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Emirates NBD

Crucial **weeks ahead**

- **Last week was rich in terms of data and international events, and the coming two are even more**
- **PMIs, US job data, major earnings will be followed by US elections, Fed meeting and China's NPC**
- **Our positioning remains slightly defensive, ready to act on potential market volatility**

The key market driver of last week was a continued adjustment in expectations for the Fed's future action. In essence, future contracts are now pricing in less cuts than the median forecast of the FOMC voting members, due to the strength of the US economy.

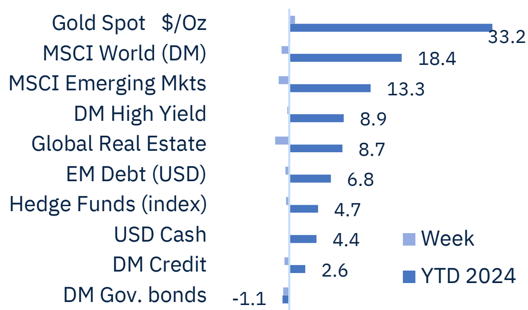
US Treasury yields immediately reacted with a sharp rise across maturities in a "bear-steepening" pattern. The dollar was stronger, which took a toll on stocks from emerging markets, while the start of the earnings season was not strong enough to prevent their developed market peers from also falling. Gold was the only theoretically rate-sensitive asset to print positive weekly returns. The IMF updated their projections, confirming a soft-landing and overall solid perspectives for developing economies, with the BRICS summit also confirming a changing world. Finally, Israel's strikes on Iran were reportedly limited to military targets, a relief for oil prices.

The coming weeks will be crucial. This one will provide monthly PMIs as well as data on the US job market, culminating with Friday's NFP number which will, together with the US PCE inflation on Thursday, shape expectations for the Fed. We will also get major earnings, especially from big tech: Alphabet, Amazon, Apple, Meta, Microsoft, or Samsung.

Next week will see the US Presidential elections, followed by the Fed's policy meeting, and by China's National People Congress which could provide markets with details on the stimulus program.

There is no shortage of potential catalysts for volatility. Our positioning thus remains slightly defensive, ready to seize upcoming opportunities. Have a great week.

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



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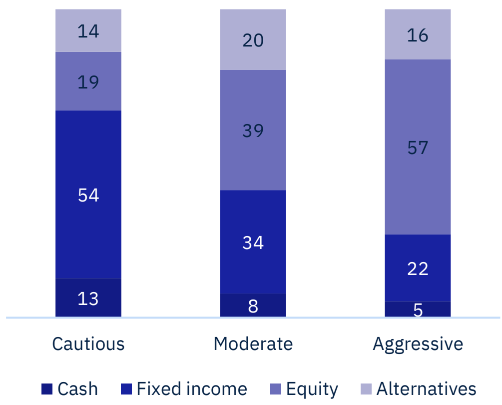
Cross-asset Update

Stocks were weighed down by rising Treasury yields. In one month, the yield on the 10-year note rose from a low of 3.59% to hit 4.25%, while the 2-year from 3.57% to 4.10%. The resilient US economy forced investors to revise their way too optimistic assessment of the future path of policy rates. The expected number of Fed cuts now is actually falling a bit short of the official projections shared at the latest FOMC meeting. This repricing worked at the short end of the curve, as well as at the long end. But what spooked the market the most, was the rising odds of a Trump presidency as per the latest betting odds, alongside louder rhetoric about the benefits of very punitive tariffs. Historical precedents show that higher system-wide tariffs on imports are inflationary. Term premia did rise, exerting upward pressure at the longer end of the curve. Volatility on Treasuries touched the highs for the year, reflecting growing uncertainty about where yields would land in the future. If Donald Trump is elected, investors will demand higher compensation for holding long bonds, and eventually the equity rally would be curbed by higher yields and inflation. Unless tariffs are mostly a bargaining chip!

The equity rally has broadened beyond tech, yet there are few signs that that is related to earnings growth as well. Although in Q3 IT stocks lagged the broader market, it is estimated that they still account for the whole of the market's earnings growth. Without IT, bottom-line growth remains muted according to consensus estimates. Five of the Magnificent 7 - Alphabet, Meta, Amazon, Apple, and Microsoft - are slated to report results this week. With earnings expected to slow, the rest of the market had better take up the slack soon, if the equity rally is to get more breathing room.

