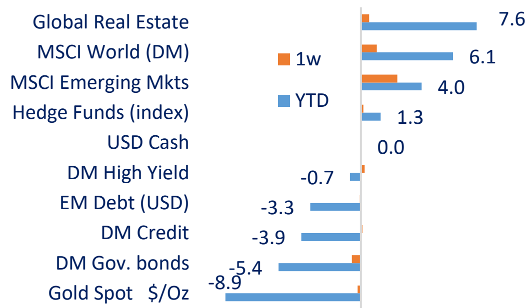
Farewell, winter.

- **The first quarter ended with positive economic data, confirming a build in growth momentum**
- **Last week was positive for cyclical markets while defensive assets were only slightly in the red**
- **Our positioning is unchanged, anticipating a reasonably constructive year overall**

Last week we compared the hundreds of ships waiting for the Suez canal to reopen to the current pent-up demand from global consumers. The giant container ship has been unstuck, and after more than 650mn vaccinations and close to $5tn of fiscal stimulus worldwide, the end of the winter could be in sight for the global economy. Last week's PMI were unambiguous: US consumers and Asian exporters are equally strong, and Friday's monthly US job report was upbeat. With 916,000 new jobs being created, the month of March was the best since last August, and February's number was revised up.

The economic springs season is starting, and cyclical assets were well oriented last week – they would have done even better except for the fact that many markets were closed on Friday. The OPEC+ agreed to gradually increase output over the next months, which is also an indication of confidence in a recovering demand. Our constructive scenario seems to be unfolding, but of course, if the direction is clear, the trajectory is not. First, global daily infections are up again, and the reason is clear: without a significant part of the population being vaccinated, any rise in mobility means spreading, especially with newer variants. Europe ex UK and some large EM countries are late in rolling out vaccines, they will pay the price on growth – France, typically, has re-imposed a national lockdown which will drag on growth. As a result, the US will definitely lead the global economy in Q2 and arguably Q3, which means that questions on inflation, interest rates and the strength of the dollar will be with us for some time. We keep on believing they are temporary and keep our positioning unchanged for now, while being ready to consider any material turbulence as a potential opportunity to put cash at work. Stay safe.

ASSET CLASSES USD % TOTAL RETURN, YTD 2020, LAST WEEK



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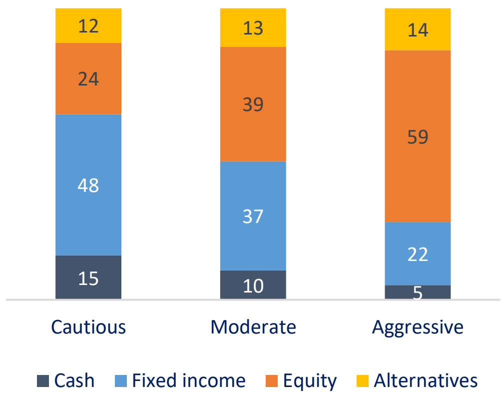
Cross-asset Update

This week we will simply have a look-back at the first quarter of the year on global markets and for our multi-asset strategies.

Divergence and volatility have been the two keywords of Q-2021. After the "rally of everything" which happened in the last quarter of last year, returns for asset classes were this time clearly differentiated, depending on their exposure to growth, on the positive side, and the sensibility of their price to rising interest rates, on the negative side. Out of the 10 asset classes of our allocation framework, only 4 were positive, one was close to 0 (cash, unsurprisingly) and 5 were negative. Global listed real estate was the best performing asset class with an appreciation of 6.1% in Q1, but it's good to remember that it had the worst return of last year. Global equities were up 4.9% in developed markets and 2.3% in developing regions, with several changes of leadership between them, depending on the strength of the dollar and on the growth differential which became favorable, on the short term, to the US following the implementation of a massive fiscal stimulus plan. Below the surface of global indices, the sector composition was unambiguous: Energy, Financials and Industrials led the sector returns by a wide margin, while Consumer Staples, Healthcare and Utilities, typically very sensitive to interest rates, underperformed. Interest rates being on the rise drew an unusually poor picture for defensive assets. Gold lost 10%, and the entire fixed income asset class delivered negative returns in Q1, following their risk hierarchy. High Yield, one of our preferred segments, was only down 1% while at the other end of the spectrum Government bonds from developed countries were down 5%.

