Emirates NBD
WEALTH MANAGEMENT

Strong US data starts to impact **market expectations**

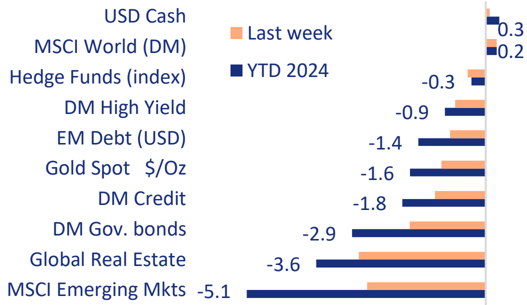
- **Last week was mixed on financial markets, with US data confirming current economic strength**
- **Fed Funds futures for the end of the year started to move higher, impacting treasury yields and the dollar**
- **Stock markets printed an all-time high in the US, and a multi decade record for Japan's Nikkei**

Last week was not about crucial economic data, but the releases confirmed a reality that markets liked to ignore: strong retail sales, low jobless claims, and a jump in confidence confirm that the Fed has no need to cut rates imminently nor aggressively. Indeed, the number of rate cuts implied by future contracts slowly started to moderate, from 6 to 5 (25 bps) in 2024. The implied probability of them to start in March also dropped.

US Treasury yields took note, with rising yields on all maturities of 6 months and longer. The dollar appreciated, also supported by geopolitical tensions, keeping oil prices steady. US exceptionalism continues: retail sales in the UK were disappointing, China's Q4 GDP was not impressive, and data from Europe did not show any sign of improvement. The week ahead will provide more colour to the picture, with flash PMIs as well as US GDP and core PCE inflation for Q4. The ECB and BoJ will both hold their policy meetings. A stronger dollar explains why, despite an all-time high in US stocks and a multi-decade record for the Nikkei, global equities are barely positive so far in dollar terms, while money market funds take the top spot.

Our positioning remains favourable to the latter, but also to bonds, including high-yield. Our central scenario is certainly not as aggressive as 5 rate cuts from the Fed (we expect 3, starting from mid-year), but we also expect the global economy to continue slowing down. We carry a modest underweight in DM stocks and a more pronounced one on hedge funds and global REITS, as well as an overweight in gold. We are neutral on stocks from emerging markets, where China is actually the clear reason for their negative returns so far this year. India and the UAE, our preferred regions, are actually up 1.2% in US$ terms. Have a great week.

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



MAURICE GRAVIER
Chief Investment Officer
MauriceG@EmiratesNBD.com

ANITA GUPTA
Head of Equity Strategy
AnitaG@EmiratesNBD.com

GIORGIO BORELLI
Head of Asset Allocation
GiorgioB@EmitatesNBD.com

SATYAJIT SINGH, CFA
Head of Fixed Income Strategy
SatyajitSI@EmiratesNBD.com

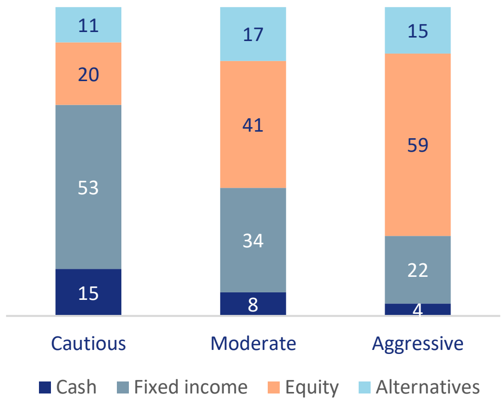
Cross-asset Update

The fight against inflation is considered won, both by central banks and investors. The ongoing disinflation process alongside moderating, yet positive growth in the United States constitutes the so-called Goldilocks scenario by now fully discounted by markets. Other major economic areas are not enjoying that same kind of resilience, notably the eurozone and China, so markets continue to operate against the backdrop of US exceptionalism, whereby US growth supports both the world economy and risk assets. The disinflation process should continue, as the effects of post-pandemic stimulus wane and monetary policy remains restrictive. But now that the base-case scenario is fully priced in, investors will be increasingly putting it to the test. And since the economy cannot grow too much, without stoking concerns about inflation and tighter policy, nor too little as a recession could follow, the very narrow Goldilocks path could leave more room for a no-landing, or a contraction scenario.

