Emirates NBD
WEALTH MANAGEMENT

Data supports the **soft-landing** scenario

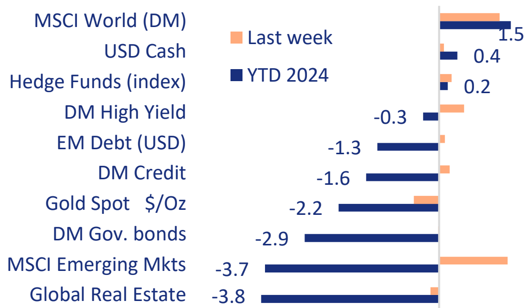
- **Data released last week confirmed resilient growth with no adverse impact on inflation measures…**
- **… Which supported markets, combined with earnings and investor-friendly measures in China**
- **The week ahead is BIG with regards to economic data, central banks and earnings**

Last week was positive for most major asset classes, with constructive macro data in the West, market friendly policy measures in China and a number of Q4 earnings releases. Stocks gains topped +1.4% in developed markets, led by Europe, and +1.5% in EM, led by China with a cut in the PBC's RRR and targeted measures to support stock markets. Global government bonds were flat, but corporate bonds did well. Brent crude gained 6.3% to $83.5, with geopolitical tensions, a decline in inventories, and the Biden administration suspending new LNG export licenses.

Following last week's data, the consensus for a "soft landing" scenario strengthened further, and Fed fund futures now discount 5.5 rate cuts of 25bps in 2024. We will know more by Wednesday with the January FOMC. No decision is expected but the guidance will matter, for rates and for their balance sheet, with important liquidity questions between quantitative tightening, debt issuance (with an update for the US department of treasury) and banks' reserves. It is a big week for data with manufacturing PMIs, Eurozone, Q4 GDP, and January CPI, as well as the monthly US jobs report on Friday. Market participants will see whether Fed's guidance will continue to be challenged, which is until Wednesday for only three 25 basis points cuts in 2024. We continue to think that the central bank has no reason to turn dovish before solidifying a positive picture on inflation, especially on the services side. But markets are more optimistic: data matters more than ever. The earnings season will also intensify with big tech names (Apple, Amazon, Alphabet, Meta…)

Our 2024 Global Investment Outlook will be released in the coming days and we hope to see you during our related client events next 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

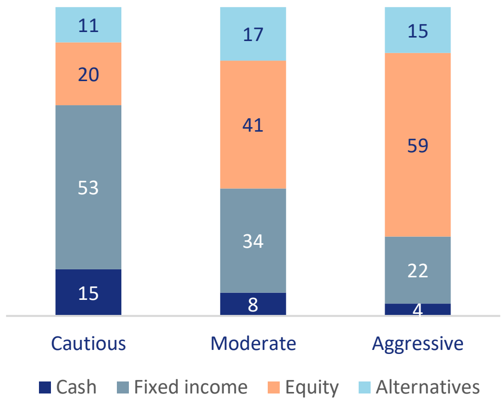
In the past week investors reinforced their view that the US economy must be either in a soft landing or a recovery phase, hoping at the same time for a turnaround in China given the recent additional stimulus measures. The debate about soft versus hard data has reason to continue in the United States, as the former has shown to be consistently weaker than the latter, and this will be important for the Fed to consider at this week's policy meeting. With multiples having already expanded in anticipation of rate cuts, the burden will fall on the good progression of the economy to support share prices and keep credit spreads tight. To be sure, a couple of additional liquidity kicks could still be in the pipeline. One could be provided by the Quarterly Refinancing Announcement on Wednesday, when the Treasury will announce the new issuance needed to plug the budget deficit hole in Q1, the other by the discussion to reduce Quantitative Tightening foreseen to occur at the forthcoming FOMC. Should the Treasury decide to skew future auctions towards T-Bills, that would amount to an easing of financial conditions both at the shorter-, and at the longer end of the curve. The net effect of a reduction of QT would on the other hand be felt only further down the road. In summary, a strong economy coupled with continued expectations for rate cuts should bode well for markets.

Rebounding crude prices possibly pushing even higher on further Red Sea turmoil constitute the fly in the ointment in the above scenario. Positioning in the Treasury market is exceptionally long, hence yields are liable to further upside should Western interventions to stem the current crisis prove to be ineffective. Commodity markets are also pointing to weaker Treasuries, as both copper and oil are rising versus gold prices, a mix that historically has correlated with higher longer-dated yields. Given euphoric investor sentiment and rich valuations equity volatility could be on the rise in the shorter-term. A positive backdrop should contain downside, while upside seems to be capped as well given the expensive multiples. Markets are stuck in a Goldilocks scenario that is now priced in.

The additional supporting measures announced last week by Beijing are unlikely to be enough to trigger more than a rebound in local equity markets. Targeted liquidity injections are rather band-aid measures, while issues related to the ailing real estate sector have not been tackled decisively.

