Preparing for the **winds of change of 2025**

- **2024 ended with solid returns for a diversified portfolio, slightly above our initial expectations**
- **All asset classes were positive except government bonds, with gold and DM stocks leading.**
- **2025 starts with overall good macro data, and thirst for clarity on US policies**

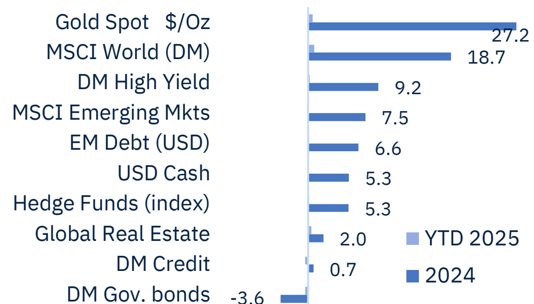
After the massive rebound of everything of 2023, our expectation for 2024 was for overall modest positive returns, with divergence and volatility. We were a bit too cautious: actual returns for our three profiles, at respectively +5%, +10% and +13%, were a bit better. It came mostly from a massive appreciation of gold, and from another great year for US stocks, lifted by continuous economic surprises and by the spectacular gains of the Magnificent 7 stocks.

For the rest, volatility, as expected, was elevated with many gyrations in market expectations for the Fed, as well as many political events. The diametrically opposed fates of government bonds and stocks also validated our call for differentiated behaviours.

We start 2025 with a clear picture of the current state of the global economy, confirmed by December PMI releases: activity in services remains globally solid, with a slight pick-up in both Europe and Japan, while the US and India remain the fastest growing countries of their respective developed and emerging groups.

This good starting point doesn't help much for the year ahead. While 2024 was all about finding answers to immediate questions on the current state of the world, we believe that 2025 will be about the medium-term consequences of emerging policy changes. It's all about the new US administration which takes office in two weeks. The platform is disruptive, with all political levers to implement it. But priorities (growth, geopolitics, fiscal discipline, inflation?) and details are unknown. Both will shape expectations and move markets, without a doubt. We start the year close to our strategic positioning and will issue our 2025 Outlook in the coming weeks. Happy new year!

ASSET CLASSES USD % TOT.RETURN, 2024 & EARLY 2025



MAURICE GRAVIER
Chief Investment Officer
MauriceG@EmiratesNBD.com

GIORGIO BORELLI
Head of Asset Allocation
GiorgioB@EmitatesNBD.com

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

NAWAF ALNAQBI
Head of Equity Strategy
NawafALNA@EmiratesNBD.com

ANITA GUPTA
Equity Strategy
AnitaG@EmiratesNBD.com

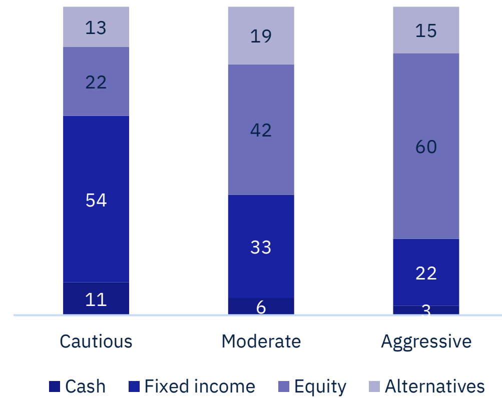
Cross-asset Update

Last year was a stellar one for equity investors with 20% back-to-back gains in the US. The solid bull market for stocks was supported by continued economic growth, falling inflation, and a global easing cycle led by the Fed. Mega-cap tech stocks led once more the way, though market participation became broader across sizes and sectors. Treasuries experienced another volatile year, with longer-dated yields rising despite Fed rate cuts, and US cash yet again outperforming IG bonds. US exceptionalism dominated as underwhelming Chinese stimulus failed to yet impact growth, while activity in the euro area remained anaemic. Gold's +27% topped asset class returns, amidst widespread geopolitical tensions and unrelenting central bank purchases. Market participants are now looking to 2025 with some trepidation, as historically very strong years have been followed by a rise in volatility and less ebullient gains. Some questions remain key to next year's outlook. How will Trump's policies impact the outlook? Will the disinflation process continue? Will both stimulus and less demanding valuations in China and Europe trigger outperformance of non-US markets? Could US growth start to show some cracks? Will manufacturing activity expand again following a contraction phase lasting throughout most of the last two years? Our take on these relevant topics will be provided in the Outlook 2025 publication to be released shortly.

