Adapting to Unpredictability

Global Investment Outlook 2023

Emirates NBD
PRIVATE BANKING

Global Investment Outlook 2023 Report

Foreword

Our 2022 Global Investment Outlook, titled "Low Visibility Ahead", was a humble acknowledgment that our central scenario was threatened by more potential risks than ever. Alas, all of the risks we had identified materialised in 2022: from inflation and monetary tightening to geopolitics, including a persistent COVID in China and even a crypto crash. 2022 has thus been one of the worst years ever for investment, with correlations snowballing to push all asset classes deeply in the red - at the same time.

Let's start with the bad news. Unpredictability is not abating; it has become the norm. The world is transitioning from an era of low inflation, abundant liquidity and happy globalisation to a more complex and unstable state. There are short-term unknowns, especially the relative trajectories of inflation and growth and the reaction function of Central Banks in 2023. There are also longer-term implications.

When unpredictability rules, portfolios have to adapt, and this is where the good news start. First, the holistic turmoil of 2022 has improved long-term expected returns, especially from income generating assets, and bonds have reconstituted their diversifying power against stocks. We have reshuffled our strategic asset allocations for stronger, better long-term portfolios.

On a more tactical horizon, market participants will focus on one single magic moment: Central Banks' pivot from tightening to a more accommodative stance. This could happen under the happy circumstances of inflation abating before activity collapses. But this could also happen because of a massive economic and financial turmoil. Or not happen at all. Investors' focus will certainly switch at some point from inflation to recession. The good news however is that market participants are well aware of this dual risk, and overall not optimistic. We would also reiterate that the West is not the world. China should rebound from a terrible 2022 and India has just replaced the UK among the world's top 5 largest economies.

We start the year by transitioning portfolios closer to our new long-term allocations, with a focus on income generating assets. Money market and bonds haven't been as attractive in years: there is no need to take outsized risks to get decent yields. In addition, income is extremely relevant in times of uncertainty: the cost of opportunity of risk-free assets is lower, while regular cash-flows from coupons and dividends smoothen portfolio returns. Bottom line, we look for income in developed markets and seek capital appreciation in emerging markets where equity valuations are attractive.

We are happy to share more details in the following pages of the outlook, our asset allocation and our specific convictions. We also look back on our 2022 results as always, which is the reason why we publish our yearly piece in January and not in November like many of our global peers. Transparency and accountability are paramount for us to deserve your invaluable trust, and so is our commitment to help you navigate an ever-changing world.

Maurice Gravier
Chief Investment Officer

Our Key Convictions at a Glance

Exhibit 1: Asset allocation - Recommended portfolio positioning, as of January 2023

ASSET CLASS	CAUTIOUS		MODERATE		AGGRESSIVE	
	Absolute	Relative	Absolute	Relative	Absolute	Relative
Cash	**11.5**	**1.5**	**7.0**	**2.0**	**4.5**	**2.0**
US Dollar cash	11.5	1.5	7.0	2.0	4.5	2.0
Fixed Income	**53.0**	**0.0**	**32.0**	**0.0**	**20.0**	**0.0**
Developed Mkts Gov. Bonds	31.0	1.0	6.0	1.0	1.0	1.0
Developed Mkts Inv. Grade	16.5	1.5	17.1	2.1	7.0	2.0
Developed Mkts High Yield	3.0	(1.0)	3.9	(1.1)	4.0	(1.0)
Emerging Mkts Debt	2.5	(1.5)	5.0	(2.0)	8.0	(2.0)
Equity	**22.1**	**0.0**	**42.0**	**0.0**	**60.0**	**0.0**
Developed Mkts Equity	15.4	(1.5)	29.8	(4.0)	43.2	(4.0)
Emerging Mkts Equity	6.6	1.5	12.2	4.0	16.9	4.0
Alternatives	**13.5**	**(1.5)**	**18.9**	**(2.1)**	**15.5**	**(2.0)**
Gold	3.7	(0.3)	4.4	(0.6)	4.5	(0.5)
Hedge Funds	6.8	(0.2)	10.5	(0.5)	7.1	(0.4)
Global Listed Real Estate	3.0	(1.0)	4.0	(1.0)	3.9	(1.1)

Absolute (TAA - Tactical), and Relative (deviation compared to SAA-Strategic)

Asset Allocation and Portfolio Construction

- We favour selectivity over directionality, and still expect another volatile year ahead
- Neutral fixed income, where we seek safe income within the high-quality segments
- Neutral equity, with an overweight on EM vs DM due to better growth and valuation
- Modest overweight cash for income and flexibility, funded by an underweight in alternatives

Equity

- Modest upside potential to our year-end fair values in developed markets
- Much better in emerging markets, with however higher expected volatility
- Balanced country and sector allocation within DM, favour India and UAE in EM

Fixed-Income

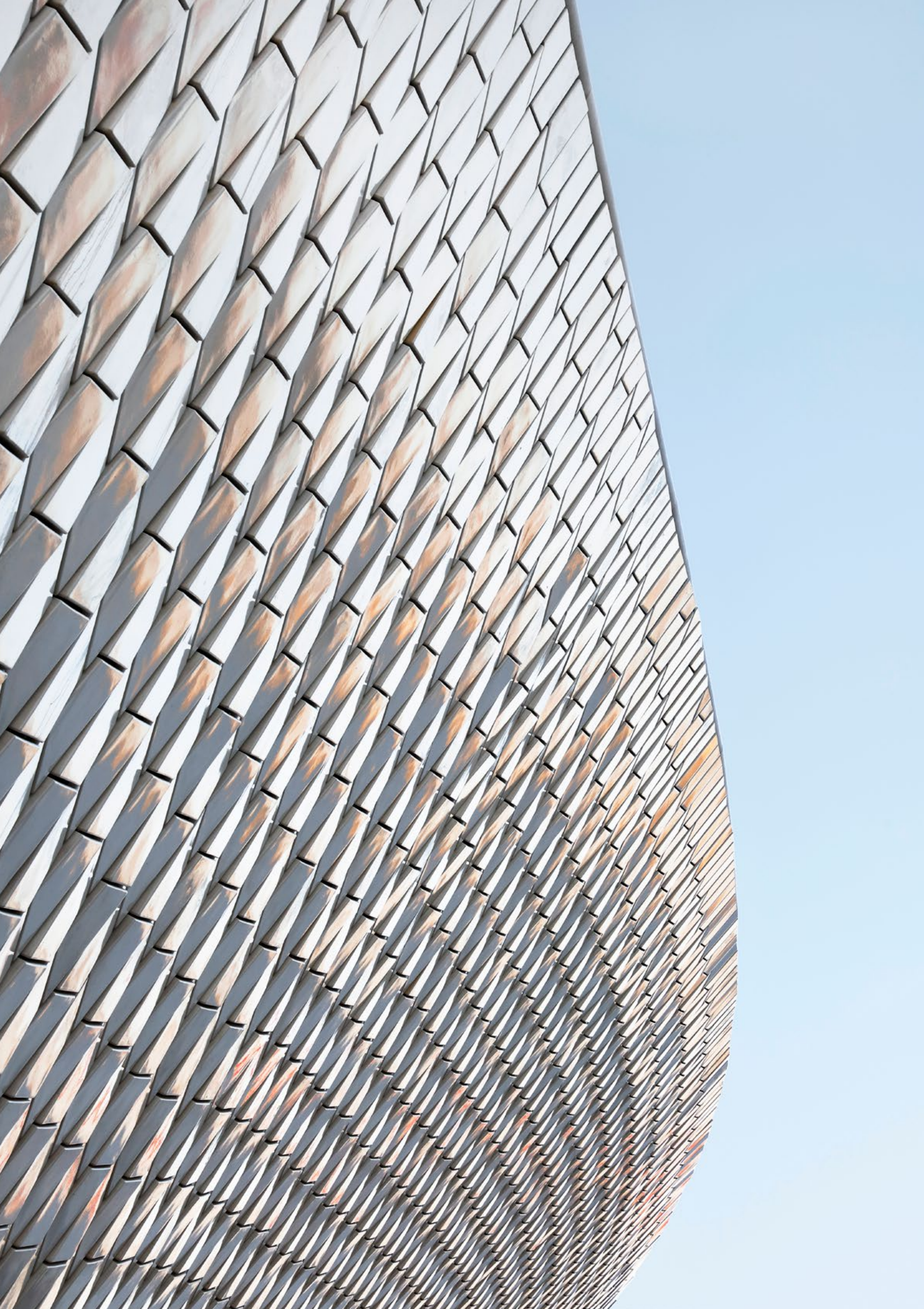
- 2022's headwinds on the most defensive segments have materialised and vanished
- We favour quality bonds issued by investment grade corporates and governments
- We start the year with an underweight in EM debt and High Yield
- Selectivity is key, we find opportunities within financials

Commodities

- We expect Brent prices to average 105$/b in 2023, with significant volatility
- Our year-end fair value for gold is 1,950$ /oz but real rates and geopolitical factors will matter

Real Estate

- We expect more pressure ahead on property prices, hit by rising interest rates
- The downturn could however be temporary, creating long-term opportunities



Contents

The Year That Was

Financial markets in 2022

2022 has been terrible for investors. Beyond the double-digit losses in traditionally risky assets such as stocks and real estate, the key feature of the year was a correlation shock: with the return of inflation, defensive assets also tumbled. According to the Financial Times, 2022 is the worst year for a portfolio combining stocks and bonds since 1871. Looking at the same on a more contemporary 50 years history, the chart below plots for each year the annual return of US Government Bonds (X axis, positive almost every year) with the return of US stocks (Y axis, more volatile). 2022 is the annus horribilis of an entire generation of investors.

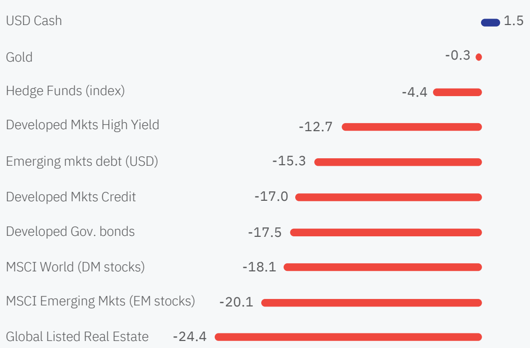
Our call for volatility for 2022, from our previous Global Investment Outlook titled "Low visibility ahead", was certainly right - even if we didn't forecast such a crash of everything. The first three quarters of the year were negative for almost all asset classes. Volatility was extreme, including for bonds with large intraday swings. Investors had to acknowledge the inflation picture and the magnitude of the response from Central Banks. Delusional hopes for a miracle only ended in September, after another extremely hawkish Fed monthly meeting. This peak pessimism opened the way for a better Q4 across markets.

Still, over the course of the year, equity indices lost close to -20%, with a dramatic sector and style rotation: while energy was up 33%, all other sectors were in the red, especially tech, communication and consumer discretionary. The three former market darlings lost more than -30%. Even more dramatic was the synchronised crash in fixed income, especially the highest quality segments. Government bonds and investment grade corporate bonds lost -17% on average, while emerging markets and high yield were down around -15%. Within alternatives, global REITS tumbled -24% but hedge funds limited losses to -5%, and gold was almost flat. The only positive return came from cash in US dollars at +1.5%.

With the war in Ukraine, an energy crisis in Europe, endless lockdowns in China, followed by a 180 degrees policy turn and President Xi being made leader for life, there was no shortage of events in 2022. Still, they didn't weigh much compared to the single most prominent factor affecting markets: the dramatic return of inflation in the West leading to the largest and most synchronised monetary tightening of the last 40 years.

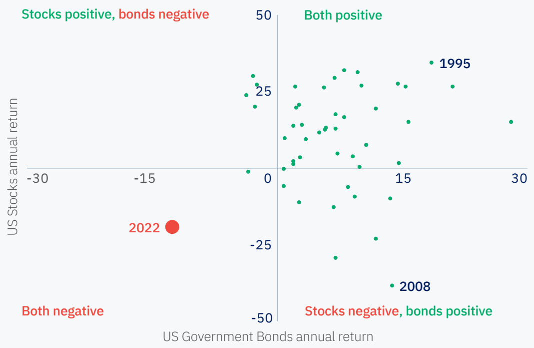
In essence, 2022 marks the transition from a deflationary period, combining ultra-low interest rates with the cost benefits of globalisation, to an inflationary one: money is not abundant and free anymore, Central Banks do not support growth anymore, and international relations are fractured.

Exhibit 2: Asset Class 2022 Total Return (US$ %)



Source: Bloomberg, CIO Office calculations

Exhibit 3: 50 years or annual return:
US Government Bonds (X) vs US Stocks (Y)



Source: Bloomberg, CIO Office calculations

A look back on our 2022 strategies and results

Asset Allocation

We started 2022 by reducing relative and absolute risk across our three profiles. In line with our Global Investment Outlook for the year, titled "Low visibility ahead", we decided to be more reactive than proactive: adapt our positioning to events rather than trying to anticipate them.

Indeed, uncertainty hit much harder than we had expected. The global picture materially deteriorated when Russia launched their special military in Ukraine, amplifying the pre-existing trends of slowing growth and rising inflation.

We made several adjustments to our asset allocation, mostly gradually reducing our underweight to fixed income as interest rates rose, by adding to the safest segments and reducing the riskiest ones. We also maintained a significant allocation to cash and gold, but this wasn't enough to escape the correlation shock that affected all asset classes in 2022. With no benefits of diversification and an equal punishment for defensive and cyclical asset classes, there was nowhere to hide.

The respective performances of our cautious, moderate, and aggressive profiles in 2022 have been the worst in 5 years at -13.7%, -14.8% and -15.5%, after +2.4%/ +4.2%/ +7.6% in 2021 and double digit returns in 2020. These numbers were close to our respective long-term SAA and to our international peers.

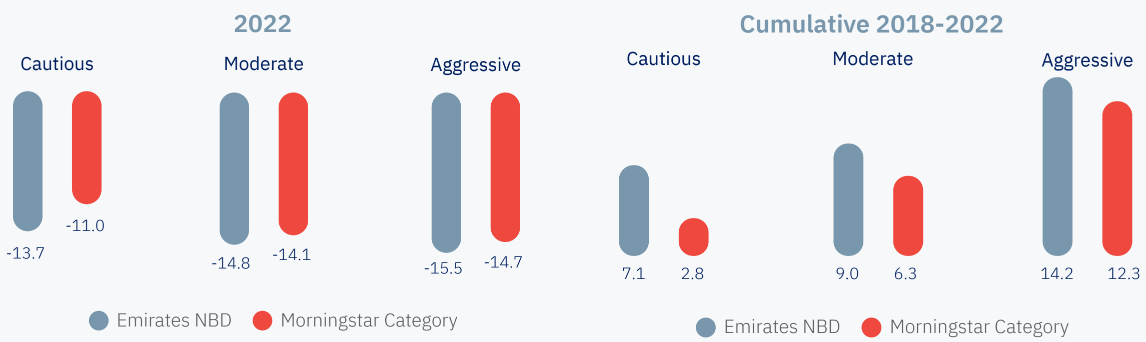
Equity Strategy

We retained a preference for the US within developed markets, which didn't outperform Europe nor Japan in a stark contrast with the previous years. Within emerging markets, our constant overweight in UAE did extremely well, and our preference for India within Asia also delivered. With regards to sectors, our favourable stance towards energy was not enough to offset the terrible returns from technology, communication, and consumer discretionary. With regards to stock selection, our defensive portfolio had a great year, but our other model portfolios were mostly in line with their benchmarks, and a bit below for our selection in technology.

Fixed Income

2022 was not easy for fixed income strategy. We gradually reduced our underweight in the asset class, especially in the segments with the highest quality. We were directionally too early and the year saw an unexpected outperformance from Emerging Market Debt and high yield over government bonds and investment grade corporates. Importantly however, our securities selection did great, with a very significant outperformance of our recommended bonds over their respective comparable universes. Against the backdrop of deeply negative returns for the asset class, our recommended model portfolios outperformed between +150 basis points for Sukuk and +700 basis points for emerging debt as a whole.

