Better **visibility** for the coming months

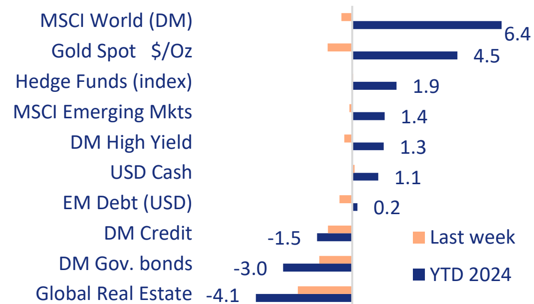
- **Recent data paint a picture of resilient and broader growth, with stickier inflation as a consequence**
- **This is not adverse to diversified portfolios: we have fine-tuned our positioning accordingly last week**
- **This week, we will get updates from central banks and more soft data on activity and inflation**

Our title for last week's publication, on the possibility of a rising inflation risk, was not contradicted by data. US CPI and PPI reports were both (slightly) hotter than expected, triggering a material rise in both US Treasury yields, up between 10 and 30 basis points across the curve, and in the market implied level of US policy rates at the end of 2024, now aligned with the Fed's and our own scenario for 75 basis points of cumulative cuts to start from the middle of the year. Bond markets sold off, the dollar strengthened, and stocks were modestly in the red, with a clear profit taking pattern on the best performing segments of the year, from US tech to India and Japan. The move in Brent crude oil price was also notable: a +4% increase to $85, with rising prospects of a deficit ahead, between hopes for better demand and extended production cuts from the OPEC+.

We made a few changes to our tactical asset allocation last week, as we find comfort in resilient growth, despite inflation being a bit stickier. We increased our allocation to stocks from emerging regions across profiles by 1 percentage point, funded by cash. We also took profit on our successful overweight on gold, now going neutral, and reinvested the proceeds into the worst performing alternative asset class of 2024 so far, Global REITS, where we reduced our underweight. We also realigned some active positions within our cautious profile, adding a bit of DM stocks and EM debt to put at work some of our large cash pile.

The week ahead is dominated by the Fed's FOMC which shouldn't make any change but update their projections this Wednesday. The BoJ and BoE will also meet, among others, with the former potentially tweaking their extraordinarily accommodative policy. Flash PMIs may confirm a broadening in the sources of global growth. Have a great week.

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



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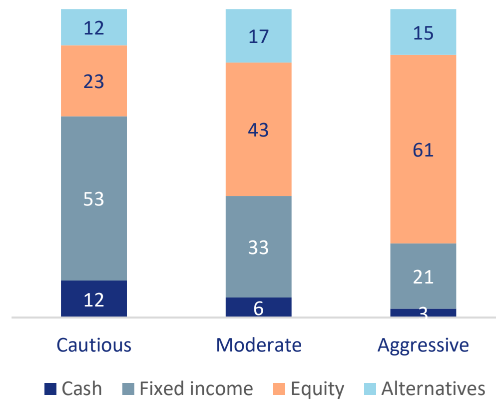
Cross-asset Update

There is growing evidence that investors are getting more convinced about the strength of the economy, as indicated by the improving performance of cyclical versus defensive equities, by smaller companies breaking out to the upside, and the growing number of markets outperforming the United States. This is important, as equities are a discounting mechanism, hence what Investors in aggregate are betting on today is going to transpire tomorrow in improved macro releases, and eventually in stronger earnings growth. The textbook of an early cyclical recovery flows from cyclical equity sectors to the economy, then to earnings. In terms of business cycle, we can say we are in the early stages of a recovery, if we think that the manufacturing sector is just exiting a contraction phase, although the US economy actually never fell into a recession. It is just that post Covid we had rolling recessions across sectors, rather than one across the entire the economy as it had previously been the case. So, in the immediate aftermath of Covid services shut down almost completely and the goods sector benefitted, then as the economies reopened services boomed and manufacturing ended up in contraction. The most cyclical pockets of the equity market are now telling us that the manufacturing recovery is starting.

The improving performance of the most commodity-intensive sectors, from industrials to materials and energy, suggests that a rotation is happening with profit-taking in richly valued growth stocks. EM equities should stand to benefit, as the emerging economies after all are driven more by the goods sector, than by services. And this is corroborated by fiscal measures in China finally starting to exert an effect on the economy and on markets. The Goldman Sachs Fiscal Index for China is inflecting higher from depressed levels, and mainland China equities are following suit. And in Europe investors see future economic conditions improving fast versus the more stagnant current conditions, as per the latest ZEW survey. All of this suggests that, as the rally broadens, the economic recovery encompasses more economic sectors, and gains further traction. Once earnings growth gets impacted and surprises to the upside, investors will pick up on the earnings signal and further allocate to equities.

