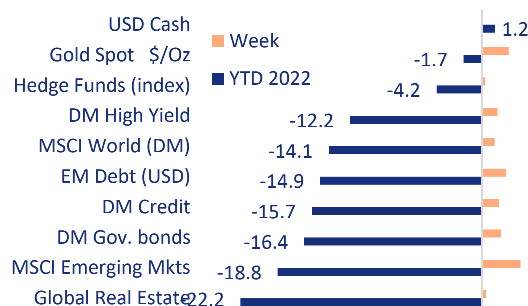
December starts with higher hopes

- **A lower US ISM Manufacturing and a relatively dovish Powell speech supported all asset classes last week…**
- **… Led by stocks from emerging markets with growing signs of an imminent reopening in China**
- **Sentiment and positioning are normalizing, but uncertainty should still prevail in the coming quarters.**

Last week was no exception in Q4's positive orientation, with all asset classes delivering positive returns. In the developed world, weak manufacturing activity supported anticipations for an imminent moderation of the pace of monetary tightening. To that extent, Fed Chairman Powell's speech was a bit ambiguous, but most Fed watchers interpreted it as opening the door to a 50-bps hike next week. Markets didn't pay too much attention to a higher than expected number of job creations in the US in November but focused on a lower number of job openings in October instead. This kind of confirmation bias is typical when sentiment turns, which is undoubtedly happening. The emerging world was buoyant, as China is taking initiatives to find a way out of its struggle with Covid: more vaccinations, and an easing of testing rules indicate a gradual shift away from its strict Covid Zero policy. This explains a 6% jump in Hong Kong's stock market, which continues this Monday morning as we write.

Our central scenario seems to be unfolding, with slower activity and moderating inflation combining to unlock some of the value generated by excessive pessimism. Sentiment is undoubtedly turning, but it's important to highlight that fundamentals haven't yet. A pause from central banks will require more than a slow fall in inflation. We believe that inflation will ultimately normalize, but the trajectory and timing remain highly uncertain, especially as jobs and wages remain positively oriented in the West. Monetary tightening should be slower, but also potentially more restrictive and for longer than initially anticipated. This is why we have kept our positioning unchanged, close to neutrality, and currently focus on next year and its binary outcome on inflation. Stay safe.

ASSET CLASSES USD % TOT.RETURN, YTD 2022 & 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

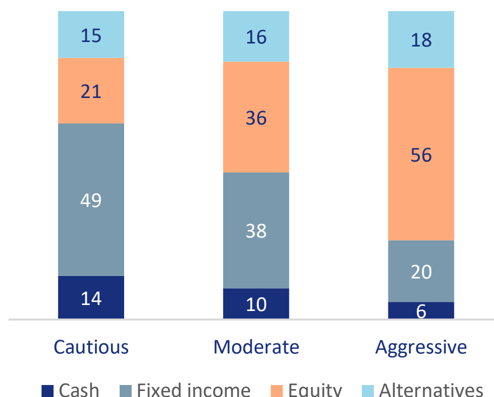
The month of November saw the partial reversal of the year's narrative marked by headwinds from higher inflation, rising borrowing costs, and lockdowns in China. Global equities recorded their first back-to-back monthly gain in more than a year, IG bonds posted their biggest monthly positive return since 2008, and the US dollar weakened by 5% against a basket of major currencies. Are we back to the good old normal with markets finding a bottom and crosscurrents gradually retreating? Not really, although investors are rightly anticipating rising odds of peak policy rates round the corner and peak inflation now behind us.

There are two issues with renewed optimism, though, one related to the message sent by the US labor market, the other to the lagged effects of the tightening of policy. While the Federal Reserve has had some success in the battle against goods and services inflation, the war is not won until there is some slack in the labor market. This means that non-farm payrolls should drop to 100,000 per month, the level in keeping with stable employment, as against the 263,000 added in November, and wage growth slow down to 0.2% per month, versus the still speedy 0.6% that showed up in last Friday release. That in turn has hawkish implications: for unemployment to rise, the Fed will have to keep rates at high levels, and for long enough indeed. And, recession or not lurking further down the road, tighter policy will have to start to bite in 2023, with repercussions both on the economy and earnings. So, risk assets may well continue to rise in the short-term, but most likely not supported by the drivers of a new bull market.

And maybe they are more likely to rise than not into early next year. With peaking inflation and wage gains still pretty sustained, purchasing power will come back to consumers, prompting the conclusion that a recession will be avoided in the United States. At the same time, should the Fed even raise rates by 75 basis points, investors would all the more be looking to the forthcoming end of the tightening. Meanwhile, chatter of China's reopening, following the nationwide protests and with Beijing set to support the economy, should only get louder, boosting cyclical stocks and the European markets. Yet, equity valuations can only expand so much as rates remain high, so a fully-fledged bull market should be expected only once the Fed starts easing rates, a 2H23 occurrence at the earliest.