Exhibit 4: Asset Allocation - Emirates NBD Asset Allocation Performance, compared to global competitors average (from Morningstar)



Source: Bloomberg, Morningstar, CIO Office calculations

Adapting To Unpredictability

The key battles of a new investment era

“This time is different” is a very dangerous sentence in the investment world: patterns exist and repeat through the cycles of business and risk appetite. But sometimes, regimes structurally change. Between inflation, debt, and geopolitics, a new investment landscape is emerging from the disruptions of the last three years. Such transitions are never smooth; they happen through antagonism. We identify three oppositions that will shape 2023 and beyond.

The return of the growth inflation trade-off

Milton Friedman famously said that “Inflation is always and everywhere a monetary phenomenon (...) produced only by a more rapid increase in the quantity of money than in output.” Simply said, inflation rises when too many dollars (demand) chase too few items (supply).

The current inflation episode started with a scarcity of goods. After decades of globalised abundance, the pandemic brutally closed factories and froze supply chains. Goods prices rose, which was seen as transitory. Indeed, most of the supply chains have been or are being repaired.

But inflation kept on rising. The war in Ukraine just amplified the trend, the main reason is demand: too many dollars, unleashed by the reopening. Just 15 years ago, G4 Central Banks had a cumulated $ 5tn on their balance-sheets. This grew to $ 15tn in the decade following the great financial crisis. When the pandemic hit, it reached $ 25tn - in only 2 years. These mountains of printed money were waiting in the system for a catalyst to inundate Main Street. Economies reopened, excess savings were spent, services were on fire, creating an employment boom. Too many dollars chasing too few job applicants, wages increase, more consumption, more jobs, higher wages, higher costs, higher prices… It’s not transitory, it’s a spiral.

The existential mission of Central Banks is, simplistically, 2% core inflation. They can’t tolerate the current levels and the risk of spiral, especially as wages haven’t yet even caught up with prices: after the initial “feel good” factor of higher payrolls, consumers will demand more as their purchasing power has deteriorated. As long as the job market is tight, it’s a threat. Central Banks have no alternative: they must make money scarce and expensive enough to reach a material moderation of jobs and demand. They are engaged in a battle against growth: a pivotal change for economies and markets.

2022 marks the return of the growth inflation trade-off, unseen in the West for decades. We are confident that inflation will come down in 2023, but if history is a guide, it ripples in waves which are difficult to control. In addition, aging population, fractured global trade, or the costs of the green transition will not help in the medium term. Reaching 2% sustainably looks strenuous and may potentially require much more economic damage.

Conflicting agendas between Central Banks and governments

Our 2021 Global Investment Outlook was themed on “Magic Money”: the strange miracle of infinite spending from years of alignment between Central Banks and governments.

Governments want growth, employment, and ever-increasing budgets to spend. With outsized levels of debt, they also need low interest rates and reasonably high inflation to erode the burden. Central Banks used to help, but the antagonism is now total: they want to kill inflation by pressuring growth through higher interest rates.

This happens in troubled emerging economies, where the IMF often jumps in to enforce both monetary and fiscal austerity. But it’s going mainstream: open battles take place in Turkey, the UK, Japan. Next could be the Eurozone, and the US. 50 years ago, US administrations were already arguing with the Fed, through multiple waves of hyperinflation. Ultimately, Volker’s Fed administered a radical remedy: interest rates at 20%, which crunched the economy, destroyed jobs, but also killed inflation and set the table for decades of prosperity.

Alas, there are differences. The US public debt was then 30% of its GDP, it is now 120%. And the following decades would feature powerful disinflationary forces: productivity gains from technology and cost benefits from globalisation. Instead, the world will have to spend more for security, decarbonisation and debt service: expenses with no financial returns.

We lean towards the idea that Central Banks should end up tolerating higher inflation: kicking the can down the road to avoid undermining sovereign debt, at the price of general macro instability. It’s however not certain and won’t happen smoothly. Governments could be in crisis (UK PM Liz Truss lasted only 6 weeks), large economies in trouble, currencies in full swing, and the balance of power could change within, but also between, countries.

Repositioning international relations

A new world was architected after the cold war, around one idea: the benefits of global trade integration would end international conflicts (and communism). The US and Europe welcomed China into the WTO in 2001. Global trade exploded with radical shifts in production, jobs, and supply chains, generating growth, without inflation. International relations were appeased: the G7 was the G8, the EU included the UK, and Vladimir Putin was Time magazine’s person of the year 2007.

One pandemic and one war later, it’s a titanic shift: pre-existing cracks have become fractures.

The two major strategic blocs around the US and China are increasingly aggressive towards each other. Explicitly. The US cuts off China supply of semiconductors. China de-prioritises foreign businesses and investors. The US provides weapons to Ukraine and Taiwan. China affirms soft support for Russia and increases its military spending. Blocs do not like outliers: Switzerland broke away from its 500-year-old neutrality, including two world wars, by taking sanctions against Russia.

Even within blocks, countries are turning increasingly selfish. The arguably protectionist US Inflation Reduction Act affects rivals but also allies. Spain and Portugal have freed themselves from the (devastating) EU wholesale electricity price mechanism, while Germany secured natural gas from Qatar for themselves, not for the EU.

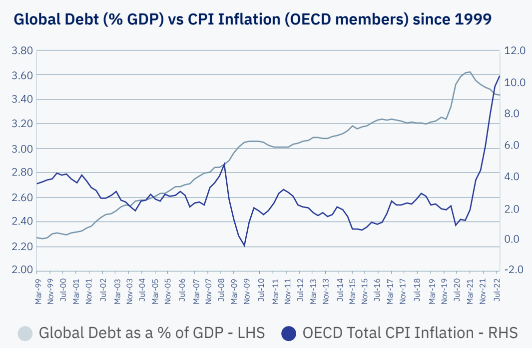
The combination of the two dimensions has consequences. Inflation is structurally supported as trade restrictions, and production reshoring have a cost. The same applies to commodities: repositioning supply chains and their political alignment are as crucial as ever, and the fight for accessing natural resources is ruthless. The concept of reserve currency also took a hit when the US, Europe and Japan froze Russia’s FX reserves. Some countries may want to diversify what they trade with or invest in (with implications on demand for sovereign debt). The risk of armed conflict is heightened, and military expenditures are on the rise. Finally, one of the victims is the climate, with Europe reopening coal-fired power stations an emblematic illustration.

The battle between national and global agendas is not new but it escalates. To what point? Henry Kissinger famously said that “America has no permanent friends or enemies, only interests”. This can be read -relatively- positively. Globalisation is not over, but in a volatile transition, until some form of equilibrium is found again. In the meantime, countries wise enough to maintain harmonious relations with the major blocs should get outsized benefits. The UAE immediately comes to mind.

A new era

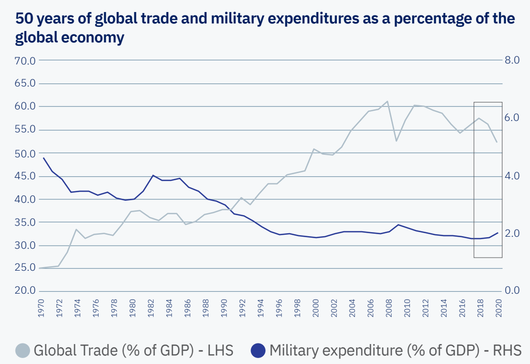
Higher and more unstable inflation, higher risks on growth and debt, fractured international relations mark an inflexion point. We were used to cyclical crises and quick fixes from well aligned authorities. We enter an era of slow-moving shocks with no easy response nor global coordination. Most investment implications are negative, but adaptation is possible: the right strategic mix of assets for the long-run, and the tactical ability to act quickly. We detail our responses in the following pages.

Exhibit 5: Global Debt vs Global Inflation



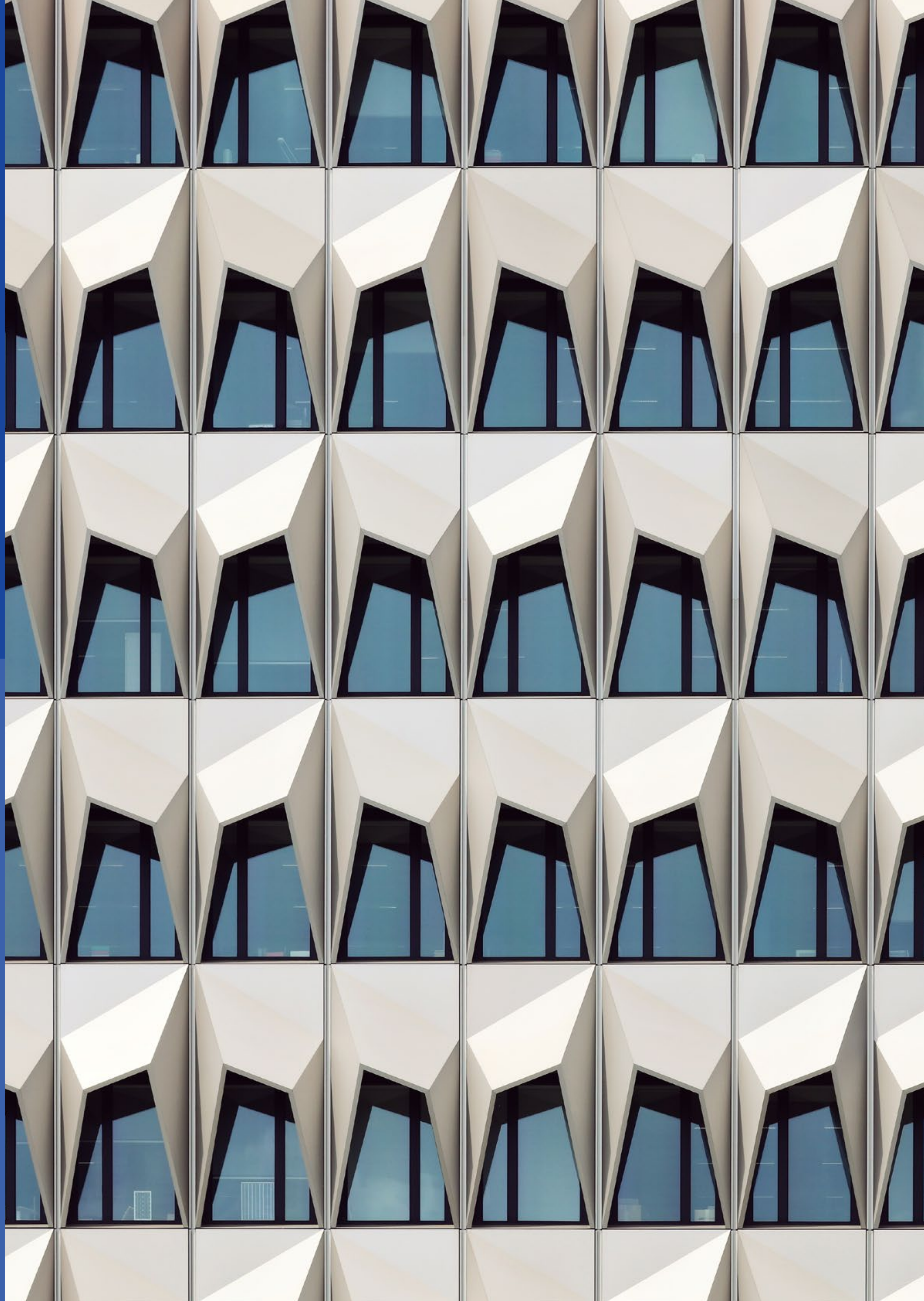
Source: Global Debt Monitor, Institute of International Finance, OECD, Bloomberg, CIO Office calculations

Exhibit 6: Global Trade and Military Expenditures



Source: World Bank, CIO Office calculations

Macro Outlook



Global Macro Outlook

Investment to drive growth in 2023

As 2023 opens, recent data prints and developments from the close of 2022 have raised hopes that a global recession will be avoided, with some of the major developed economies potentially facing a milder slowdown than was previous anticipated and China having reopened earlier and more rapidly than had been expected. Nevertheless, even if there is positive growth this year it is likely to be somewhat lacklustre, and for many it will pose another year of challenges with an extended period of rapid price growth and associated interest rate hikes prompting a cost-of-living crisis and weighing on demand and output. In its October World Economic Outlook, the IMF forecasted that global growth would slow from its projected 3.2% last year to 2.7% in 2023, a downgrade from its previous projection of 2.9%.

Inflation and rate hikes are not over yet

Inflation is likely to remain the key focus of policy makers through 2023, and while central bankers are easing off on the pace of their rate hikes, they are not done just yet. Price growth does appear to have peaked in most markets as the 2022 gains in commodity prices - especially oil but also gas and grains - have fallen back, contributing to a marked slowdown on the headline level. In the US, CPI inflation has slowed from a multi-decade peak of 9.1% y/y in June to 6.5% in December. Eurozone inflation has dropped back to 9.2% in December, from 10.6% in October and further slowdowns are expected. However, these levels are still far higher than the respective target rates, and Central Banks are especially wary of inflation becoming entrenched in wages and services. Core inflation in the Eurozone ticked up in December despite the headline fall, although for the US there was a positive surprise in the December non-farm payrolls (NFP) report as wage growth slowed despite another robust net gain in jobs. Employment has generally held up well to date in the face of tighter monetary policy.

While tentative signs are beginning to emerge that inflation may have reached its peak in most developed markets, it appears unlikely that Central Banks will be in any hurry to undo any of the tightening seen thus far. In fact, recent statements from the Fed, BoE and ECB have all emphasised that policy makers are themselves expecting to have to raise rates further than previously anticipated, albeit at a slightly slower pace than seen in 2022. Clear evidence of this was visible in the Fed's latest dot plot - a summary of the path committee members expect interest rates to take over the next few years - which showed broad support for further tightening next year. Fed policy makers now expect interest rates to peak at around 5.25% by the end of 2023, up from 4.75% when the dot plot was last published in September. However the market (and most analysts including ourselves) are more optimistic about the rate outlook, with the upper bound of the Fed Funds rate expected to fall back to the current 4.5% by the end of this year after peaking at 5% in H1.

Rate hikes weighing on major economies

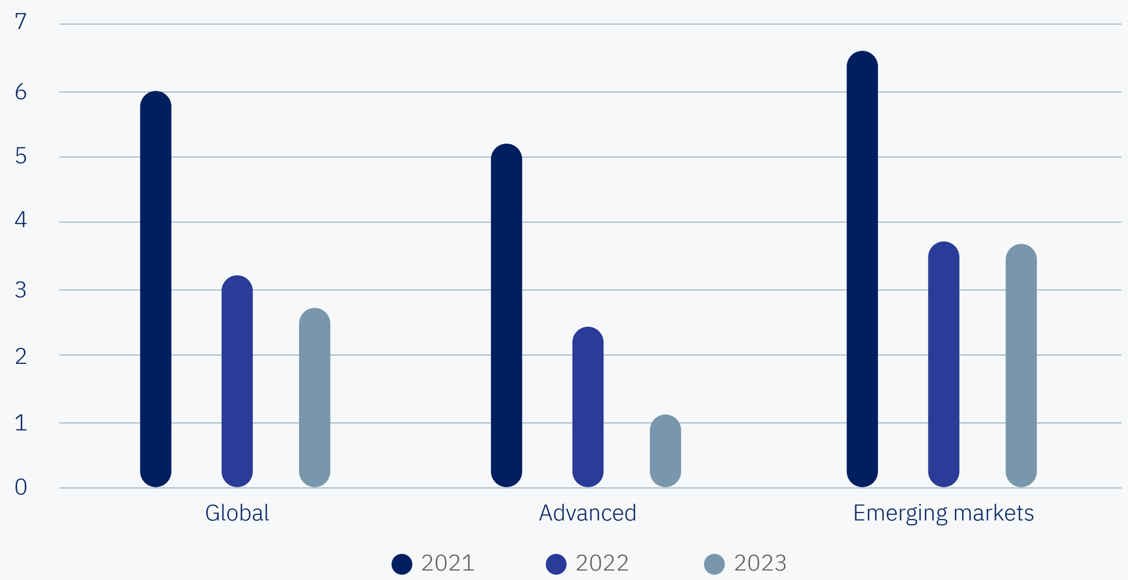
The December employment report for the US has raised hopes that the Fed might yet be able to engineer a soft landing, managing to curb inflation without causing a deep recession. Nevertheless, there are signs that aggressive monetary tightening is weighing on the economy: the housing sector was the canary in the coal mine as it was the first to slow down as rate hikes bit, but consumers are also now seemingly feeling the pinch as the ISM services index turned contractionary in December, dropping to 49.6 from 56.5 in November and missing projections of 55.0. This was the first contraction since May 2020 during the peak of the COVID crisis and could be a sign that households are no longer able to maintain their spending levels as pandemic-era savings are eroded. Consensus predicts that the US will see growth of just 0.3% this year, from an estimated 1.9% in 2022.

