Preparing for a **hot summer** ahead

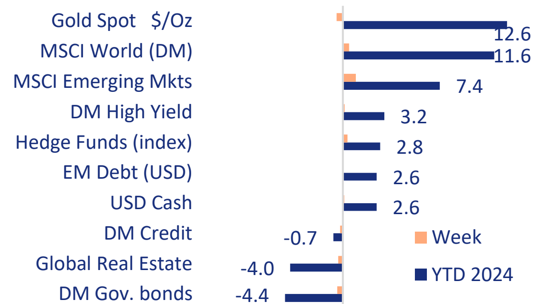
- **Last week was volatile but overall slightly positive, with significant moves in currencies**
- **Flash PMIs showed a comeback of US exceptionalism with disappointments in Europe and Japan…**
- **Watch next Friday with the US Presidential debate and the May core PCE inflation release**

Last week was short (Eid break in our region, Juneteenth holiday in the US) but volatile: a strong start, followed by a decline in risk appetite and a tepid US close in a key expiry date for derivatives. Overall, it was not too bad. The dollar rose, affecting global bond indices, stocks and oil prices gained, US Treasury yields were flat week-over-week, and gold gave back a bit of its gains.

June flash PMIs released last week raised some questions on the global picture, with disappointments in Europe and Japan, and positive surprises in the US. China showed better than expected retail sales but some deceleration in industrial production, while the exact opposite was seen in the US. Overall, data is consistent with some moderation in activity in the second part of the year, which may finally deliver the widely expected "soft landing" scenario and open the door for rate cuts from the Fed after the summer.

The issue, however, is that many things can happen in the meantime, with the potential to move markets as many asset classes are already discounting this consensual outcome. Our calls for the year have so far not been challenged: central banks are risk adverse, markets are volatile, but returns are positive and differentiated. Still, our performances in almost 6 months are not very far from what we were expecting for the entire year. Part of it is due to stronger growth of course, but we see some potential vulnerabilities ahead. We will carefully look at our positioning and come back to you in July with some mid-year update inputs. In the meantime, this week is all about Friday 28th: the US Presidential debate at 5AM Dubai time, and the May core PCE inflation at 4.30PM Dubai time. Take care.

ASSET CLASSES USD % TOT.RETURN, 2024 & 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

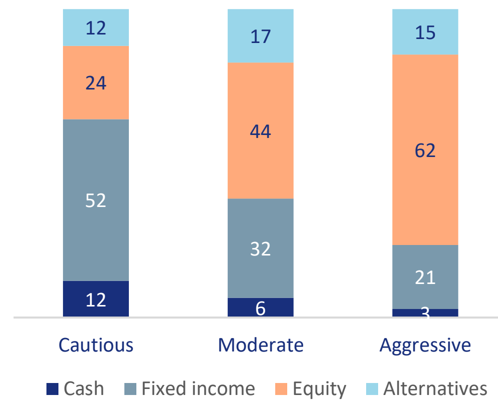
Cross-asset Update

There are some subtle signs that liquidity may be shifting less favourably for risk assets. Bitcoin has been on a tear till its top in March this year, followed by range-trading that has seen crypto currencies in general lose steam. The asset class is sensitive to liquidity patterns and bitcoin in particular has been correlated with the Nasdaq, and usually has been leading the equity index. Also, some gauges of credit risk premia, the difference in spreads between weaker and stronger segments of the credit spectrum, are pointing to the market sensing higher risks, as this differential has started to widen. In equities, the relative performance of cyclical versus defensive sectors is also suggesting a less pro-cyclicals stance amongst investors. And June is a month where there is a seasonal pick-up in the Treasury account with the Fed, due to increasing tax receipts that suck bank reserves out of the system, a key gauge of short-term liquidity for markets. In summary, there are fledgling signs across asset classes of a rollover of market liquidity. Anecdotally, it is important to mention that according to Bloomberg insiders at Nvidia sold the stock “in droves” amidst a “dearth” of insider buyers last week. It seems we may be in for a bout of volatility following an impressive and impressively narrow equity rally.

This could partially explain re-emerging dollar strength, as well as gold pulling back. It could also be conducive to some profit-taking in the expensive technology trade, a foretaste of which was seen on Friday with the underperformance of the Information Technology sector in the S&P 500. The release of strong business confidence numbers could also be a trigger for investors to eventually reassess the more cyclical pockets of the market, trading at less expensive valuations. A broadening of the rally at sector level would make the bull market more sustainable, that we all wish for, though it has so far failed to happen give continued focus on technology and little else. In general, the US economy remains strong and the outlook for earnings favourable, so pullbacks would be considered as buying opportunities.