We are starting 2025 looking ahead to a growing number of challenges, hence investors are recommended to stick to diversified portfolios to lessen the impact of asset volatility. With most markets rich, opportunities will have to be looked for within asset classes, rather than via pure beta exposure.

Shifting now to the longer term, we would like to underscore that our positive stance on gold is confirmed, as disruptive change usually comes alongside asset volatility and growing uncertainty, best hedged via an asset class least correlated to the others. We see gold outperform primarily as Western governments will need to tolerate higher price pressures in order to inflate debt levels away. De-dollarisation, the political will of the so-called "Global South" to move away from a dollar-based payment system, is there to stay, yet quite a slow-moving variable. The flip side of gold strength is a weakening of the dollar, necessary to find a source of US growth tied to the real economy, rather than to stimulus or financial engineering. A historical precedent in this respect is offered by the so-called Plaza Accord in 1985, when the United States in concert with the major countries successfully engineered a devaluation of the global reserve currency. The dollar collapsed by more than 40% in three years, and a long period of strong US growth followed.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

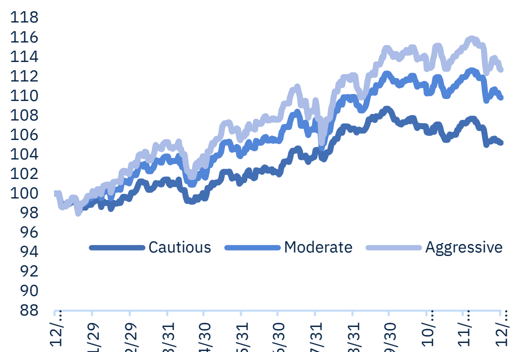


TAA – RELATIVE POSITIONING – MODERATE PROFILE

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

2024 was an unusual year in many senses with scant historical parallels. The Fed started its long-awaited rate cut cycle in September. However, the US exceptionalism continues. The disinflation story seems to have stalled. For only the fourth time in history the long-end of the curve increased in a rate cut cycle. The 30-year yields rose by 75 basis points in 2024, even as 1-year yields fell by 63 basis points resulting in a rare bear steepening of the 30/1-year curve. Since the early 1960s, there have only been four other years where long yields have risen during a period of easing short rates. This means the long-end is being influenced more by inflation/growth dynamics rather than monetary policy. However, being hawkish from current levels has its own risks and hence we change our stance to long-duration at current levels of 10-year yields.

Spreads remain tight across the rating spectrum. Investors buy IG bonds for yields and not spreads. With yield remaining above 5%, the demand for IG credit from Real money players should remain similar to 2024 whereas according to analyst estimates the supply could be down by 25% providing technical support to the already tight spreads. According to S&P, the 4.8% distress ratio in HY bonds points to a 2.5% default rate by next September which is materially lower than the 4.7% average default rate observed in the last 30 years. Strong balance sheets and elevated yields would offset poor valuations with spreads at 7th percentile. However, the net Supply would increase with supportive capital markets. 36% of HY bonds maturing by FY26 belong to issuers rated B3 or lower. Higher issuance combined with lower trend growth will lead to a slight widening of spreads.