In the Eurozone, a milder winter has in recent weeks alleviated concerns around an energy-driven crisis with the single-currency bloc's production less likely now to be held back by power rationing. Nevertheless, a commitment by the ECB to further 50bps hikes will continue to constrain growth, which is likely to be flat at best. Meanwhile, the UK is set to be amongst the worst-performing major economies in 2023, forecast to contract by 1.0% as inflation, industrial unrest, tighter monetary policy, and the ongoing fallout from Brexit all weigh heavily.

Emerging economies will outpace DMs this year

A far brighter outlook is expected for emerging markets than the advanced economies this year, with the IMF forecasting a 3.7% expansion, compared to 1.1% for DMs. The key variable here will be China, which suddenly removed most of its stringent zero-COVID restrictions at the close of 2022, potentially providing a fillip to global growth. While rising case numbers are likely to constrain the recovery in the near term, through Q2 and beyond we anticipate that growth in China will quicken and potentially provide a boost to global demand also. Meanwhile, India is expected to maintain its strong growth momentum with a forecast 6.0% growth in FY 2024, compared to a projected 7.0% in the year ending March 2023.

Exhibit 7: Global GDP growth (%y/y) slowing



Source: IMF WEO, Emirates NBD Research

Exhibit 8: Key global composite PMI surveys indicating contraction

Source: Bloomberg, Emirates NBD Research

Regional Macro Outlook

Another constructive year ahead

2022 was a stellar year for the GCC economies, which have grown at the fastest pace in almost a decade, underpinned by a double-digit increase in oil production and strong non-oil sector activity as well. We estimate GCC real GDP growth at 7.4% in 2022 on a nominal-GDP weighted basis, more than double the growth rate achieved in 2021. Saudi Arabia and the UAE were the fastest growing economies in the region, as they were each able to ramp up oil production by 15% last year, according to Bloomberg estimates.

Non-oil sector growth in the region was also robust as domestic demand continued to rebound from the pandemic-related contractions in 2020. We estimate the UAE's non-oil economy grew by 5.6% in 2022 as tourism and travel recovered strongly, supporting growth across a range of other services sectors. Several indicators point to an increase in the population of the UAE, which would also have contributed to stronger domestic demand.

Foreign investment has likely been a key contributor to the UAE's economic growth in 2022, with Dubai reporting a 14.6% y/y increase in FDI in H1 2022; recent structural reforms and a low tax regime have made the UAE a more attractive destination for investors. A new range of longer-term residency visas have made it easier for skilled workers to move to the UAE without being sponsored and changes in laws around foreign ownership and other business regulations have made it easier for foreign nationals to start businesses.

The outlook for 2023 is more cautious given the weaker external environment, although the GCC will likely continue to outperform many developed economies in terms of GDP growth. While oil and gas output growth is expected to slow this year, continued investment to boost production capacity in the region should see the sector contribute positively to headline GDP again in 2023.

We expect non-oil sector growth to slow to varying degrees across the GCC in 2023. In a very open economy like the UAE, we expect non-oil growth to slow to 3.5% this year from an estimated 5.6% in 2022 as slower global growth weighs on international trade and higher interest rates dampen consumption and private sector investment.

In Saudi Arabia we expect government investment and spending to underpin non-oil sector activity, as the authorities look to make up time lost during the pandemic with respect to progress on giga projects and broader infrastructure delivery to achieve the Vision 2030 goals. After increasing capital spending in the budget by almost 30% y/y in 2022, the 2023 budget makes provision for a further 4% increase. This is in addition to the investment undertaken by government related entities such as the Public Investment Fund.

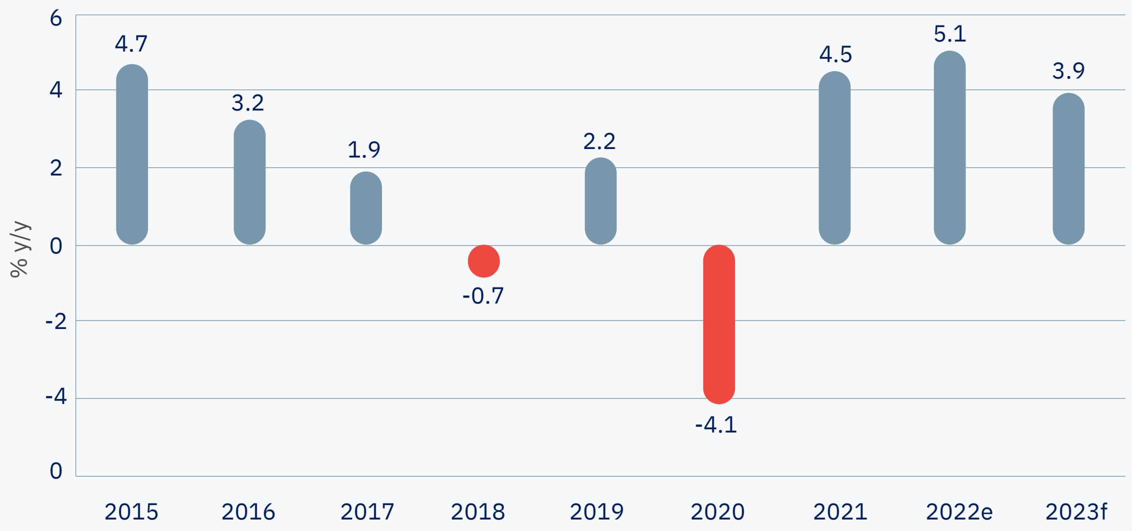
Our view on robust government investment spending in the region is predicated on our expectation that oil prices will remain elevated this year, with Brent forecast to average over USD 100/b in 2023. While oil has started 2023 on the backfoot over global recession fears, supply remains constrained in the context of years of underinvestment in infrastructure and capacity. International sanctions on Russian energy exports may also contribute to tighter oil supply. On the demand side, China's abrupt relaxation of the most stringent zero-COVID restrictions could see activity there normalise earlier than previously anticipated, and demand for oil may well surprise on the upside in H2 2023.

Emirates NBD's bullish view on oil prices will keep most GCC budgets in surplus this year, allowing governments in the region to increase their investments in national sovereign wealth funds and also across the wider MENA region.

We expect Saudi Arabia to run a budget surplus of 6.2% of GDP in 2023, similar to our estimates for 2022.

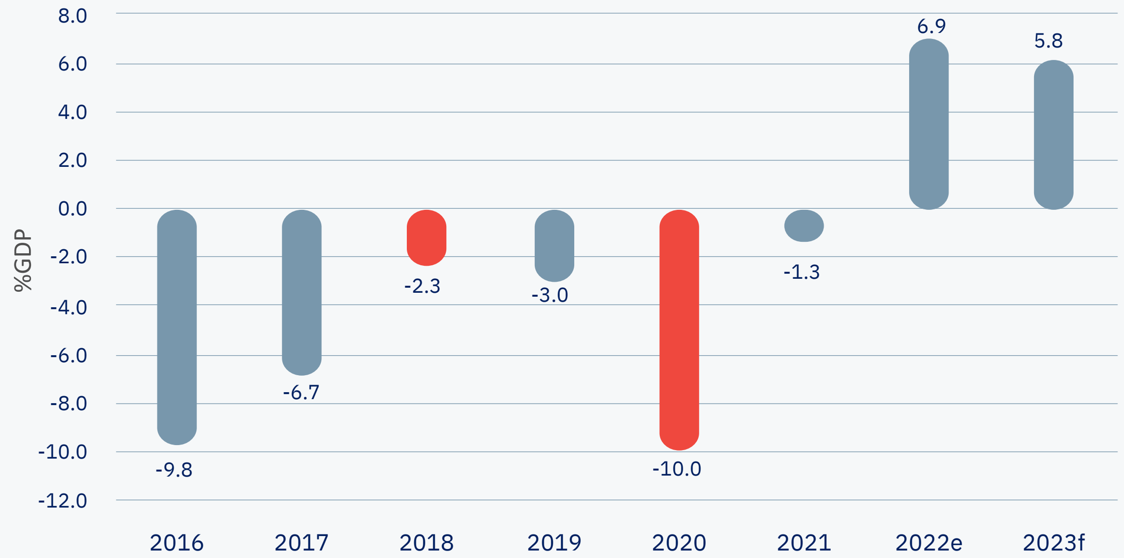
Inflation in the GCC accelerated in 2022 but not to the same extent as in most developed and many emerging economies. Average inflation increased to 3.5% last year with the UAE and Qatar experiencing the fastest price growth in the region. In the UAE, the main driver of higher consumer prices was transport, including higher petrol prices, while in Qatar it was housing and services costs. We expect inflation to moderate slightly in 2023 but in the UAE, higher housing costs are likely to keep CPI relatively elevated this year at an average 3.5%.

Exhibit 9: GCC non-oil GDP growth*



* Average weighted by nominal GDP
Source: Haver Analytics, Emirates NBD Research

Exhibit 10: GCC budgets* to remain in surplus in 2023



* Average weighted by nominal GDP
Source: Haver Analytics, Emirates NBD Research

Asset Allocation

Asset Allocation

The long-term picture

- Higher inflation and more unstable business cycles mark the end of the Great Moderation
- Long-term expected returns have improved versus the COVID period but still historically modest
- The transition to a green economy and shrinking globalisation to keep price pressures high
- Portfolio performance should be enhanced by means of alternative asset classes

Expected Returns compared to history (annualised)

	2022 - 10Yr	Sharpe Ratio	Historical Returns*
USD Cash	2.6%	-	2.3%
DM Government Bonds	3.0%	0.49	5.5%
DM Corporate IG	4.1%	0.53	4.8%
DM Corporate HY	5.9%	0.57	5.9%
EM $ Debt	6.4%	0.48	7.5%
DM Equity	6.8%	0.40	7.6%
EM Equity	8.4%	0.33	8.8%
Hedge Funds	4.2%	0.47	3.9%
Gold	4.4%	0.24	5.0%
Global Real Estate	7.1%	0.38	6.5%

* Total return since availability of data, DM fixed income hedged into USD

Source: CIO Office quantitative models, Bloomberg

Trying to discern the longer-term outlook for asset markets is a complex, yet intriguing task, especially at the times of historical changes we are currently witnessing. We hold the view that the Great Moderation, the period of lower macroeconomic volatility that started in the United States in the mid-80s, is now over and a decade characterised by structurally higher inflation and more unstable business cycles has started. We find that the expected returns across asset classes have markedly improved since the end of 2020, when we last conducted a capital-market-assumption exercise, though as per our calculations they are still below past average values and will have to be achieved in a more volatile environment. Our new Strategic Asset Allocation portfolios are well-suited to navigate the future decade and offer now higher expected gains, unlike a traditional equity-bond allocation. Portfolio performance is enhanced via income-generating and absolute-return strategies, geared towards the more unfavourable growth-inflation tradeoff we see ahead.

New trends that represent a structural break with the recent past are underway and going to substantially impact longer-term asset returns, and risks. We are seeing the transition from monetary to fiscal largesse, from globalisation to de-globalisation or 'reshoring', from a brown to a green economy, from the availability of labor and capital to scarcity, from a peace to a war time, and to a fast-ageing global population of 'dis-savers'. While it is impossible in this publication to delve into the dynamics of all these new developments, suffice it to say that they overall contribute to higher price pressures, and possibly higher, though more unstable, growth rates of the economy. Climate change and deglobalisation hit more often the headlines, with the former requiring massive commodity investments for the building of a greener society, amidst already tight commodity markets, and the latter entailing the rearrangement of supply chains in friendlier and not necessarily as cost-efficient countries.

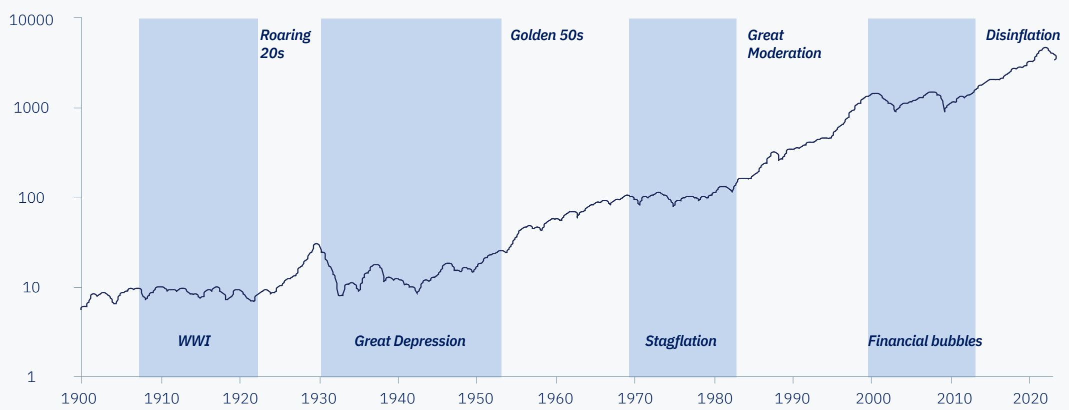
For decades the cornerstone of asset allocation has been the 60%-equity, 40%-treasury portfolio, that has produced 7-8% nominal returns, 10-year rolling annualised on average since 1900, based on US data. The focus here must be on the word 'average', that does not allow us to see the wide range of 10-year historical returns as a function of the different market regimes. So, unlucky investors putting capital to work at the start of secular bear markets got very low single-digit, if not negative real returns for the following 10-to-20 years. Contrary to common belief, these lost decades are not that infrequent, even for the faster growing equity asset class (exhibit 11).

The odds are now materially higher that a new one recently started last year with the end of the post-pandemic deflationary boom, ushered in by sharply negative returns in stocks and bonds of 2022. Simply put, the drivers of secular bull markets are low starting valuations, an outlook for expanding corporate margins, for falling or stable inflation, hence for falling or stable real yields. Currently valuations are middling at best, corporate margins are elevated and probably going to be eroded by higher taxation and cost of labor, while, as explained, inflation is likely going to be structurally supported versus most recent periods. We have modelled the real returns of the 60-40 US equity-bond portfolio (exhibit 12) using more than a century worth of data and see it yielding slightly more than 2% annualised in real terms, that is a bit above 5% nominal adding forecast inflation of 3%. This compares with real historical gains of 5%. The implied nominal return for US equities is between 6 and 7%, lower than average historical gains in the higher-single digits.

In summary, higher price pressures and more volatile business cycles cannot be tackled with equities and bonds only, that perform best at the opposite end of the macro spectrum, under conditions of moderate growth and inflation rates. Return uncertainty in stocks must be counterbalanced with income-generating assets, typically higher-yielding corporate and EM bonds, and Real Estate Investment Trusts. They belong to the category of hybrids, sitting in between stocks and government bonds, offering a level of income conditional on the business outlook. Yet, adding income, while enhancing returns, will not move the needle in terms of volatility management, especially if this comes at the expense of a reduced treasury allocation amidst higher projected inflation. Drawdown risk will have to be managed with an appropriate share of absolute return strategies, or hedge funds, less linked to the direction of the major markets and offering the promise of producing alpha across the cycle. We have also increased our strategic allocation there. Investors should anyway be aware that risk cannot be eliminated but only changed, and via hedge funds market risk is swapped for idiosyncratic risk, specific to the fund manager.