Gold has continued to be very resilient in the face of rising yields. While this is making gold bugs happy, it may also hold a broader message for investors. Strong gold returns may be anticipatory of higher inflation down the road, and this is especially true when gold consistently outperforms equities. Though this has yet to happen, continued liquidity injections with no recession in sight could reignite price pressures and eventually provide a good reason for investors to cling to their gold holdings.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

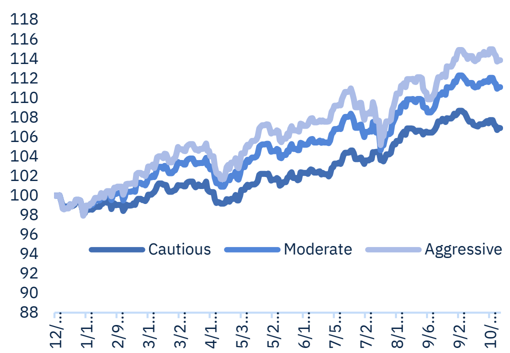


TAA – RELATIVE POSITIONING – MODERATE PROFILE

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.

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Fixed Income Update

We are in a bear steepening phase which has gathered pace this morning. In the space of two months, we have seen the 2s10s spreads increase by a massive 35 bps. As geopolitical tensions take a back seat the demand for safe haven assets has gone down with the US 10-year treasury yields up 4 bps this morning. That's an inauspicious start to an intense two-week period of event-risk for the bonds, spanning payrolls data, the US election and the Federal Reserve's next decision.

The yield on 10-year OATs had already risen significantly on Friday ahead of a review by Moody's, and the ratings company delivered the expected downbeat verdict by slashing its outlook on French debt to negative. France's fiscal deterioration, it said, was "beyond our expectations" and stood in contrast to its peers that are, in fact, consolidating their public finances. Moody's also warned for good measure that a worsening of debt affordability would lead to a downgrade.

Credit spreads however have remained range bound. IG bond spreads have moved in a range of 2 bps the past week without any dispersion across sectors or rating spectrum due to light supply and attractive all-in yields. The supply technical for the last two months should support the tight IG spreads. High Yield bond spreads were also flat. 10% of HY companies have reported third quarter earnings so far. On the margin, early guidance appears better than last quarter's with 29% of companies guiding up vs. only 12% guiding down. From a macro standpoint, only 12% of companies are complaining about inflation according to a JPM report.

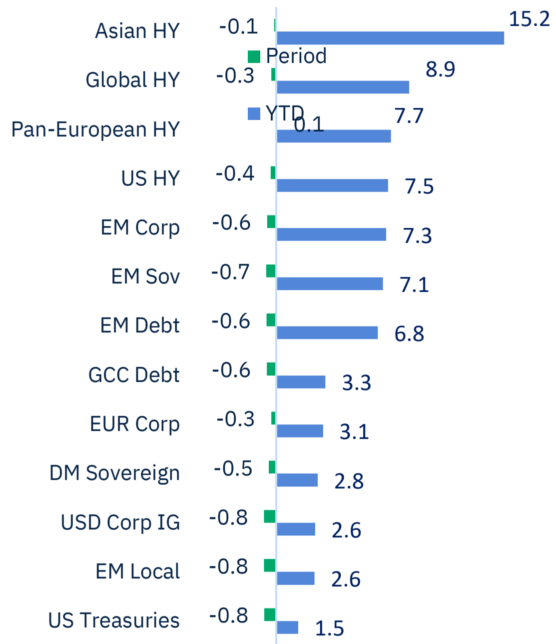
Emerging Market bonds have had a tough week with yields moving up. The long duration of the asset class has magnified the losses. EM Corporates have performed better than sovereigns. We are cautious for EM Local currency bonds since the USD strength works negatively for the asset class and the situation remains volatile till the US Elections. Moreover, with Fed expected to proceed slowly, more EM central banks will be forced to change their stance to slightly hawkish from the current levels impacting the EM Rates returns negatively.

MDGH, an investment firm indirectly owned by the Abu Dhabi government through Mubadala, has announced a mandate for its first AED-denominated sukuk. Previously, MDGH issued an AED-denominated bond maturing in November 2028 and it is currently trading around 4.58%. Current UAE government AED-denominated sukuk yields range from 4.10% to 4.50%, across different maturities. Several government related entities, including FAB (3 bonds and 1 sukuk), ENBD (3 bonds), and EI (1 sukuk), have previously issued AED-denominated securities. The yield spread between UAE government sukuk and those issued by government-related entities remains relatively narrow.

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

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Equity Update

Global equities ended last week lower, as we head into a period of key earnings from major tech companies, the US election, and a closely watched employment report. US equities are trading close to all-time highs, the S&P 500 +23% year-to-date with the MAG7 group having a robust week +3.5%, unlike the broader market. The index was mainly weighed down by declines in materials and rate-sensitive sectors, while tech held steady. A Bloomberg survey showed that corporate earnings are top-of-mind for investors, surpassing focus on upcoming elections and Fed policy as they evaluate economic strength into next year. High valuations with the S&P 500 with forward P/E at 24X a focus, though not a red flag, if earnings continue to exceed estimates.