As risk asset gains remain capped and higher policy rates start to bite in 2023, gold should turn in a positive performance in 2023. Buying on weakness should be the new guiding principle, as compared to selling strength in 2022.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

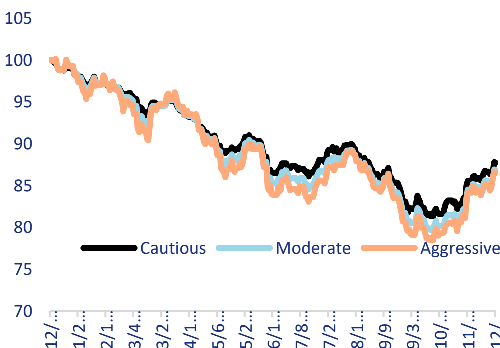


TAA – RELATIVE POSITIONING – MODERATE PROFILE

UW/N/OW:Underweight/Neutral/Overweight

	UW	N	OW
Cash			>
DM Gov.			>>
EM Debt		=	
DM Credit	<<		
DM H. Yield	<<		
DM Equity		=	
EM Equity	<		
Gold		=	
Hedge Funds			>>
Real Estate		=	

TAA – 2022 INDICATIVE PERFORMANCE



Source: Bloomberg. CIO Office calculation based on TAA applied to market indices, net total return in USD.

Fixed Income Update

The life of a fixed-income investor has been challenging in 2022. Chairman Powell provided the proverbial straw to the investors with his remarks that the slowdown in rate hikes should be coming soon and that there has been some progress in the fight against inflation. This was the first part of his speech, and markets got excited to hear this. The treasury yield curve bull-flattened as the long-end of the curve moved down by roughly 17 bps over the week while the 1-2 year part remained stickier. The benchmark 10-year yields dropped by 20 bps on Wednesday during the speech. The following day it breached the psychological 3.50% momentarily. This is the challenge the Fed faces. Every time they make a dovish tilt, the financial conditions tend to ease significantly, with risky assets rallying. The market had also quickly forgotten the hawkish utterances from other Fed members, such as James Bullard and John Williams, during the start of the week.

Investors seem to have ignored the second part of the speech, where Powell did reiterate that the rates will have to remain higher for longer in this cycle. This was nothing new and demonstrated the desperation of a market looking for a lifeline. Friday's stronger-than-expected labour data dampened the so-called animal spirits and points to the volatile landscape around us. The yields initially increased as a result but recouped most of the losses as the Fed downshift hope weighted more positively on market sentiments. The Fed will try hard not to repeat the mistake of December 2018 as they attempt to bring down market buoyancy post the FOMC meeting next week.

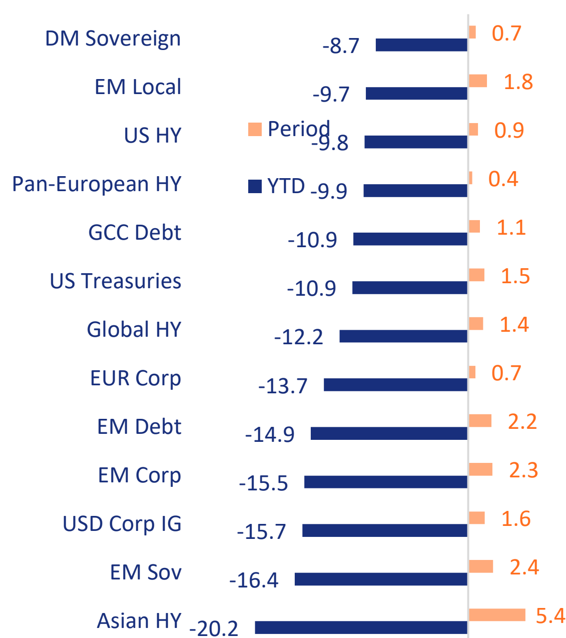
In the Eurozone, the CPI came in lower than expected at 10% (Est. 10.4%) from the prior print of 10.6%. In the first instance of bond sales from the developed market central banks, BoE completed its first sale of Gilts amounting to GBP 346 Mn in a start to the quantitative tightening (QT), with Governor Bailey insisting that the markets can't absorb a massive sale of assets. QT will be a constant theme in 2023, when the top central banks, except for BoJ, try to unwind their bloated balance sheets. The demand reduction from the largest buyers of the bonds would limit how low bond yields can go next year unless a severe recession engulfs the world economy.