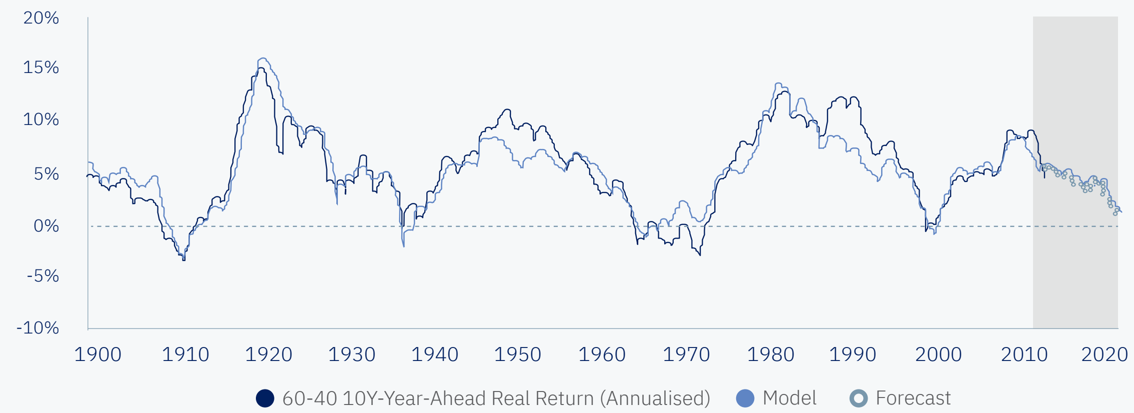
Multiple challenges await the traditional equity-bond investor in the decade ahead. More complex portfolios like our strategic asset allocations that include income and absolute-return strategies are in our view better suited to navigate future uncertainty.

Exhibit 11: Deflated price index of S&P 500. Shaded areas are 'lost decades'



Source: Robert Shiller website

Exhibit 12: Real annualised return of 60/40 US portfolio forecast in the low single-digits



Source: CIO Office, Goldman Sachs, Robert Shiller website, Bloomberg

Asset Allocation

The year ahead

- Volatile outlook in 2023 amidst uncertainty on macro and Fed policy
- We forecast 'no landing' or a soft landing, but recession risk is real
- We are looking to add to risk on a growth scare
- Bull market not in the offing

The past year has been exceptional on many fronts. From a secular standpoint, it represents the transition period from a deflationary to an inflationary decade, while in more cyclical terms it indicates the global shift to hawkish Central Banks following a decade of monetary largesse. The intersection of two negative factors, higher inflation and tighter financial conditions, saw sharp falls across asset classes in 2022, depriving investors of the diversification benefits of multi-asset portfolios, and bringing an end to the reign of the Great Moderation. The market derating may not have run its course yet on a secular horizon. However, when shortening the time-horizon to 2023, we would tend to see room for improvement.

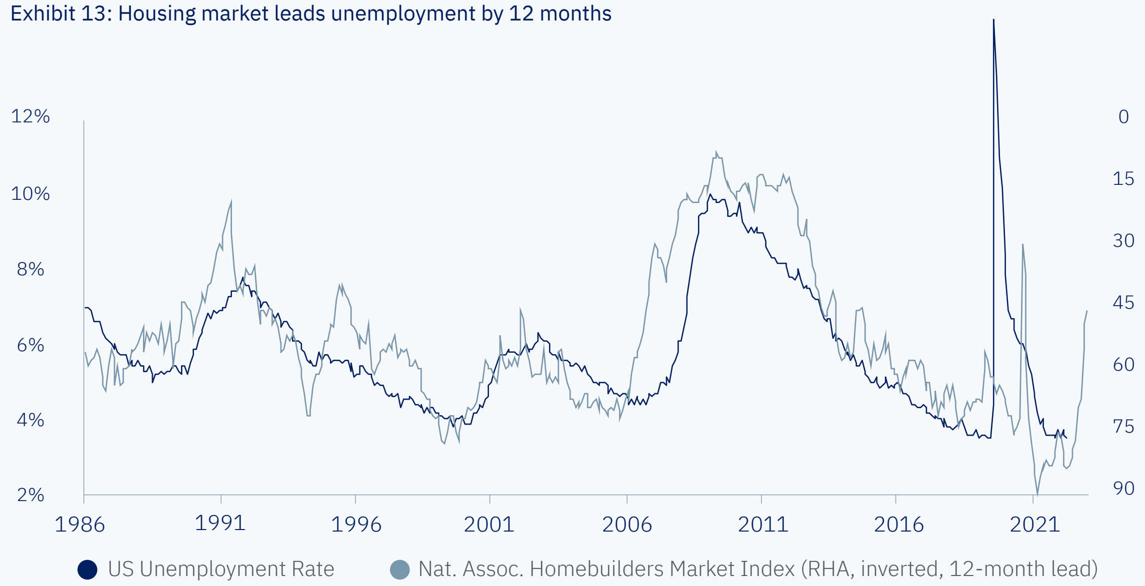
There is currently widespread consensus about an outlook of stagnation and tighter-for-longer policy, that is of a mild recession induced by Central Bank over-tightening. One must be open-minded and also consider that the economy could prove to be materially resilient even as inflation falls, thus pleasing the monetary authorities. At the same time, we do not have sympathy for the deeper downturn argument, as the balance sheets of the private sector, households, and businesses, seem to be pretty much in order as compared to previous crises. While the case for a mild recession is pretty straightforward stemming from a possible monetary policy error, the plain slowdown scenario is predicated on this being no ordinary business cycle. What could look like the harbingers of recession might simply be sizeable adjustments to the lack of post-pandemic massive fiscal stimulus. And inflation - excluding the sticky rent component - could, unexpectedly, fall off the cliff as monetary tightening adds to the effects of the withdrawal of exceptional fiscal measures. Global supply chains are unclogging, while Brent crude no longer represents a drag in terms of headline inflation, having pulled back significantly.
In the end, it may well turn out that the Fed and other Central Banks could be pleased with how price pressures will be evolving in the first six months of the year.

But much still depends on the Fed's reaction function, with the Federal Reserve set to pause in the first half of 2023 to gauge the effects of the tightening on the economy. Will Chair Powell keep rates higher for longer in the face of deeply inverted yield curves? As the labour market eventually weakens (exhibit 13) and price dynamics possibly surprise positively, pressure to ease policy could soon mount considerably. Yet, pinpointing the 'right' scenario seems to be an overly complex task.

In general, the ideal opportunity to add to risk would require a turn both in global growth and in liquidity, although it may be far from assured that they happen in conjunction with each other in 2023. Failing that, markets would go through cyclical rallies from oversold conditions, fading when the realisation of higher rates and deteriorating earnings sets in. We have factored in such an uncertain outlook in our current positioning, starting the year overweight cash and higher-quality bonds, neutral equities with a bias towards the EM countries, and underweight alternative assets concentrated mostly on listed real estate. Cash may be a better place than alternatives for the time being. A pause in the monetary cycle amidst deteriorating activity should see yields capped and investors flock back to longer duration assets, justifying the preference for investment grade and Treasury securities versus high-yielding debt. While the EM equity call is predicated on the Western economies weakening or contracting as against the reopening of China and depressed EM valuations. We would tend to see a buying opportunity earlier rather than later in 2023, based on our proprietary market leading indicator (exhibit 14), prompting us to add to risk, as investors likely discount the possibility of a recession further down the road, irrespective of it actually happening. Amidst a growth scare triggering a volatility spike we would consider shifting to a DM equity overweight, and most likely an at least neutral listed real estate and high-yielding credit positioning, preferably avoiding excessive concentration in the equity-risk factor. Positioning on higher-quality bonds would be calibrated accordingly, with a re-steepening of the yield curve having us consider cash underweights against risk assets. We favour the buying of gold on weakness in 2023, with no particular hurry, though. Firstly, the deflationary phase engendered by tight policy should play out, and only subsequently would the yellow metal be lifted under the realisation that price pressures will remain anyway overpowering, stoked by the structural forces of shrinking globalisation, the push for the green economy and the dramatic global shift to an elderly population of dis-savers.

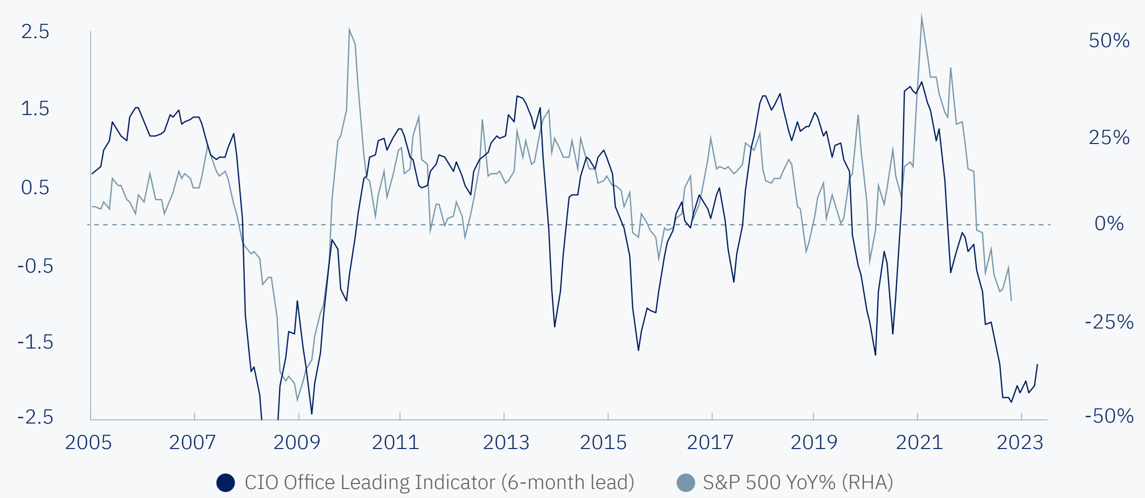
The multiple risks to our scenario all translate into making the difference between a sustainable rally, cyclical rebounds, or even worse a plunge, in case our prognostication of no-derailed growth proves to be wrong.
In summary, investors in 2023 should be prepared for a "marathon", rather than a fully-fledged bull market that seems to remain well beyond our forecast horizon.

Exhibit 13: Housing market leads unemployment by 12 months



Source: Bloomberg, as of Dec 2022

Exhibit 14: CIO Office Volatility Leading Indicator points to further weakness in early 2023



Source: Emirates NBD CIO Office, Bloomberg, as of Dec 2022

Equity Strategy

Equity Strategy

The year ahead

- Higher returns expected from emerging markets on lower valuation and higher earnings growth
- Selectivity rather than direction: Quality Dividend payers recommended in developed markets
- Continued volatility but potential for a sustainable rebound once Central Banks pivot
- The focus shifts from inflation and rates to growth, margins and earnings

2022 was volatile and negative, with global equities down 18% driven by a derating of earnings multiples and a sell-off of high growth and long duration sectors such as technology, with higher sovereign yields impacting present valuations of future cash flows. Value/short duration fared better under the new inflation regime. We begin 2023 on lower valuations, unlike 2022 which began with DM equities on high multiples applied to peak margins, following a year of stimulus-driven consumer demand and record corporate earnings growth. Inflation numbers are still high, though green shoots are emerging with energy and shelter prices lower and supply chains improving as China reopens, though the Russia-Ukraine conflict continues. Margins remain under pressure with higher costs and Central Banks tightening financial conditions.

We start the year with an overweight positioning for EM equities and underweight DM equities. Our fair value estimates for 2023 predicate low single digit upside for US equities with earnings to stay flat for the S&P 500 and a PE multiple of 18.2X by the end of the year. We expect European equities to perform in line with economic growth, that is small negative returns. We expect more upside, in the mid-teens, from emerging markets which are at low valuations and superior growth. Equities bottom historically a couple of months before economic growth turns around and that would be our signal to go overweight developed market equities. A strong episode of pessimism and risk aversion could also make us consider adding.

The biggest influencer for the direction of global equity performance in 2023 will be earnings growth, itself a function of rates (hence the Central Bank pivots importance). Corporate margins stabilising (from falling) are the cue for a sustainable rebound. Corporate profits are being impacted by higher wages, transportation and interest costs, labor shortage, disruptions in the supply of components, and cost of capital. Corporates can no longer pass on higher costs to consumers and revenue growth is expected to fall to 3 to 4% in 2023 from 10% in 2022.

A secular inflation shift defined by deglobalisation, decarbonisation and aging demographics defines this decade. We see income generation as the best hedge against lower growth and recommend buying stocks of companies with resilient income, serviceable debt and sustainable dividends.

Exhibit 15: Equity Indices: CIO Office 2023 estimates & year end fair values

Region	US	Europe	Japan	UK	EM	China	India	GCC
Index	S&P 500	MSCI Europe	Nikkei	FTSE	MSCI EM	MSCI China	MSCI India	MSCI GCC
Index End 2022	3840	143	26095	7452	956	64	2069	693
2022 Performance	-18.1%	-9.0%	-7.4%	4.6%	-19.9%	-21.7%	3.0%	-4.1%
	End 2023 Estimates							
EPS Growth	0%	-10%	0%	-10%	15%	14%	17%	8%
Price/Earnings	18.2	13.0	15.3	11.0	11.5	11.5	24.5	14.5
Fair Value	4000	140	27850	7650	1100	69	2435	750
Upside/Downside	4.2%	-1.8%	6.7%	2.7%	15.0%	7.8%	17.7%	8.3%
Add Dividend Yield	1.7%	3.6%	2.3%	4.0%	3.4%	2.4%	1.3%	3.4%
Expected Return	5.9%	1.9%	9.0%	6.7%	18.4%	10.2%	19.0%	11.7%

Source: Bloomberg, CIO Office, 31 Dec 2022

Exhibit 16: Market Health Checklist: Equity outlook centered around earnings and corporate guidance

Positive	Neutral	Negative
Low valuations	Earnings Growth/ Revisions	Falling margins
Rate cycle near peaking/ yields falling	Inflation (energy prices)	Lower migration, higher wages
AI improving productivity	Supply chain disruption	Cost of decarbonization
Service activity rebound	Tech regulations	Geopolitics affecting energy supply
China reopening	Sentiment	Cyber and food security

Developed Markets: Overweight the US, Neutral Japan with a relative Europe Underweight

US: Back-to-back negative S&P years are rare with the last being the dot.com bubble in 2000-2002. Our mid to long-term conviction on US equity performance perseveres, home to highly profitable tech and healthcare companies, though we expect growth sectors to perform only once the Fed stops hiking rates. On the positive side, the PE multiple has derated, and equities are supported by a marginally less hawkish monetary policy. Margins remain healthy, though off their peaks. On the headwinds, S&P 500 EPS growth was 48% in 2021, 5% in 2022 and we expect no growth in 2023. Fed monetary policy stability and lower inflation are catalysts for the market to find a fundamental footing.

Europe: A recession is the consensus outlook and corporate profitability likely follows the downward trend. However, we would look to invest in food and energy companies with high quality dividends.

Japan: Exports resuming as the supply chain gets back to normal and lockdowns ease.

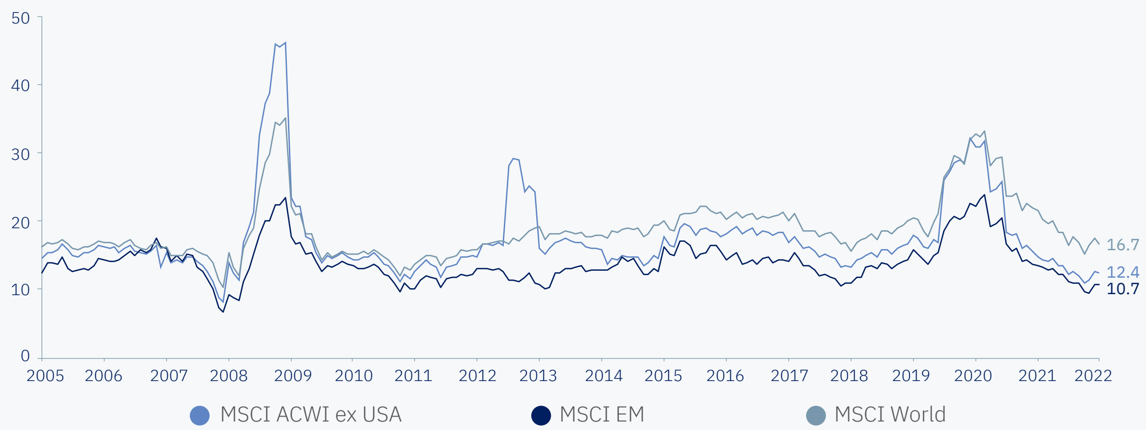
Emerging Markets: Overweight the UAE and EM Asia (India a strategic Overweight)

China: Reopening and support to the real estate sector are positives. Headwinds include impact on demand from the COVID upsurge, shift away of Western countries from reliance on China's supply chain, US tech sanctions and China's onerous policies on data and monopolistic tech and payment companies.