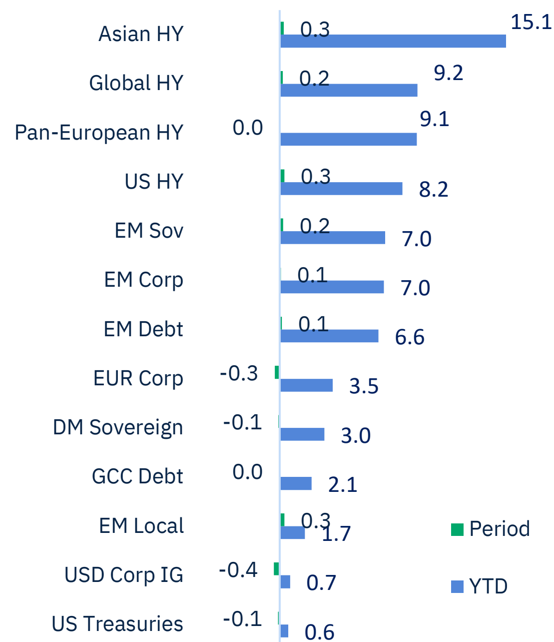
EM Debt headwinds include a strong dollar, tariff wars and tight valuations. China is in the cross hairs of Trump's tariff policy. Countries are expected to counter this with a combination of fiscal stimulus, monetary policy changes and/or FX intervention. China's recent change after 11 years to move to "moderately loose" policy is an example of this. If Trump's tariff policies are pragmatic we may see strong growth in some the EM countries. Moreover, we don't expect large scale defaults in 2025 from EM sovereigns while robust balance sheets in EM Corps should keep spreads range bound.

GCC debt supply should remain inline with 2024 with and around $47 Bn of bonds maturing in 2025. KSA is again expected to lead the volumes. However, demand should remain strong as local investors continue to focus on all in yields. The spreads would depend significantly on oil prices. We expect spreads to widen from the current levels but remain contained if oil prices stay above $60.

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

بنك الإمارات دبي الوطني
Emirates NBD

Equity Update

Neutral DM: OW U.S./Japan, Neutral UK, UW Eurozone
Neutral EM: OW India/UAE, Neutral China, UW others.

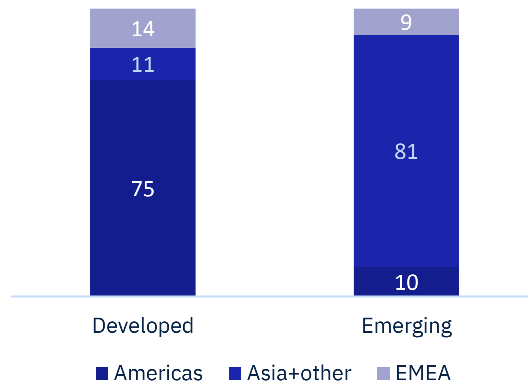
2024 saw global equity returns that surpassed beginning of year expectations, with the confluence of monetary easing from several DM Central banks, lower inflation, strong economic growth in the US, India and UAE, with complementary robust earnings growth and the outperformance of everything AI. Geopolitical concerns diminished and election outcomes were received favourably. Government sovereign yields remain elevated but have not impacted the performance of growth sectors. Equity returns were led by the MAG7 Group and the technology sector (semis, data centres), as global industry is expected to benefit from AI driven productivity gains. The MSCI ACWI saw two pullbacks in April (5%) and August (8%), still ended the year 17.5% higher. Other notable returns: MAG7 +60%, Nasdaq +30%, S&P 500 +25%. In emerging markets, the Dubai Index led +34%. On sectors financials surprised, with gains close to the tech sector not affected by rate cuts, a reflection of global economic strength and consumer spend.

We are reasonably constructive for equities in 2025 as revenue/earnings/margins growth looks healthy with a broadening away from tech specially in the US. Multiples are elevated for the US and India,. PMI's remain robust and recession fears are at a low probability. 2025 is all about earnings growth and expect c.10% upside for equities with valuation multiples expected to stay at current levels. Growth will stay in focus: AI (positive but lower returns), the US, UAE and India. Higher valuation multiples necessitate continued screening for quality.