But it is not all gold that glitters. The Fed will reiterate its ‘high for longer’ narrative as far as policy rates are concerned, and yields will drift higher. So, if equities stand to gain, bonds stand to lose. Also, gold will again be capped, as now for the next twelve months a large number of Fed cuts is already discounted by money markets and hopes for policy easing will first have to be disappointed before gold starts a new upleg. Overall, we see room for cyclical assets to continue to perform, while the longer-duration ones could struggle in the shorter term..

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

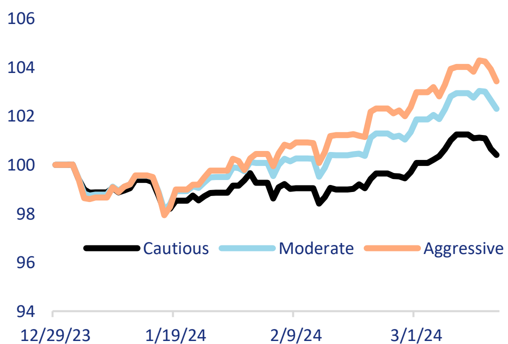


TAA – RELATIVE POSITIONING – MODERATE PROFILE

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

Treasury yields finished mostly higher on Friday, handing the 10-year rate its biggest weekly advance in almost five months, as traders continued to absorb February's producer- and consumer-prices data. The 10-year Treasury yield closed at 4.3% after adding around 22 basis points last week, only 6 bps lower than the YTD highs of 4.36%. This is the highest weekly close on 10-year yields since Oct 2023. The yield curve bear-flattened with 2s10s now at -42 bps.

This is a week of two important central bank meetings. BoJ will be first off the block, with the policy rate announcement due on 19th March. The market is pricing a 50% chance of a 10-bps hike this week, which will take the country out of the Negative Interest Rate regime with two rate hikes expected by the end of the year. If BoJ confirms it will be a one-and-done policy major, then JPY may come under pressure, and JGBs may rally. This also has some bearing on the 10-year UST yield, putting a floor under it.

But all eyes will be on the Fed this week. Of course, no one expects a rate cut, but the post-meeting conference and the update to the Dot Plot will be important. Chairman Powell is expected to maintain the current stance elaborated during the Congressional testimony. Changes to the Dot Plot, if any, will be closely watched. All it takes is two FOMC members to move up their projections for the median Dot Plot this year to increase by 25 bps, showcasing only 2 rate cuts instead of the current 3 rate cuts priced in. The Fed may also change its inflation expectations for the current year. JP Morgan revised their 10-year FV estimates to 4%.

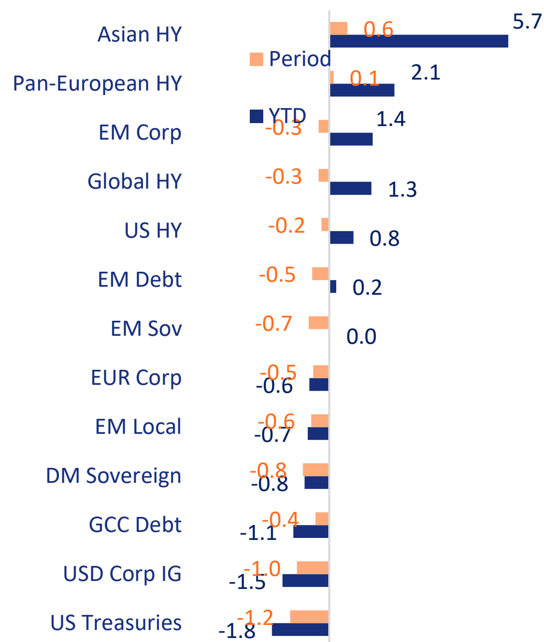
Corporate credit spreads narrowed to the tight end of recent ranges. The Bloomberg Barclays Global Agg credit spreads currently trade around 91 bps. It is always easy to get too exuberant when valuation is already quite tight. With the current equity market spread and an expected Goldilocks scenario, nothing stops the spreads from staying lower for longer. High Yield has been the best-performing segment this year owing to its high carry and the significant spread compression, which has mitigated the effect of the increase in yields. Similar to US IG fundamentals, US HY credit metrics show signs of stabilization, according to a recent JPM report. Leverage for BB, B, and CCC-rated companies is 3.3x, 4.5x, and a 7yr low 6.4x, which compares to a decade average of 3.5x, 5.0x, and 7.6x, respectively.

MENA region issuers have had a great week as upgrades continue. After upgrading Turkey's ratings and outlooks, Fitch has revised the ratings of state-owned banks to B with a Positive Outlook. ADCB's outlook has been revised to positive today. Fitch has upgraded Emirates Islamic Bank's long-term IDR (Issuer Default Rating) and senior unsecured debt rating to 'BBB-' from 'BB+', aligning with Emirates NBD Bank PJSC's long-term IDR based on shareholder support.