The GCC: The Dubai and Abu Dhabi equity indices were among the world's best performers of 2022. Higher oil prices over $70 for Brent, support government spend budgets. Capital issuance is increasing the breadth of the market.

India: High economic and profit growth alleviate the higher equity valuations. Domestic demand and demographics in favor of tactical and strategic longer term equity performance.

Exhibit 17: Valuations: Low trailing price to earnings multiples portend upside for EM equities



Source: Bloomberg, CIO Office, 31 Dec 2022

Equity Strategy

Income generation: quality dividend strategies

- Dividends provide secure income in all macro environments, partially offsetting inflation
- Look for the quality of dividends, not just their level
- Screening for dividend growth stability is paramount

Quality dividends provide a secure and stable way to generate income from investments regardless of the market environment. They represent a significant portion of total return over the medium to long-term and provide stability of income, as well as the flexibility to reinvest or not. Dividends cushion capital market losses and are important for long-term investors with dividend yield generation between 2 and 6% each decade back to 1930 from the S&P 500. On a compounded basis, dividends represent nearly 20% of total return since 1996.

What defines a quality dividend payer? A company that pays out consistent and growing dividend in absolute terms backed by stable margins, serviceable leverage, strong cash flows and a business model able to weather economic slowdowns. Whilst utility companies look an obvious fit they don't qualify as their margins get affected by higher feedstock prices such as oil. The best is not to just look for the highest yielding stock -as those companies may not be investing in the business, but to find companies who can consistently grow their dividend and have a proven track record. It's this underlying stability combined with the dividend return that can provide a defensive cushion during market volatility. High valuations and high leverage also need to be taken into account.

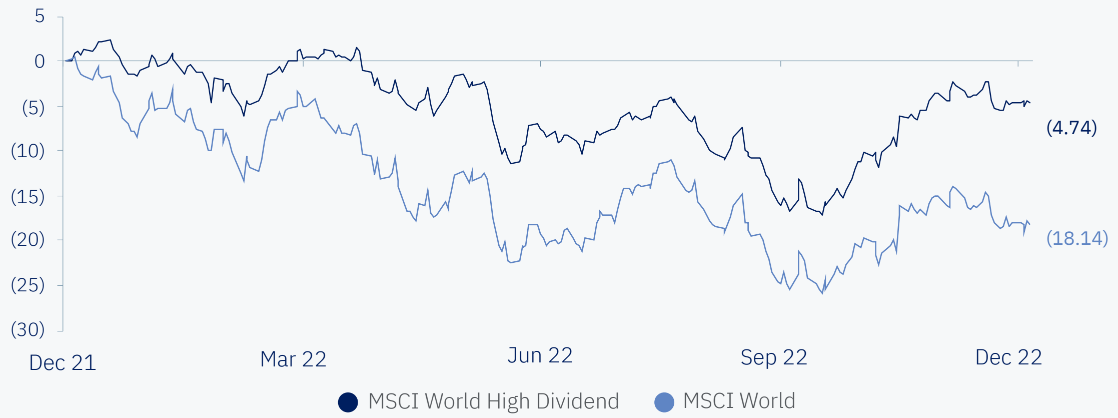
The former is a risk to total return and the latter a threat to free cash flow.

Above-trend inflation is not an adverse backdrop for dividend stocks: it's arguably one of the most favorable. The stability and guaranteed income from dividends make them a relatively safe play. Today, with CPI in the high single digits for most DM and PCE close to 5%, inflation is above trend, though the peak looks likely to have been crossed. Inflation during ‹above trend and falling› is among the best performing environments for the Dividend yield factor.

Dividend factors have outperformed in 2022. The lower growth outlook for 2023 which puts into question capital return upside should fuel continued outperformance for dividend paying stocks.

Healthcare, energy, banks and consumer sectors provide attractive yields alongside dividend growth. Energy pays the highest dividends currently amongst our quality basket, but is cyclical: the sweet spot for their cash flow is when oil prices are high and investments low like they are today. Other sectors are less volatile. Healthcare companies are structurally high cash generators, innovative with secure income streams, protected by defined long-term intellectual property, and provide the highest quality dividends.

Exhibit 18: Outperformance of dividend strategies expected to continue into 2023



Source: Bloomberg, CIO Office, 31 Dec 2022

Income generation: sustainable dividends in the UAE

- UAE company dividends are backed by strong cash flows and sustainable business models
- UAE capital market issuance continues to add breadth to the market
- Valuations are attractive on an absolute and relative basis

Dubai stocks are at attractive valuations. Many banks as well as the recently floated quality companies from the UAE government have dividend yields over 4% with visible cash flows to support the payout. Abu Dhabi companies have lower dividend yields due to higher stock prices, following their 2021-2022 three-digit rally. Banks, utility providers and telecom companies in the UAE offer quality dividend yields with the sustainability of payouts. UAE banks have high CASA deposit ratios which makes them benefit from rising policy rates, a rare and enviable feature against the current backdrop.

The region has shown a divergence from global markets in performance in 2022, as besides the beta to higher oil prices, the higher dividend yields have made the region attractive in a rising inflationary environment. Whist oil prices remain supportive, the rapid development in the non-oil sector, inflows of population, digitisation of services and adoption of technology are sustainable drivers of growth. Valuations remain attractive with the Dubai Index at 9.3X forward earnings and 1.0X Price to Book, lower than comparative EM peers.

Exhibit 19: Dubai equities dividend yield and valuations attractive

Index	CCY	Region	Level	Return 2022	Annualised return 3 YEARS	Market cap USD bn	Forward P/E	Forward P/B
DFMGI	AED	Dubai, UAE	3,336	8.2%	10.5%	119	9.3	1.0
ADSMI	AED	Abu Dhabi, UAE	10,211	22.9%	31.4%	685	13.5	1.9
SASEIDX	SAR	KSA	10,478	-5.0%	11.0%	2,681	14.1	2.1
SENSEX	INR	India	2,069	3.0%	16.2%	2,252	24.1	3.4
SHCOMP	CNY	China	3,089	-12.8%	2.8%	6,410	10.1	1.2
MSCI EM	USD	EM	956	-19.9%	-2.7%	19,130	11.6	1.2

Source: Bloomberg as of 31 Dec 2022: Total return

UAE equities have seen an increase in trading value driven by new issuance from divestment of government entities and family businesses going public. Robust post-listing performances are encouraging further issuance and driving more sector diversification. Authorities are focused on improving market breadth and liquidity with a market maker fund and an AED 5bn IPO fund to encourage technology companies to list on the local bourse.

Recent investor roadshows and the increasing Foreign Ownership Limits (many corporates have almost 100% of free float with no restrictions on foreign investment anymore) have been instrumental in bringing in more direct international institutional demand for the UAE markets and as their weight in global indices (MSCI, S&P, FTSE) grows, it attracts passive and active fund flows. The UAE currently has a 1.3% weight in the MSCI EM index with 9 members. A big constraint to investing in the region for offshore retail investors, has been that local brokerage accounts were the only way to buy stocks. The large global asset managers have recently introduced ETFs, which provide accessible investment vehicles.

Equity Strategy

Long-term theme: AI adoption across industries

- R&D spend to innovate and understand consumers builds sustainable businesses
- Companies successful at developing AI analytics around data/ information will outperform
- Government's focus: Energy (shift from grey to green) and food sustainability

Investing into the future requires identifying trends that will sustain above temporary hype. Traditional tech growth is in question and unprofitable tech companies, COVID favorites in the telehealth, metaverse and streaming sector stocks, NFTs and cryptos saw falls of over 50% in 2022. Last year, we saw big changes in AI "decentralisation" with expanding access to advanced AI technologies, as products such as ChatGPT, the human like intelligence bot, have enabled access to enterprises and individuals to deep learning models, so far restricted to institutions with very large datasets, and very deep pockets. Established search engines have to adapt their strategy around AI.
AI powered search topped investment initiatives for Google as did AI analytics for Meta and is a tailwind to component vendors such Nvidia and other high end chip makers. Open AI services run on Microsoft's Azure infrastructure, while the Seattle giant is investing $ 10bn in the firm.

Technologies, such as 5G, AI, and cloud, are reaching mass adoption and HBR research shows that companies are looking to move 60% of their IT estate to cloud by 2025. More than 50% of companies have adopted AI in at least one function in their business. But used together "combinatorial" is where infinite possibilities open up from consumer to enterprise.

14 technology trends seeing significant investment in AI adoption, could change how we work and live:
Digital and IT: Applied AI, Web3, Industrialised Machine Learning (IML), Cloud and Edge Computing, Advanced Connectivity, Next Gen software, Immersive Reality, Quantum Technologies, Digital Identity
The Future of Bioengineering, Clean Energy, Mobility, Space and Sustainable Consumption

Source: McKinsey Trends Outlook 2022

With the richness of abundantly available data, the next decade will transform multiple industries, through AI-enabled business models. The spectrum of opportunities is wide: efficiency, customer experiences and repositioning of the human work.
Technological innovation in drug discovery, energy, healthcare, robotics, cyber security, agriculture, and food production will dominate in a world focused on decarbonisation, deglobalisation and with aging population exiting the workforce.

A lot of progress is yet to be made in the open AI spectrum with computing costs i.e. the necessity of high end chips, super computers, while power consumption is a constraint.
It's a cycle as more data gets available perfecting the output but adding layers of complexity to the algorithms. AI has had enormous breakthroughs in the last several years, as algorithms now have access to staggering amounts of data and can go through trillions of computational analyses. However, entirely new paradigms are required to not only break free from the current physical computational limits on cost and hardware, but from the massive contributions that AI would make to carbon emissions and climate change.

Long-term theme: India

- Economic and earnings growth on an uptrend and amongst the fastest globally
- Young demographics and a growing middle class, by contrast to the rest of the world
- Strong domestic demand and retail growth, with fast adoption of digital channels

The annualised returns of Indian stocks in the last decade were 6% in USD and 13% in INR. With Indian equities expensive at 24X forward price to earnings and 3.3x price to book, what will drive performance?

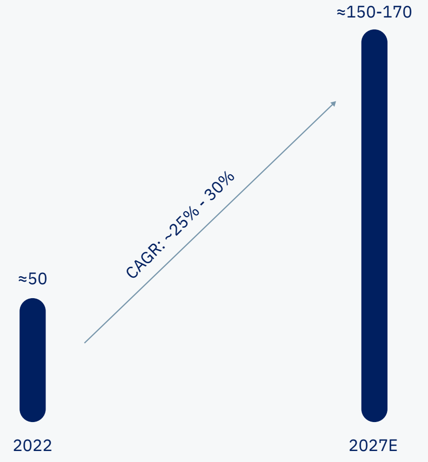
Economic growth estimated at 7% in FY 2024, with supportive government policy and the fastest growing working age population, combined with low labour costs, make India stand out in a slowing world. India could be in third position globally in terms of economic output by the end of the decade from 5th currently. Exports should develop as India becomes a preferred hub for offshoring of services and production as some supply chains move away from China. Balance of payments and USD reserves are improving with oil prices falling and FDI increasing.

Corporate profits are expected to grow at a 20% annualised compounded rate for the next 3 years, aided by a competitive corporate tax at 22%. Indian corporates rising capex and inflation easing will ensure that profit levels remain sustainable for the long-term.
A growing domestic savings pool with low equity exposure and increasing capital market activity are supporting inflows into equities. Households earning over $35,000 p.a. projected to grow to one fifth of the country's population, a factor x5 from current levels. India's market cap expected to grow 11% annually to $ 10tn by 2030.

Digital adoption is growing fast, but the potential remains huge. Online sales are 6.5% of overall retail, compared to 15% for the US. Only 45% of India's population currently uses the internet and less than 20% shop online, mainly though the mobile phone. Rising e-commerce will boost consumption from areas with low accessibility to physical stores. The government focus on decarbonisation should lead to 30% of vehicle sales by 2030 to be EVs. India is one of the few countries with increasing vehicle sales in all segments i.e two wheelers, domestic cars and trucks.

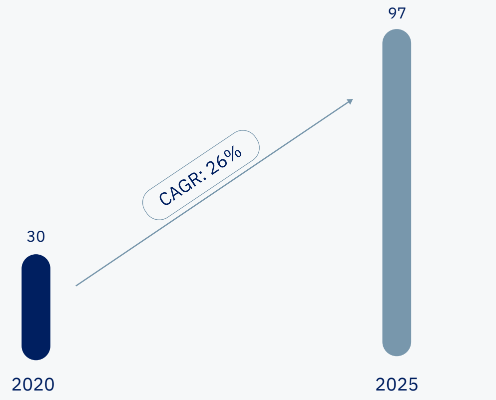
Domestic cyclicals i.e consumer discretionary, auto, leisure and industrials stocks look best positioned to capture the growth story around rising disposable income, the energy transition, infrastructure roll out, increasing air travel and tourism. Healthcare is supported by a shift to branded medicines and formal services. Credit growth, a peaking rate cycle and sophisticated technology implementation will benefit the banking and insurance sectors.

Exhibit 20: India E- Retail penetration (in USD billion)



Source: Bain & Company, Oct 2022

Exhibit 21: Digital payments in India (in USD trillion)



Source: Digital Adoption by Indian SMBs - IBEF, Feb 2021

Fixed Income

Fixed Income

Let there be yield

Exhibit 22: CIO Office 2023 year-end fair value estimates

YEAR-END FAIR VALUE ESTIMATES 2023

	Current Yield	Current Spread (Bps)	New Yield/Spread estimates
US 10y Treasury Bond	3.88%	-	3.10%
Global Investment Grade	5.00%	132	150-175 bps
Global High Yield	9.42%	545	675-700 bps
Emerging Markets Debt (USD)	7.52%	339	450-475 bps
GCC Debt	5.28%	119	150-175 bps

Source: CIO Office, Bloomberg Data as of 30 Dec 2022

From past pain to future gain

To quote a few adjectives, the past year has been described as unprecedented, unrivaled, and unparalleled. We are gradually coming out of the steepest coordinated Central Bank tightening to fight inflation. The entire fixed income universe suffered. The only positive segment was Floating Rate Notes (FRNs), which benefitted from increased rates. At the other end of the spectrum, Emerging Market Debt was the worst-performing asset class owing to its long duration.

As we turn the page of the horrendous 2022, 2023 provides new hope for better returns though volatility will remain high.
The narration should shift from a focus on inflation to growth concerns. Markets, and our economists, anticipate the Fed to pause after two more rate hikes of 25 bps each, with a peak rate of around 5%. Investors also currently price in two rate cuts by the end of 2023, which the Fed members vehemently push back against. The US Inflation and jobs data remain the binary independent variables that will determine the rate trajectory this year.

We should also keep in mind Quantitative Tightening. The Fed was the first to kick off QT and reached its top speed in August 2022. BoE joined the bandwagon in November, and ECB will start the process in March 2023. These coordinated monetary tightenings will affect the overall liquidity in the system.
It could be a year of two parts. In the first part, the spreads will be range bound and yields stable or upwardly mobile. However, once the leading indicators confirm a slowdown, we should see yields coming down and spreads of high beta segments blowing up. Hence, the crux of this year's recommendation within fixed income is to be overweight on the safest segments while being very selective in the riskiest ones.
As a result, most of the returns would come from carry rather than capital appreciation this year.

Overweight Developed Market Government Bonds

After years of caution, we suggest an overweight allocation to DM Govt bonds. Unlike last year, the yields are high enough to cushion against volatile market environments. With incoming soft macro data, the tailwind for yields to rip much higher from current levels is absent. We prefer a longer duration exposure in this segment to get the maximum benefit of protection while enjoying decent yields in the highest quality of fixed income. We may see a spike in the bond yields in the first quarter till the uncertainty of the rate hike trajectory persists. However, as the economic slowdown becomes more apparent, we will see yields go down, generating positive returns for the bondholders. We predict a year-end fair value for the benchmark 10-year US Treasury yield at 3.1%.