In the shorter term the combination of a more resilient US cycle and political turmoil in the euro area could see the dollar break out higher and lead to a significant rebound. This in turn would be marginally tightening financial conditions further. We continue to think that our barbell tactical allocation, where we are overweight both high-quality assets and equities and underweight alternative investments, is appropriate for the current times marked by overbought markets and shorter-term uncertainty.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

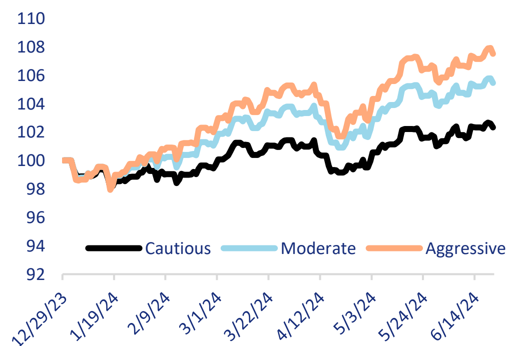


TAA – RELATIVE POSITIONING – MODERATE PROFILE

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

A holiday-shortened week was not short on volatility. SNB provided a surprise cut its rates while BoE stayed put but the meeting was considered dovish with rate cuts expected in August. The Us Treasury curve bear-steepened with long-end yields going up by 4 bps. The 10-year has repeatedly failed to break the 4.2% levels this year. French OATs versus German Bunds spreads have widened to close to 80 bps and with French fiscal deficit under scanner could be the new normal.

The recent French political turmoil has presented an interesting opportunity for bond investors. The French G-SIBs which earn a significant portion of their revenue outside the country have also been negatively affected. Analysts suggest that the recent widening of spreads for French banks bonds, prompted by potential political changes following the snap election, is a short-term phenomenon. They believe there will be no significant impact on the fundamental value of these bonds in the near term, presenting a good opportunity to buy now and exploit the current spread widening. Investors should select these bonds which currently trade at more than 70 percentile YTD spread or where the spreads have widened by more than 20 bps at least in June.

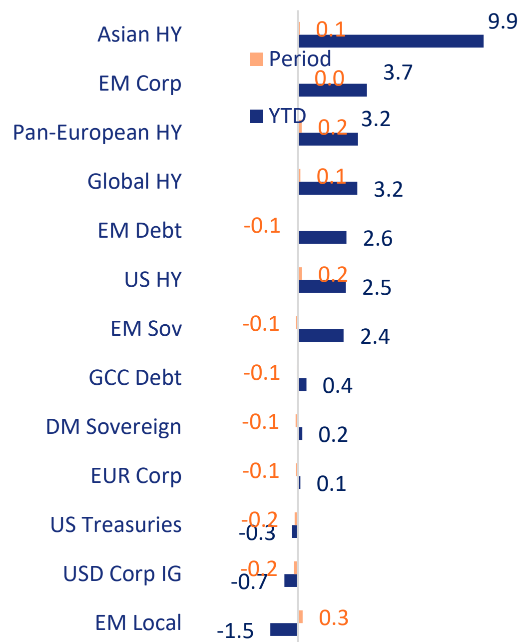
S&P anticipates the US High Yield default rates to reach 4.5% in early 2025 close to current levels. Most indicators of future defaults have declined slightly. Positively, economic growth and corporate profits remain broadly healthy, and many issuers recently refinanced upcoming maturities, easing near-term pressure. Market sentiment has also been supportive, providing liquidity where needed. Although robust, the vast majority of recent issuance was used for refinancing, rather than for more growth-oriented ends such as capital expenditure or mergers and acquisitions. While this relieves near-term refinancing pressure, it also resets a large amount of debt to current, higher yields. many of the lowest-rated issuers are in consumer-reliant sectors such as media and entertainment, consumer products, and retail. These sectors may suffer from consumers pulling back on spending as higher rates limit their available funds. Cumulative excess savings from pandemic supports have finally disappeared, and stress is already showing up in rising delinquency rates particularly for credit cards and among younger borrowers.

GCC issuance continues full steam. This week we already have two mandates announced. SIB (-/A-/BBB+) will be issuing a 5-year senior $ sukuk. This will be the first issuance from the bank since 2020. SIB has a very strong relationship with the Sharjah government, which directly and indirectly owns 37.5% of the bank. Around one-third of the bank's Islamic financing book comprises financing to the government and GREs. Oman’s EDO (-/BB+/BB+) will also issue a 7 year $ sukuk. EDO produces approximately 65% of Oman's oil and gas and about 50% of Oman's combined oil, non-associated gas. The company also accounts for more than 60% of Oman's proven reserves.