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

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



Source: Bloomberg

Equity Update

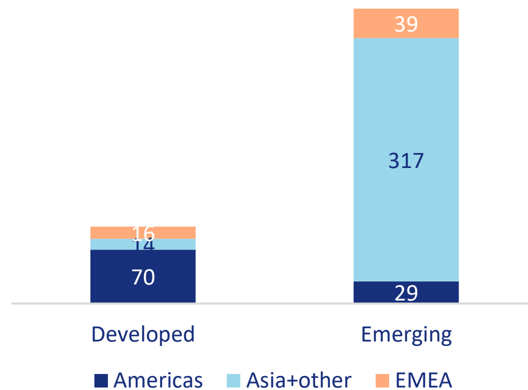
A reversal in year-to-date equity trends last week with China outperforming, Japan, India tech and semis lower, the US flat. GCC equities continued their uptrend. Stronger than expected inflation numbers may put a dent in equity momentum but the DM rally was going too fast. The pause is useful to reassess fundamental positioning. Our tactical positioning post the last asset allocation meeting is neutral equities. We added to EM stocks vs cash with China and India performance expected to continue, albeit with some volatility. On a granular basis, we continue to prefer Japan within DM and India within EM, while neutral the US and China. So far, our calls have been vindicated with Japan and India returns leading. Catalysts for further performance from Japan include strong consumer demand and dominance in robotics, effective capital market reforms aided by stocks trading at low price/ book giving room for valuations expansion.

Emerging market equities are finally in the green as is the MSCI China after a rally in February/ early March. India, the UAE and the KSA more consistent at 5% gains this year. We remain neutral China and could see a surprise to the upside this year, but timing remains uncertain. The National People's Congress has concluded, seen as underwhelming. A-shares look better positioned with liquidity and valuation support, given the A-share investor base and the government's stabilization effort. UAE remains our preference for income and UAE and KSA companies have raised dividends: notably the banks in the UAE and more recently Saudi Aramco in the KSA. Capital issuance received well with Dubai Parkin getting $71bn demand for a $429mn IPO offer.

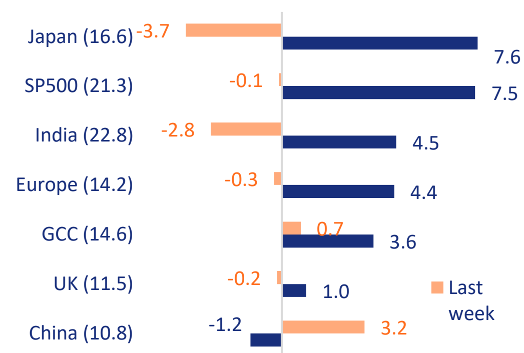
The S&P 500 and Nasdaq retreating from record highs with a sell-off in semiconductor shares. Both up c.7% YTD and the rebound in earnings growth remains in favour of range bound trading. The Russell 2000 flat for the year. US banking woes largely ignored by markets with New York Community Bank's exposure to commercial real estate seen as contained. Market breadth should continue to improve which would keep the S&P 500 in the 5000 to 5200 range. Earnings growth expectations are 3.3% for Q1 and revenue growth 3.5% with the estimated net profit margin 11.5% and for Technology. 25.1%. Much talk of US markets being in a bubble territory are counteracted by major investment houses taking S&P 500 price and earnings targets higher.

Big tech is an outsized beneficiary of the AI secular growth theme. But broadening of upside participation seen, the equal-weight S&P last week hit a new record high for the first time in two years. Tech is still leading global sectors +10% YTD after losing a percent last week with semis down 4%, The magnificent 7 and semis are up 14% YTD with many AI-related themes positive. However, performance is skewed by Nvidia +77% YTD and Meta +30% YTD. Nvidia is a $2tn dollar company, - 5% from a record closing high of $927. In Q4 earnings calls 179 S&P 500 companies cited the term "AI". These companies have performed better over the last year than ones that didn't cite AI. Companies repeatedly discussed using GenAI to create live customer service chatbots. While AI was a prevalent theme, few companies gave out specific numbers around their AI dollar spending.

EQUITY RECOMMENDED REGIONAL POSITIONING

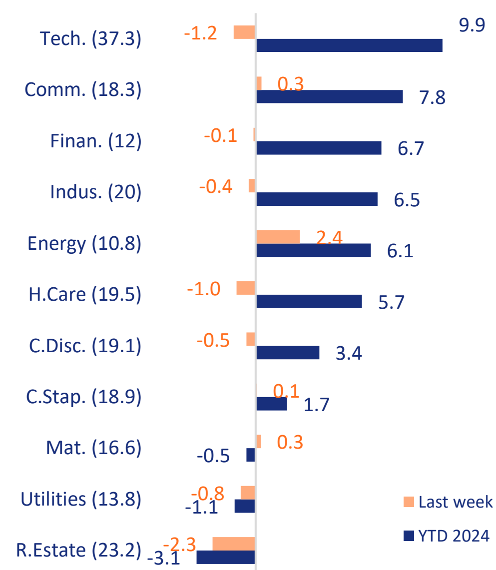


MAJOR INDICES PERFORMANCE (TR, US$) AND P/E



Source: Bloomberg consensus. MSCI Indices unless specified.

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



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

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