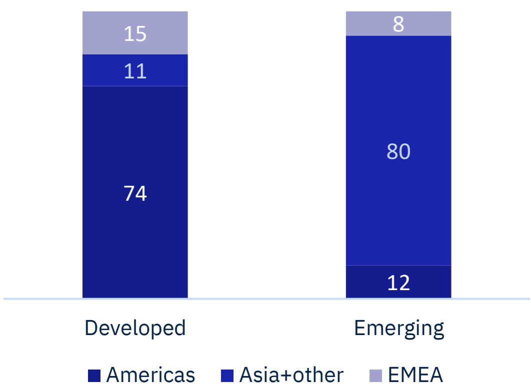
37% of S&P 500 companies have reported Q3 2024 results, with 75% surpassing EPS estimates. Tesla delivered a standout performance, reporting strong Q3 earnings that fuelled a 22% surge in share price— marking its best one-day rally in over a decade. The earnings beat was driven by robust vehicle delivery projections for next year, lower material costs, and growing revenue from its energy business. Nvidia's stock hit a record high, briefly surpassing Apple's market value at $3.53 trillion. Nvidia shares are up nearly 18% in October following OpenAI's $6.6 billion funding announcement. The company reports earnings in November.

The MSCI Europe Index down -1.2% for the week as sentiment remained cautious while markets await further earnings and policy cues from the ECB. Sectors most exposed to China's economy, such as luxury goods and mining, faced pressure. However, Hermes sales rose thanks to strong demand for its Birkin bags, standing out in a slowing luxury market that has impacted brands like LVMH and Gucci-owner Kering SA. Hermes remains resilient catering to ultra-wealthy clients, whose spending tends to be more stable. Energy stocks provided a modest counterbalance as rebounding oil prices lifted the sector.

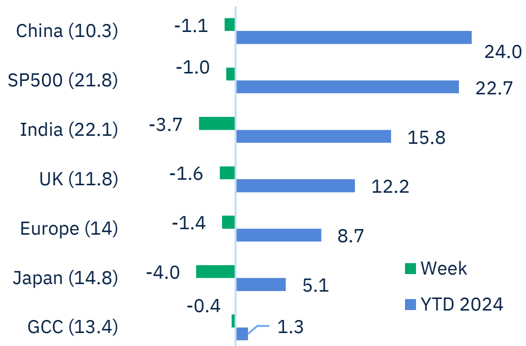
In Asia, the MSCI China Index, down -1.1% for the week, remains up 14% since recent stimulus efforts and the best performing market year to date. While upcoming US elections could introduce volatility due to tariff risks, markets are looking to Beijing for further fiscal stimulus to help offset potential impacts. In Japan, the TOPIX Index saw a steep decline, down for 5 consecutive days, -2.7% for the week, as political uncertainty ahead of the October 27 election weighed heavily on Japanese equity markets.

Big Tech's "Magnificent Seven" — including Alphabet, Meta, Microsoft, Amazon, and Apple — will dominate this week's earnings. We expect to see growth in ad revenue and AI gains; while the focus will be on whether AI investments have started to pay off this quarter, which is being called the "show me the money" quarter. The Energy sector will also be in focus this week, with Exxon Mobil and Chevron set to report earnings on November 1. This week, 169 companies from the S&P 500 are scheduled to report Q3 results.

EQUITY RECOMMENDED REGIONAL POSITIONING

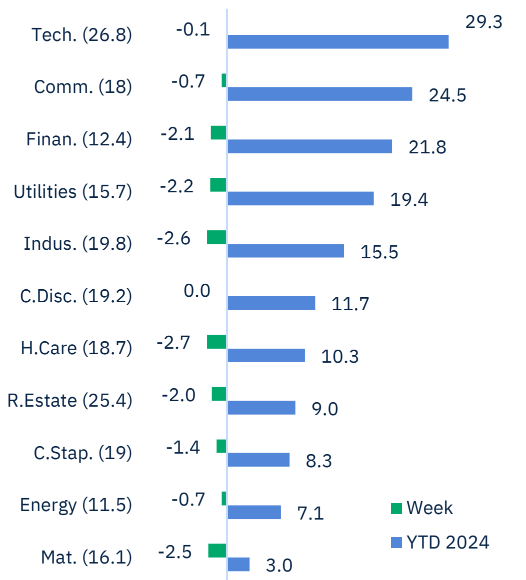


MAJOR INDICES PERFORMANCE (TR, US$), P/E in brackets



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$.

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