Waiting for the **last answers of 2024**

- **Last week was negative for most asset classes, as US CPI confirmed that disinflation has stalled**
- **The week ahead may be active, with 2024's last Fed policy decision and lots of economic data**
- **We end the year close to neutrality compared to our strategic allocations, preparing for 2025**

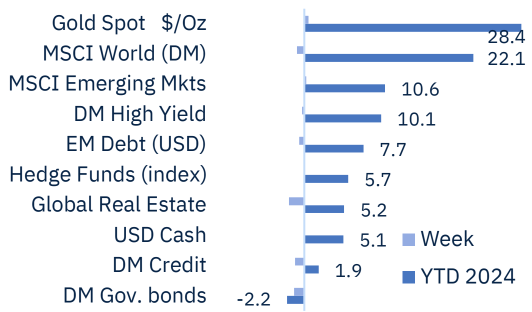
Last week was overall negative across the major asset classes, which can be just put down to the US CPI report confirming that inflation has stopped falling well before Mr Trump takes office – and many market participants expect some inflationary impact from his future policies. The US government bond yield curve shifted slightly higher and "bear steepened", with an increase especially at the long end. Stocks from developed markets fell -1% on average, the exception being "big tech". Emerging markets were a bit better, as the strong wording from Chinese authorities during their Economic Work Conference clearly confirmed some significant stimulus ahead. Still, details were lacking and this morning's November retail sales were clearly disappointing.

The "Year of Answers" will continue to speak this week. We will get flash PMIs for all the major regions, as well as retails sales and industrial production for the US, among other. But the focus will be on the FOMC Wednesday. A 25bps rate cut is widely expected, as well as updated economic and rate projections, which are currently a bit pessimistic for growth and employment, and a bit optimistic on inflation. For the "dot-plot", our forecast is three 25bps cuts in 2025.

In terms of positioning, we end the year close to neutrality. Our two active positions are an overweight on government bonds, with neutral duration, funded by an underweight in hedge funds.

This is the last weekly publication of 2024. We wish you and your beloved ones a wonderful holiday season and can't wait to share our 2025 Outlook with you in January.

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



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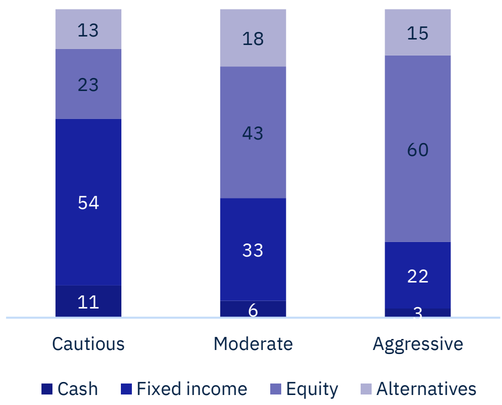
Cross-asset Update

The US dollar has so far strengthened this year on the expectation that Trump's policies, fuelling domestic business and at the same time inflation, would prevent the Fed from lowering interest rates. Tariffs would create a growth differential in favour of the United States by curbing global trade, while the cutting of taxes and deregulation would support internal demand. Yet, the global reserve currency is very expensive in trade-weighted terms and has already soared more than 6% year-to-date in the wake of Trump's victory. A growing number of strategists is starting to have doubts about further strength and is actually forecasting weakness versus current levels by year end. And it would be not only be a matter of valuations, but also the eventual possible resolution or tempering of trade wars.

If on the one hand Donald Trump has the incentive to keep up a harsh rhetoric to bring other nations to a negotiating table, on the other a confrontational attitude may fail to Make America Great Again. Extracting concession and making deals would be the real purpose allowing him to cash in on the campaign promises. Also, a weaker currency would be helping the stock market via stronger overseas earnings, as well as the manufacturing sector, that he pledged to boost during his campaign. To this end, stimulus outside of the United States would be playing a key role. China needs to stimulate the economy, with the effect of the latest measures barely sufficient to allow the country to hit the 5% target this year, and whose effect is already fading as indicated by this morning's retail sales miss. The next deadline in this respect would be next March National People's Congress, where the authorities should articulate more clearly the measures aimed at widening the budget deficit, supporting consumption, and boosting fiscal reforms, that were announced last week at the Economic Work Conference. The ECB on his side is expected to ease and boost internal demand. If this on the one hand is not playing in favour of the euro, on the other it could rekindle animal spirits and make for a risk-on environment alongside China's measures.