Against such a backdrop, the returns of our three asset allocation profiles were also clearly divergent. Our most defensive one was down 1.4%, our Moderate was close to unchanged, and only our Aggressive profile was in the green with a 1.2% gain. It is a long-term game, and it's good to remember that our 3 profiles delivered double digit returns last year, and the year before. Compared to competition, our first quarter was a bit below average (after having been way above last year). There is one structural reason: as our Strategic Asset Allocation is built with the aim of preserving capital over 3,5 and 7 years, the proportion of safe assets is comparatively higher than for many of our global competitors. We remain extremely confident in the robustness of the portfolios and in their ability to deliver superior returns over time. Our positioning is currently overweight on stocks and underweight in fixed income, and neutral on cash, waiting for a material weakness to be put at work. Two of our overweight positions had a negative contribution: emerging markets, which are our true long-term conviction, and Gold, which logically suffers from an environment of rising interest rates but remains a universal currency which cannot be printed. 2021 should provide positive returns for our three profiles, according to our forecast, but wouldn't be as good as 2020. We are anyway ready to adapt to any market conditions.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

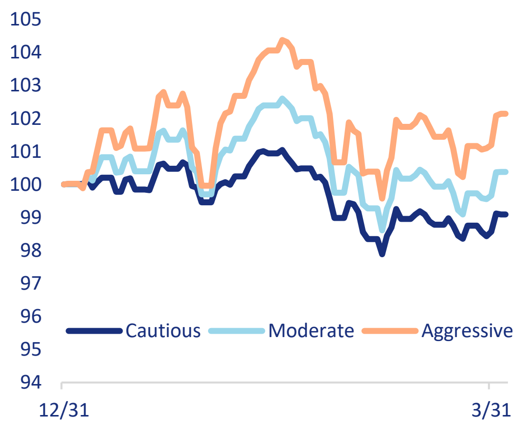


TAA – RELATIVE POSITIONING – MODERATE PROFILE

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

UW/N/OW:Underweight/Neutral/Overweight

TAA – 2021 INDICATIVE PERFORMANCE



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

Fixed Income Update

The yield uptick is compared to the "Rising of the Phoenix" from ashes. It is more than four decades since anyone saw a real bear market in long-dated treasuries. But as all good things come to an end, the long Bull Run has finally ended in the first quarter of this year. Our views and scenarios played out, albeit a little turbo-charged. The 10-year yields went up by c.80 bps. The resultant effect on the subsectors was in the direction we had anticipated. High yield performed better than other sub-asset classes, with Asian HY ranking third in the YTD return table. Emerging Market Debt performed better than Developed Market Investment Grade and sovereign bonds. However, things get trickier from here. The FED has repeatedly assured markets regarding its future actions through its forward guidance and officials' public engagement. But investors are far from assuaged. Q2 inflation numbers will be elevated, and it would be interesting to see how markets behave. We continue to believe in our scenario that 10-year above 2% for an extended period is not sustainable unless full employment is achieved in the US. With that our base case, we will buy long-duration bonds, US Treasury, and Emerging Market Sovereign bonds if the 10-year Treasury crosses that level. Till then, we will continue to favor our current view in High Yield, subordinated bonds, short-duration, and Emerging Market corporate bonds.

Last week was broadly positive for different sub-asset classes, with the Biden administration making its infrastructure funding plans clear. Al the credit subsectors saw a compression of spreads with High-Yield leading the pack. The first quarter blow-out in yields has made some sub-sectors yields such as Global High Yield and Emerging Market valuations more palatable with yields for both Bloomberg indices at 4.56% and 4%, respectively. Meanwhile, the primary issuance market remains strong, with Investment Grade issuers having sold $427 Bn of bonds last quarter, making it the third-best in the past ten years.