As long as hard data remains strong, markets are more likely to see a no-landing scenario, with growth eventually reaccelerating. And this seems to be the case for now, with retail sales last week surprising to the upside even as consumer inflation expectations moderated according to the University of Michigan sentiment survey. Hence, yields rose from oversold levels and the dollar strengthened, although money market bets about early cuts this year moderated only somewhat. Yet, the equity rally was not broad, that one would on the other hand expect it to be should the recovery be at hand. Technology led benchmarks higher, while other S&P 500 sectors underperformed the broader index or were actually negative for the week. Likewise, the S&P 500 equal-weighted lagged badly to close in the red, alongside Europe and the EM equities. So, investors are cheered by stronger data, yet are not confident to embrace a full recovery scenario. What sort of dispelled those doubts was the strong outlook reported by Taiwan Semiconductor Manufacturing Co., the largest chip foundry in the world, that projected revenue growth to rebound to at least 20% this year, as well as a higher range for capital expenditure, suggesting a recovery in global smartphone and computing demand. Also, Fastenal, a distributor of industrial and construction supplies whose sales trends are a good real-time read on the US industrial economy, beat on earnings and revenue despite the ongoing manufacturing contraction. And the company actually highlighted manufacturing end markets doing well in its press conference.

Should a recovery come to pass, inflation and yields would be coming back to haunt investors basking in expectations of early Fed cuts. The jury is still out, and for now the narrow equity rally is set to continue.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

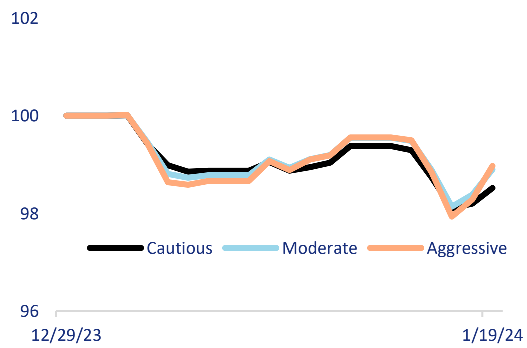


TAA – RELATIVE POSITIONING – MODERATE PROFILE

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

Hawkish central bank communication combined with solid data from the US has pushed the government yield curves up across the developed markets. Markets may be too optimistic about 2024 easing expectations, as evidenced by Governor Waller's comments on a slower pace of rate cuts, "no reason to move as quickly, cut as rapidly as in the past." March rate cut expectations have fallen to 41% as of last week compared to a whopping 78% on 12th Jan. ECB Governor Lagarde also pushed back against early rate cut expectations hinting that the ECB may start looking at rate cuts in the summer. ECB and BoJ have policy meetings this week while the Fed assemble next week. The US December retail sales print came in stronger than anticipated at 0.6% vs expectations of 0.4% and November print of 0.3%. The UST yield curve bear-steepened further as the 10-year crossed 4.1%, and the 30-year increased by more than 14bps to trade above 4.3%. We believe these are good levels to start adding duration in portfolios.

IG bond spreads tightened further and are very close to their post-GFC tights. A lot of good news is priced into these spreads. At the same time, there are a multitude of risks lurking, including but not limited to heightened geopolitical risks, stronger US macro data print, and disappointing earnings and guidance. Demand driven by higher carry remains strong despite a robust issuance calendar so far. Compared to that, the High Yield spreads were relatively unchanged, increasing the IG/HY spread dispersion. Historically, HY has performed well following Fed rate cuts, with BB-rated names outperforming their B and CCC counterparts. So, staying up in quality even in HY helps.