Overweight Investment Grade Credit

IG Credit is our most preferred fixed-income segment. The yields are attractive, along with strong corporate balance sheets. In addition, these issuers have full access to funding channels and strong demand from investors. In terms of valuation, the current spreads look reasonable though still below the High Vol period (Move Index > 95) average by 11% and recession-era spreads by 38%. Hence, we anticipate the spreads to move slightly from current levels to reach their high vol averages ending the year between 150-175 bps. With the upside in the yields capped, we tilt towards increasing duration in the segment to lock in higher returns for a more extended period.

Underweight High Yield

High Yield issuers have low refinancing needs this year which has kept a lid on defaults. Supply would remain constrained as lowest-grade issuers find it prohibitive to issue bonds at such high rates. As we approach the second half of 2023, HY default rates could double to the north of 3.5%. Demand would be concentrated toward the BB-rated issuers and specific sectors such as Energy, Utilities, and Financials. Current valuations are optimistic, if not complacent, as spreads are 43% lower than the average recession-era. A recession may not happen this year, but recession fears will. We anticipate the spreads to potentially widen to 675-700 bps levels toward the end of 2023.

Underweight Emerging Market Debt

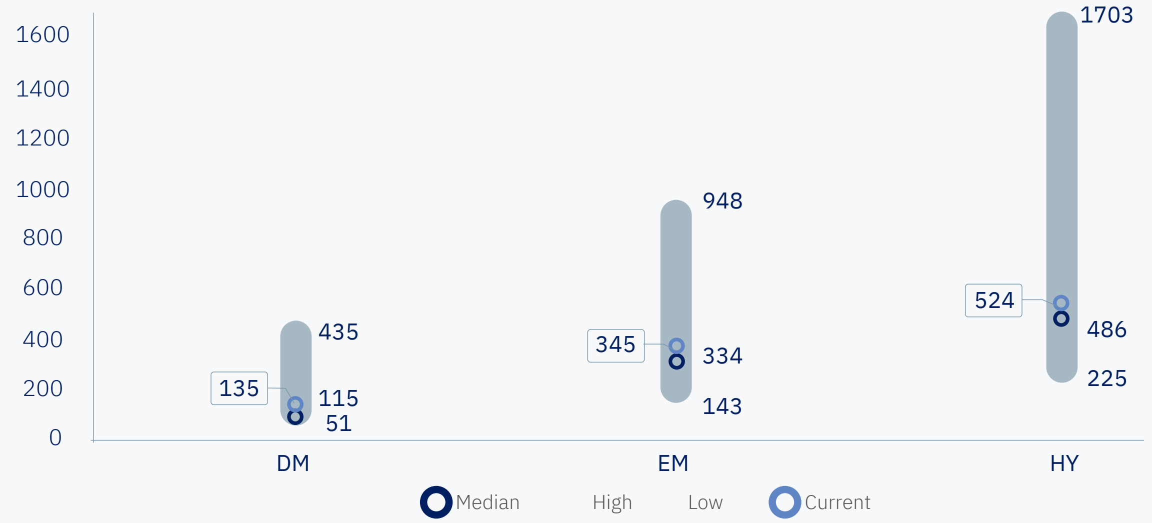
Emerging Market Debt faces headwinds, including tight monetary conditions and a slowing global growth outlook, notwithstanding recent China reopening related buoyancy. Valuations look excessively rich as spreads are lower than the recession-era average by 41%. Supply would remain constrained as strong IG sovereigns from the Middle East would avoid paying the premium demanded by the investors while the market remains closed to most B-rated commodity importers. Global Asset Allocators are spoilt for choice with high yields available in the developed market, so the demand should remain muted. We expect spreads to widen to the 450 to 475 bps range.

The GCC spreads are tight due to the robust oil prices. The composition of the asset class has shifted more in favor of IG issuers, and hence historical spread analysis is not totally relevant. The region should provide a decent yield without facing default risks, and thus the richness in valuation is justified with year-end spreads around 150-175 bps.

Risks to our outlook

We see stubborn inflation, continued strength in the labor markets, and black swan events such as the US Debt Ceiling debates as well as BoJ modifying its Yield Curve Control targets as significant risks to our positioning.
If inflation doesn't come down as expected, the Fed would tighten further: yields and spreads would blow out, leaving no quarters for investors to hide. This will be our worst-case scenario where cash is the only refuge.

Exhibit 23: Spreads dispersions for last 20 years



Source: CIO Office, Bloomberg Data as of 09 Jan 2023

Fixed Income

Fixed income theme: financials offer relative value

Banks are stepping into 2023 with strong capitalisation and adequate liquidity. Post the global financial crisis (GFC), stricter capital requirements resulted in the banks being well-positioned to withstand stress. In the current scenario, as per the Fed stress test results in June 2022, banks have sufficient capital to absorb more than $ 600bn in losses (materially more than the cumulative losses during GFC).

In 2023, credit growth is expected to be moderate because of higher interest rates, impacting the topline of banks and non-banking financial institutions. On the deposit front, the post-COVID growth is expected to decline now. Banks are expected to benefit from the higher net interest margins in the tight monetary policy environment with Fed terminal rate expectations of around 5%. In addition to inflation, the predictions of a slowdown in 2023 raises concerns over asset quality deterioration.

The banks offer various types of bonds. In the order of increasing payment rank, they include Additional tier-1, tier-II, subordinated, TLAC, and senior unsecured bonds. Many of them have a feature that it can be written down to zero or converted to equity in case of resolution. While default risk from strong global systemic banks remains low, the critical risk we foresee is extension, where the subordinated debt is not called on the first possible date. In the rising interest rate environment, calling AT1 bonds may not be financially beneficial for a few cases as the refinancing cost may be higher. Looking at history in Europe, factors other than economic benefits are also considered, including reputation. Since 2015, out of the 104 such bonds which have reached their first call date, only five were not called. A similar trend has been seen in the GCC region. While economic benefits are given higher priority in the US for deciding the call option, 26 US banks extended their first call date, and four are still pending to be called. Hence, we prefer subordinated debt of solid banks from the Euro Area, the UK, and the GCC.

We also like the TLAC bonds issued by the G-SIBs (Global Systemically Important Banks). Typically, senior TLAC bonds have a call date one year before the maturity date. If the bonds are not called on the first call date, they revert to a floating structure for the final year, and coupon payments change from semi-annual to quarterly. The possibility of senior unsecured TLAC bonds issued by the G-SIBs being used for bail-in looks extremely unlikely, which is why agencies rate them in line with the issuer. These bonds currently offer attractive pick-up in yields and offer relative value opportunities.

Fixed deposit or bonds, which is best?

The Fed is amidst the steepest rate hike cycle in its history. The overnight rate increased by 425 bps in 2022 to 4.5%. Markets anticipate that the peak rate could touch 5% and potentially exceed it depending on two key variables, i.e., inflation and the labor market. As a result of such high rates, cash which was a liability a mere year ago has become an attractive asset class, and investors have sought refuge in it from the turbulent market. Banks have started offering attractive deposit rates to lure savers. Most investors now compare fixed income returns to cash returns to make asset allocation decisions. We take a deeper look at the conundrum and try to figure out a systemic approach.

Over short-term cash is king

This is common sense that cash is king over short-term investment horizons where the investors require liquidity. Short-term market gyrations are almost impossible to predict. And hence no asset class can beat the risk-adjusted returns of cash over an investment horizon of less than a year. This is where a fixed deposit makes sense since financial institutions do not charge any upfront fees or custody fees on such instruments. There are short-term fixed income instruments, such as the US T-Bills and Money market funds which come a close second: the former with the US signature instead of a bank's, and the latter with instant availability.

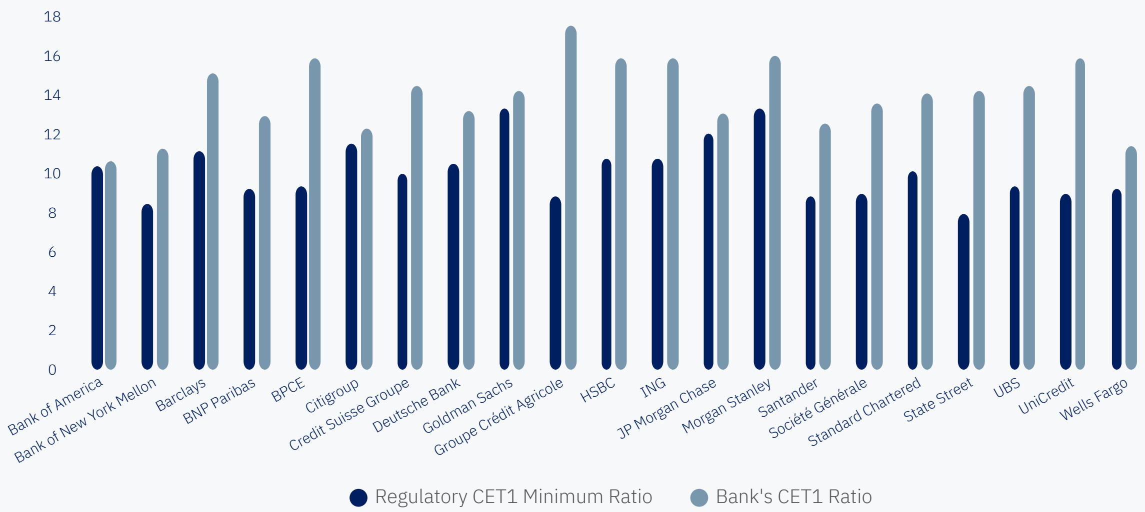
Long-term is more nuanced

Over the longer horizon, the comparison of cash vs. fixed income returns become more complicated and depends on our starting point in the economic cycle. In the terrible 2022, cash outperformed by almost 20%. Our research shows that in the last twenty years, whenever cash has outperformed fixed income, fixed income has bounced back following with a higher three-year cumulative return than cash. This time should be no different.

Various parts of the US Treasury curve are inverted, including the much-followed 3 month-30 year, 3 month - 5 year, and 2 year - 10 year. The 2 year - 10 year inversion has crossed 80 bps, for the first time since the 1980s. These curve inversions forecast an upcoming recession, which means that the Fed will at some point have to start easing. Many Fed watchers are already forecasting rate cuts for 2023. This is the environment in which the safest bonds and credits outshine all other asset classes.

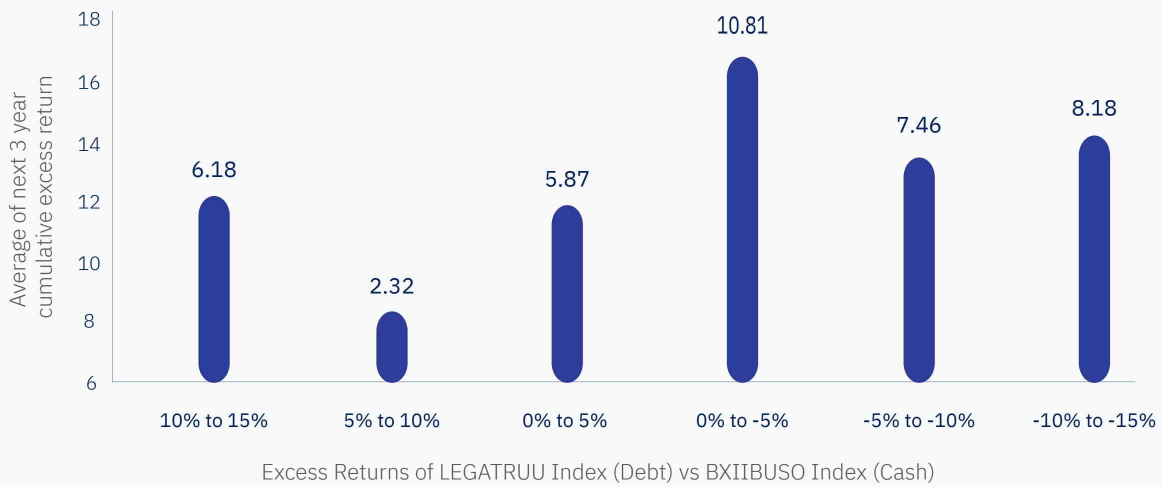
Moreover, fixed deposits with higher rates are currently offered for shorter tenures due to the inversion of the curve, and there is a reinvestment risk when these deposits mature if the rates are lower. Therefore, it is prudent for an investor to take benefit of the current high-yield environment and lock in higher returns for a more extended period to beat cash returns.

Exhibit 24: Fixed Income: GSIBs Regulatory CET-1 Requirement Vs Actual CET-1 ratio as on 30 Sep 2022



Source: CIO Office, Bloomberg, Company Financials, Fed press release

Exhibit 25: Fixed Income: Debt vs Cash excess return in more than 20 years



Source: CIO Office, Bloomberg

Global Topics

Oil Outlook

A constructive forecast for oil prices in 2023

Oil markets have started 2023 on a bumpy footing as China's move away from stringent COVID rules has meant a surge in infections and disruptions to economic activity. Combined with worry that Central Banks will induce a recession in major economies this year, China's shift to a post-COVID world will be a drag on oil in the first quarter. Oil market balances look set to record a modest market surplus of about 200k b/d in Q1. But after that, macro conditions for oil still appear bullish with supply set to be defined by constraint rather than availability in 2023.

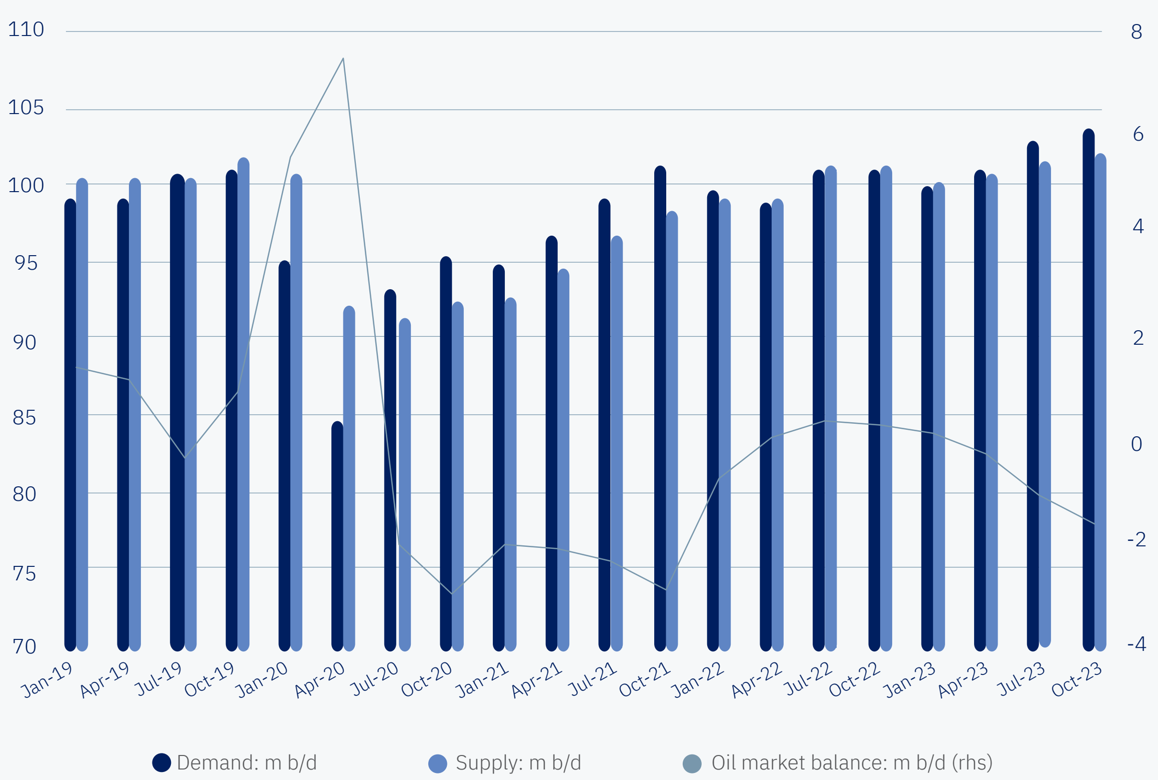
OPEC+ has adopted a more market-responsive approach to output after having brought back all the production it took off during the pandemic in 2020. In September and October 2022, the producers' alliance cut output to stem a drop in prices and we can't rule out that OPEC+ would again step in to prevent what they view as a disorderly sell-off. Any intervention may even come unilaterally on the part of Saudi Arabia to stop oil prices dropping too quickly. Brent prices near USD 80/b are hardly going to be welcome among OPEC+ leaders and we doubt they will want to be adding barrels in that context.