Overall, while US equities still seem to be the asset class of the day, US exceptionalism has its limits. It is difficult to tell what will break. Eventually it is either that we will see a rest-of-world recovery, or growth will reset lower with risk assets following suit.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

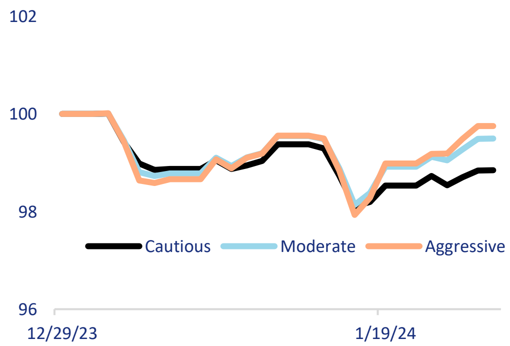


TAA – RELATIVE POSITIONING – MODERATE PROFILE

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

This week has a sense of Déjà vu. In October last year, the narrative on Fixed Income changed post the Quarterly Refunding Announcement of the US Treasury and the subsequent dovish turn in the Fed FOMC meeting. This stymied the bond rout of September and October 2023. January has seen a similar uptick in yields as the aggressive rate cuts priced in are slowly getting phased out. From 157bps rate cuts priced in on 29*th* December, we are down to 136bps as of last Friday. Rate cut probabilities for the March FOMC meeting have similarly dropped from 85% to 50%. Strong macro data from the US and a slightly hawkish tone from Fed officials pushing back against the early rate cut expectations have been the catalysts for the pause in the bond rally.

We don't expect the Treasury's announcement next week to be as impactful for markets this time around. According to analysts, this could be the final round of increases to the Treasury auction sizes. Markets would be glued to the Fed's guidance, though. Given the significant moves in inflation data prints, the Fed would officially become neutral from the earlier hawkish tone. The recent tweak in the BTFP last week hasn't shaken the markets, and it should not have any lasting impacts as most of the banks were not using this facility to earn arbitrage on their cash. However, this meeting should see some discussions on how to proceed with the QT taper. If we go by 2019 as a guide, the pace of US Treasury reductions could be halved, and the MBS reduction pace could be maintained as it is currently.

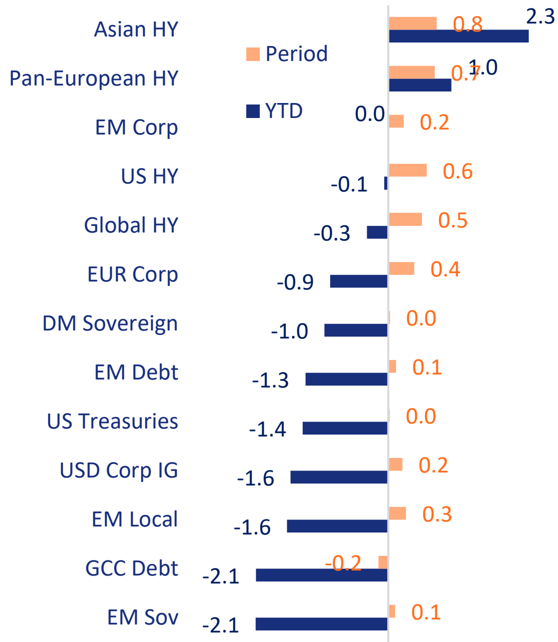
Credit spreads continue to grind lower. The Bloomberg Barclays Global Agg Credit Index spreads have dropped below 100 bps for the first time since early February 2022. January primary issuance has crossed $165bn, but the demand has been strong, especially on the long end of the curve. The spreads curve is also very flat five years onwards. This should lead to some long-end spread widening next month. High Yield spreads have also narrowed by more than 10bps, making the segment the best-performing one in Fixed Income.

GCC's primary market activity could take a breather this week. January has been prolific, with total issuance YTD crossing the one-third mark of total 2023 hard currency issuance. However, the long duration of the asset class compared to the broader EM debt has impacted the segment's performance. The median return of the bonds issued this year has been 0.04%, with Saudi 2054 being affected the most due to its duration. PIF 2034 has been the best-performing bond so far.

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

Central bankers across the US, UK and Europe have pushed back on the amount of easing priced for this year, however most regions ended the week positive, with China and the Eurozone equities gaining over 3% last week. Elsewhere in Asia: Japan and India equities fell last week and the UAE saw gains from the Dubai Index on strong Q4 and FY2023 earnings growth from banks, while the Abu Dhabi Index fell. European equities were boosted by the ECB holding rates steady for the third consecutive meeting and a rebound in luxury names such as LVMH.

