Emirates NBD
WEALTH MANAGEMENT

Powell dovish **despite** strong economy

- **Dovish stance of major DM central banks sets markets on fire**
- **Economy strong, US manufacturing on track to spur recovery**
- **Bottoming commodities not a good omen for future inflation**

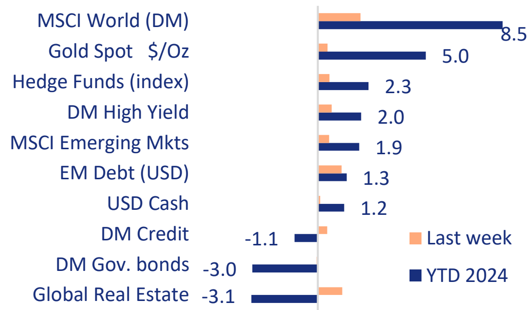
The major indices made new all-time highs for the week led by US equities, in a rally driven by growing expectations of central bank cuts. The US markets and technology outperformed strongly as Jay Powell delivered a reassuring message of easier policy and manageable inflationary pressures, treasury yields fell, and the economy continued to perform better than expected. Elsewhere investors were positively surprised by a rate cut, as in Switzerland, or welcomed higher odds of future easing, as in the UK, or took in their stride a very gradual approach to hikes, as in Japan. The Reddit IPO, the announcement by Nvidia of a new more powerful chip, and Micron spectacular results further stoked animal spirits.

Advance business confidence surveys for March were constructive on both sides of the pond. They confirmed a manufacturing recovery in the United States, and the exit from recession in the UK, though only marginal improvements in the eurozone. China delivered a sizeable positive surprise, with fixed asset investments and industrial production well above forecasts. Overall, improving economic momentum should translate into better earnings in the following quarters, in turn stoking more risk taking.

The US dollar strengthened despite the widespread risk-on mood and Fed officials confirming three rate cuts for the year. We think that investors must be expecting a shallow easing cycle based on the stronger growth and inflation forecasts in the Fed's Summary of Economic Projections. Risk taking will have to come alongside staying vigilant on the outlook for inflation.

Have a great week.

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

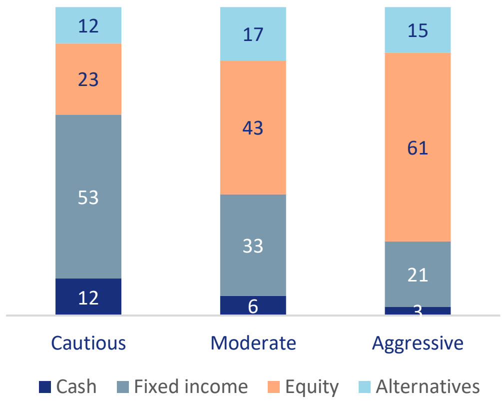
Cross-asset Update

Markets are galvanized by the expectation that the major central banks will be adding to liquidity. The Fed reassured investors confirming the plan for three more rate cuts by year-end, the Bank of Japan failed to significantly tighten financial conditions in its shift to positive policy rates, while the Bank of England warmed up to the idea of some prospective easing. And the PBOC has been easing for a while, trying to lay more solid foundations for a struggling recovery. The coming liquidity deluge will put a floor to stock prices and potentially propel them higher, despite already elevated valuations. The Fed stands apart in its determined dovishness despite the strength of the economy even as Fed officials pay lip service to the fight against inflation. Improved financial conditions will be a boon across asset classes, spurring animal spirits and eventually economic activity.

More liquidity should further boost the manufacturing cycle, the missing link in the ongoing US recovery. The S&P Global US Manufacturing Index has been in expansion territory for three back-to-back months now, and elevated levels of the forward-looking ratio of new orders to inventories suggest that more of the same should be in store for the coming months. In turn, more industrial activity should increase demand for materials, and indeed commodity prices are stabilising with copper making new highs for the year. The more cyclical equity pockets are finally making up for some of the lost ground, indicating that a broadening of the rally from IT to cheaper sectors is underway. Also, in China there seems to be the first signs that fiscal stimulus is starting to reverberate across the economy, and mainland stocks are now rebounding forcefully in line with the Goldman Sachs China Fiscal Index inflecting higher. Gold promptly reacted to the pleasing message of central banks by recording new all-time highs. But we feel that yellow metal has overshot its policy drivers by discounting a large number of Fed cuts that might not come to pass in the next twelve months, hence consolidation could be overdue.