Russia, still a key member of the OPEC+ alliance, will be adjusting to a new framework for its oil exports as an EU embargo on seaborne crude imports will be expanded to refined products from February 5th. The G7, EU and a few other nations also supported a price cap mechanism of USD 60/b on Russian exports. Russian exports did drop at the end of 2022 as the price cap and EU embargo came into effect and the country is likely to have cut output further as a key export market remains closed to it.

The US will also see output grow at a much more modest pace. Production increased by 820k b/d in 2022 based on initial EIA estimates of weekly output (that are likely to be revised in coming weeks). While that has helped to offset much of the losses caused by the collapse in prices resulting from the COVID pandemic, the rapid pace of production increases the US has experienced previously don't look set to be repeated. A Q4 survey from the Dallas Fed of oil and gas firms showed 39% of producers expected to increase capital spending only slightly in 2023 with supply chain and inflation concerns the "biggest drag" on production plans.

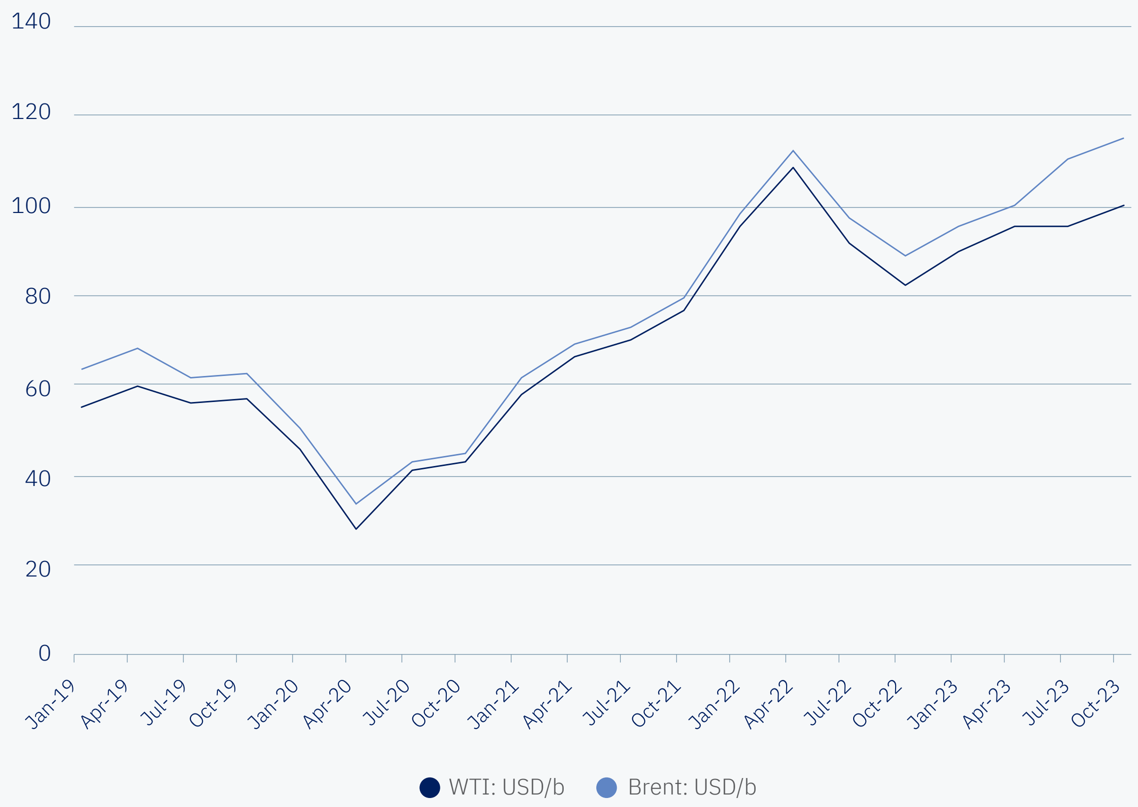
The risk of a major global recession could see oil prices fall well below their 2022 average of near USD 100/b. But as Central Banks have been behind the slowdown in activity, they could also wind back some of their tightening and help improve conditions, if not at least sentiment. We expect to see oil prices trending higher over the course of 2023, with Brent set to average around USD 105/b.

Exhibit 26: Several years of tight supply will catch up in 2023



Source: IEA, Emirates NBD Research

Exhibit 27: Emirates NBD Research oil price assumptions



Source: Bloomberg, Emirates NBD Research. Note: average of quarter

Real Estate Outlook

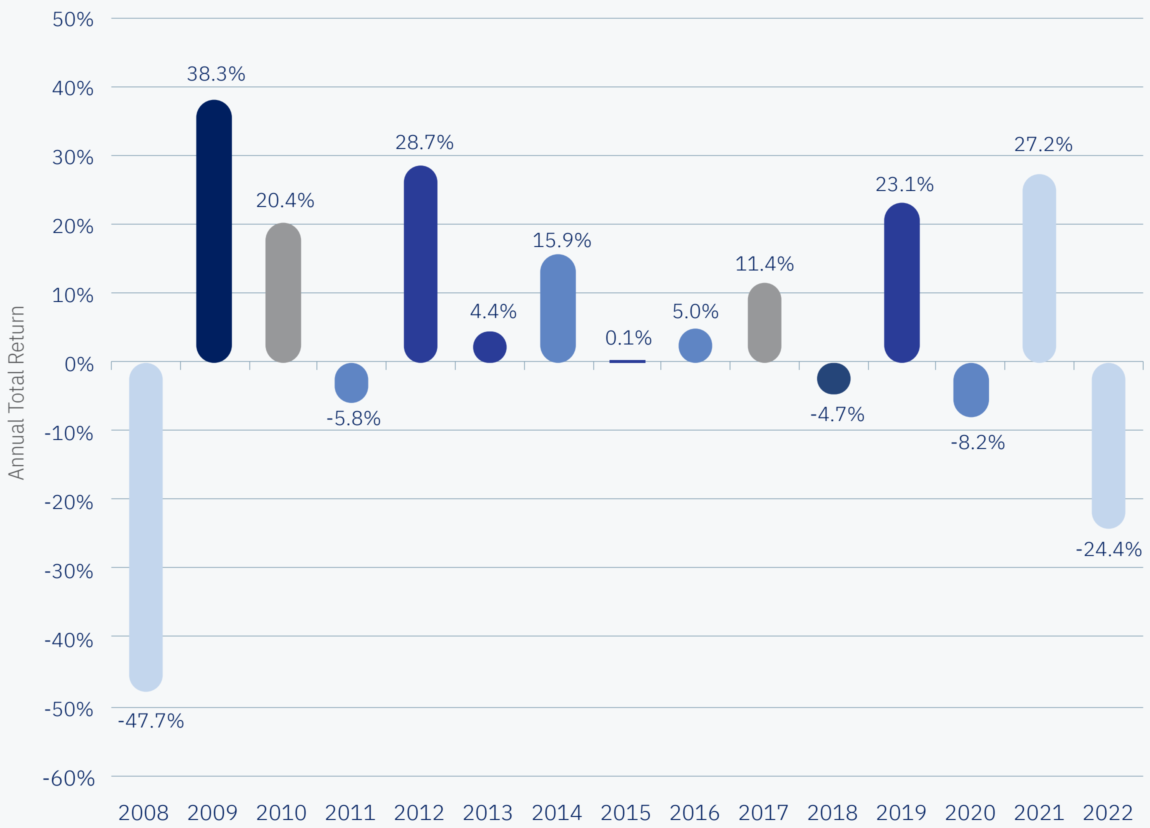
More pressure ahead, generating long-term opportunities

- REITs had their worst year since 2008
- Rising debt costs, poor relative pricing and subdued rental outlook all point to a difficult year
- Sharp but short downturn predicted
- Current market pricing presents an attractive buying opportunity for the right sectors

Following a stellar 2021, momentum carried over into the opening of 2022 and by the first quarter yields on commercial property in almost all major jurisdictions were achieving record lows. However, inflationary pressures and an abrupt rise in rate and yield expectations over the course of the year (usually a tailwind for property), quickly led to assets looking mispriced versus other asset classes.

Public markets quickly recognised these discrepancies and Global REITs consistently struggled throughout 2022, compounded by Amazon's announcement in April that it was reducing the size of its real estate footprint and, to a lesser extent, the disastrous UK 'mini budget' in September. Overall, Global REITs lost more than -20% in 2022, the worst annual performance since the global financial crisis of 2008, and property shares ended the year pricing in a substantial correction in coming periods.

Exhibit 28: Global REIT annual returns 2008 - 2022



Source: FTSE, Bloomberg, ENBD London calculations

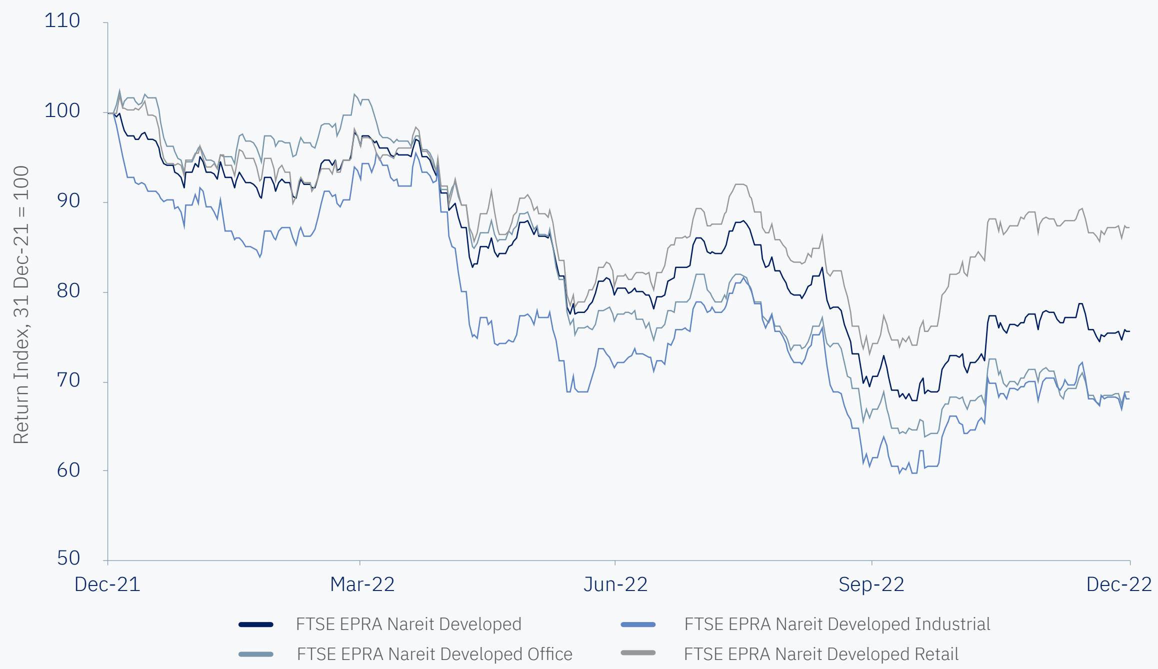
As we enter 2023, commercial property remains under pressure. As a capital-intensive asset class, higher interest rates (and therefore borrowing costs) remain the main challenge: put simply, property yields of 3% to 4% are not sustainable when base interest rates are at the same level. Growing recessionary pressures are also leading to a subdued outlook for this year's rental prospects, further diminishing overall return expectations.

Although a correction in property values is clearly underway in the present environment, we consider that the current forecasts are too pessimistic and that there are reasons to believe that the downturn will be sharp, but short lived. This is certainly not a repeat of the drastic declines experienced in the Global Financial Crisis. Reasons for optimism are a softening of terminal rate expectations, continued low real rates and an enduringly large pool of liquidity (both equity and debt, despite the higher cost of the latter) ready to acquire assets on more favourable pricing. These factors will lead to shallower correction than many anticipate.

On top of this, there is nothing fundamentally wrong with occupier markets at present. The main engines of the real estate market over the last few years have not been the economically sensitive office and retail sectors. Instead, performance has been driven mainly by industrial warehouses, healthcare and housing derivatives such as student accommodation and residential-for-rent. Investment fundamentals in these areas remains largely intact: e-commerce continues to progress, demographics and housing policies.

In this new world of higher yields, real estate will take time to adjust from its long-term position of being the 'best income game' in town. We believe that current market pricing presents a good buying opportunity for the sectors which still benefit from long-term fundamental growth drivers: warehouses, healthcare and housing, although returns will be subdued for the near future due to higher debt costs.

Exhibit 29: Global REITs: sector performance 2022



ALL	Office	Retail	Industrial
24.4%	-31.2%	-12.9%	-31.9%

Source: FTSE, Bloomberg, ENBD London calculations

UK Outlook

Opportunities may arise despite a difficult year ahead

- Economy in delicate state and struggling with rising costs
- UK Government has limited options for stimulating growth
- Domestic housing market may keep a lid on rates, helping asset prices recover

A tumultuous year

And breathe - 2022 is finally over and, even by post-Brexit standards, it has been a chaotic year in the UK. Boris Johnson was finally ousted as the country's leader after one scandal too many. His time in power saw him become the first sitting Prime Minister to break the law and set the record for having the greatest number of ministerial resignations in a single day (28!). Still, history may remember him more favourably than his successor, Liz Truss, who immediately went about dismantling the Conservative Party's reputation for fiscal responsibility. Almost immediately after her appointment, the new PM announced a range of policies that included unfunded spending programs to which markets baulked. Yields spiked, asset prices fell, and the Pound slumped to its lowest ever value. As a result of this self-inflicted turmoil, Truss was gone after just 49 days. Making her the shortest serving Prime Minister in the parliament's 300-year history.

To restore some order the third Prime Minister of the year, Rishi Sunak, was fast-tracked into the top position and quickly returned to a more orthodox policy stance. However, much of the damage inflicted by the Truss 'Mini Budget' will be difficult to undo. Sunak's party now trail 11-points behind the opposition in the polls, a huge margin, and have little hope of turning things around before the next election in 2024. The UK economy looks fragile and requires a period of intensive care if it is to return to full health. However, the PM's hands are tied as markets have no appetite to accept a pro-growth agenda if it means increasing the country's debt burden and higher taxes won't win votes. It therefore seems that Sunak will make for a stable caretaker, but any ambitious policies are off the agenda. The hangover from 2022's debacles will be a government without room for manoeuvre, during a time of economic decline.

Clouds on the horizon

British households must continue to do battle against the rising cost of living: a sharp rise in fuel and food prices have left consumers facing a rapid decline of purchasing power as wages have lagged behind high inflation.
The Government's cap on energy prices will expire in April leaving expenditure on gas and electricity almost three times higher than pre-pandemic levels. Meanwhile the Bank of England has been attempting to control spiralling costs by rapidly raising interest rates. Policymakers hope that this will sufficiently dampen the economy to allow prices to cool but without causing too much damage to consumers. However, raising rates into a struggling economy is a tricky business and the BoE must tread carefully.

The most obvious point of strain is the domestic UK housing market. In the UK, mortgages are fixed for short periods (typically 2, 3 or 5 years) at which point they need to be rolled over into new deals or else move onto floating-rate terms. This makes the UK economy sensitive to shifts in policy rates as both new and existing mortgages are impacted and can leave homeowners struggling to make payments. Approximately 2 million households need to re-mortgage this year, and they may find their new deals unaffordable. Most borrowers currently pay below 2% but now will have little choice but to accept costs above 5% leading to an erosion of wealth and a squeeze on disposable incomes.