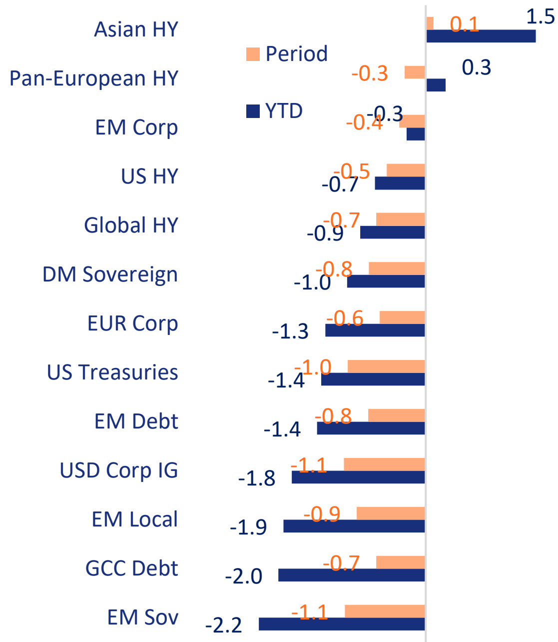
EM Spreads have been under pressure as China disappointed both on stimulus measures and GDP growth. China's fourth-quarter GDP grew 5.2% versus a 5.3% estimate. The jobless rate rose to 5.1%, and home prices fell. Meanwhile, contrary to widespread expectations, the PBOC decided not to cut the MLF policy rate. We prefer EM sovereigns compared to their corporate counterparts owing to valuation differences. Within EM corporates, Indian HY outperformed every other segment as news flow was positive across weaker names along with good macro data from the country, including a softer CPI release and higher GDP growth projections.

GCC primary issuance shows no signs of abating. Today, PIF has announced IPTs for a three-tranche bond issuance. This would take the total bond sales from the region to around $20bn or roughly one-third of last year's total issuance. Our preference in the region is to add duration in the Investment Grade Government-Related-Entity space. We also like the short duration of the GCC HY space to generate income.

FIXED INCOME KEY CONVICTIONS (2023)

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

The S&P 500 and Nasdaq indices at a record high, Japan equities at a 34 year high. Inflation ticking down and strong earnings from the tech sector (semis) supporting investor sentiment. Global equities flat for the week and year with China losing 5% for the week (MSCI China YTD -10%). India and Japan our preferred markets in Asia outperforming with a marked differential continuing from 2023. Japan's Topix Index continues to gain (+7% YTD), though the weaker JPY is dragging down returns in USD. Indian equity indices lost half a percent last week, however positive + 1.5% for the year so far. US equities gained last week, whilst Eurozone and the UK fell. The tech sector has outperformed this year by 3%, with semis led by TSMC indicating strong continuing demand for high-end chips. The Materials sector is -7% YTD as China real estate and slowing demand is weighing on commodity company performance. China seen as a global growth drag, as stimulus and policy measures continue to disappoint as does the real estate slump.

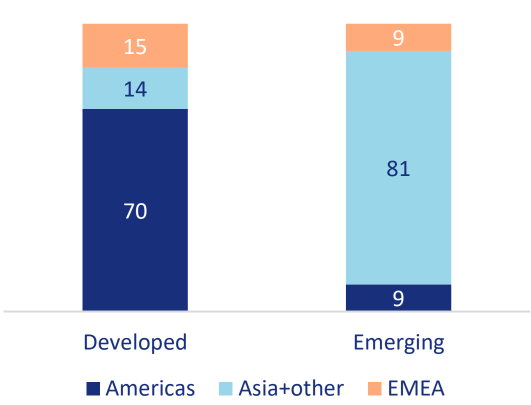
UAE markets kick off earnings with banks tomorrow and we expect high net interest income growth and strong dividend pay-outs. Plenty to choose from in the UAE in terms of high dividends from banks, real estate to utilities, with yields 4-6%.

Rates higher for longer but peak rates very much in place, slowing inflation positive for DM regions. Margins will be the key driver of S&P 500 ROE in 2024 as headwinds from borrowing costs subside. The start of Fed easing in H2 possibly, means the risk of rising borrowing costs should decline. However, elevated geopolitical tensions and the battle against inflation is not yet won and Red Sea disruptions are a cause for worry, adding to price pressures through energy and shipping costs rising.