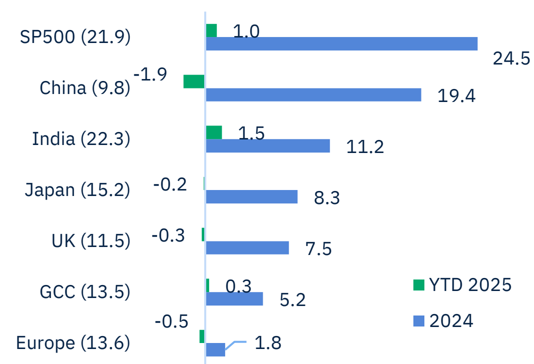
We are neutral both developed and emerging markets, with regional preferences. Overweight the US (above average earnings growth and accommodative monetary policy) and continues to dominate global equities at 65% of the MSCI ACWI. This in turn leads to tech dominance in global indices as tech and comm services is 40% of the S&P 500. This then brings in the Mag7 group which are 34% of the S&P 500, 40% of 2024 returns, and though only 22% of earnings triple the earnings growth of the S&P500. We expect larger multinationals and governments to continue investing in data centers, high end semi processors, development of large language models. Growth stocks outpaced Value stocks across all market-cap tiers in 2024 and Q4. Returns may be volatile with the impact of new policy initiatives, the path of interest rates and geopolitical dynamics. In the Eurozone current valuations, below long-term averages, highlight opportunities in sectors like luxury goods and healthcare.

In emerging markets, we like India for growth and the UAE for its high dividend yielding stocks. India's structural growth story remains intact, (a little slower). We are neutral China as policy uncertainty, especially around tariffs and trade restrictions, continues to influence China's outlook. Valuations remain attractive, and fiscal stimulus could bolster domestic demand.

EQUITY RECOMMENDED REGIONAL POSITIONING

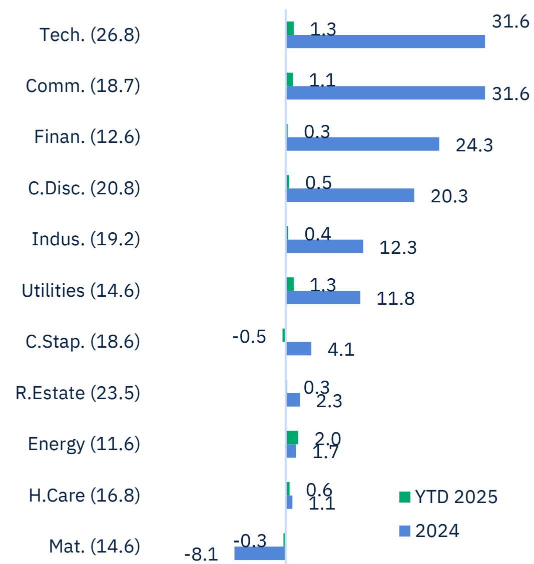


MAJOR INDICES PERFORMANCE (TR, US$), P/E in brackets



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$.

بنك الإمارات دبي الوطني
Emirates NBD

DISCLAIMER

IMPORTANT INFORMATION

This document is prepared by Emirates NBD Bank (P.J.S.C) ("the Bank" or "Emirates NBD"), a public joint stock company incorporated in Dubai, UAE and licensed, regulated supervised and controlled by the Central Bank of the UAE ("Central Bank") and the Securities and Commodities Authority of the UAE ("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. This publication is prepared without regard to the individual financial circumstances and objectives of persons who receive it. Data/information provided in this publication are intended solely for illustrative purposes for the general information or its recipients, irrespective of their customer classification as an Ordinary Investor or Professional Investor under the SCA Regulations. 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

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.

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. Where this publication provides any information about Shariah compliant products, the Bank will not have engaged a Shariah board (or similar body) to determine independently whether or not such products are compliant with Shariah principles. The Bank accepts no liability with respect to the fairness, correctness, accuracy, reasonableness or completeness of any such determination or guidance by any Shariah board that has certified or otherwise approved such products as Shariah compliant. Nothing contained in this publication shall be construed as a recommendation by the Bank to invest in such product. In deciding whether to invest in Shariah compliant products, you should satisfy yourself that investing in such products will not contravene Shariah principles. You should consult your own Shariah advisors as to whether investing in such products is compliant or not with Shariah principles.

بنك الإمارات دبي الوطني
Emirates NBD

DISCLAIMER

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.

بنك الإمارات دبي الوطني
Emirates NBD

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.