Investors need to cut the noise and focus on fundamentals at this stage, especially on the riskier segments of fixed income. High-quality, short duration bonds provide an oasis of calm amid the volatility. High Yield fundamentals will continue to deteriorate, and access to the market will remain challenged. Relative value-wise, we prefer subordinate debt of quality issuers to outright HY exposure. Emerging Markets will stay at the mercy of DM central bank policies. Demand from global asset allocators will decrease as risk-free rates increase to respectable levels while market access remains challenging for the weakest issuers. Top IG names from EM may avoid the markets if funding conditions remain unfavorable. We prefer BBB and cross-over rated sovereigns and GREs from EM.

FIXED INCOME KEY CONVICTIONS

DEVELOPED MARKETS
OW US Treasuries
Selective on Credit
UW High Yield
EMERGING MARKETS
OW Asia (USD, quality)
OW GCC vs other EMEA
OW Latin America

FIXED INCOME SUB ASSET CLASS RETURNS (YTD, LAST WEEK)



Source: Bloomberg

Equity Update

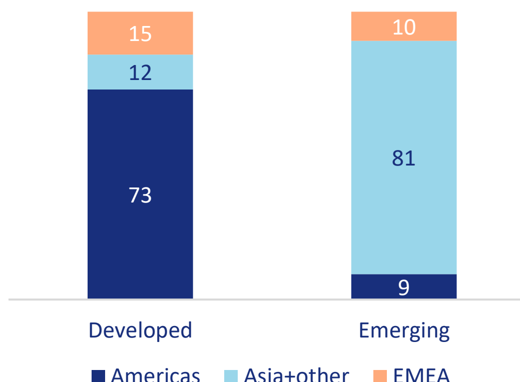
This has been a volatile year so far, with the first 3 quarters seeing a selloff in global equities as worries around corporate margins and profit growth grew as a result of the combined effect of rate hikes, higher wages and rising raw material costs. Equities have however rallied strongly since mid-October, as small glimmers of hope on softening inflation, Central Banks slowing their tightening and China reopening have lifted market sentiment, with the most impact coming from the lower US CPI, last month. 10 year US Treasury yields are a percent below their peak aiding the performance and outlook of long duration sectors such as technology and the USD, while +9% from the beginning of the year has recently weakened. After rising 6% in October, global equities added almost 8% in November. Whilst the October rise was driven by developed markets, the November rally saw China equities gain 27%. Post the last 2 month rally we are close to our fair values for a number of regions including the US, Europe, Japan and India.

We remain positive US equities and in EM the UAE and India, both tactically and longer term. Tactically we see China continuing to rally. Last month we saw the biggest catalyst as a China reopening and in December, we expect global markets to remain stable to up. The China rally could continue with real estate developers receiving strong government support and many cities removing onerous COVID checking protocols in response to protests. The next big catalyst for US markets after the early Dec Fed meeting possibly leading to a Santa Claus rally if any pivot is perceived will be the Q4 result season which starts 3rd week Jan. For Q3 2022, the blended earnings growth rate for the S&P 500 is 2.5% and revenue growth rate 10.9%. According to FactSet during the months of October and November, analysts lowered EPS estimates for S&P 500 companies for the fourth quarter by 5%, a larger margin than average taking earnings growth estimates to Q4 to -2.4%.

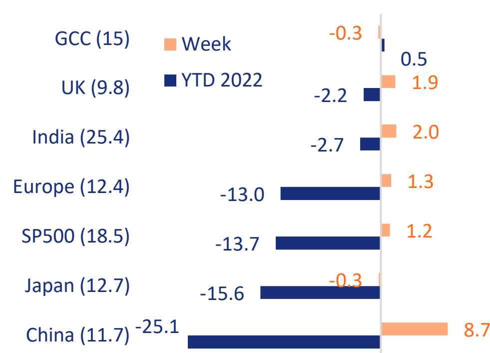
Our bullish stance on UAE equities has been reflected in the performance of the Abu Dhabi and Dubai indices but the MSCI UAE has a 50% concentration of just 2 stocks, so its lower performance does not accurately reflect the UAE market. The recent Taleem Holdings IPO was heavily oversubscribed though the stock is trading 10% below its IPO price (in line with regional equity indexes that have fallen from earlier midyear peaks, tracking a decline in oil). 80% of recent UAE IPOs are trading above their listing price indicative of future success for listings. IPOs in the region have raised $19.2 bn so far in 2022. The KSA IPO of Saudi Aramco Base Oil Co., a refining unit of Saudi Aramco was covered within hours. Luberef, is 70% owned by Saudi Aramco, with the rest held by Jadwa, which is selling its entire stake. Luberef becomes the latest billion-dollar plus IPO in the GCC. High oil prices have benefited local economies.

India is on its way by the end of the decade to become the world's third largest stock market and economy with GDP of more than US$7.5 Tn and an equity market cap of US$10 tn. Aiding this growth are a young demographics, accelerated adoption of digitalization, a focus on non-carbon initiatives and low dependance on other economies.