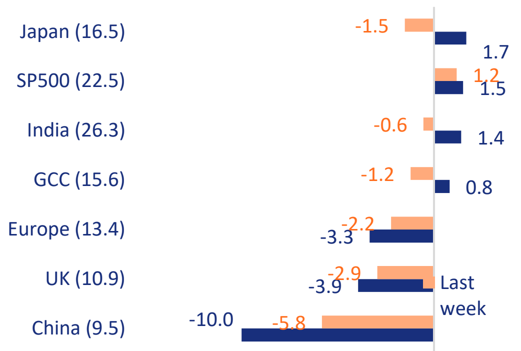
10% of S&P names reported last week. And about 24% of the S&P is due to report this week. A vibrant reporting season in progress with the large banks announcing lower IB revenue but record net interest income, though clearly that's peaking. They also spoke of the strength of the consumer. The US banks said in their guidance Americans have weathered Fed's rate hikes, citing continued spending, amid support from a strong labor market. Away from earnings, Tesla saw share price fall on price cuts in Germany (after similar steps in China). EVs are after three years of focus no longer a push from us right now with price wars in progress across the globe.

Positive results from Taiwan's TSMC, which forecast a return to strong growth, with revenues expected to grow 20-25% in 2024 with an AI tailwind. Revenues from high-performance computing applications — which include generative AI — increased by 17% q/q. The global chip market remains in demand with AI applications increasingly adopted in industry globally. In the US, 6/7 Magnificent Seven stocks are up YTD, i.e., except Tesla. Apple expected to deliver ~7.5% earnings growth in 2024 vs tech+ at ~18% (consensus) and the S&P 500 at ~12%. We are lower at an estimated 6.5% growth for the S&P 500.

EQUITY RECOMMENDED REGIONAL POSITIONING

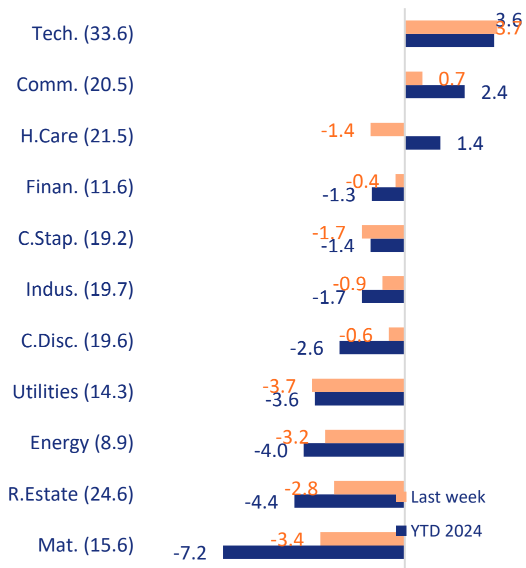


MAJOR INDICES PERFORMANCE (TR, US$) AND 2023PE



Source: Bloomberg consensus. MSCI Indices unless specified.

GLOBAL SECTOR PERFORMANCE (TR, US$) AND 2023PE



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

DISCLAIMER

IMPORTANT INFORMATION

This document is prepared by Emirates NBD Bank (P.J.S.C) ("**the Bank**" or "**Emirates NBD**"), licensed and regulated by the Central Bank of the UAE ("**Central Bank**") and the Securities and Commodities Authority of the UAE ("**SCA**") and subject to regulation, supervision and control of the Central Bank and SCA, having its head office at Baniyas Road, Deira, PO Box 777, Dubai, United Arab Emirates. This document may be distributed and/or made available by the Bank and its affiliates and subsidiaries, including Emirates NBD Capital KSA CJSC ("**ENBD Capital**") (through its website, its branches or through any other modes, whether electronically or otherwise).

Emirates NBD and its affiliates, subsidiaries and group entities, including its shareholders, directors, officers, employees and agents are collectively referred to Emirates NBD Group.