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

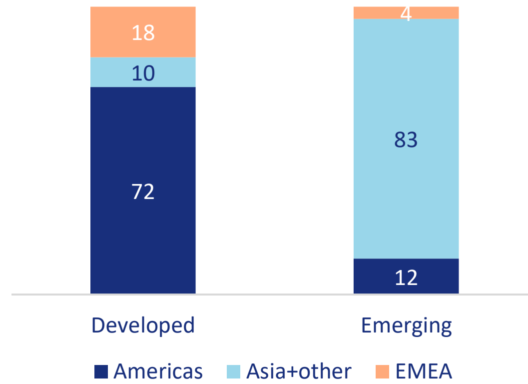
What could move markets this week is the first US presidential debate, Core PCE on Friday and French elections. Global equities added half a percent last week, and it's been a good June so far with US Tech leading and India recovering post-election wobbles. Massive quarterly expiration of options left the S&P 500 still up 0.6% and tech flat for the week. Leading global sector YTD returns are tech and communication services, with real estate still a laggard and some AAA MBS defaults raising concerns but still too small to cause ripples. We have lower 2 and 10 yields, mixed eco data with a strong labour market though consumer demand looks to be less buoyant.. Nvidia midweek touched a valuation to $3.3 trillion, just above Microsoft and Apple but shares ended 4% lower for the week (does it really matter with over 750% gains since 1st Jan 23; the Nasdaq+70%). No fundamental reasons behind Nvidia's lower end to the week.

The FTSE 100 rose 1.17% last week as inflation reached its lowest level since 2021 and the Bank of England delivered commentary that appeared to be consistent with an August cut. Eurozone equities haven't fared well in June with France weighing down on the Euro Stoxx performance though last week was a positive close.

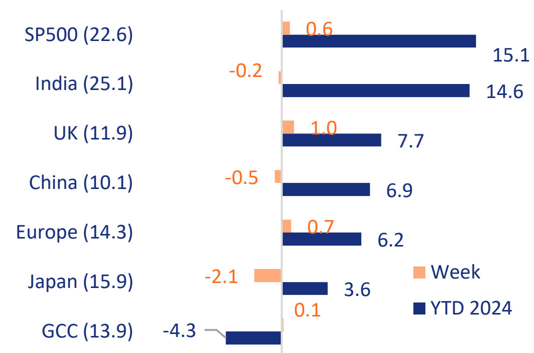
We expect mild pullbacks in the equity market as the year progresses though earnings growth backed by economic resilience should lead to current gains being maintained into year end. Technology has been a driving theme for investors since 1990 driven by the internet explosion, ecommerce, connectivity and the more recently the use of data in AI in the last few years. Recent developments in generative AI, powered by large language models, have the potential to bring transformational change across industry with data centers being built and upgraded globally. The infrastructure requirements of AI – semis, data centers and the energy resources to power generative AI models – are huge. While Nvidia remains the poster child for AI infrastructure investment plenty of other companies that are also involved in the build-out of AI data centers.

We are currently overweight both DM and EM equities which have performed well in May and June to date. However, in addition to the existing risks around stretched valuations on many markets, as well as geopolitical tensions, DM central banks' shift to an accommodative policy for the ERCB, BOE and SNB is clearer than the Fed which is dependent on future data points. We also expect heightened election risk. There is uncertainty in the size and scope, tariff increases appear likely in the event of a Trump victory and would likely strengthen the USD, lift consumer prices, and could potentially boost government revenues. Trump has floated several potential tariff policies, including a 10% across-the-board tariff on imports along with a 60% tariff on imports from China. Stay diversified and invested but watch concentration risk.

EQUITY RECOMMENDED REGIONAL POSITIONING

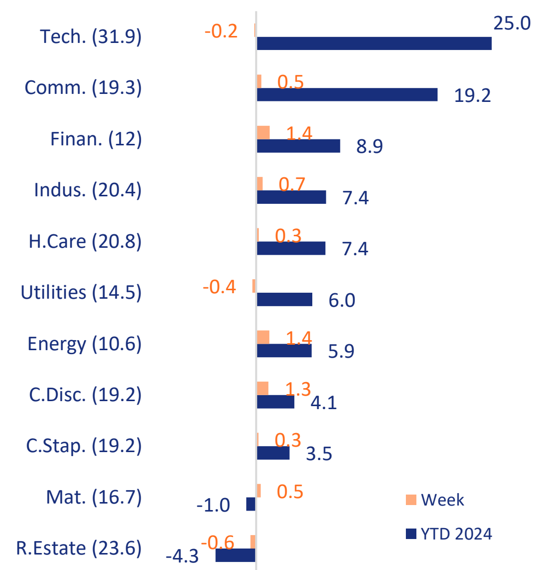


MAJOR INDICES PERFORMANCE (TR, US$), P/E in brackets



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$.

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.