EQUITY RECOMMENDED REGIONAL POSITIONING

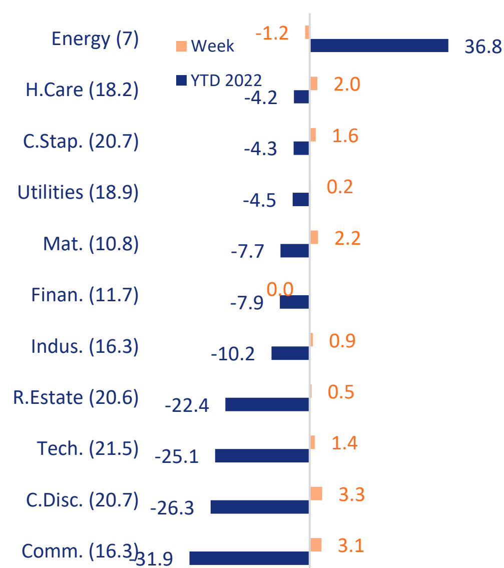


MAJOR INDICES PERFORMANCE (TR, US$) AND 2022PE



Source: Bloomberg consensus. MSCI Indices unless specified.

GLOBAL SECTOR PERFORMANCE (TR, US$) AND 2022PE



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

DISCLAIMER

Reliance

Emirates NBD Bank PJSC ("Emirates NBD") uses reasonable efforts to obtain information from sources which it believes to be reliable, however, Emirates NBD makes no representation that the information or opinions contained in this publication are accurate, reliable or complete and should not be relied on as such or acted upon without further verification. Opinions, estimates and expressions of judgment are those of the writer and are subject to change without notice. Emirates NBD accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this publication. Data/information provided herein are intended to serve for illustrative purposes and are not designed to initiate or conclude any transaction. In addition this publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to the determination of whether a particular investment activity is advisable. This publication may include data/information taken from stock exchanges and other sources from around the world and Emirates NBD does not guarantee the sequence, accuracy, completeness, or timeliness provided thereto by unaffiliated third parties. Moreover, the provision of certain data/information in this publication is subject to the terms and conditions of other agreements to which Emirates NBD is a party. Anyone proposing to rely on or use the information contained in this publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts. Further, references to any financial instrument or investment product are not intended to imply that an actual trading market exists for such instrument or product. The information and opinions contained in Emirates NBD publications are provided for personal use and informational purposes only and are subject to change without notice. The material and information found in this publication are for general circulation only and have not been prepared with any regard to the objectives, financial situation and particular needs of any specific person, wherever situated

Confidentiality

This publication is provided to you upon request 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. The investor may not offer any part of this publication for sale or distribute it over any medium including but not limited to over-the-air television or radio broadcast, a computer network or hyperlink framing on the internet without the prior written consent of Emirates NBD or construct a database of any kind.

Solicitation

None of the content in this publication constitutes a solicitation, offer, opinion, or recommendation by Emirates NBD to buy or sell any security, or to provide legal, tax, accounting, or investment advice or services regarding the profitability or suitability of any security or investment and further does not provide any fiduciary or financial advice.

Third party

The security or investment described in this publication may not be eligible for sale or subscription to certain categories of investors. 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. The investor may not use the data in this publication in any way to improve the quality of any data sold or contributed to by the investor to any third party.

Liability

Anything to the contrary herein set forth notwithstanding, 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 the 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, the risks should be fully understood and a determination made as to whether a transaction is appropriate given the person's investment objectives, financial and operational resources, experiences and other relevant circumstances. The obligations relating to a particular transaction (and contractual relationship) including, without limitation, the nature and extent of their exposure to risk should be known as well as any regulatory requirements and restrictions applicable thereto.

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. Undue 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.

Emirates NBD
PRIVATE BANKING

DISCLAIMER

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 and income from your investments may vary because of changes in interest rates, foreign exchange rates, prices and other factors and there is the possibility that you may lose the principle amount invested.. 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, the investor may not copy or make any use of the content of this publication or any portion thereof. Except as specifically permitted in writing, the investor 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, the investor agrees 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, the investor may 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 the investor or, except as otherwise provided with Emirates NBD, prior written consent. The investor has no ownership rights in and to any of such items.

Emirates NBD (P.J.S.C.) is licensed and regulated by the Securities & Commodities Authority and subject to regulation, supervision and control of the Authority. Head Office: Baniyas Road, Deira, PO Box 777, Dubai, UAE

United Kingdom

This publication was prepared by Emirates NBD Bank PJSC in the United Arab Emirates. It has been issued and approved for distribution to clients by the London branch of Emirates NBD Bank PJSC which is authorized 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 PJSC 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.

Singapore

This publication was prepared by Emirates NBD Bank PJSC in the United Arab Emirates. It has been issued and approved for distribution to clients by the Singapore branch of Emirates NBD Bank PJSC 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 PJSC 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**