Any person (hereinafter referred to as "**you**", "**your**") who has received this document or have access to this document shall acknowledge and agree to the following terms.

Reliance

Data/information provided in this document are intended solely for information or illustrative purposes and are not designed to initiate or conclude any transaction.

This publication may include data/information taken from stock exchanges or other third-party sources from around the world, which Emirates NBD reasonably believes to be reliable, fair and not misleading, but which have not been independently verified. The provision of certain data/information in this publication may be subject to the terms and conditions of other agreements to which Emirates NBD is a party. Opinions, estimates and expressions of judgment are those of the writer and are subject to change without notice. Emirates NBD or any member of Emirates NBD Group makes no representation or warranty and accepts no responsibility or liability for the sequence, accuracy, completeness or timeliness of the information or opinions contained in this publication. Nothing contained in this publication shall be construed as an assurance by Emirates NBD that you may rely upon or act on any information or data provided herein, without further independent verification of the same by you.

The contents of this document are prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors, including those relevant to the determination of whether a particular investment activity is advisable. Emirates NBD does not undertake any obligation to issue any further publications or update the contents of this document. Emirates NBD may also, at its sole discretion, update or change the contents herein without notice. Emirates NBD or any member of Emirates NBD Group does not accepts no responsibility whatsoever for any loss or damage caused by any act or omission by you as a result of the information contained in this publication (including by negligence).

References to any financial instrument or investment product in this document are not intended to imply that an actual trading market exists for such instrument or product. Certain investment products mentioned in this document may not be eligible for sale in some jurisdictions, and they may not be suitable for all types of investors. The information and opinions contained in this publication is provided for informational purposes only and have not been prepared with any regard to the objectives, financial situation and particular needs of any specific person, wherever situated. If you wish to rely on or use the information contained in this publication, you should carefully consider whether any investment views and investment products mentioned herein are appropriate in view of your investment experience, objectives, financial resources and relevant circumstances. You should also independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professional advisers or experts.

Confidentiality

This publication may be provided to you upon request (and not for distribution to the general public), on a confidential basis for informational purposes only, and is not intended for trading purposes or to be passed on or disclosed to any other person and/or to any jurisdiction that would render the distribution illegal.

Solicitation

None of the content in this publication constitutes a solicitation, offer, recommendation or opinion by Emirates NBD to buy, sell or trade in any security or to avail of any service in any jurisdiction. This document is not intended to serve as authoritative legal, tax, accounting, or investment advice regarding any security or investment, including the profitability or suitability thereof and further does not provide any fiduciary or financial advice. This document should also not be used in substitution for the exercise of the prospective investor's judgment.

Third Party

This publication is not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law or regulation. It is the responsibility of any person in possession of this publication to investigate and observe all applicable laws and regulations of the relevant jurisdiction. This publication may not be conveyed to or used by a third party without the express consent of Emirates NBD or its affiliates, subsidiaries or group entities distributing this document. You should not use the data in this publication in any way to improve the quality of any data sold or contributed by you to any third party.

Liability

Notwithstanding anything to the contrary set forth herein, Emirates NBD, its suppliers, agents, directors, officers, employees, representatives, successors, assigns, affiliates or subsidiaries shall not, directly or indirectly, be liable, in any way, to you or any other person for any: (a) inaccuracies or errors in or omissions from this publication including, but not limited to, quotes and financial data; or (b) loss or damage arising from the use of this publication, including, but not limited to any investment decision occasioned thereby. Under no circumstances, including but not limited to negligence, shall Emirates NBD, its suppliers, agents, directors, officers, employees, representatives, successors, assigns, affiliates or subsidiaries be liable to you for direct, indirect, incidental, consequential, special, punitive, or exemplary damages even if Emirates NBD has been advised specifically of the possibility of such damages, arising from the use of this publication, including but not limited to, loss of revenue, opportunity, or anticipated profits or lost business.