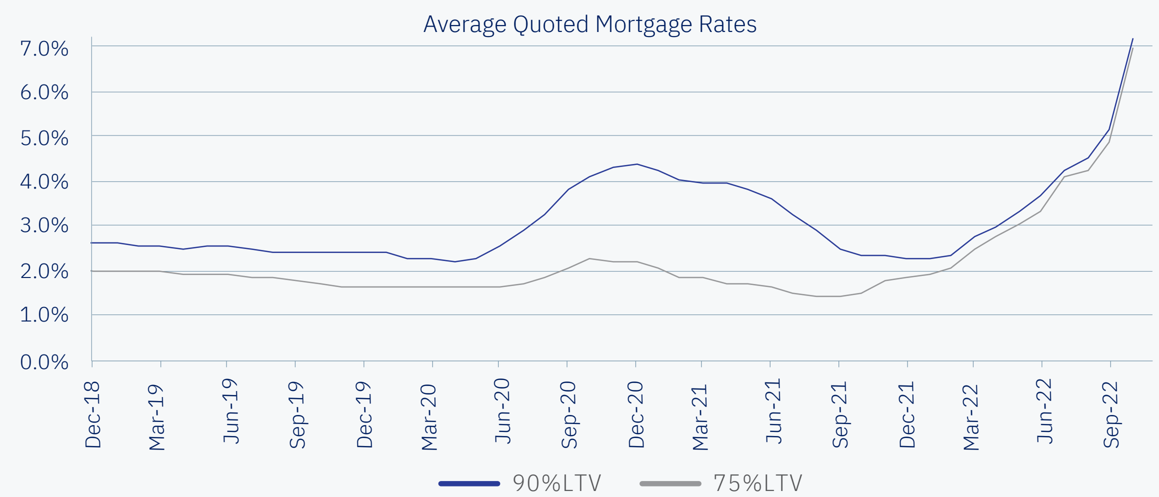
The UK is undoubtedly undergoing a period of contraction and the Bank of England may soon find itself alone in facing a recession.
House prices have fallen for four consecutive months and the latest survey data shows consumer confidence at record lows.
Businesses are also starting to take note.
Capital investment remains weak and there are now signs that the tight UK labour market is beginning to turn with job vacancies falling from record-high levels and rising unemployment.

Market Opportunities

Markets are still forecasting further rate rises with no softening until well into 2024. However, as inflation begins to descend from peak levels and with rates already in restrictive territory, the case for further hikes weakens. If markets have mispriced the path of interest rates, then it will probably be because they have overstated how restrictive the Central Bank will be throughout the coming year: What good is price stability if the economy is in freefall? Andrew Bailey, the Governor of the BoE, has already begun to soften his tone and remains cautious of making a policy error, indicating in November that he saw rates undershooting market expectations.

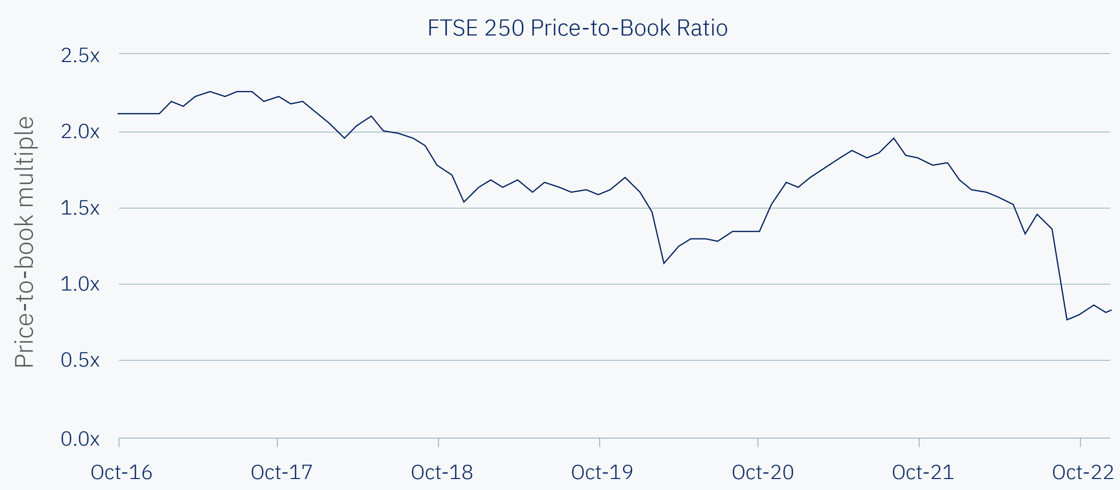
With liquid assets pricing in a negative scenario, opportunities may arise for investors in UK assets, especially if the Pound remains weak. The FTSE 250 is trading at price-to-book ratio of just 0.8x meaning that investors are buying mid-cap UK companies at a 20% discount to their balance-sheet values. Corporate bonds also look cheap relative to recent years. Investment grade debt is yielding comfortably above the 10-year average and government debt is offering levels last seen in 2008.
Market performance from here will be dominated by how much the reality differs from expectations. If we do indeed see a more supportive approach from policymakers, this could take more pessimistic outcomes of the table and allow asset prices to recover from current levels.

Exhibit 30: A quarter of all fixed rate mortgages are due to expire, and face significantly higher rates



Source: Bank of England

Exhibit 31: UK company valuations remain cheap



Source: Bloomberg

Five Key Risks To Our Scenario

Listing risks is a conventional exercise which usually doesn't captivate our audience. Having said that, four out of the five threats we highlighted for 2022 actually happened: rising inflation and Central Banks' tightening, geopolitical tensions, a persistent COVID in China and even a crypto crash. The good news for 2023? Markets are well aware and some valuations already adequately reflect the risks.

Inflation Gets Out Of Control
What if price pressures actually increase? After all, geopolitical tensions remain, a warm winter only helped but didn't solve Europe's energy crisis, China's demand will come back, and crucially, wage increases in the US have not compensated for inflation: spending power has actually deteriorated. Persistent inflation would force Central Banks to tighten further, inflicting more damage to economies and markets. A worse 2022. Cash, gold, and rock-solid currencies would be the only safe havens. The US job market is the key area to watch.

A Severe Global Recession Led By The US
Our central scenario is quite benign for the US, due to their extraordinary resilience and strong employment. There are however three red flags if history is a guide: US CPI above 5%, a deeply inverted yield curve, and of course the lagged consequences of a ballistic monetary tightening have always preceded economic contractions in the last century or so. Risk assets would be severely affected; however safe, long duration bonds, would thrive. Ultimately, Central Banks would likely reverse their course and help. US consumption is the key metric to watch.

A Debt Crisis With Multiple Consequences
Interest rates are on the rise at a time when global debt has never been as high: more than US$ 300 trillion. A 1-point increase in the cost of servicing is not far from one year of India output, to put things in perspective. A rise in defaults seem inevitable for the most vulnerable borrowers but a broader crisis would affect everyone: governments, businesses, households and the financial system. Markets would be wiped out, but also (usually leveraged) private assets. Gold would be the haven, as well as, potentially, some crypto currencies. Any early evidence of domino effect with a systemic flavour will have to be taken very seriously.

A Market Melt Up
The investors' community starts 2023 on the cautious side. They are not ready for good news, which may actually pop up: inflation cooling with resilient economy and some positive geopolitical developments could reverse sentiment and trigger a material rally. This could be looked at as an opportunity to reduce risk and prepare for more trouble ahead.

Another Global Catastrophe?
World war? Pandemic? Large scale cyber-attack? Climate disaster? Everything is possible, including low probability, high impact events. We can't model them, just limit the damage when they happen, and keep trust in humanity to find solutions. We will stay nimble, humble, and open minded.

Contributors

Maurice Gravier - Chief Investment Officer
Email: mauriceg@emiratesnbd.com

Giorgio Borelli - Head, Asset Allocation and Quantitative Strategies
Email: giorgiob@emiratesnbd.com

Anita Gupta - Head, Equity Strategy
Email: anitag@emiratesnbd.com

Satyajit Singh, CFA - Head, Fixed Income Strategy
Email: SatyajitSI@emiratesnbd.com

Nawaf Fahad Ali Mousa AlNaqbi - Equity Strategist
Email: nawafalna@emiratesnbd.com

Muna Alawadhi - Investment Analyst
Email: munaaaa@emiratesnbd.com

Ayushi Somani, CFA - Fixed Income Analyst
Email: AyushiS@emiratesnbd.com

Shaheen Ahli - Equity Analyst
Email: ShahhenA@emiratesnbd.com

Omid Salek-Haddadi, CFA - Head of Investments, London
Email: haddadio@emiratesnbd.com

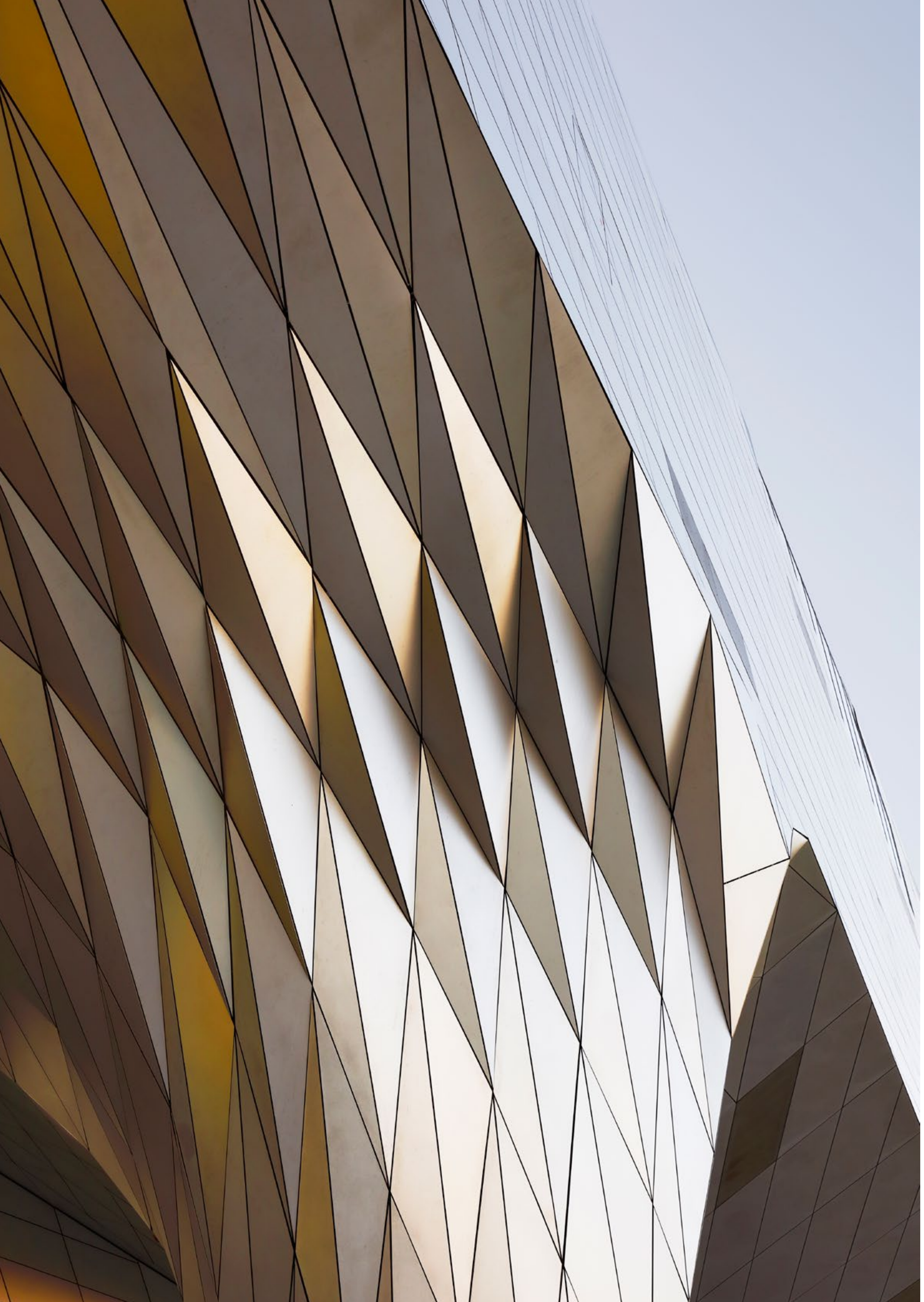
Nigel Burton - Director Real Estate Investment, London
Email: nigelb@emiratesnbd.com

James Baldwin, CFA - Portfolio Manager, London
Email: jamesrb@emiratesnbd.com

Khatija Haque - Head, Research & Chief Economist
Email: khatijah@emiratesnbd.com

Edward Bell - Senior Director, Market Economics
Email: edwardpb@emiratesnbd.com

Daniel Richards - MENA Economist
Email: danielricha@emiratesnbd.com



2023 Economic Calendar

JANUARY	FEBRUARY	MARCH
4 : US ISM Manufacturing 4: UAE PMI (IHS Markit) 4: Caixin China PMI Composite 6: US Monthly Jobs (NFP) 12: US Inflation (CPI) 18: US Retail Sales 26: US Quarterly GDP 31: Eurozone Quarterly GDP	1: US ISM Manufacturing 1: Fed FOMC meeting 3: UAE PMI (IHS Markit) 3: US Monthly Jobs (NFP) 3: Caixin China PMI Composite 14: US Inflation (CPI) 15: US Retail Sales	1: US ISM Manufacturing 3: UAE PMI (IHS Markit) 3: Caixin China PMI Composite 10: US Monthly Jobs (NFP) 14: US Inflation (CPI) 15: US Retail Sales 22: Fed FOMC meeting
APRIL	**MAY**	**JUNE**
3: US ISM Manufacturing 5: UAE PMI (IHS Markit) 6: Caixin China PMI Composite 7: US Monthly Jobs (NFP) 12: US Inflation (CPI) 14: US Retail Sales 27: US Quarterly GDP 28: Eurozone Quarterly GDP	1: US ISM Manufacturing 3: UAE PMI (IHS Markit) 3: Fed FOMC meeting 4: Caixin China PMI Composite 5: US Monthly Jobs (NFP) 10: US Inflation (CPI) 16: US Retail Sales	1: US ISM Manufacturing 2: US Monthly Jobs (NFP) 5: UAE PMI (IHS Markit) 5: Caixin China PMI Composite 13: US Inflation (CPI) 14: Fed FOMC meeting 15: US Retail Sales
JULY	**AUGUST**	**SEPTEMBER**
3: US ISM Manufacturing 5: UAE PMI (IHS Markit) 5: Caixin China PMI Composite 7: US Monthly Jobs (NFP) 12: US Inflation (CPI) 18: US Retail Sales 26: Fed FOMC meeting 27: US Quarterly GDP 31: Eurozone Quarterly GDP	1: US ISM Manufacturing 3: UAE PMI (IHS Markit) 3: Fed FOMC meeting 4: Caixin China PMI Composite 5: US Monthly Jobs (NFP) 10: US Inflation (CPI) 16: US Retail Sales	1: US ISM Manufacturing 1: US Monthly Jobs (NFP) 5: UAE PMI (IHS Markit) 5: Caixin China PMI Composite 13: US Inflation (CPI) 14: US Retail Sales 20: Fed FOMC meeting 29: Caixin China PMI Composite
OCTOBER	**NOVEMBER**	**DECEMBER**
2: US ISM Manufacturing 4: UAE PMI (IHS Markit) 6: US Monthly Jobs (NFP) 12: US Inflation (CPI) 17: US Retail Sales 26: US Quarterly GDP 31: Eurozone Quarterly GDP	1: US ISM Manufacturing 1: Fed FOMC meeting 3: UAE PMI (IHS Markit) 3: US Monthly Jobs (NFP) 3: Caixin China PMI Composite 14: US Inflation (CPI) 15: US Retail Sales	1: US ISM Manufacturing 5: Caixin China PMI Composite 6: UAE PMI (IHS Markit) 8: US Monthly Jobs (NFP) 12: US Inflation (CPI) 13: Fed FOMC meeting 14: US Retail Sales

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 judgement 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 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 realised.

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 judgement 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 is licensed and regulated by the UAE Central Bank.

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 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 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

Emirates NBD

PRIVATE BANKING

INSPIRING WHATS NEXT

UAE | UK | INDIA | KSA | SINGAPORE

EmiratesNBD.com