Under such a scenario the manufacturing sector would be kickstarted back into life, overseas asset would be outperforming the US markets, especially considering their more subdued relative valuations, and the dollar would weaken. Yet, the Federal Reserve would have to play ball and continue the easing cycle. In summary, a US slowdown plus significant stimulus elsewhere would be the best friends of non-US assets.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

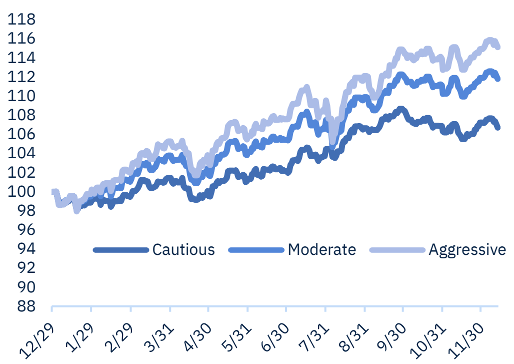


TAA – RELATIVE POSITIONING – MODERATE PROFILE

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

U.S. Treasury yields bear-steepened during the week, with the 2Y/5Y/10Y/30Y yields rising by 13/20/23/26 basis points to 4.23%/4.23%/4.38%/4.59%, respectively. The 30Y bond auction saw weak demand, which pressured long-end yields. Initial jobless claims rose more than expected, by 17k last week to 242k vs 220K consensus estimates due to unfavourable seasonality over the Thanksgiving holiday. November CPI was in line with consensus at 2.7% vs previous 2.6% YoY and CPI rose 0.3% MoM in November while the core index rose 0.3%, in line with expectations. This is the fourth straight strong reading marking analysts view that disinflation has stalled. US PPI prices jumped more than anticipated by 0.4% in November. Core PPI number was in line with expectations at 0.2%.

Investors now look at the last major development in 2024, the "FOMC meeting" this week to gauge the direction of Treasury moves. The OIS market now prices in a 97% probability of a 25bps rate cut this week compared to 66% at the end of November. Markets now expect three quarter-point rate cuts till next year, down from prior forecasts of four. ECB as expected cut rates by 25bps for a third consecutive meeting, signalling more reductions next year as inflation nears 2% and the economy struggles. Indicating its shifting stance, the ECB's statement dropped wording saying policy will remain "sufficiently restrictive" for as long as necessary. Dangers to growth remain tilted to the downside, according to President Christine Lagarde, who pointed to waning momentum in the 20-nation euro zone. Market Analyst expects Bank of England to maintain the bank rate at 4.75%, given that the data since the November meeting have been mixed, with softer activity numbers but firmer wage growth and inflation figures. The Bank of Japan also meets on Thursday and is expected to hold at 0.25%.

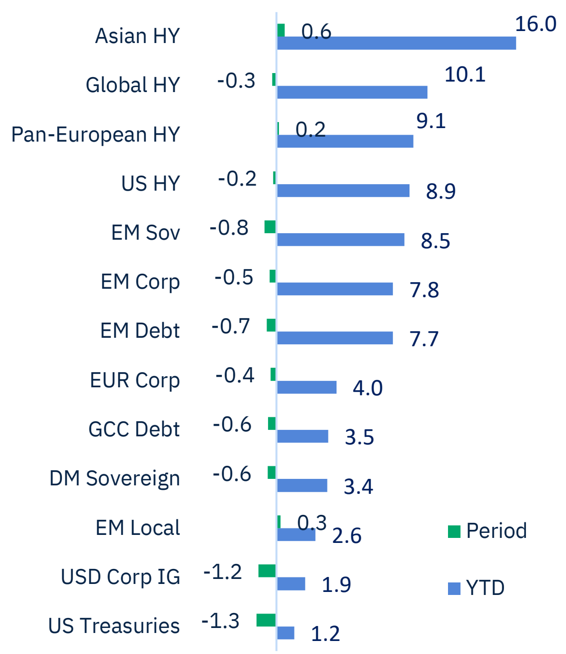
Credit spreads continued to grind lower. During the week, the Bloomberg Benchmark OAS spreads narrowed by 13 bps for GCC debt, 9 bps for emerging markets, 7 bps for high-yield, and 3 bps for investment-grade indices. The spreads continued to remain below 10th percentile across indices, but the return is expected to come from carry. Asia IG and HY spreads tightened by 2 and 19 bp, respectively this week with China bonds outperforming.

GCC debt supply should remain in line with 2024 with KSA expected to lead the volumes and over $45 Bn of bonds maturing. However, demand should remain strong as local investors continue to focus on all in yields. The spreads would depend significantly on oil prices. We expect spreads to widen from the current levels but remain contained if oil prices stay above $60.

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

Neutral DM: OW US/UK, Neutral Japan, UW Eurozone
Neutral EM: OW India/UAE, Neutral China.
With two trading weeks into year end, global equities look likely to end with +20% gains for 2024, with major regions in line, barring LATAM. Expectations of easing Fed policy, robust consumption and stable inflation keep US markets leading and the high-tech concentration is boosted by AI productivity sentiment.