DISCLAIMER

This publication does not provide individually tailored investment advice and is prepared without regard to the individual financial circumstances and objectives of person who receive it. The appropriateness of an investment activity or strategy will depend on the person's individual circumstances and objectives and these activities may not be suitable for all persons. In addition, before entering into any transaction, prospective investors should: (i) ensure that they fully understand the potential risks and rewards of that transaction; (ii) determine independently whether that transaction is appropriate given an investor's investment objectives, experience, financial and operational resources, and other relevant circumstances; (iii) understand that any rates of tax and zakat or any relief in relation thereto, as may be referred to in this publication may be subject to change over time; (iv) consult their advisers on the legal, regulatory, tax, business, investment, financial and accounting implications of the investment; (v) understand the nature of the investment and the related contract (and contractual relationship) including, without limitation, the nature and extent of their exposure to risk; and (vi) understand any regulatory requirements and restrictions applicable to the prospective investor

Forward Looking

Past performance is not necessarily a guide to future performance and should not be seen as an indication of future performance of any investment activity. The information contained in this publication does not purport to contain all matters relevant to any particular investment or financial instrument and all statements as to future matters are not guaranteed to be accurate. Certain matters in this publication about the future performance of Emirates NBD or members of its group (the Group), including without limitation, future revenues, earnings, strategies, prospects and all other statements that are not purely historical, constitute "forward-looking statements". Such forward-looking statements are based on current expectations or beliefs, as well as assumptions about future events, made from information currently available. Forward-looking statements often use words such as "anticipate", "target", "expect", "estimate", "intend", "plan", "goal", "seek", "believe", "will", "may", "should", "would", "could" or other words of similar meaning. Reliance should not be placed on any such statements in making an investment decision, as forward-looking statements, by their nature, are subject to known and unknown risks and uncertainties that could cause actual results, as well as the Group's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements. Estimates of future performance are based on assumptions that may not be realized.

Risk

Data included in this publication may rely on models that do not reflect or take into account all potentially significant factors such as market risk, liquidity risk, and credit risk. Emirates NBD may use different models, make valuation adjustments, or use different methodologies when determining prices at which Emirates NBD is willing to trade financial instruments and/or when valuing its own inventory positions for its books and records. The use of this publication is at the sole risk of the investor and this publication, and anything contained herein, is provided "as is" and "as available." Emirates NBD makes no warranty of any kind, express or implied, as to this publication, including, but not limited to, merchantability, non-infringement, title, or fitness for a particular purpose or use.

Investment in financial instruments involves risks and returns may vary. The value of investment products mentioned in this document may neither be capital protected nor guaranteed and the value of the investment product and the income derived therefrom can fall as well as rise and an investor may lose the principal amount invested. Investment products are subject to several risks factors, including without limitation, market risk, high volatility, credit and default risk, illiquidity, currency risk and interest rate risk. It should be noted that the value, price or income of securities denominated in a foreign currency may be adversely affected by changes in the currency rates. It may be difficult for the investor to sell or realise the security and to obtain reliable information about its value or the extent of the risks to which it is exposed. Furthermore, the investor will not have the right to cancel a subscription for securities once such subscription has been made. Prospective investors are hereby informed that the applicable regulations in certain jurisdictions may place certain restrictions on secondary market activities with respect to securities.

Before making an investment, investors should consult their advisers on the legal, regulatory, tax, business, investment, financial and accounting implications of the investment. In receiving this publication, the investor acknowledges it is fully aware that there are risks associated with investment activities. Moreover, the responsibility to obtain and carefully read and understand the content of documents relating to any investment activity described in this publication and to seek separate, independent financial advice if required to assess whether a particular investment activity described herein is suitable, lies exclusively with the investor.

Intellectual property

This publication has been developed, compiled, prepared, revised, selected, and arranged by Emirates NBD and others (including certain other information sources) through the application of methods and standards of judgment developed and applied through the expenditure of substantial time, effort, and money and constitutes valuable intellectual property of Emirates NBD and such others. All present and future rights in and to trade secrets, patents, copyrights, trademarks, service marks, know-how, and other proprietary rights of any type under the laws of any governmental authority, domestic or foreign, shall, as between the investor and Emirates NBD, at all times be and remain the sole and exclusive property of Emirates NBD and/or other lawful parties.