What is good for risk assets may not be as good for the Treasury market. For now, investors are following the disinflationary route indicated by moderating price pressures and are not demanding a positive term premium on longer-dated Treasuries. In other words, markets are not yet discounting worsening inflation as a direct consequence of swelling liquidity. But that could change, as rising commodity prices usually lead inflation higher. Overall, it seems to us that central banks are laying the foundations not only for the continuation of the rally in risk assets, but also for the reawakening of inflation. But this is a story for another time and focus on more upside potential in equities is well deserved.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

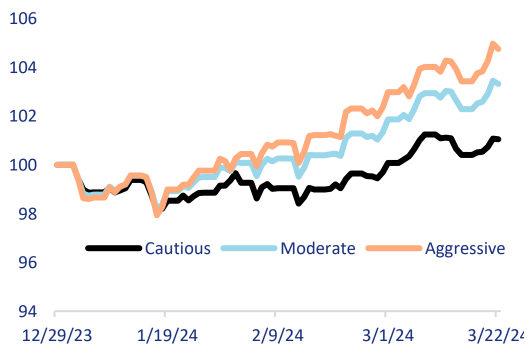


TAA – RELATIVE POSITIONING – MODERATE PROFILE

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

Last week, front-end yields fell 12-14bp and the broad curve steepened as the market interpreted the FOMC's updated projections and chair Powell's press conference as pointing toward a dovish reaction function. Overall, last week's meeting supports the view that the Fed will initiate a gradual pace of easing in June/July to give them enough time before the US elections. The outcome of the FOMC meeting risks a shallower easing cycle. What took us by surprise was that even though the Fed increased their inflation expectations for the year to 2.6%, there wasn't any significant change in the Dot Plot projections. It gives more weight to the argument that 3% is the new 2%.

BoE held its rate intact but removed the tightening bias from its wordings. After cooler inflation data last week from the UK, Retail Sales surprised on the upside. Excluding automotive fuels, retail sales volumes rose 0.2% m/m in February. We believe the current consensual view that central banks move in the same direction is mistaken. BoJ removed NIRP and YCC, raising the policy rate for the first time in 17 years. But markets took it as a dovish hike. Swiss central bank beat ECB to become the first DM central bank with a rate cut last week to check the strength of its currency and succeeded in the endeavour.

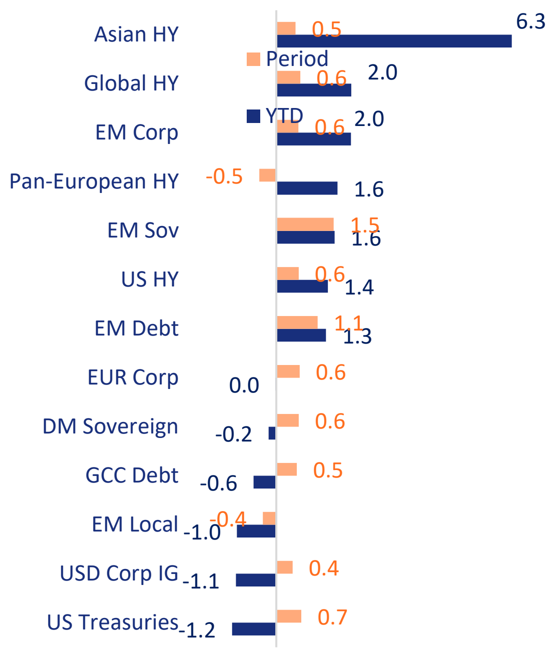
Corporate credit spreads narrowed to the tight end of their recent ranges. The Bloomberg Barclays Global Agg credit spreads currently trade around 91 bps. The issuance pace has slowed in March and typically April is one of the slowest issuance months in the last 4 years with below $100bn issued on an average. Meanwhile, demand remains robust with 20 consecutive weeks of inflows into IG funds according to JPM. That should provide technical support for spreads. High Yield/ IG spread differential is at its lowest since Sep 2022. With 15 defaults in February, the 2024 global corporate default tally rose to 29, the highest year-to-date default count since 2009. However, reading between the lines, the last 12-month default rate is still at only 3.88% which doesn't set off any alarm bells.

The issuance from the GCC region has been strong this year with more than $34bn till date, which is over 50% of last year's total issuance. Demand remains high resulting in negligible new issue premium and pricing towards the lower range. Today, we have seen mandate announcements from the Commercial Bank (CBO) for a 5-year senior unsecured bond and the inaugural sukuk issuance from Mubadala for a 10-year tenor. The CBQ bond is expected to be priced around 110-120 basis points over the treasury, while the Mubadala sukuk is expected to be priced around 5%, with an issuance size of $1bn.

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

Over the past five months, the MSCI All Country World Index is up ~20% with the rally broadening away from tech to industrials and energy. Many factors are at work, easier financial conditions, higher valuations and earnings growth upgrades, with AI-driven productivity gains seen across industry.