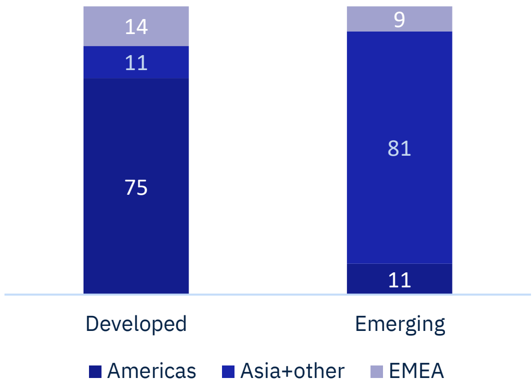
Global markets ended lower last week, with declines in DM (-1.0%) while EM gained +0.2%. The standout was the MAG7 group +3% last week (+73% YTD) and at a combined market cap of USD18tn are 34% of the S&P 500 and 18% of the MSCI ACWI market cap. Alphabet and Tesla were the leaders last week, though Apple retains its position as the most valuable company globally at a $3.75tn market cap. Nvidia briefly held this position. Semiconductor stocks have done well this year and Broadcom joined the trillion-dollar club on Friday as shares rose 24% with forecasts of robust AI chip demand, as the company estimated $90bn in revenue for the sector by 2027 – four times the current size of the market.

UAE markets have the Dubai Index continue to gain and the recent Emaar Properties announcement on increased dividend payout for 2024, boosted sentiment further. Many companies in the UAE market have robust dividend yields over 5% including the ADNOC group and utility players. We have been overweight UAE equities for three years now and this stance looks well supported with economic growth for 2025 estimated at 5% (inhouse).

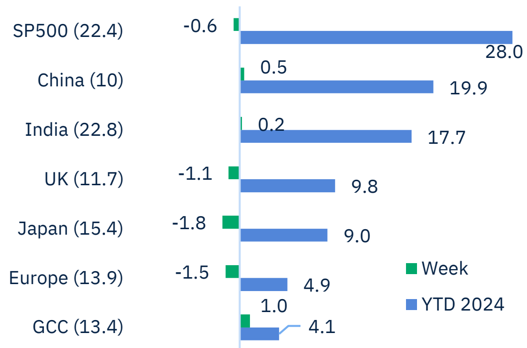
We held our tactical asset allocation meeting last week and maintain a neutral positioning for DM equities with EM equities from underweight to neutral. Whilst China and India equities had a dismal October, from November stimulus efforts in China have begun paying off and in India the earnings outlook remains robust. Both markets are close to gains of +20% year to date (USD MSCI indices) and whilst we expect China markets to continue to trade sideways, the risk reward outlook looks reasonable for mid-sized gains the next one year. Consumption remains a worry and data today saw weaker-than-expected retail sales, +3% y/y, short of the 5% forecast. Last week, Chinese equities gained as support came the Central Economic Work Conference, with plans to boost fiscal spending in 2025 and increase domestic consumption. Infrastructure investments and targeted subsidies emphasized, though lack of concrete policy details capped enthusiasm.

The S&P 500 maintains robust ytd gains, with expectations that President-elect Trump's policies will boost demand and growth. US markets continue to outperform, and we remain overweight as the higher valuations are mitigated by expectations of +10% earnings growth next year. The Nasdaq made new records but the equal-weighted S&P 500 index declined -1.7% last week. The Russell 2000 fell -2.6%. Europe saw material and mining stocks fall last week though financials and auto stocks provided some stability.

EQUITY RECOMMENDED REGIONAL POSITIONING

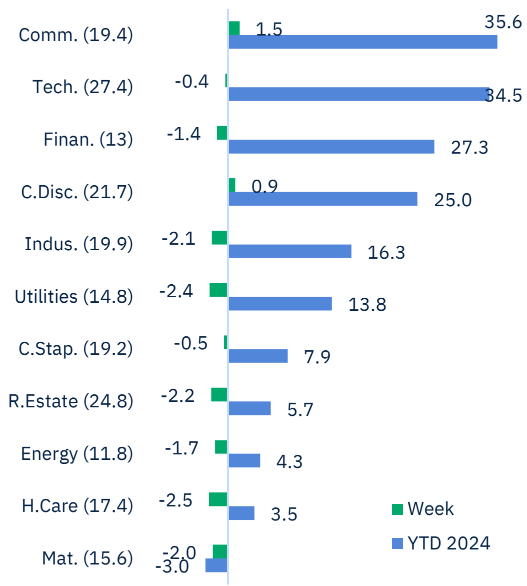


MAJOR INDICES PERFORMANCE (TR, US$), P/E in brackets



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$.

بنك الإمارات دبي الوطني
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