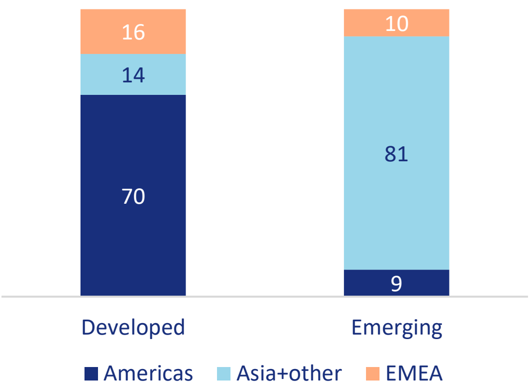
US equities rose last week on the back of strong economic data, making new intraday highs crossing 4,900, for the first time. On Friday, the S&P 500 ended a streak of five-consecutive closing all-time highs, 1.07% higher for the week. US 4Q23 GDP growth (driven by strong domestic sales and inventory growth) and manufacturing PMIs printed above consensus. However, oil prices rose as disruptions in the Red Sea continue to pose risks for global supply chains. This could upset the current trajectory of slowing inflation. The US December Core PCE price index was at 2.9% y/y, its lowest level since March 2021.

On US earnings, for Q4 2023 (with 25% of S&P 500 companies reporting), 69% have reported a positive EPS surprise. The blended (y/y) earnings decline for the S&P 500 is -1.4%. Lots of big tech announces this week (Alphabet, Amazon, Apple, Meta, and Microsoft). Several companies in the "Magnificent 7" have seen their stock price hit record-high levels in recent weeks, which is helping to drive the value of the S&P 500 higher. Some of this can be attributed to pre-earnings optimism, few alternatives with similar growth or market share and continuing AI excitement. On electric vehicles we remain cautious tactically, with a continuing price war in place. The only company in the "Magnificent 7" that is not a positive contributor to y/y earnings growth for the S&P 500 for Q4 2023 is Tesla. Our thematic focus this year is on the applications of generative Ai in robotics, finance, healthcare and consumer mapping and cyber security.

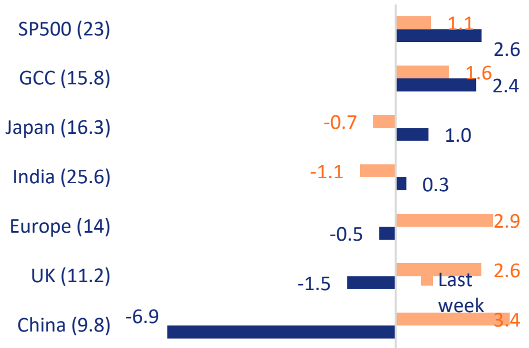
On China, headlines around an equity market rescue package brought hope that last year's decline which continued into 2024 would be halted and China see one of its spectacular rallies. We remain neutral as of now- the MSCI ACWI has a 3% weight of China/ Hong Kong, while MSCI EM 24%, and we are advocating for remaining market weight as of now. China equities look on their way to surprise to the upside this year, but timing remains uncertain. China policymakers as per unconfirmed reports are seeking to mobilize about 2tn yuan ($278bn) from offshore accounts as part of a stabilization fund to buy shares onshore through the Hong Kong exchange link, along with 300bn yuan of local funds to invest in onshore shares. Restrictions on short selling have also been put in place. The measures would help stimulate a market trading on exceptionally low valuations and trailing global peers.

India's weight has steadily risen in the MSCI ACWI to 1.8% and in the MSCI EM to almost 18% and it has the 4th largest market cap at USD4.33tn globally. Strong growth and elections this year (usually a positive catalyst) keep us tactically and strategically overweight.

EQUITY RECOMMENDED REGIONAL POSITIONING

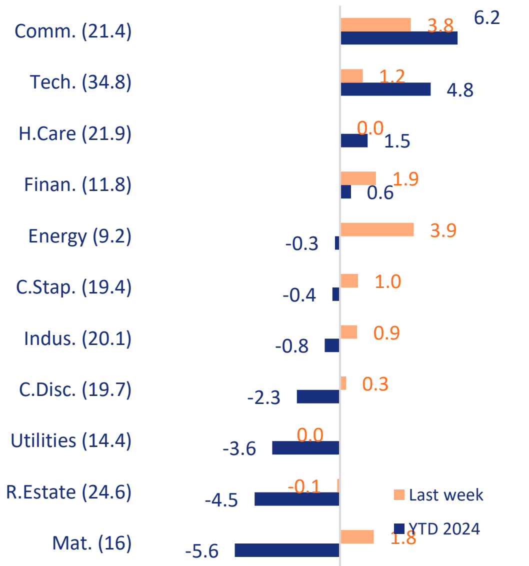


MAJOR INDICES PERFORMANCE (TR, US$) AND 2024PE



Source: Bloomberg consensus. MSCI Indices unless specified.

GLOBAL SECTOR PERFORMANCE (TR, US$) AND 2024PE



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

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