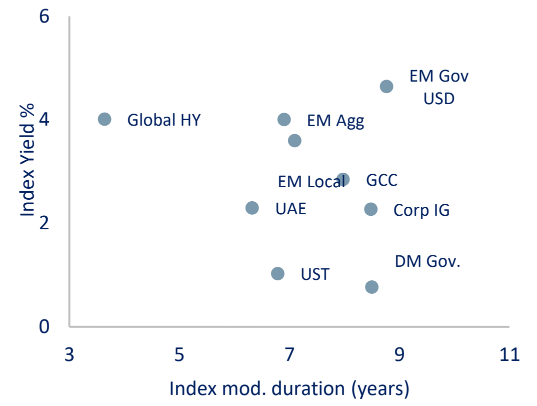
Corporate defaults remain muted as funding markets remain accessible to the riskiest of the issuers. YTD total defaults reached 25 as of last week, with the US leading at 14 defaults, followed by Europe with eight defaults. Within sectors, Oil & Gas leads the tally with five defaults. With economists predicting a strong reopening and revival of the global economy, we remain confident about our overweight call on the High yield subsector.

GCC bonds had a better quarter than broader EM bonds driven by outperformance and yield curve shift in Oman. The primary market in the region has bounced back. Last week investors piled on to the new issuance from nogaholding, which priced an eight-year Sukuk at 5.25% and upsized the issue by $100 mn after massive demand. This shows the demand-supply mismatch in the Sukuk sector as this is the only fourth issuance from the region for this year, and there is a shortage of quality issuance. This raises a risk of mispricing creeping into this niche corner, and investors should remain vigilant.

FIXED INCOME KEY CONVICTIONS

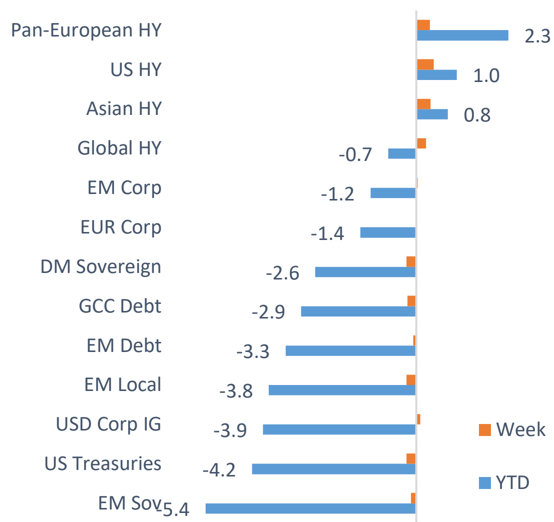
DEVELOPED MARKETS
UW DM Government
OW Credit (Cau. & Mod.)
OW High Yield
EMERGING MARKETS
OW Asia
OW IG Sovereigns
OW Latin America