A good week for markets with all major regions except China, gaining. New highs in many markets, in a rally driven by growing expectations of central bank cuts, with the first DM Central Bank to cut the SNB. Fed Chair Powell's commentary of easier policy and a resilient economy led to lower treasury yields and supported the view that lower inflationary trends are in place. The US and technology sector outperformed. The S&P 500 rose 2.3%, and the Nasdaq by 2.9%, last week, both are c.+10% YTD and outperforming small cap stocks. Eurozone equities ended the week flat. The ARK Invest report on global GDP increasing by $40tn by 2030 with a boost from AI was much in the news. We still see upside on a strategic perspective from AI adoption into industry, but not at the exponential levels like last year.

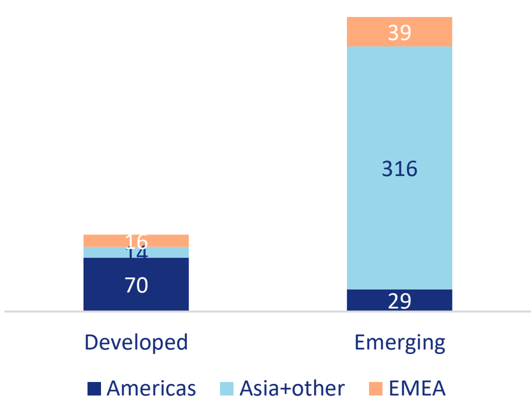
Our year end fair value for the Topix is 2650 and we are trading 5% above that but remain overweight Japan equities. At the opposite end of the DM Central Bank dovish tilt, BOJ Governor Ueda tightened policy for the first time in 17 years. ETF purchases ended. Equity markets took the change in stride, and the yen weakened, and Japan equities rose 4% last week. Japan is the best performing large market YTD. There is a push for companies to improve shareholder returns from the Tokyo Stock Exchange. Signs that deflation has ended/ growth upgrades are boosting equity sentiment, while a weakening yen continues to boost exporters like Toyota. A broad rally and if Japanese companies increase wages, people's purchasing power will increase, and that will benefit domestic demand companies too.

Emerging markets (+0.5%) lagged developed markets (+2%) last week with GCC equities up and India flat. China had a negative week. Dubai's latest IPO Parkin traded +35% on debut. News on Bloomberg that LuLu, one of the region's largest hypermarket chains, has appointed banks for an IPO and Abu Dhabi's IHC plans to list a AED100bn holding firm, 2PointZero, by 2025.

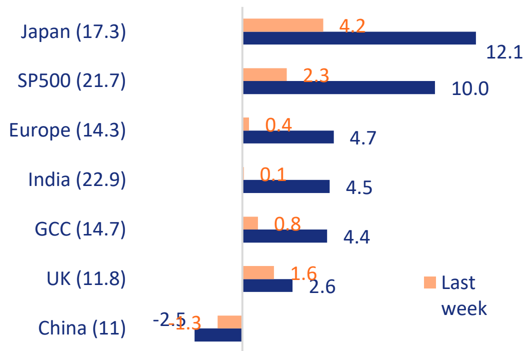
We remain neutral China with performance still negative YTD. Data is improving with fixed asset investments and industrial production growth above forecasts. Overall, improving economic momentum should translate into better earnings in the following quarters.

Social network Reddit debut on Wall Street saw it surge 48% in its first day of trading, as its AI pitch got a warm reception. The company is entering licensing agreements to allow AI technologies to use its data for model improvement. The announcement by Nvidia of a new more powerful chip has taken the stock up to an 11th week of gains, +90% YTD. CEO Huang announced Blackwell graphics processing units that would massively increase the computer power of large language models. Micron +18% last week, led a rally in semiconductor shares, beating Q1 estimates and guiding above expectations. Its high-bandwidth memory DRAM chips have been sought amidst an AI infrastructure spending boom.

EQUITY RECOMMENDED REGIONAL POSITIONING

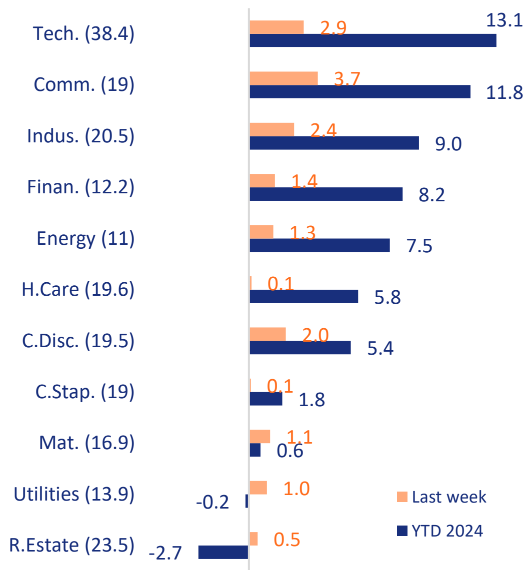


MAJOR INDICES PERFORMANCE (TR, US$) AND P/E



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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