Except as specifically permitted in writing, you should not copy or make any use of the content of this publication or any portion thereof or publish, circulate, reproduce, distribute or offer this publication for sale in whole or in part to any other person over any medium including but not limited to over-the-air television or radio broadcast, a computer network or hyperlink framing on the internet or construct a database of any kind. Except as specifically permitted in writing, you shall not use the intellectual property rights connected with this publication, or the names of any individual participant in, or contributor to, the content of this publication, or any variations or derivatives thereof, for any purpose. This publication is intended solely for non-commercial use and benefit, and not for resale or other transfer or disposition to, or use by or for the benefit of, any other person or entity. By accepting this publication, you agree not to use, transfer, distribute, copy, reproduce, publish, display, modify, create, or dispose of any information contained in this publication in any manner that could compete with the business interests of Emirates NBD. Furthermore, you should not use any of the trademarks, trade names, service marks, copyrights, or logos of Emirates NBD or its subsidiaries in any manner which creates the impression that such items belong to or are associated with you, except as otherwise provided with Emirates NBD's prior written consent. You shall have no ownership rights in and to any of such items.

DISCLAIMER

IMPORTANT INFORMATION ABOUT UNITED KINGDOM

This publication was prepared by Emirates NBD Bank (P.J.S.C) in the United Arab Emirates. It has been issued and approved for distribution to clients by the London branch of Emirates NBD Bank (P.J.S.C) which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority in the UK. Some investments and services are not available to clients of the London Branch. Any services provided by Emirates NBD Bank (P.J.S.C) outside the UK will not be regulated by the FCA and you will not receive all the protections afforded to retail customers under the FCA regime, such as the Financial Ombudsman Service and the Financial Services Compensation Scheme. Changes in foreign exchange rates may affect any of the returns or income set out within this publication.

IMPORTANT INFORMATION ABOUT SINGAPORE

This publication was prepared by Emirates NBD Bank (P.J.S.C) in the United Arab Emirates. It has been issued and approved for distribution to clients by the Singapore branch of Emirates NBD Bank (P.J.S.C) which is licensed by the Monetary Authority of Singapore (MAS) and subject to applicable laws (including the Financial Advisers Act (FAA) and the Securities and Futures Act (SFA). Any services provided by Emirates NBD Bank (P.J.S.C) outside Singapore will not be regulated by the MAS or subject to the provisions of the FAA and/or SFA, and you will not receive all the protections afforded to retail customers under the FAA and/or SFA. Changes in foreign exchange rates may affect any of the returns or income set out within this publication. Please contact your Relationship Manager for further details or for clarification of the contents, where appropriate. For contact information, please visit www.emiratesnbd.com.

IMPORTANT INFORMATION ABOUT EMIRATES NBD CAPITAL KSA CJSC

Emirates NBD Capital KSA CJSC ("ENBD Capital"), whose registered office is at P.O. Box 341777, Riyadh 11333, Kingdom of Saudi Arabia, is a Saudi closed joint stock company licensed by the Saudi Arabian Capital Market Authority ("CMA") under License number 37-07086 dated 29/08/2007G (corresponding to 16/08/1428H) to deliver a full range of quality investment products and related support services to individuals and institutions in the Kingdom of Saudi Arabia. ENBD Capital is subject to Capital Market Law, and Implementing Regulations in the Kingdom of Saudi Arabia

ENBD Capital's contact details are T +966 (11) 299 3900 and F +966 (11) 299 3955.

This document may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Investment Funds Regulations issued by the Capital Market Authority.

The Capital Market Authority does not make any representation as to the accuracy or completeness of this document, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this document. Prospective subscribers of the securities offered hereby should conduct their own due diligence on the accuracy of the information relating to the securities offered. If you do not understand the contents of this document, you should consult an authorised financial adviser.