FIXED INCOME VALUATIONS



Source: Bloomberg, indices modified duration and YTW

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



Source: Bloomberg

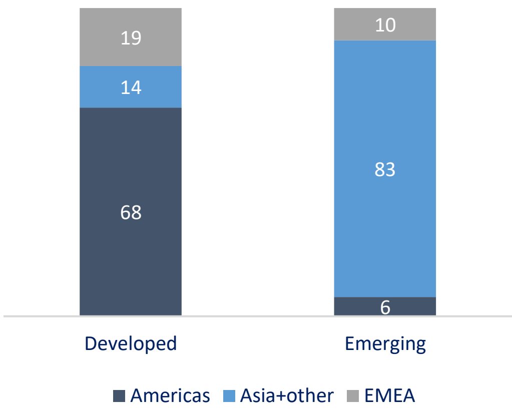
Equity Update

The first trading day of Quarter 2 i.e. Thursday last week was good for markets taking global equity gains to 5.8% for the year. The buoyant start to Q2 is optimism around economic growth amid widespread vaccinations, fresh spending programs from the Biden administration and earnings expectations. The efficacy of vaccines is now well established, administered across 150 countries, with seven vaccines in public use. Still, we foresee risks stemming from rising bond yields, new lockdowns in Europe and signs of excess in some segments of retail trading. It has been a good quarter and a good week for equity markets, though beset with severe daily ups and downs. Q1 saw record inflow to global equity ($372bn), EM ($65bn), value ($35bn), tech ($30bn), financials ($24bn). Economic and earnings optimism for 2021 is countering the recent spike in Treasury yields and the bounce in the U.S. dollar. Yields have posted their biggest one-quarter rise since 2016, unsettling tech stocks whose valuations had been boosted by low interest rates. However, yields are seen to be stabilizing and the S&P 500 closed above 4000. Growth stocks fared better last week and the Tech and Communication Services sectors, led the way after the unveiling of Pres. Biden's $2.3 tn infrastructure spending plan. Despite the sector rotation in the stock market this year, tech stocks were the biggest drivers of the S&P 500's latest 1,000-point milestone. Five stocks—Apple, Microsoft, Amazon.com, Facebook and Alphabet—contributed 44% of the gains, according to S&P Dow Jones Indices.

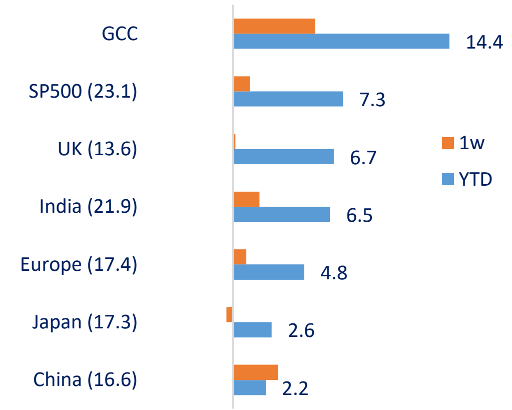
Regional equities had a good quarter and a good week. Abu Dhabi markets remain in the lead at 22% year to date gains. The global energy sector in line with oil prices and a move to cyclical and recovery plays has been the best performer so far this year along with financials and industrials. However, tech stocks recent recovery indicates that the rotation will be a back and forth pattern this year and it is best to stay balanced in portfolios. Year to date most major global indexes are up with the S&P 500 leading at 7.3% and the Nasdaq up 4.8%. DM has a slight edge over EM of around 2%; we are overweight both with a bias towards the US and Asia. US exceptionalism from the last decade continues. China which led markets till end Feb has broken its strong upward trajectory and the MSCI China is at just +2% ytd gains. China US trade relations are status quo. Sentiment towards China Equities has dampened as the SEC started implementing ADR de-listing rules.

We have published a note on global financials and see more upside. The sector is cheap, has underperformed, earnings are improving and will benefit from a reflationary backdrop. Higher yields, aid banks by making lending more profitable and reflect expectations for faster economic growth, from the boost in business activity. In the short term a reflating global economy increases demand for loans and pushes interest rates higher, boosting lending profits. The US and Europe banking industry has seen a difficult decade. Dividend resumption is now in place: US banks plan 2Q end and European banks 3Q end.

EQUITY RECOMMENDED REGIONAL POSITIONING

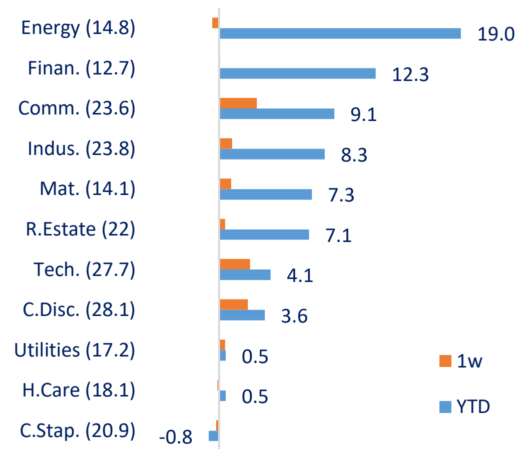


MAJOR INDICES PERFORMANCE (TR, US$) AND 2021PE



Source: Bloomberg consensus. MSCI Indices unless specified.

GLOBAL SECTOR PERFORMANCE (TR, US$) AND 2021PE



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

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