The Year of Answers

Global Investment Outlook 2024

Emirates NBD
WEALTH MANAGEMENT

Global Investment Outlook

2024

Introduction

The Year of Answers

We started 2023 with humility: we thought that predicting the direction of prominent economic and geopolitical factors was futile, if not impossible. Instead, we dedicated our efforts to enhancing the bedrock of our portfolios, our long-term strategic asset allocation, taking into account the consequences of a devastating 2022. We implemented our new SAA, with more equity than before, and didn't deviate much from it over the course of the year. It worked: our three profiles gained +9.6%, +12.8% and +15.3% in 2023, great in absolute terms and relative to our global peers.

The big questions of 2023 are still here, but 2024 will provide answers. Growth, inflation, central banks, but also geopolitics, elections, policies, will take a direction. These will be catalysts for the year and clues for the future. Central banks, who outright dominated markets for 15 years, should become less radical, more predictable, less prominent. With pivotal changes also materialising in the international order and in technology, the investment landscape is definitely rejuvenated.

Bad news first: volatility will remain significant, especially as markets have just unanimously embraced, and generously priced-in, an ultra-consensual scenario. Sources of volatility will include economic data challenging the scenario, and geopolitical developments. The upside potential for some asset classes is limited in 2024, while their vulnerability to risk-aversion is significant. Bottom-line, we would be happy with mid-single digit returns in 2024 for our diversified portfolios.

Now, the good news. First, "risk-free" interest rates are back for good, they are worth grabbing. Second, diversification should work, not only between asset classes but also between regions and segments. A robust strategic allocation, fitted for your investment horizon, is crucial. Finally, the value of fundamental analysis should increase as economic visibility improves over the course of 2024. At the allocation level, valuation will help identify tactical opportunities through volatility. But it's also about selection: less directional markets will unlock differentiation between names, as opposed to passive replication of indices which have arguably become unbalanced. Risk-adjusted returns should not be exciting in 2024, but we believe that active management will help: alpha over beta, portfolio management over speculative trading. We at Emirates NBD continue to elevate our capabilities to help you preserve and grow your wealth, with exciting developments ahead.

We start 2024 with a positioning shaped by a combination of fundamental and behavioural analysis. After the year-end rally, we appreciate safe sources of income. We are cautious with some expensive and crowded asset classes. We are slightly defensive, but this is not an outright risk aversion: we see value in selected stocks and bonds, even in the high yield segment. As data progressively lifts the veil on the state of the world in 2024, we are prepared to be tactically active and more selective than ever.

Maurice Gravier
Chief Investment Officer

Our Key Convictions at a Glance

Exhibit 1: Asset Allocation - Recommended Portfolio Positioning, as of January 2024.
Absolute (TAA – Tactical Allocation), and relative (deviation compared to SAA – Strategic Allocation)

ASSET CLASS	CAUTIOUS		MODERATE		AGGRESSIVE	
	Absolute	**Relative**	**Absolute**	**Relative**	**Absolute**	**Relative**
Cash	**15.1**	**5.0**	**7.6**	**2.5**	**4.0**	**1.5**
US Dollar cash	15.1	5.0	7.6	2.5	4.0	1.5
Fixed Income	**53.4**	**0.5**	**34.0**	**2.0**	**22.0**	**2.0**
Developed Mkts Gov. Bonds	33.4	3.5	9.0	4.0	3.0	3.0
Developed Mkts Inv. Grade	15.0	=	15.0	=	5.0	=
Developed Mkts High Yield	4.0	=	5.0	=	5.0	=
Emerging Mkts Debt	1.0	(3.0)	5.0	(2.0)	9.0	(1.0)
Equity	**20.0**	**(1.9)**	**40.8**	**(1.1)**	**58.8**	**(1.1)**
Developed Mkts Equity	15.0	(2.0)	32.9	(1.0)	46.4	(1.1)
Emerging Mkts Equity	5.0	=	7.9	=	12.4	=
Alternatives	**11.4**	**(3.5)**	**17.5**	**(3.5)**	**15.1**	**(2.4)**
Gold	5.0	1.0	6.0	1.0	6.1	1.1
Hedge Funds	4.9	(2.0)	9.0	(2.0)	5.5	(2.0)
Global Listed Real Estate	1.5	(2.5)	2.5	(2.5)	3.5	(1.5)

Asset Allocation and Portfolio Construction
- We start 2024 with a slightly defensive stance, as we expect modest returns and high volatility
- We overweight money market funds and fixed income for their risk-adjusted returns
- We modestly underweight equities, due to DM valuations leaving limited fundamental upside
- We underweight hedge funds and real estate but overweight gold

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 allocation within DM, where we like Japan. We favour India within EM

Fixed-Income
- We think that DM government bonds are compelling, especially on reasonably limited duration
- We are neutral on corporates, including the high-yield segment for its carry
- We start the year with a continuous underweight in debt from emerging markets
- But selectivity is key, we see many specific opportunities

Commodities
- We expect Brent prices to average $82.5/b in 2024, with significant volatility
- Our year-end fair value for gold is $2,250/oz with sensitivity to monetary easing and geopolitics

Real Estate
- We expect some gradual but still modest recovery in transaction volumes and prices
- Opportunities are however specific rather than at the Global REITS level

Contents

Economic Calendar

JANUARY (Taiwan elections 13th)	**FEBRUARY**	**MARCH** (Russia elections 17th)
3: US ISM Manufacturing	1: US ISM Manufacturing	1: US ISM Manufacturing
4: UAE PMI (S&P Global)	2: US Monthly Jobs (NFP)	5: UAE PMI (S&P Global)
4: Caixin China PMI Composite	2: Caixin China PMI Composite	5: Caixin China PMI Composite
5: US Monthly Jobs (NFP)	5: UAE PMI (S&P Global)	8: US Monthly Jobs (NFP)
11: US Inflation (CPI)	13: US Inflation (CPI)	12: US Inflation (CPI)
17: US Retail Sales	15: US Retail Sales	14: US Retail Sales
25: US Quarterly GDP		20: Fed FOMC meeting
30: Eurozone Quarterly GDP		
31: Fed FOMC meeting		
APRIL	**MAY** (India general elections)	**JUNE** (EU parliament elections)
1: US ISM Manufacturing	1: US ISM Manufacturing	3: US ISM Manufacturing
3: UAE PMI (S&P Global)	1: Fed FOMC meeting	5: UAE PMI (S&P Global)
3: Caixin China PMI Composite	3: UAE PMI (S&P Global)	5: Caixin China PMI Composite
5: US Monthly Jobs (NFP)	3: US Monthly Jobs (NFP)	7: US Monthly Jobs (NFP)
10: US Inflation (CPI)	6: Caixin China PMI Composite	12: US Inflation (CPI)
15: US Retail Sales	15: US Inflation (CPI)	12: Fed FOMC meeting
25: US Quarterly GDP	15: US Retail Sales	18: US Retail Sales
30: Eurozone Quarterly GDP		
JULY	**AUGUST**	**SEPTEMBER**
1: US ISM Manufacturing	1: US ISM Manufacturing	3: US ISM Manufacturing
3: UAE PMI (S&P Global)	2: US Monthly Jobs (NFP)	4: UAE PMI (S&P Global)
3: Caixin China PMI Composite	5: UAE PMI (S&P Global)	4: Caixin China PMI Composite
5: US Monthly Jobs (NFP)	5: Caixin China PMI Composite	6: US Monthly Jobs (NFP)
11: US Inflation (CPI)	14: US Inflation (CPI)	11: US Inflation (CPI)
16: US Retail Sales	15: US Retail Sales	17: US Retail Sales
25: US Quarterly GDP		18: Fed FOMC meeting
30: Eurozone Quarterly GDP		30: Caixin China PMI Composite
31: Fed FOMC meeting		
OCTOBER	**NOVEMBER** (US elections on 5th)	**DECEMBER**
1: US ISM Manufacturing	1: US ISM Manufacturing	2: US ISM Manufacturing
3: UAE PMI (S&P Global)	1: US Monthly Jobs (NFP)	4: Caixin China PMI Composite
4: US Monthly Jobs (NFP)	5: UAE PMI (S&P Global)	6: UAE PMI (S&P Global)
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30: US Quarterly GDP	13: US Inflation (CPI)	17: US Retail Sales
30: Eurozone Quarterly GDP	15: US Retail Sales	18: Fed FOMC meeting

The Year That Was

Financial markets in 2023

2023 has been a great year, after the devastation of 2022. All asset classes did well: from +3% for hedge funds, +4% for government bonds, +5% for cash to +13% for gold, +14% for high yield and almost +24% for stocks from developed markets.

Of course, with high uncertainty, volatility was significant. Markets experienced several scenario shifts, especially around inflation and central banks, that materially impacted risk sensitivity.

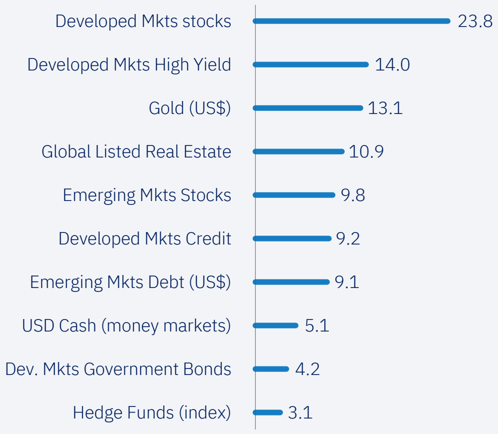
The year started on a positive note, despite many gloomy predictions, in a kind of normalisation after the terrible 2022. At the end of a relatively positive Q1 however, cracks started to appear in the financial world: troubles in US regional banks, tensions in the UK pension system, and a hurricane in Zurich with the emergency take-over of Credit Suisse by UBS. Volatility spiked, markets fell, but this was paradoxically the beginning of a positive phase: central banks provided clear support to the financial system, including liquidity provision. Market participants took note: the fight against inflation remained a priority, but not at the price of a financial crisis.

The second quarter and the first part of the summer were positive, in what we had called a “Goldilocks Interlude”: resilient global growth, especially impressive in the US, and a quiet improvement of the inflation picture. The Fed hikes were not a surprise anymore, and the hope for an imminent pause supported markets, which, helped by a new AI tech paradigm, printed a year high in late July. It didn’t last. The following three months were tough: a downgrade in the US sovereign credit rating preceded a not-so-friendly Jackson Hole central bank symposium. Then, the September Fed meeting was a trauma, with a hawkish change in projections, which crushed bond markets and risk appetite, especially as geopolitical tensions also erupted in the Middle East. At the end of October, gold and money markets were the best performing assets of 2023. It was peak pessimism and investors' positioning was unanimously defensive. Markets were not prepared for any good news.

And of course, good news came in the form of a marginally better than expected US CPI inflation report, which ignited a spectacular “rally of everything”. It only accelerated when the Fed adopted a much more friendly tone in various speeches and in their December press conference. The year ended with all asset classes in the green, led by DM equities. It was a lot about the “magnificent seven”, technology and artificial intelligence, but not only. It was actually broad: the yearly total returns in dollars from India, Japan and even Europe were close to +20%. The trajectory of interest rates was also remarkable: while the front-end rose, directly reflecting policy rates, Treasury yields for 5-year and above ended last year close to their 2022 levels, after a considerable spike culminating in October.

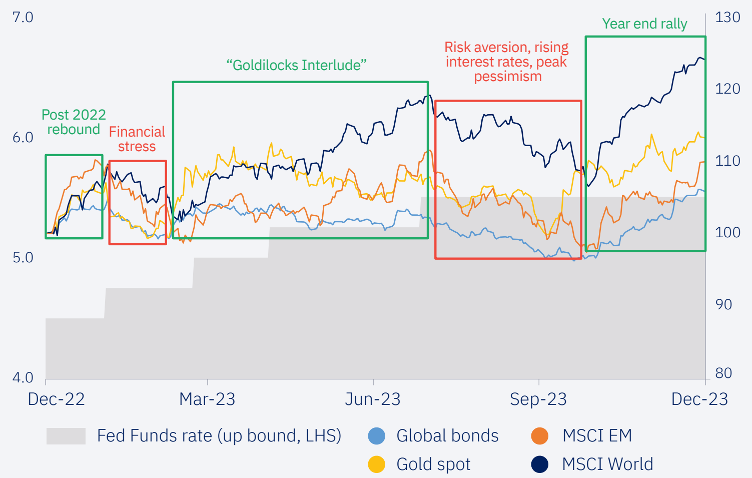
In essence, the peak policy rates of 2023 could announce the end of a transition: from 15 years of central bank’s absolute domination on financial markets, to a more fundamentally driven environment. It could be more volatile, less exuberant, but also more rewarding for diversification and selectivity.

Exhibit 2: Asset Class 2023 Total Return (US$ %)



Source: Bloomberg, CIO Office calculations

Exhibit 3: the five phases of market action in 2023



Source: Bloomberg, CIO Office calculations

A look back at our 2023 strategies and results

Asset Allocation
We started 2023 with a reshuffled strategic asset allocation, for two reasons. First, the investment landscape was transformed by the shocks of 2022, with regards to expected returns and correlations, as safe assets had reconstituted a potential for diversification. Second, we were expecting a period of unpredictability, which was the title of our 2023 Outlook, and thought that working on our core portfolio structure was more important than taking tactical positions with low confidence. We ran our long-term quantitative models and implemented a new set of SAA. This included more DM stocks than before, and less cash and government bonds, as well as a few other adjustments. Our long-term expected returns also improved with the changes, without materially increasing risk.

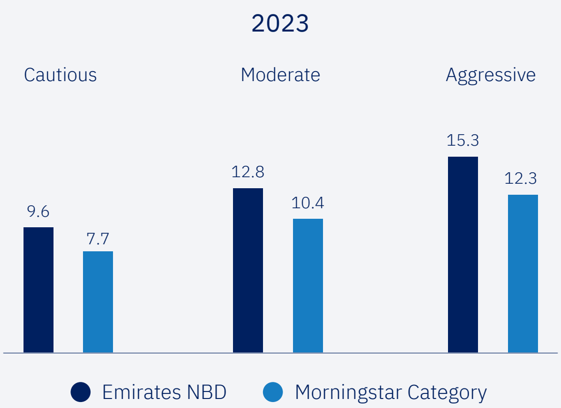
We made only marginal adjustments to our allocation over the course of the year: we went overweight cash against alternatives (money market funds were the best uncorrelated asset) and took a quality bias within fixed income. We remained close to neutrality on equity, with a brief underweight in the summer, and reallocated from emerging to developed markets in October.

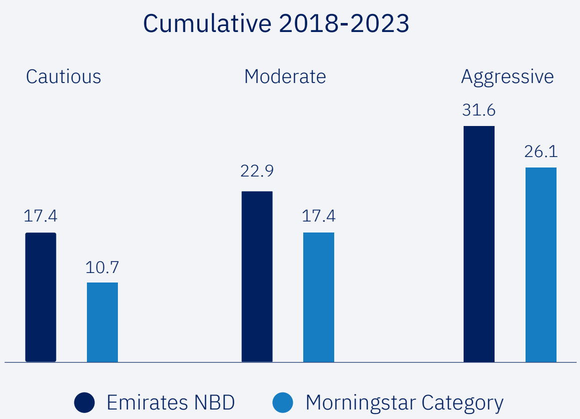
The respective performances of our cautious, moderate, and aggressive profiles in 2023 have been +9.6%, +12.8% and +15.3%. They were slightly below their respective SAA but clearly and materially better than those from our international peers, as measured by their respective Morningstar categories.

Equity
We retained a material allocation to the US within developed markets, being overweight most of the year, apart from a period of neutrality, which funded a successful tactical overweight in Japan. We remained diversified within DM which provided exposure to the multiple legs of a broad rally. We were more selective in EM, with a clear preference for India throughout the year, as well as for the UAE, an overweight we took profits on, going neutral at the end of Q3. We were never convinced by China in 2023, despite accessible valuations. Our regional model portfolios both slightly outperformed their respective universes in 2023. With regards to stock selection, our model portfolios and lists of recommended securities broadly participated to the rally, even more so as artificial intelligence was one of the themes we highlighted in our 2023 Outlook.

Fixed Income
Our tactical allocation within the fixed income asset class was geared towards quality. We considered throughout the year that the absolute level of yields from the safest issuers was an opportunity, especially from a historical perspective, which was comparatively superior to the risk-adjusted perspectives of more volatile segments. We thus didn't fully participate in the out-performance of the high yield sector, typically, and their particularly unpredictable rally. This was however balanced by a robust regional allocation within developed markets in particular, and by a number of specific opportunities, including in primary markets, highlighted in our lists of recommended securities and model portfolios which outperformed their respective universes in 2023.

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





Source: Bloomberg, Morningstar, CIO Office calculations

The Year of Answers

The Answers of 2024

Calling 2023 the "Year of Unpredictability" a year ago was, shamefully, one of our best predictions ever. Back then, 85% of economists polled by Bloomberg predicted a US recession in 2023 which never happened. Renowned strategists from top investment banks warned of sinister prospects for US stocks: they gained +25%. The unforeseen was everywhere, culminating with the year-end rally. It was not about the economy or a sudden burst of confidence: it was the painful capitulation from overly defensive investors who had tried to make rational predictions and were caught short by a few good news, followed by the December "pivot" from the almighty Fed.

2023 was a collection of questions. 2024 will bring answers, as market focus becomes broader than just central banks. Of course, monetary policies will always matter, but probably not as much. Their room for manoeuvring has shrunk between inflation on one side, recession and financial risks on the other, and an electoral context. The Fed, and others, will be less radical and more predictable.

This is a different play-book for markets: fundamentals are prominent again. It's not easy, it won't be smooth, volatility will spike as facts collide with expectations. Here are the answers we expect on two major topics of 2024.

Growth and inflation

Like it or not, the US economy matters for global markets. There are three main scenarios which will see their probabilities evolve, generating volatility, around key monthly data: US employment and CPI reports for inflation, PMIs for growth.

1. Goldilocks (60% probability): inflation continues to moderate, growth slows but remains positive. Monthly job creations (NFP) stabilise around 120k, composite PMIs fluctuate around 50. The Fed starts cutting rates in small steps from mid-year as core CPI approaches 2%. This is our central scenario. The problem? It is very consensual, and materially priced in by markets. We see limited upside potential for stocks, with regional and individual differentiation/rotation. Bonds should deliver their coupon with no significant capital appreciation. Our profiles could deliver mid-single digits returns.

2. Recession (25% probability): monthly NFP drop to 50k and below. Consumption falls, inflation disappears, PMIs approach 45. The Fed switches focus and cuts interest rates by 50bps per meeting. They pause around 3% unless systemic risks appear. Markets turn "risk off". Safe bonds and gold rally. Global stocks fall -10/-15% before partially recovering with rate cuts, especially if recession looks mild. Flight to quality in fixed income and currencies. Diversification works, our profiles deliver slightly positive returns, hopefully more if we rightly capture the "V" in risk assets.

3. Inflation (15% probability): growth is steady, consumption unbreakable, NFP stay above 200k. Wages accelerate, followed by prices and rents: core CPI rebounds. The Fed shows muscles with hawkish guidance and projections but finds all reasons to delay hikes with looming elections. Their credibility is questioned, including in the presidential campaign. Markets hate uncertainty: bonds fall, with quality underperforming, followed by stocks across regions. The dollar gains, gold suffers, but not energy. Cash is king. Our profiles are negative by mid-single digit.

Politics and geopolitics

Global political stability is positive for growth, confidence, and markets. 2023 was atypical to that extent, but geopolitics should matter in 2024, with a number of intertwined domestic and international developments.

First, billions of people will vote. In chronological order, elections are scheduled in Taiwan, Indonesia, Belarus, Iran, Russia, India, South Africa, Mexico, European parliament, and finally, the US.

The latter matters. Between Mr. Biden's fluctuating popularity, Mr. Trump's legal challenges, and unusually popular independent candidates, the outcome is exceptionally uncertain. Importantly, despite full employment and solid growth, the incumbent has no decisive leadership in polls.

This has implications. Domestically, the Biden administration cannot upset voters: recession, inflation, even a market crash, must be avoided. Caution includes foreign affairs: typically, taxpayers' money for Ukraine is a campaign theme, and gasoline prices impact approval ratings. US geopolitical adversaries could take advantage of this vulnerability with bold moves – especially if it helps for their own elections. It is a dangerous game. In 2001, after the 9/11 attacks, President Bush's approval ratings skyrocketed from 40 to 80% in months, what experts called the "rally around the flag". The administration could be tempted to respond radically to an aggressive event.

In Ukraine, the military situation and Western fatigue combine to raise the probability of a negotiated end, with Russia apparently in a strong position. Key unknowns are obviously Ukraine's acceptance of territorial losses, the timing, and whether a "non-victory" is manageable for the West in electoral times. A major risk would be a disruptive event that both sides would blame the other for (remember the mysterious Nord Stream pipeline sabotage), triggering international escalation – and a US "rally around the flag"? A negotiated peace would unfortunately not reduce future risk to zero: the 2014/15 Minsk agreements did not, and full US support would come back in case Democrats secure full power.

Closer to us, the Israel/Gaza conflict is so far geographically contained. But escalation risks remain material, with a horrific humanitarian situation, relentless fire, dangerous confrontations in neighbouring countries and waters, and imminent elections in Iran. We hope for peace, which seems to be the implicit market expectation, looking at oil prices. But it's certainly not a given.

Of course, good news is possible – durable appeasement in Ukraine and at Israel's borders- but as market valuations do not include a geopolitical discount, geopolitics are mostly a downside risk in 2024. The US elections are a source of volatility until December: markets like clarity, and they may paradoxically appreciate both continuity, and the Republican pro-business agenda.

In any case and beyond 2024, the international order will continue to be reshaped. Challenges to Western leadership will intensify from the outside, with rising alternative powers, including the recent BRIC expansion, and from the inside, with stress in public finances and an opinion prioritising domestic issues. The world is multipolar, which highlights the importance of regional allocation in investments, and provides opportunities for the rare countries, such as the UAE, which maintain harmonious relations with different blocks.

A year of asymmetry

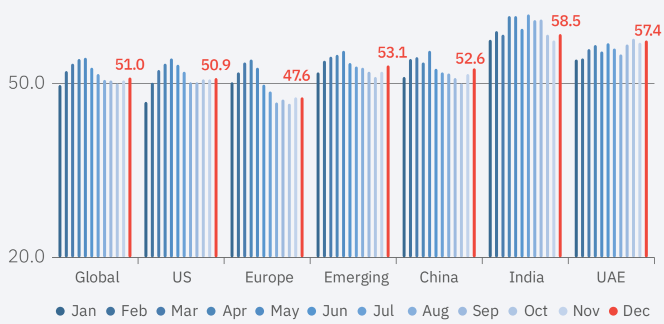
Let us be clear: 2024 should not be an easy year. Our central scenario is reasonably positive, but the upside potential is limited by the 2023 year-end rally, while volatility should damage risk-adjusted returns.

It doesn't mean investors should cut all risk, unless of course their horizon is less than 2 or 3 years (in this case, a safe fixed income investment yielding 4% annualised is the best option). Longer-term portfolios should stay invested, as the great returns of 2023 despite gloomy predictions illustrate. As Peter Lynch famously said: "far more money has been lost by investors trying to time corrections than in all corrections combined".

Diversification and active management of both allocation and selection should deliver in the coming years. We share our detailed views in the following pages.

Exhibit 5: Global PMIs in 2023: the shape of a soft-landing

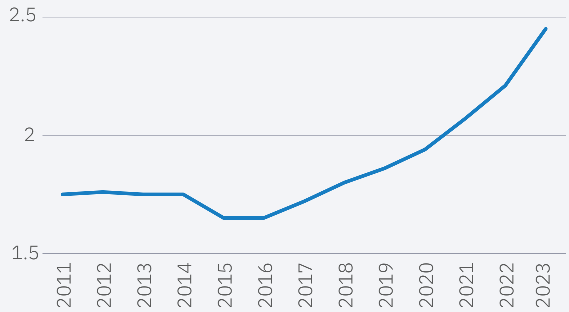
Composite PMIs (S&P Global) in 2023



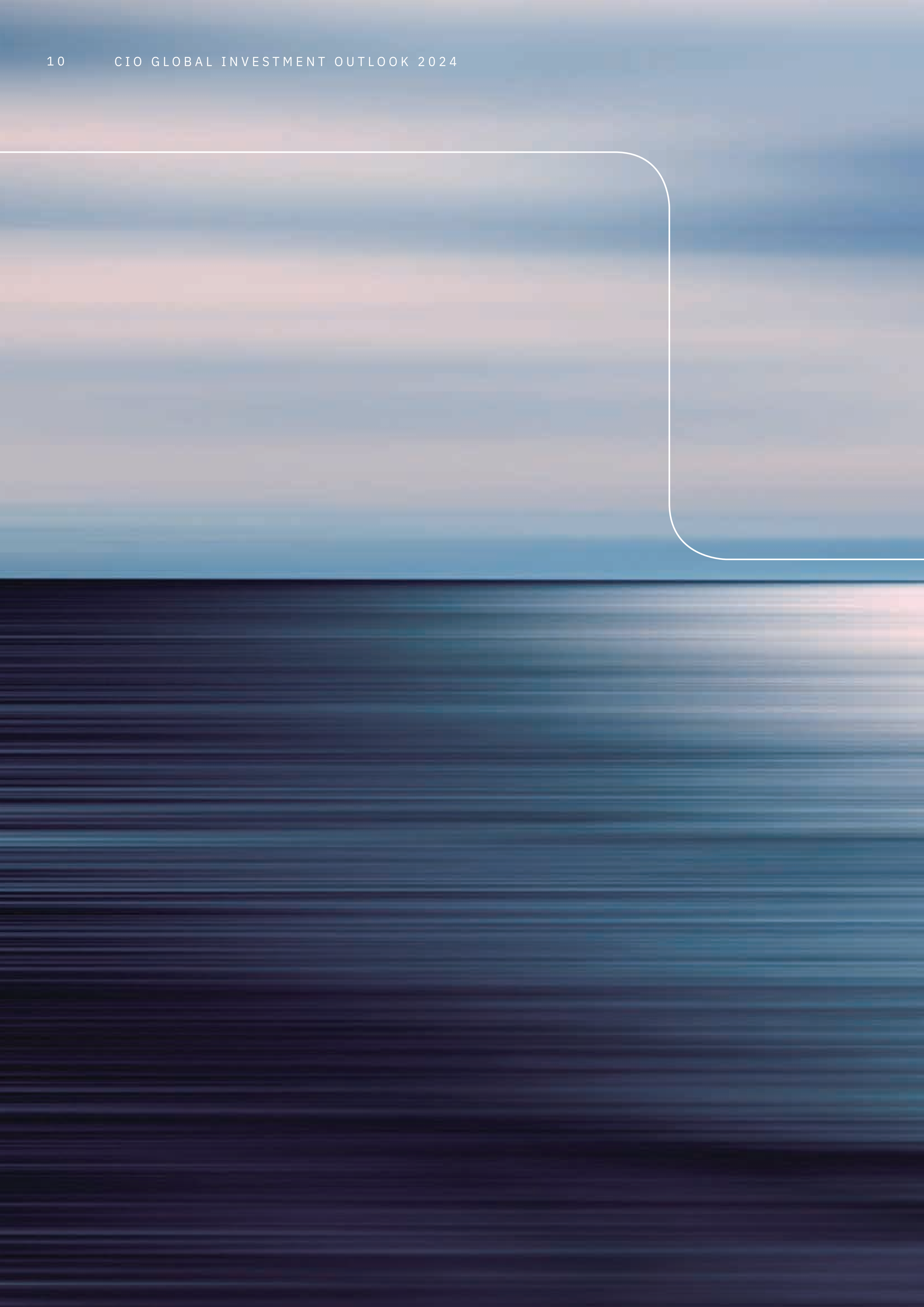
Sources: S&P Global, Bloomberg, CIO Office calculations

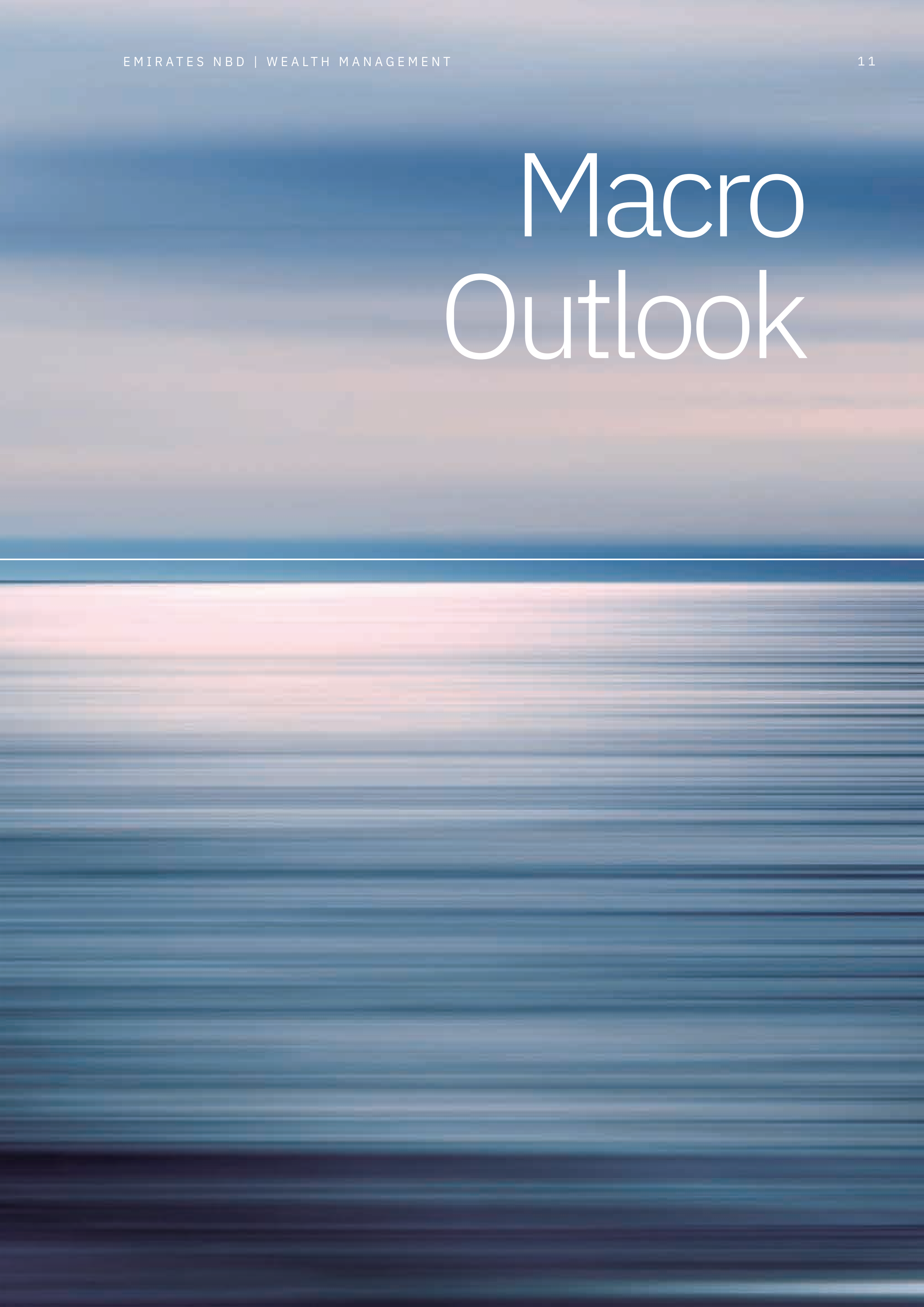
Exhibit 6: A dangerous world: rising global military expenditures

Global military expenditures (US$ trillion)



Source: World Bank, CIO Office calculations





Macro Outlook

Global Macro Outlook

Lacklustre growth expected in 2024

The global economy appears to be in much better shape than had been expected at the beginning of 2023, with inflation moderating and most large economies having avoided recessions thus far. Nonetheless, many of the world's major economies are likely to experience lacklustre growth in 2024, amid still tight monetary policy and inflation rates that, while slowing, remain above target.

In its October World Economic Outlook, the IMF projected a marginal slowdown in global growth, falling from a forecast of 3.0% in 2023 to 2.9% in 2024. Within that, advanced economies are forecast to fare poorly with an expected expansion of just 1.5% in 2023, falling to 1.4% in 2024. While emerging markets are projected to perform better, with growth of 4.0% expected in both 2023 and 2024, much of this rests on the performance of the Indian economy.

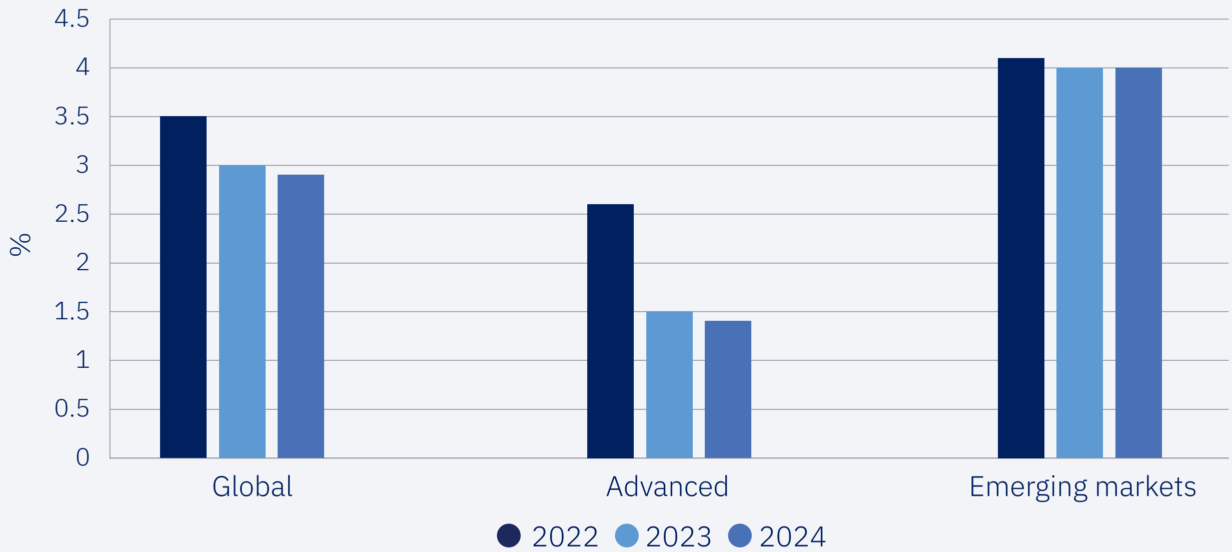
Central bank focus will shift to the timing of interest rate cuts

Inflation is likely to remain in focus in 2024, although the question for central banks is now when to start cutting interest rates rather than whether they are sufficiently high. Recent months have seen sharp reductions in both headline and core price growth across major economies. In the US, headline inflation slowed from a multi-decade peak of 9.1% y/y in mid-2022 to 3.4% in December. The Fed's target measure, core PCE inflation, has also fallen materially, dropping to 3.2% y/y in November after starting the year at 4.9%.

Although Eurozone inflation picked up at the end of the 2023, rising to 2.9% y/y in December, it has nonetheless come off a peak of 10.6% in late 2022. And a similar story has played out in the United Kingdom, with headline inflation falling to 4% in December after starting 2023 at 10.1%. Core inflation in the UK has also fallen but remained relatively high at 5.1% y/y in December.

With tighter policy starting to feed through to stickier components of the basket, headline inflation rates should continue to move lower. Central banks will, however, remain wary of cutting rates too early, and while our view remains that any further rate hikes from the majors are unlikely, the language will likely remain fairly equivocal through the start of the year. We expect that the FOMC will be the first to move, and forecast three 25bps cuts from

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



Source: IMF WEO, Emirates NBD Research mid-2024, taking the upper bound to 4.75% at year-end, consistent with the FOMC's own dot plot. This is currently less of a loosening than implied by financial markets, which are pricing in around five 25bps cuts by year-end as we write. We also expect 75bps worth of cuts from the ECB, starting in the second half of 2024. We anticipate that the BoE will, similarly, be in a position to start easing in the latter part of 2024, with two 25bps cuts by end 2024.

Rate hikes are beginning to bite

Although it increasingly appears as though the Fed has done the impossible by engineering a soft-landing, there are signs that aggressive monetary tightening is beginning to have an impact. There are growing, if still tentative, signs of some cooling in the US labour market. The three-month moving average of nonfarm payrolls has been on a gradual downward trajectory for much of the past 2 years, falling to 165k in December from 284k at the end of 2022.

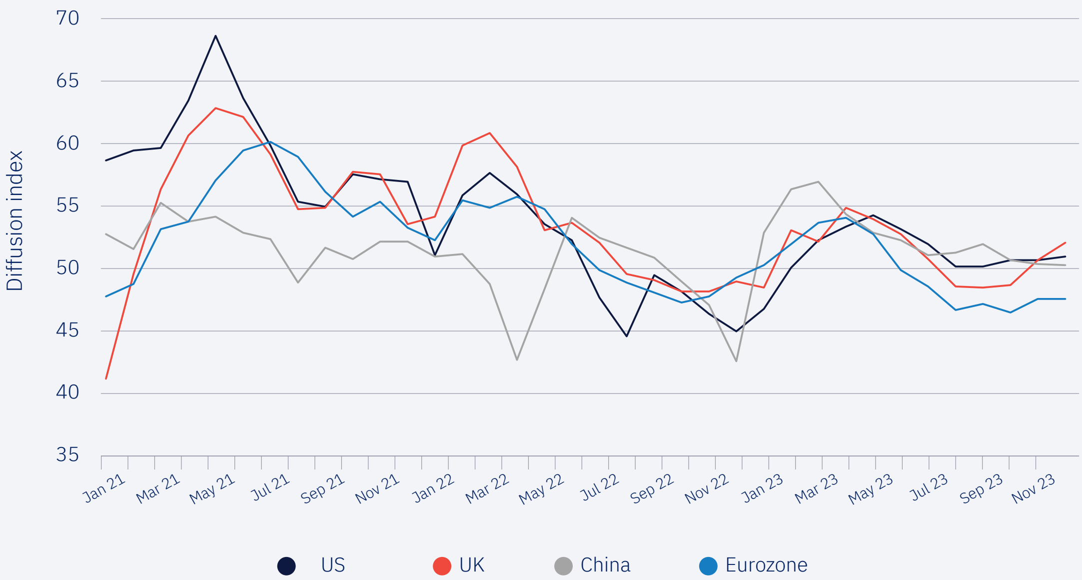
Other recent indicators, such as job openings and the quits rate, are also indicative of a marginal slowdown in the US labour market. The composite PMI reading, which acts as a barometer of activity in the non-oil private sector, has hovered just above the neutral-50 mark since August, while the manufacturing PMI reading has been in contractionary territory for much of the year. And household spending, which has supported GDP growth in recent quarters, is expected to fall off as households begin to deplete savings buffers built up during Covid. The Fed expects growth to fall to just 1.4% in 2024, from an estimated growth rate of 2.6% in 2023.

The UK and Eurozone economies have both flirted with the prospect of a technical recession for much of 2023. In the Eurozone, in particular, composite PMI readings have declined markedly, moving into contractionary territory from June onwards, suggesting growth in the final months of the year will remain anaemic. The consensus expectation is for growth of 0.5% and 0.6%, in 2023 and 2024 respectively.

Emerging economies will outpace the developed world this year

A far brighter outlook is expected for emerging markets than advanced economies in 2024, with the IMF forecasting a 4% expansion. Much of this growth is expected to come from India, with growth of 6.3% expected in 2024. As with last year, China may also prove to be a key variable, with the outlook remaining weak by historical standards, barring a large increase in monetary or fiscal policy stimulus, amid weak demand and an unstable property market.

Exhibit 8: Key global composite PMI surveys indicating no or weak growth



Source: Bloomberg, Emirates NBD Research

Regional Macro Outlook

Another constructive year with confirmed robustness in non-oil sectors

Global growth slowed in 2023 off the post-pandemic rebound of 2022 and central banks continued to tighten monetary policy. The GCC was not immune to this weaker global backdrop, with headline GDP estimated at just 0.5% in 2023 from 7.6% in 2022. However, this largely reflected significant cuts to oil production over the course of last year, particularly from Saudi Arabia, and non-oil growth was much more resilient at 3.7% for the region in 2023, down from 5.3% in 2022.

Non-oil growth in 2023 was underpinned by looser fiscal policy, with Saudi Arabia and the UAE increasing government spending by an estimated 9.5% y/y and 7.9% y/y respectively, even as budget revenues declined on lower oil prices and production. Population growth likely supported aggregate consumer spending, offsetting the impact of higher interest rates and cost of living pressures, while a continued rebound in tourism also boosted activity in transport, hospitality and retail sectors.

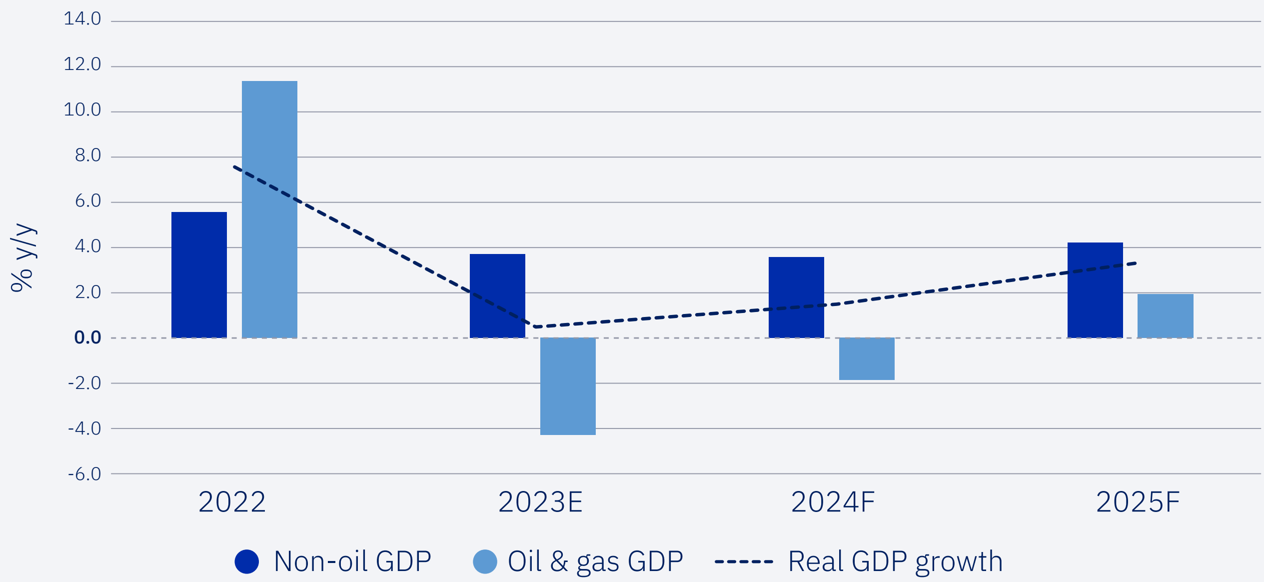
Investment was likely also a key driver of growth across the region, with both government and private sector investment in strategic sectors and mega projects. Saudi GDP data showed gross fixed capital formation growth (GFCF) of 6.2% in the year to September, although this was front-loaded in H1 with GFCF contracting on a y/y basis in Q3.

Non-oil growth to remain robust in 2024

In 2024, global growth is expected to slow slightly to 2.9% from 3.0% in 2023 as tight monetary policy continues to weigh on demand and investment, particularly in the first half of the year. This scenario is consistent with softer demand for oil, particularly in the advanced economies, and oil GDP growth in the GCC will remain a drag on headline GDP growth in 2024. We expect oil prices to average USD 82.5/b this year (Brent crude oil), similar to 2023.

However, we think non-oil growth will remain relatively robust, averaging 3.6% across the GCC in 2024, underpinned by continued investment as oil exporting countries push ahead with ambitious economic diversification programs. While government expenditure growth will likely

Exhibit 9: GCC average growth* by economic sector



Average weighted by nominal GDP – Source: Haver Analytics, Emirates NBD Research be more modest in 2024 than over the last couple of years, we do not expect governments to materially cut spending or tighten fiscal policy through higher taxes (other than those already announced such as the UAE's corporate income tax, which came into effect in mid-2023).

In addition, economic and social reforms are likely to support continued private sector investment, as well as growth in the expatriate population particularly in Saudi Arabia and the UAE. Rate cuts from the Fed, expected in the second half of 2024, should also boost demand for credit and support investment and consumption.

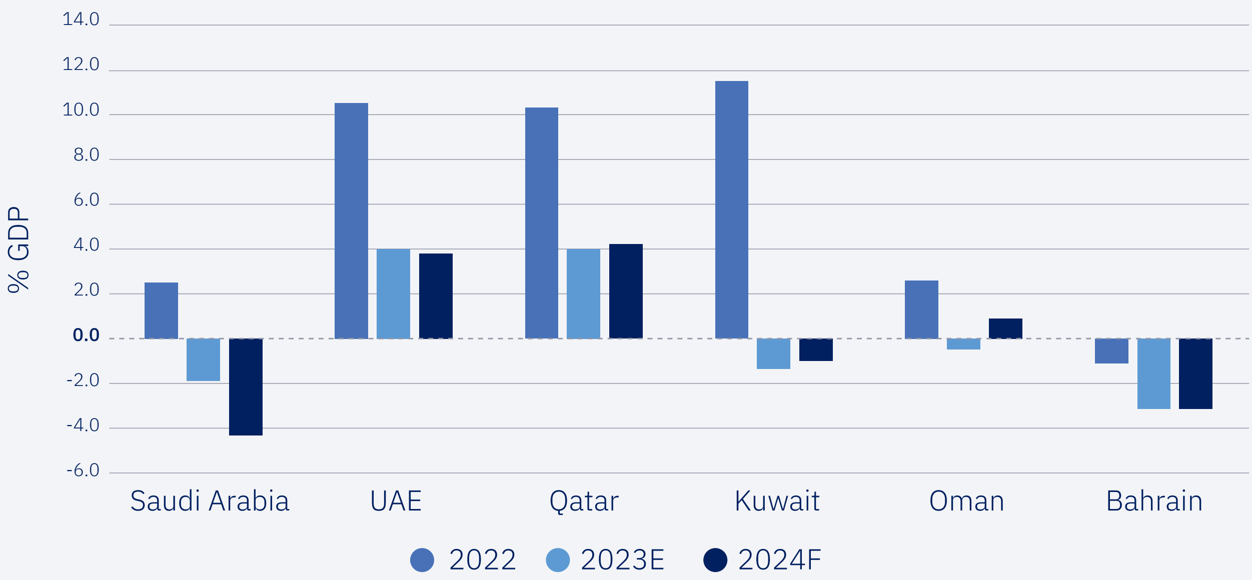
Finally, tourism is expected to remain a key driver of economic growth in the region in 2024 (and beyond), with the return of visitors from China and the growth of the Saudi tourism sector off its relatively low base.

Inflation slowed to an average 2.8% in the GCC (weighted by nominal GDP) from 3.5% in 2022. Lower fuel, food and services inflation were offset in the UAE and Saudi Arabia by rising housing costs. We expect the disinflation trend to continue in 2024, with average CPI inflation for the region forecast at 2.6% this year.

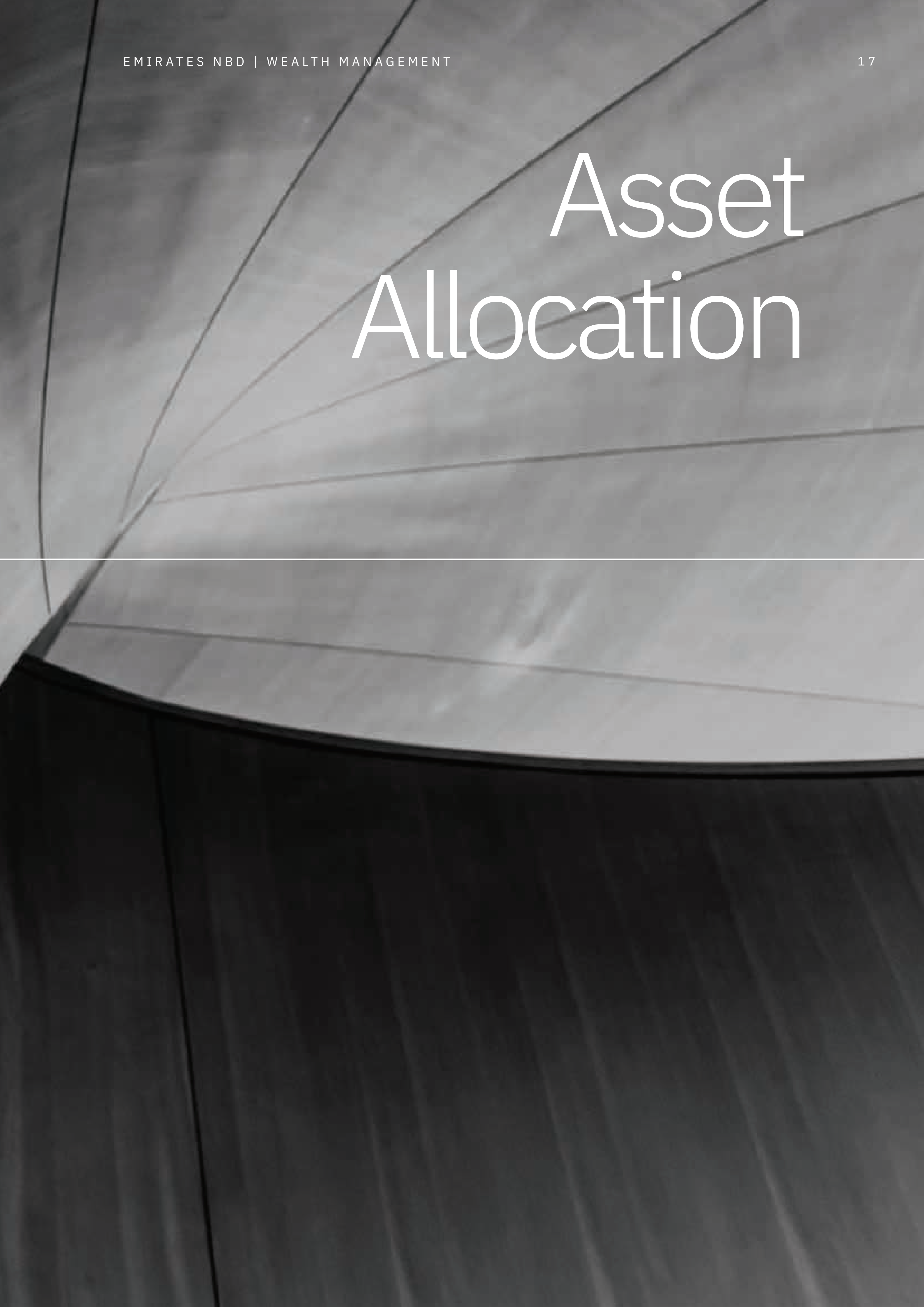
Budget balances set to shrink

The budget surpluses enjoyed in 2022 narrowed sharply last year on oil production cuts and lower oil prices, while spending increased. With little rebound in oil revenues expected in 2024, governments will need to rein in spending growth to prevent budget balances shrinking further. We expect Saudi Arabia to run a deficit of -4.3% of GDP this year, up from -1.9% in 2023, as ambitious development plans will require continued investment spending. Bahrain and Kuwait are also likely to run small deficits this year, but Oman, the UAE and Qatar are expected to record surpluses. Overall, sovereign balance sheets in the GCC are much stronger than a few years ago, with lower public debt and healthy FX reserves, which should allow governments to tap capital markets at attractive rates, if needed.

Exhibit 10: Saudi budget deficit to widen in 2024 on lower oil revenues



Source: Haver Analytics, Emirates NBD Research



Asset Allocation

Asset Allocation

The Long-Term Picture

- Returns have improved on rising yields, even as equities still richly valued
- Credit remains a compelling asset class in risk-adjusted terms
- Protection from gold an offset to higher economic volatility
- Re-industrialisation and higher debt levels skew future inflation higher

Exhibit 11: CIO Office updated long-term capital market assumptions (as of December 2023)

Expected Returns compared to history (annualised)

	2023 - 10Yr	Sharpe Ratio	Historical Returns*
USD Cash	3.0%	-	2.2%
DM Government Bonds	4.0%	0.61	4.8%
DM Corporate IG	5.0%	0.70	4.4%
DM Corporate HY	6.7%	0.77	5.9%
EM $ Debt	7.0%	0.70	7.5%
DM Equity	7.4%	0.47	7.9%
EM Equity	8.6%	0.42	8.8%
Gold	4.9%	0.24	4.5%
Hedge Funds	5.6%	0.54	5.1%
Global Real Estate	8.2%	0.51	7.7%

** Total return since availability of data, DM Fixed Income hedged into USD - Source: CIO Office quantitative models, Bloomberg*

Since we last revised our long-term capital market assumptions, large asset price movements have presented us with both the necessity and the opportunity to run the same exercise again. Projected returns have turned out to be about 80bps higher versus a year ago on the derating of government bonds, even as equities continue to be on the rich side valuations-wise, if we exclude the emerging markets.

In the process we have gained new insights in the longer-term outlook for asset classes, with a totally different kind of secular macroeconomic landscape coming into sharper focus as compared to the Great Moderation of the 2010s. High-pressure economies driven by re-industrialisation and greening efforts should skew inflation higher, even as growth remains robust overall. Our calculations indicate that emerging market equities and listed real estate should offer the best returns, with gold delivering a degree of portfolio protection amidst higher macroeconomic volatility. Government bonds would still be overvalued under a more inflationary scenario over the long-run, hence the necessity to diversify also via absolute-return strategies.

Our preferred approach to working out capital market assumptions is to make use of available valuation metrics that correlate well with future returns over the long-term, embedding the intrinsic value offered by the asset class. While valuations are not a good starting point at shorter time horizons, we find them to have quite some predictive power for a decade ahead. An alternative and equally valid framework would be to model returns, but the assumptions that must be made to get to the final result are many and may offer a shakier ground than market-based metrics. Our numbers are model-driven, and we then check consistency with a base-case general scenario that we consider most likely in the longer run. We find the reverse process, deriving returns from scenarios, to be more subjective and prone to errors.

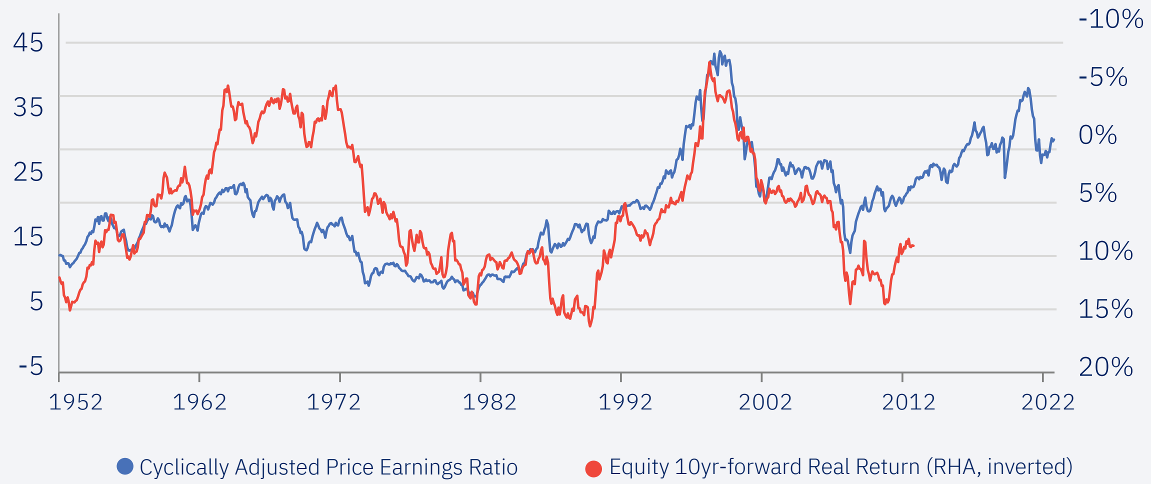
Calculation of equity expected returns, including listed real estate, is the most challenging as different methods yield a range of different results, hence it is appropriate to average them out and give more weight to the forecasts that tend to show the better fit. The implemented approaches for the US market range from simplest, like Professor Robert Shiller's Cycle-Adjusted Price to Earnings ratio, or CAPE (exhibit 12), to more complex, by backing out equity returns from the forecast real return of a 60/40 equity/bond portfolio availing time series going back more than a century. For ex-US equities where such a wealth of data is not available, we prefer other methodologies, the Capital-Asset-Pricing Model amongst others.

For government bonds the starting yield is a good predictor of longer-term returns, while in the case of corporate credit projected default rates must also be taken into account. Returns of hedge funds are worked out depending on forecasts for traditional asset classes to which they maintain a sensitivity, although with a degree of asymmetry. In the case of gold, a combination of historical data and an additional positive bias induced by financial instability stemming from high DM debt levels yields the final result.

While the pecking order of returns across asset classes reserves no surprises, with the riskier assets gaining more than the safer ones, it is notable that credit comes up as very competitive against equities, and better off in risk-adjusted terms. This aligns with the view that capital gains would be subject to more uncertainty under increased macroeconomic volatility, hence a sufficiently large share of income-generating assets would be required. Also, for the same reason we think that a more dynamic investment process will be more relevant in the future, that is tactical allocations at times deviating significantly from the strategic ones. Last but not least, increased debt burdens, especially in developed countries, will at some point call for yield suppression by central banks, that would imply extra liquidity in the system, supporting a new secular bull market in gold (exhibit 13). This accounts for our positive bias on the yellow metal beyond what historical returns would suggest.

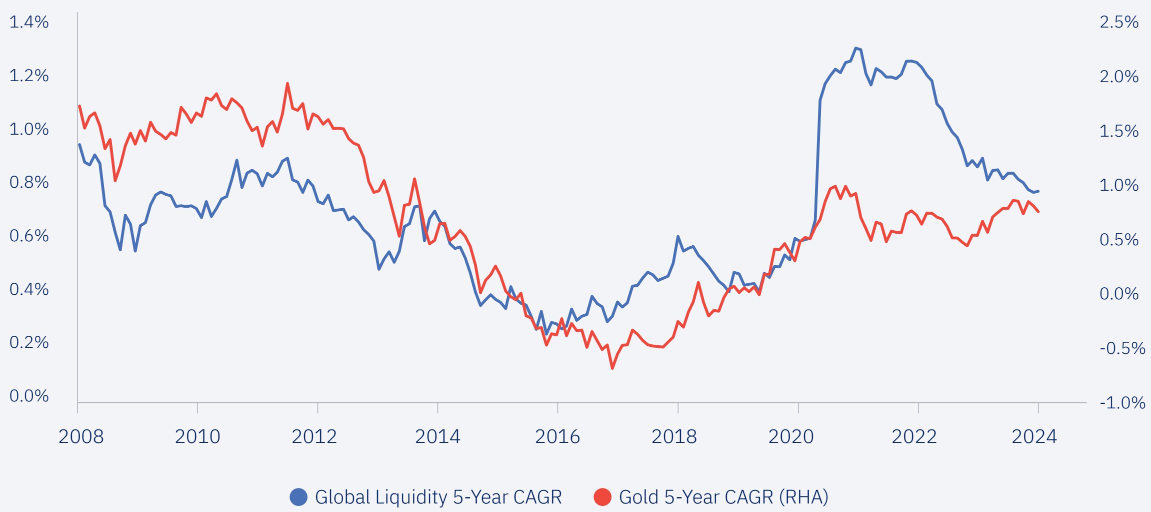
In summary, although the numerical exercise itself is not revealing future challenges ahead for the longer-term investor, the changed macroeconomic and geopolitical landscape suggests that achieving high-single digit returns in the decade ahead will come alongside heightened uncertainty.

Exhibit 12: Robert CAPE ratio versus 10-year ahead real equity return



Source: CIO-Office, Robert Shiller website, Bloomberg, as of December 2023

Exhibit 13: Long-term average growth rate of global liquidity* versus gold growth rate



**Global liquidity is M1 money supply for United States, Europe, UK, Japan, China, Switzerland, Canada, Korea, Australia, Brazil, Mexico - Source: CIO Office, Bloomberg, as of December 2023*

Asset Allocation

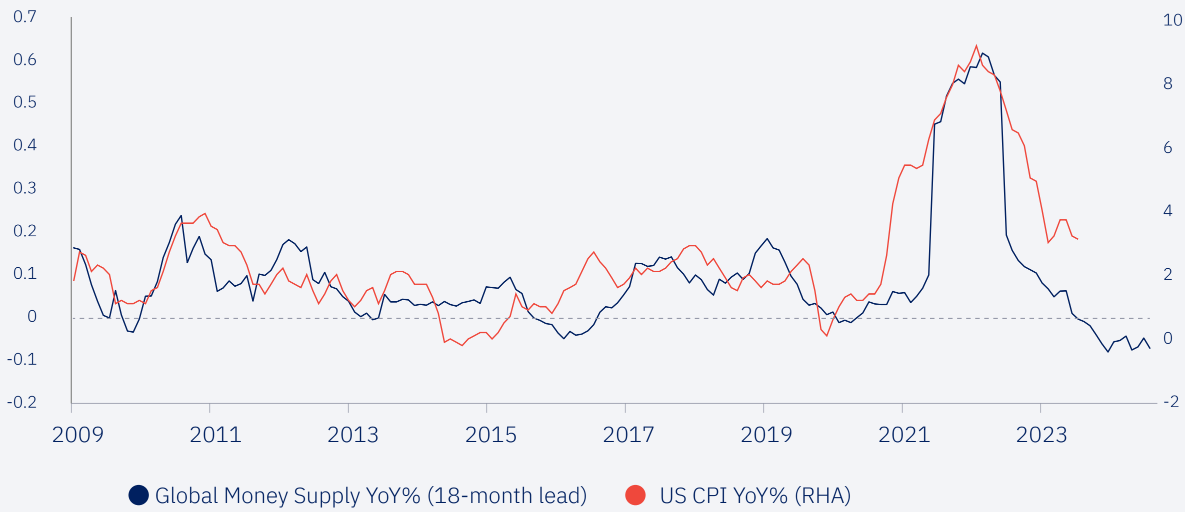
The Year Ahead

- Rich valuations overall to cap returns and risk-asset upside in 2024
- Recession odds lower on probable easing of financial conditions
- Dollar weighed down by Fed cuts while gold supported
- Main risk is that market-friendly disinflation turns into nasty deflation

Following a year of positive surprises both for the economy and equities, especially as far as the leading American market is concerned, investors may be wondering whether more of the same would be in store for 2024. Consensus is leaning in that direction, shifting from a rather recessionary view for 2023 to a more optimistic one for the current year, with credit being given to central banks for successfully managing price pressures. The overall accepted conclusion is that both disinflation and the end of monetary tightening, alongside resilient growth make for a Goldilocks scenario and are good reasons for markets to make new highs.

Although we would agree on the central scenario, we must somewhat temper such optimism and account for the potential risk that disinflation could at some point become deflation, hence a threat to growth (exhibit 14). With central banks now having ammunition to cushion downside by starting a new easing cycle, we hold the view that downshifts in business activity could be manageable. Overall, a Goldilocks backdrop at the start of 2024 could be put in jeopardy by growth wobbles that eventually should be resolved with the recourse to easier policy. While rich valuations should cap upside in early 2024, temporary market stress down the road in our view would be a buying opportunity, especially in a US election year that would see the Fed ready to intervene. As the outlook continues to be marked by US exceptionalism, China struggling to engineer a sustainable recovery, and Europe worse off, one cannot count on many actors for the cycle to be revived, that mainly revolves on the prospect for a no-recession in the United States. Risk assets have to a degree already discounted a favourable scenario, so upside on developed market equities does not seem to be substantial from current levels valuations-wise, while EM stocks offer better value and have historically benefitted from the easing of financial conditions. Corporate credit still boasts appealing yields that are a cushion against the more volatile capital gains in stocks. Treasury yields have fallen sharply and fast and could have more downside only if recession threats become significant –

Exhibit 14: Global liquidity* versus US CPI



**Global liquidity is M1 money supply for United States, Europe, UK, Japan, China, Switzerland, Canada, Korea, Australia, Brazil, Mexico - Source: Bloomberg, as of December 2023* however absolute yields, especially on reasonably short-durations, are worth grabbing. As a long-duration asset gold would be preferable, benefitting not so much from the outlook for easier policy, by now fully discounted, as from financial instability fostered by the unsustainable debt levels in the DM countries.

The new year is starting with the mark of investor exuberance. Leading indicators point to corporate earnings inflecting higher, following the earnings recession that started in 4Q22 (exhibit 15). Also, business confidence surveys suggest a possible improvement in the manufacturing cycle as the leading new-order-to-inventory ratio has been rising for some months now. At the same time, investor optimism is reflected in equities being priced for perfection, even as the reality of the lagged effects of monetary tightening could suddenly catch up with the economy and markets and require renewed policy intervention.

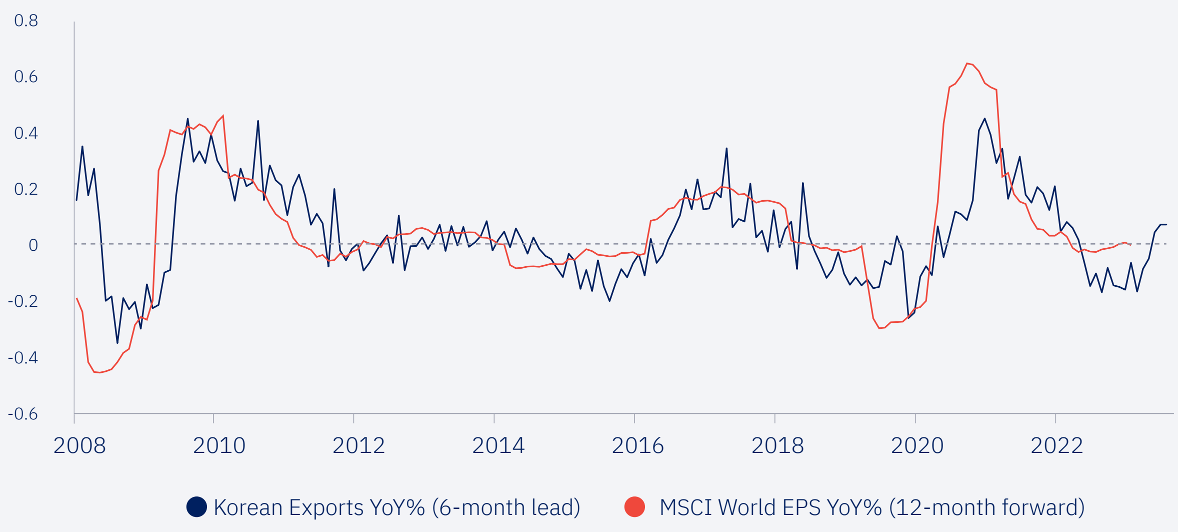
Under these conditions we want to be selective on risk assets, with preference for EM equities held at market weight, versus DM stocks due the rich absolute valuations of the latter, while the former maintains its usual discount, hence potential appeal. In DM we prefer to take more risk in HY credit, again at market weight, that should benefit from a gently slowing economy, sufficient to ensure that firms can get the cash to repay coupons. The ongoing disinflation process supports an overweight in government bonds and gold, while EM debt is underweighted to avoid excessive risk in longer duration assets.

We see little diversification benefits in hedge funds, given high cash hurdles, hence the underweight in the former and above-benchmark allocation for the latter. Being most markets richly valued with few exceptions, we also think that exposure within asset classes remains relevant. Value should stand out after AI stocks played the lion share last year, provided central banks manage to support activity and avoid a dreaded contraction phase. The Dow Industrials leading and making first new all-time highs late last year alongside pro-cyclical sectors outperforming offers hints in this direction.

We acknowledge that uncertainty remains high, amidst China and Europe not offering much comfort in terms of their growth profiles, lingering doubts about the reaction function of the major central banks, and heightened geopolitical risks. Hence, we aim to remain nimble and vigilant for growth scares. We think we have relatively more visibility on the fate of the dollar, fundamentally overvalued and bearing the brunt of possible Fed rate cuts. At the same time, gold should benefit from the high debt levels in the United States and more in general in the DM economies, that should see central banks lag behind the curve to avoid unbearable costs for the servicing of domestic debt.

In general, while last year surprised to the upside, the current one is harder to gauge given the numerous moving parts all revolving round the willingness of central banks to provide the necessary liquidity that would ensure a smoother ride by avoiding a contraction.

Exhibit 15: Korean exports versus global equity earnings growth



Source: Emirates NBD CIO-Office, Bloomberg, as of December 2023

Equity Strategy

Equity Strategy

The Year Ahead

- Mid-single digit returns expected in 2024 from global equities, higher returns from India/Japan
- Earnings growth positive inflection is supportive but valuation multiples could be volatile
- With elevated valuations after the year-end rally, selectivity and quality are paramount

Global equities gained 23% in 2023, with most major regions up and China the only laggard. The rally broadened away from the global tech sector gain of +51%, and the extraordinary 112% gain of the magnificent seven stocks, with all sectors eventually ending the year positive. Regionally, the US, India and Dubai stood out with over 20% USD gains. We see similar trends in 2024 but with less magnitude and broader participation.

Exhibit 16: Equity indices: CIO Office estimates & 2024 year end fair values

Region/ Index	US: S&P 500	MSCI Europe	Japan: Topix	UK: FTSE	MSCI EM	MSCI China	MSCI India	MSCI GCC
Currency	USD	EUR	JPY	GBP	USD	HKD	INR	USD
Index End 23	4770	161	2366	7733	1024	56	2487	715
2023 Net Performance	26.3%	16.5%	28.2%	7.7%	10.1%	-11.0%	22.0%	7.0%
2024 Fair Value	4850	160	2650	8150	1075	60	2850	750
CIO OFFICE YE 2024 ESTIMATES								
EPS Growth	6.5%	0.0%	10.0%	2.0%	10.0%	8.0%	21.0%	8.0%
Price/ Earnings	20.5	13.0	15.5	11.5	13.4	10.2	24.5	15.5
Index Fair Value	4850	160	2650	8150	1075	60	2850	750
Upside/ Downside	1.7%	-0.4%	12.0%	5.4%	5.0%	7.2%	14.6%	4.9%
Dividend Yield	1.5%	3.4%	2.4%	4.1%	3.1%	2.7%	2.2%	3.5%
Estd. Return 2024	3.2%	3.0%	14.3%	9.5%	8.1%	9.9%	16.8%	8.5%

Source: Bloomberg, CIO Office, December 31, 2023, Index Performance is Net returns

We expect major equity indices to end 2024 with mid-single digit gains, led by India and Japan. The year starts with decelerating inflation, a still strong labour market, real wage growth supporting consumer spending and a buoyant service economy. Corporate margins are steady in spite of higher costs, from raw materials to wages and logistics. Economic reforms and robust growth should support ongoing outperformance of India and Japan while China needs to regain confidence of international investors. 2024 will be another eventful year, with the market trying to position around a dovish global monetary policy pivot, while assessing risks of slower global growth, geopolitical concerns, and elections for 40% of the world population. Market direction we feel will be influenced more by corporate earnings growth and corporate guidance, than Central bank rhetoric. It's a year for fundamental analysis. We begin 2024 on higher valuations, hence recommend selectivity when investing i.e., companies with strong business models, growing profit and resilient cash flows.

Exhibit 17: Market Health Checklist: Equity outlook centred around earnings growth

Positive	Neutral	Negative
Earnings growth rebound	Elections	Concentrated market rally
Rate cycle reversing/yields falling	Inflation (energy prices)	High valuations: Quality and Tech
AI improving productivity	Cost of decarbonisation	Geopolitics
Corporate margins	US China relations/Tech regulations	Cyber and food security
Consumer resilience	Top line growth	Slowing economies

We start the year with a broadly neutral regional equity positioning.

Developed Markets: Overweight Japan and selectively US, neutral UK and underweight the Eurozone.

The US: Uptrend not broken, but volatility ahead. A somewhat narrow rally from largely the tech sector in 2023, leaves the S&P 500 with comparatively higher valuations, however the net profit margin remains resilient at 11.6%. In 2024, we expect a +6/7% earnings growth, after a flat 2023, with revenue growth of 3/4% (both estimates below consensus). Buybacks are expected to continue on the 2023 pace. We expect the adoption of generative AI to lift productivity, and consequently earnings, the key driver of equity markets. The US consumer is still strong with higher wages counterbalancing fading excess savings. Volatility in the form of one or two 5/10% corrections, is highly probable, but very difficult to time accurately. We recommend staying invested and selective along quality metrics. The US remains home to innovation in technology and healthcare, and these sectors are key tactical and strategic preferences. The S&P 500 has seen a median gain of 10.7% since WWII during election years, and we are in an election year, another reason to stay the course as fundamentals, from earnings to management guidance, will be the main driver.

Eurozone: The macro backdrop does not support any positive inflexion in demand. We see no upside at the index level, with flat earnings, although valuations are not excessive. We like select healthcare, food, and auto companies both for growth and income. We would add to luxury for the longer term on further material weakness.

UK: High representation of energy and commodity with attractive dividend yields.

Japan: Japan financial markets continue their transformational journey initiated with Abenomics. The focus on ROE and shareholder value should continue to reward investors. A strengthening Yen is a double-edged sword, penalising exporters but supportive for returns in USD. Mild Yen volatility will not affect profit margins significantly.

Emerging Markets: Overweight India and the UAE, neutral EM Asia, cautious on other EMEA. Currency impact could weigh on EM returns but the USD is expected to trend lower, in line with US rates.

China: Debt, deflation, demographics and geopolitical tension remain long term challenges. Reflationary measures and debt restructuring are taking place, but the property crisis requires decisive action. A sustainable China equity market recovery is uncertain, but a potential positive surprise is possible from a fiscal package geared towards consumption revival, especially as international investors are clearly very light on China. A neutral stance ensures participation in potential rallies, a pattern in China markets.

India: In favour of inflows into equities, is the financialisation of domestic savings with only 5% currently in the asset class. Global institutions are also increasing exposure. Indian economic and productivity growth stand out, as does its resilient earnings growth.

The GCC: Expect capital issuance to continue adding breadth and depth. Oil prices should hold steady, while non-oil revenue will boost the economy.

UAE: IPOs through divestment and private companies coming to market, should continue to add to Index gains. The economy is buoyant based on increasing population and economic reforms encouraging industry and many global financial firms expanding into the UAE. UAE companies, especially the banks continue to pay high resilient dividends.

Exhibit 18: An Upturn in Global equity earnings growth USD

Source: MSCI ACWI Weighted Estimated Earnings 2023, Bloomberg, December 2023

Equity Strategy

Equity Focus: India

- Young demographics, strong domestic demand, accelerating digitalisation support growth
- As well as a multi-year capex cycle and a push for "Made-in-India"...
- Leading to continued inflows for India from both international and domestic investors

Our long-held overweight for India equities has worked well relative to other emerging markets last year, with the MSCI India delivering + 21% in 2023 in dollars. We expect India's outperformance to continue, despite not being cheap at 26x forward earnings and 3.6x book value.

There are reasons: Economic performance (GDP+7%) and corporate earnings (3 year CAGR +20%), amongst the highest globally, are aided by a competitive corporate tax at 22% and expected rate cuts as inflation moderates. Manufacturing activity particularly shines, with increased automation, and a successful "Make-in-India" campaign which led to several major brands (Apple, Tesla, Cisco) boosting their production capacity in the country. India is increasingly the "office and the factory" of the world. Export of services exports have more than doubled since 2019 to $330 bn, capturing the lion share of digital outsourcing, thanks to a large educated population with competitive labour costs. India's share of 3.3% of world GDP is expected to rise further.

Lifestyle is also evolving with higher disposable income, and a shift from spend on food to experiences and travel, beauty, luxury, apparel and white goods. A growing domestic savings pool with low equity exposure (5%) and increasing capital market activity are supporting inflows into equities. India is seeing an increase in urban population, (40% by 2030 from 34% now) and per-capita urban annual income is expected to grow to US$4,700 by 2030, boosting spending power and accelerating its sophistication. However, the Indian consumer uses social media extensively and price comparison remains key in influencing purchase decisions. Adoption of digital channels is increasing access for rural consumers.

Our preferred sectors include banks, IT companies, power, digitalised consumer companies, automotive (electric and 2 wheelers) and select industrial companies leading on automation. The property sector is witnessing a multi-year upcycle. India offers diversification away from US big tech with 50% of the India Index represented by financials, healthcare and industrial companies.

Elections remain a binary event. Structural reforms, the catalyst to India's growth, implemented by the Modi government over the last 9 years should remain: a complete reversal in policies is unlikely, as focus on growth will continue. Indian corporates rising capex ensures that corporate profit levels remain sustainable for the long term.

Exhibit 19: Indian EV Market Size ($bn)

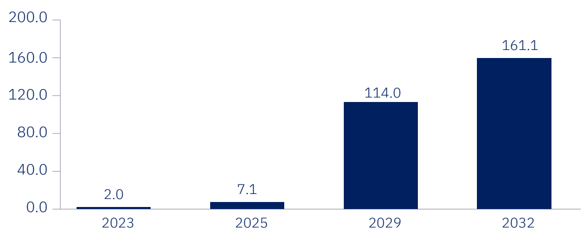
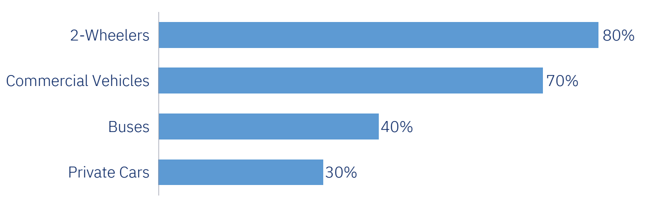


Exhibit 20: EV Adoption target by 2030 by vehicle



Source: India briefing.com
India's prospects as an EV hub consumer

More than 50% of the population is using the internet (737 mn) expected to grow to over 900 mn by 2025. Social media platforms being rapidly adopted for e-commerce, with 51% y/y growth in social commerce.

India's telecom industry is the second largest in the world with 1.3 bn cellular subscriptions i.e. 84% of the population.

Digital payments witnessed 13% growth over 2021 to reach an ~338 million users, of which 36% are from rural India.

~99% of all digital payment users are utilising UPI The Unified Payments Interface.

Equity Strategy

Equity Focus: Japan

- Fiscal stimulus package to flow into the economy, supporting wage growth and spending
- Industry automation, robotics, AI adoption are advanced, a consequence of aging population
- Investment in digital technologies and tourism are expected to accelerate

The Japanese stock market (TOPIX +26%) outperformed in local currency in 2023, with strong corporate earnings and foreign investment inflows and we expect this positive momentum to continue into 2024. We estimate the TOPIX Index to reach 2650 in 2024, a double-digit upside potential from end 2023. The Yen is expected to appreciate, with a less dovish Bank of Japan with regards to yield control policy. This may partially penalise exporters but support returns in dollars which we see as overall positive.

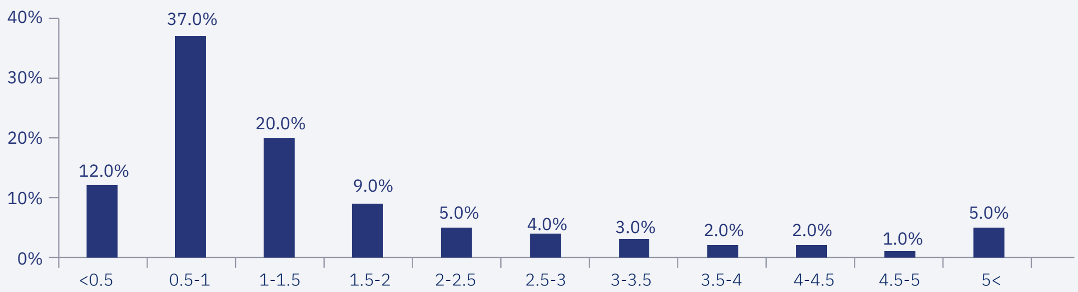
Sector-wise, we expect growth to come from the recovery of cyclical sectors such as electronics, materials, industrial machinery, info tech and telecom services. Within exporters, semiconductor companies will benefit from a bottoming inventory cycle in ever-rising global demand and competition. Real estate will benefit from the end of deflation, while consumer staples companies will gain some sustainable pricing power improvement. Japan is also at the helm of industrial robotics, as it commands 46% of the global manufacturing share in the field. The sector has been one of the strongest Japanese equity performers of 2023 and is expected to continue to deliver, due to the shrinking labour market and rapidly aging population in Japan.

Japan's tourism comeback is truly remarkable, considering the length of its border closure and 2024 is expected to be a record year.

Japanese companies trading below book value have declined overall from 52% to 46% of total capitalisation in 2023, directly induced by the focus on ROE from the Tokyo Stock Exchange (TSE). The TSE is continuously addressing corporate governance issues and discouraging large sums of cash piling up on companies balance sheets that don't earn returns for investors. The TSE has mandated companies to increase their earnings and valuations, with a risk of being delisted if capital is not used efficiently. This incentivises companies to stop hoarding cash and to benefit shareholders through dividends, share buybacks, accretive M&A and R&D. The giant national pension fund is also investing along these priorities, creating a positive incentive for the best-in-class.

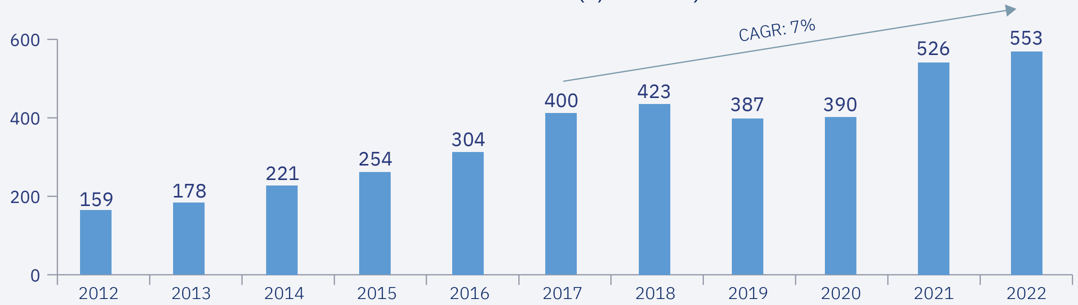
Heading into 2024, several factors support the economy such as the recently announced fiscal stimulus package of ¥17 trillion ($113 billion), which also includes a plan to cut taxes. Wage growth has picked up in recent years and supports growing household consumption.

Exhibit 21: Companies trade on low P/B in Japan



Source: Bloomberg, 31st December 2023

Exhibit 22: Annual Installations of Industrial Robots - World (1,000 units)



Source: World Robotics 2023 (International Federation of Robotics)

Equity Strategy

Equity Focus: Growth - AI, Security, Healthcare, Obesity

- Focus shifts to AI adopters and applications in search, social commerce and broader industry
- Healthcare and Electric Vehicle personalisation helped by generative AI
- With increased connectivity comes increased cyber security risk
- Healthier lifestyles and obesity therapies have a long runway to growth

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Generative AI: The launch of ChatGPT backed by large language models unleashed tremendous interest in generative AI, with a focus on personal assistants and content creation tools. 2023 focused on the rise of enablers: platforms such as Apple, Meta, Amazon, Alphabet with billions of users data, as well as supportive infrastructure from GPU manufacturers such as Nvidia. We would now look to adopters/disruptors across different industries who leverage generative AI in search, consumer mapping, product design, manufacturing and delivery. Applications include social commerce, interactive entertainment, online travel, financial services, healthcare, food chains, supply chains and decarbonisation reduction (electric vehicles/smart infrastructure). Companies are starting to set out significant budget allocation and investing in AI, which should pay off in terms of cost advantages, and market share with customer analytics and targeted advertising.

Semiconductors: The global AI chip market size is set to exceed $830bn by 2027, growing at a 35% annualised rate since 2019. AI chips are largely used in automotive, healthcare, defence, IT and telecommunications sectors. Whilst Nvidia remains the leader in high end chips used in computing, competitors have room to catchup.

Electric Vehicles: The price of battery packs, that account for a sizeable portion of the manufacturing costs of EVs, has decreased, which should support sales growth. Self-driving cars are not ready yet but their future growth will be exponential: they could represent 10% of vehicles by 2030. It will probably start with robo-taxis – and most probably in Dubai.

AI, Internet of Medical Things (IoMT) Transforming Healthcare by assisting in treatment, research, drugs discovery, diagnosis and decision making. Many US-based healthcare providers are planning to deploy AI tools such as Robotics Process Automation in healthcare facilities. AI in drug discovery is expected to cross $4bn by 2027 at a CAGR of 45%.

AI adoption is subject to increasing regulation as living in a connected world leads to loss of privacy, hacks and deep fakes. AI again becomes useful here as it can reduce the time taken to identify a cyber attack and detect fraud and misinformation quicker, but AI is also in the hands of attackers. It's a race.

Cyber security: Cybercrime is expected to cost the global economy USD 8tn in 2023, with an estimated 26,000 hacker attacks every day. Full-fledged corporate digitisation, coupled with remote working, create new opportunities for hackers, everyday life is more exposed than ever (a car has 100 million lines of code). Ransomware attackers in particular are becoming more sophisticated: AI based phishing, dark web coordination, advanced usage of decentralised cryptocurrency mixers... The cybersecurity market has a bright future.

90% of online content could be generated by AI by 2025.

Global AI market expected to grow, 2023-2032, at a CAGR of ~19.0% and market size surpass $2.5tn by 2032.

Wearable AI market is expected to reach $180bn by 2025.

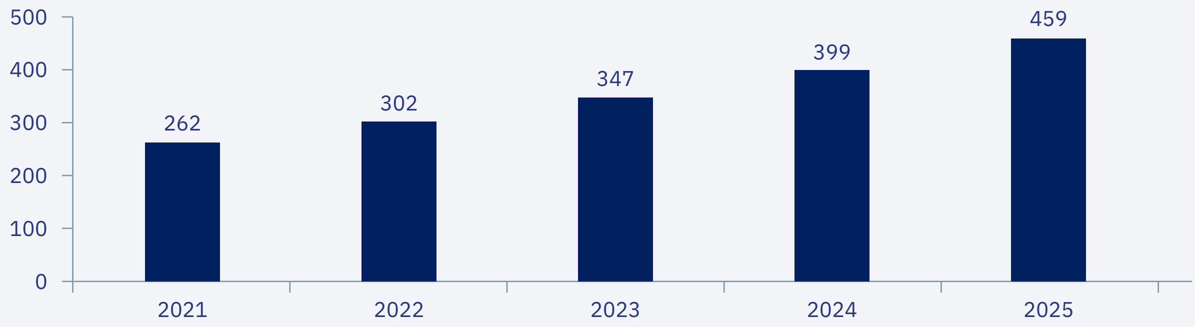
Growth sectors outside technology

Obesity therapies: A $100bn global therapeutic market is estimated by 2033, with obesity now viewed as a medical condition, and with over a billion people worldwide expected to be obese by then. The US CDC estimates the US obesity prevalence is nearly 42%, making it a common and costly disease for Americans, associated with other health afflictions. A new generation of obesity therapeutics offer greater weight loss than prior generations, fewer side effects and possible cardiovascular benefits. Novo Nordisk is an early leader with a diabetes and obesity drug franchise through Wegovy (launched in the US in June 2021), Ozempic (March 2022), and Rybelsus (September 2019). Eli Lilly launched Mounjaro for diabetes last year, and a label expansion for obesity later is expected soon. The active ingredient in Wegovy and Ozempic is semaglutide, which works by mimicking a hormone called glucagon-like peptide-1 (GLP-1) that targets areas of the brain that regulate appetite and food consumption.

Food: Longer-term demand shifts within the food and beverages industries are in progress with a shift to healthy lifestyles and a cut back on foods that are high in sugar and fat such as fast food, pizza, confections, baked goods, and salty snacks, as well as sugary drinks and alcohol. Clear trends are emerging on buying more of healthier categories of food such as fruits and vegetables and less processed foods. Again AI applications aid in sourcing and labelling.

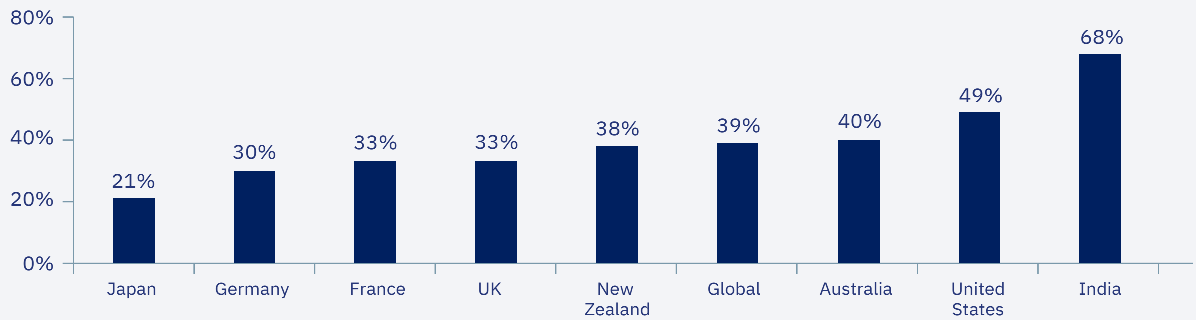
Decarbonisation: Growing challenges relating to physical risks from climate change are leading to efforts to lower global carbon emissions by governments and corporates and continue to impact markets via increased capital deployed with a rapid pace of innovation and provide opportunity for alpha generation. Investors focus on the shift to climate adaptation and resilience is increasing with corporates paying increased attention to their ESG ratings – which are taken into account within our stock selection process.

Exhibit 23: Estimated Global Cybersecurity Spending (USD bn)



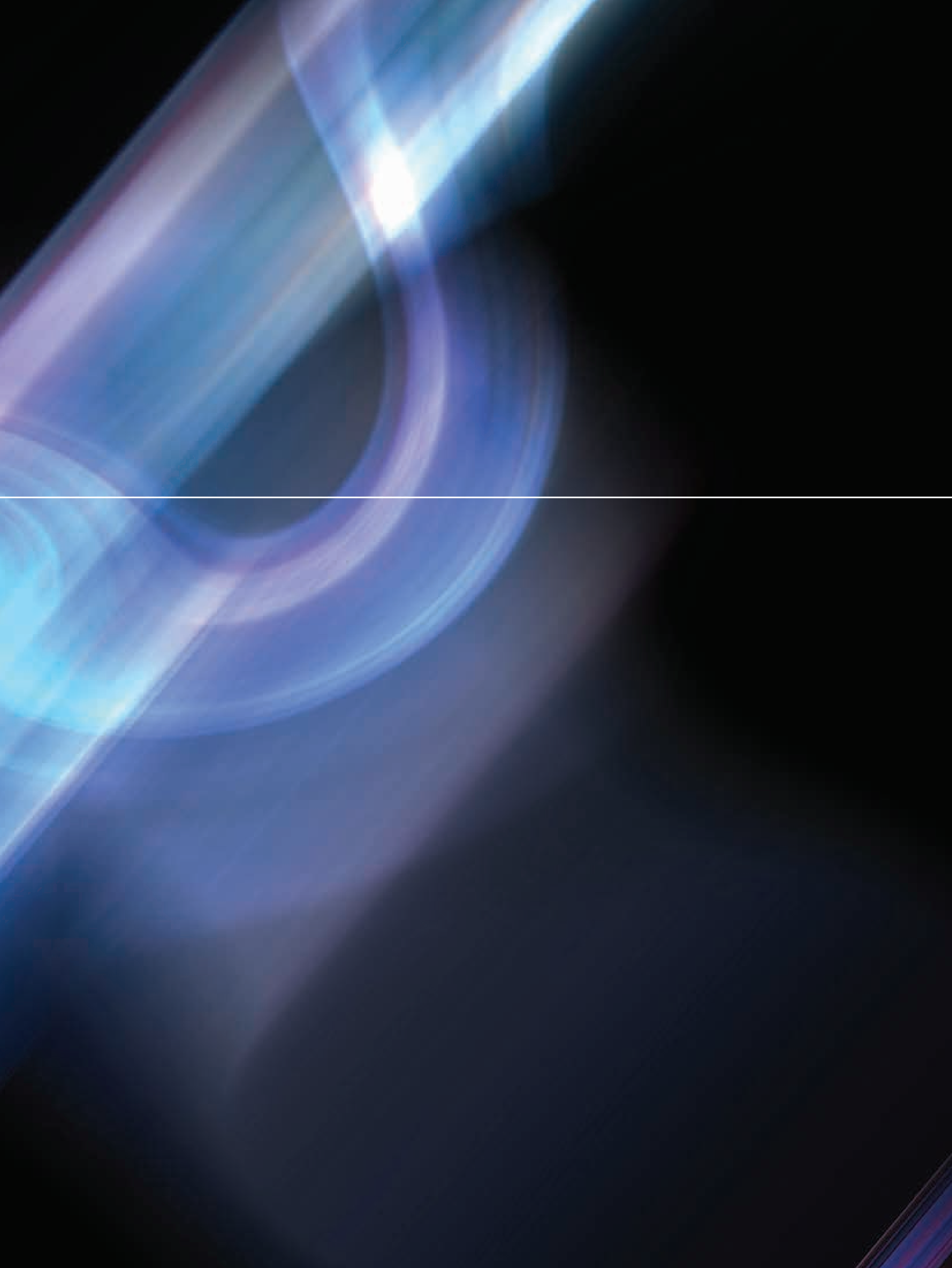
Source: Cybersecurity Ventures, BofA Global Research

Exhibit 24: % of users by region who have experienced cybercrime



Source: Statista, BoFa Global Research

Fixed Income



Fixed Income Strategy

Waiting for Godot

Exhibit 25: CIO Office 2024 Year-End Fair Value Estimates

	Current Yield	Current Spread (Bps)	End 2024 Yield/Spread estimates
US 10y Treasury Bond	3.88%	-	4%
Global Investment Grade	4.53%	105	125-150 bps
Global High Yield	8.20%	423	550-600 bps
Emerging Markets Debt (USD)	7.04%	297	350-375 bps
GCC Debt	5.18%	117	125-150 bps

Source: CIO Office, Bloomberg Data as of 29th Dec 2023

In a sense, 2023 wasn't bad, with US Treasuries returning +4.1% while High Yield bagged the top spot with a +14% return. However, it was a very volatile year with US 10-year Treasury yields trading between an impressively wide 3.3% to 5% range. Most of the returns came in the last two months as the clamour for soft-landing grew with the weakening of macro data in the US. The rally, in effect, started on 31st October as the US Treasury announced lower-than-anticipated auction sizes and stymied the bond rout of October.

In 2024, the Fed's options remain limited. From pricing in 2 rate cuts at the end of 31st October to pricing in 6 rate cuts, with the first cut starting in March 2024, the narrative has completely turned on its head. This is almost double that of what the December FOMC Dot Plots indicate. Markets will be disappointed if these expectations don't come to fruition, leading to a bear steepening of the yield curve. The US Inflation and jobs data remain the binary independent variables that will determine the rate trajectory this year.

Quantitative Tightening has proceeded smoothly as the Fed has decreased its balance sheet by $1.3tn since April 2022 to $7.7tn. Analysts expect the Fed to slow the pace of balance sheet run-off in Q1 2024 and stop it once bank reserves are around 12-13% of their assets and when the Fed's balance sheet weighs about 22% of GDP (currently 28.8%).

These various sources of volatility mean investors should build resilient fixed income portfolios that could perform under various macro conditions. A barbell approach suits this. Generating income from robust short-duration credit exposure would protect against a potential rate sell-off. At the same time, an overweight allocation to government bonds acts as a lifeboat during turbulent market conditions, especially in case of recession scare.

Overweight Developed Market Government Bonds

The fastest policy rate hike cycle in the history of the Fed culminated in July last year after a cumulative 525 bps increase. The long-dated Treasury yields are high enough to cushion against volatile market movements, hence our preference for resilience. However, uncertainty in macro data illustrated by the strong December NFP report makes taking long-duration bets a gamble. