economic data…**
- **… Culminating with the US monthly jobs report dramatically surpassing all projections**
- **Which triggered an instant reaction on rate cut expectations, treasury yields, and the dollar**

There are times when not much happens, and then there are the current times. After the September Fed pivot, and China's surprise giant stimulus plan, last week brought a geopolitical escalation, with Iran firing missiles over Israel, an update on the global economy with PMIs, and finally an extremely positive US jobs report. These events shaped the returns of markets, which were overall negative for the week, with treasury yields sharply rising, except for China, despite mainland markets being closed for most of the week, and US stocks, slightly positive.

First, the big picture from global PMIs was not a game changer, even if US services were stronger than expected. Questions on whether the world's largest economy is actually slowing arose on Friday, when we learnt that it created 254,000 jobs in September, 100,000 more than the median forecast. August was also revised higher, hourly earnings increased faster than expected, and the unemployment rate dropped to 4.1%. This is good news for the economy, but markets had to adjust their expectations for rate cuts, especially this year. Futures are now pricing in 50 basis points of easing ahead in 2024, which is in line with the Fed's own dot-plot. It's however important to keep in mind that the Fed was not expecting the labor market to improve: data matters, and volatility is here to stay.

The week ahead will see the beginning of the Q3 corporate earnings season and the particularly important US CPI inflation report, as well as the FOMC minutes. We will hold our monthly investment committee tomorrow, as China's mainland markets reopen. We continue to expect volatility, especially from geopolitics and politics with the US elections in just a month.

ASSET CLASSES USD % TOT.RETURN, 2024 & LAST WEEK



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Cross-asset Update

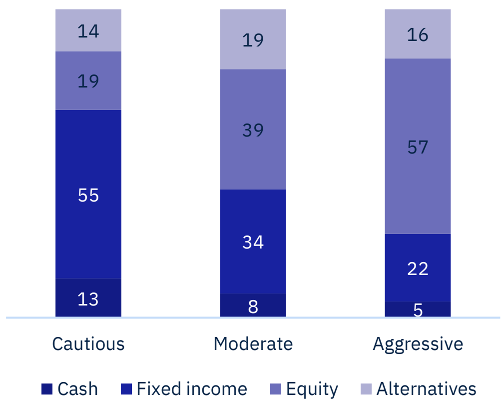
Once more, money market expectations for rate cuts are being reversed, and this time following the release of a much stronger-than-expected jobs report. It has happened time and again that investor's projections about future Fed moves jump around, and this must indeed be a sign of increased macroeconomic volatility. Long gone are the times when Fed's forward guidance alongside long periods of disinflation were enough to set the course for market views about the outlook. Rather than a set course, we now have ongoing shifts between hopes for a large number of rate cuts, and the dampening of those hopes. In short, it has never been easy to forecast the cycle, and nowadays it is much less easy. There is not only monetary policy to be taken into account, but rather fiscal policy as well. And while investors remain fixated on over-analysing central banks' communications, truth be told it is fiscal interventionism that in the post-covid period has steered the economy. Huge fiscal measures in the United States have kept the labor market afloat, frustrating expectations for long and deep cycles of monetary easing.

And now, China has decided to join in, planning to support the economy with fiscal measures by issuing special sovereign bonds. According to a leading economist the country has room to ramp up fiscal support to as much as $1.4tn in special debt. Confidence could be lifted by raising government spending in public projects, though of course not in one go. This conviction was echoed by a macro strategist who said that "if it is not enough, there will be more until it is enough".

The solid US jobs report and China's planned stimulus will affect the risk-reward across asset classes. Global equities are close to recording new all-time highs versus the Global Aggregate Index, a proxy for the IG universe. We think they will proceed to new highs in relative terms as markets price in stronger growth ahead. Likewise, as investors scale back expectations for rate cuts by the Federal Reserve, the dollar should continue to rebound, and crude oil should as well. The latter seems counterintuitive, but since late 2022 the US Dollar Index and Brent crude have moved in sync, possibly because the United States leads global growth and at the same time is the main oil exporter. And last but not least, crude and commodities in general will be supported by the planned Chinese measures as well. Gold, that so far has led the commodity complex higher, could stall temporarily. The PBOC remains a price-sensitive buyer, while rising yields represent a headwind.

Overall, the macro backdrop has become more constructive for equities, as well for commodities versus bonds. Stimulus is driving the opportunity set across asset classes, so investor's focus will be firmly on the United States and China.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

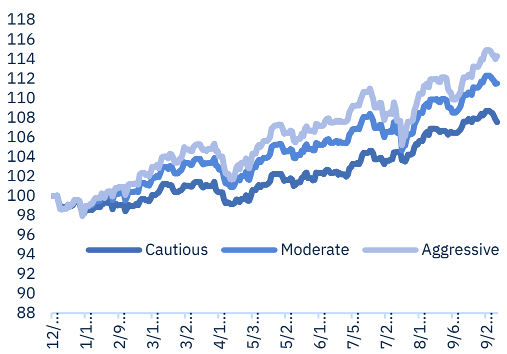


TAA – RELATIVE POSITIONING – MODERATE PROFILE

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

One data point has reinforced the bear steepening of the US Treasury Yield. Post the jumbo NFP surprise, we saw a sharp re-rating of cuts. Markets now price 52 bps of rate cuts by the end of 2024 in line with the Fed estimates and a total of 6 cuts till the end of 2025. This is down from 7 rate cuts which were priced as of last Thursday. The Us Treasury yield curve has bear-flattened with the 2 and 3 years up around 27 bps in only one trading session and the 10-year yield trading at 3.99% which is 1 bps short of our year-end estimates. Reduced labor market risks limit the room for near-term steepening and the curve can even extend flatter if markets reprice terminal higher. The economic surprises index has continued to move up and this means going long-duration would not provide good risk adjusted returns.

Meanwhile, the report provided boost to the soft-landing theory. This indicates that the credit spreads would remain tight in the absence of any large negative surprises. The HY and IG spreads have compressed by 12 and 5 bps over last week. Carry is the only tailwind that remains for bond investors in such tight spread environments. We like the short duration high carry instruments. IG and treasury have been the worst performers due to their duration parameters.

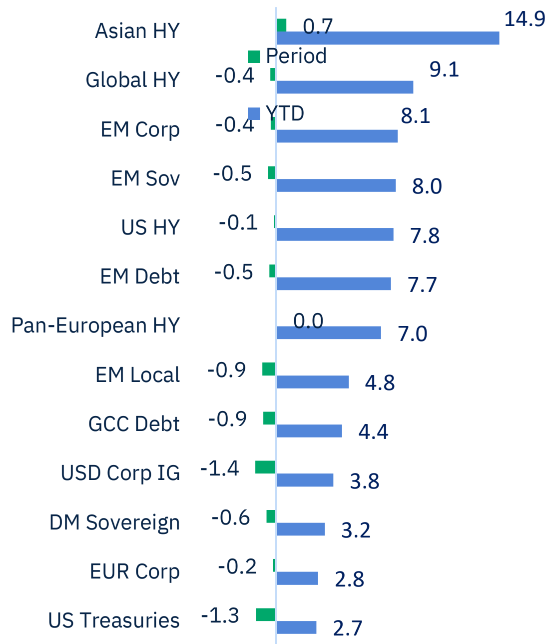
Emerging market bond spreads have two strong tailwinds with Chinese stimulus improving the sentiment while the strong macro data from the US provides impetus to USD instruments. The Bloomberg Barclays EM benchmark spreads have compressed by 10 bps trading at their tightest levels for the year. Meanwhile, despite geopolitical upheavals, we haven't seen any large spreads widening in the GCC bonds. The Bloomberg GCC benchmark bond index spreads have by 11 bps last week indicating strong demand from investors.

The GCC region continues to see a strong pace of primary issuances, with YTD issuances reaching $99.3 billion, compared to $63 billion in FY23. Last week, from the MENA region, TAQA issued 7-year and 12-year bonds at yields of 4.49% and 4.83%, respectively. Dukhan Bank, an Islamic bank based in Qatar, issued a 5-year USD sukuk with a yield of 4.56%. Nama Electricity Distribution Company S.A.O.C., the sole electricity distributor outside the Dhofar Governorate and 100% indirectly owned by the Government of Oman, issued a 7-year sukuk at 5.29%. Commercial Bank of Dubai issued a 5-year senior unsecured bond with a yield of 4.86%, while Ooredoo International Finance issued a 10-year senior unsecured bond at 4.71%. This week we have the mandate from the Government of Sharjah to issue a 10.5 year $ sukuk. The existing Mar 2035 sukuk currently trades around 5.53%.

FIXED INCOME KEY CONVICTIONS (2024)

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

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



Source: Bloomberg

Equity Update

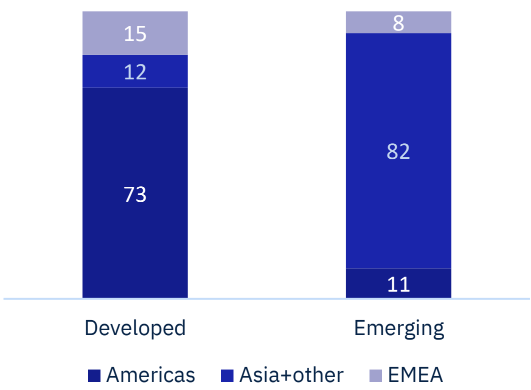
Global equities saw mixed performance across regions last week, driven by geopolitical developments, economic data and the upcoming Q3 earnings season. The MSCI ACWI, was down -0.62% over the week, reflecting some volatility across major markets. In the U.S., the S&P 500 gained modestly at +0.26%, benefiting from solid labor market data, which lifted sentiment on Friday. Markets are gearing up for the earnings season, which will be pivotal in shaping market outlook. With AI demand being a key factor this earnings season, its potential impact on revenue and earnings is under the spotlight. Yet, Micron's recent results underscored robust AI-related demand, which bodes well for the ongoing strength of the broader AI theme. The S&P 500 equal-weight index continues to show that gains are broadening across other sectors, suggesting a healthier market breadth beyond tech.

Overall, in Q3, the S&P 500 posted a strong quarter with a total return of 6% and is up 22% year to date reaching a new all-time high of 5762. Much of this performance was led by a few large-cap technology stocks, specifically Microsoft, Nvidia, Apple, Alphabet, Amazon, and Meta, which together accounted for 44% of the index's return. Across global sectors, Tech remains the top performer with Utilities and financials close behind. In Europe, the MSCI Europe index closed down -1.7% last week. Energy outperformed as oil prices rose higher, on the back of geopolitical tension. Autos rebounded toward the end of the week, lifted by news that the EU may impose tariffs as high as 45% on Chinese electric vehicles, but still have a dismal year to date performance.

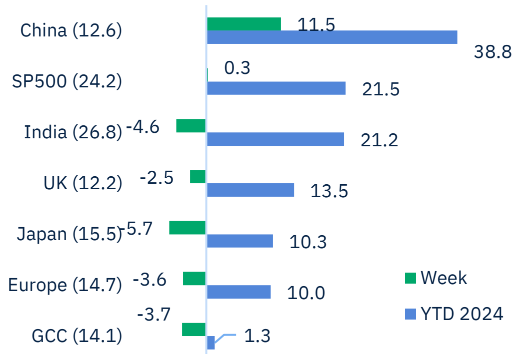
Turning to Asia, Chinese markets were closed for the National Day holiday, but Chinese firms listed in Hong Kong continued to rally, with the MSCI China index posting a remarkable +11.1% last week. This surge was driven by Chinese companies listed on the Hong Kong Exchange, which saw a strong rally led by stimulus-fueled optimism. The Hang Seng Index and MSCI China while having gained 30% the last 3 weeks, and valuations up correspondingly at 12X forward P/E are still at a significant discount to the rest of emerging and global markets. Although this has been a significant rally, it's worth noting that valuations for China still have room to catch up to their five-year averages, and the sustainability of this momentum will depend on improvements in consumption and economic activity. Meanwhile, the TOPIX in Japan declined -2%, with a rebound coming towards the end of the week after the new Prime Minister, Shigeru Ishida, indicated that Japan is not currently in an environment conducive to further interest rate hikes. This led to a weakening yen, which supported equity markets.

As we head Q4 the earnings focus is on corporate health, guidance, and how companies are navigating a backdrop of the easing cycle, high valuations, geopolitical uncertainties, and the upcoming US elections. Markets are on edge but cautiously optimistic, with the potential for a strong finish to the year depending on earnings trends and policy developments.

EQUITY RECOMMENDED REGIONAL POSITIONING

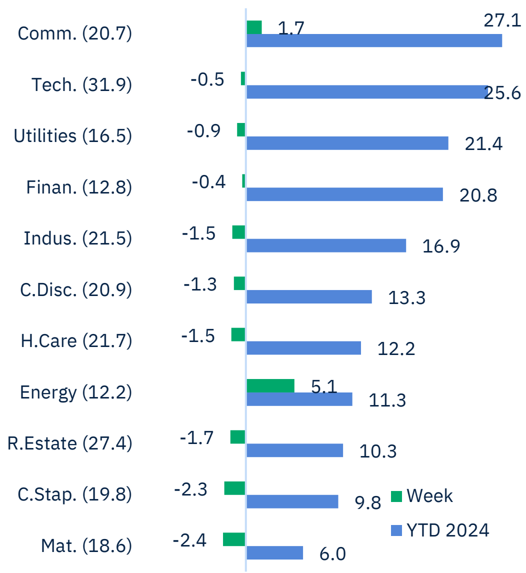


MAJOR INDICES PERFORMANCE (TR, US$), P/E in brackets



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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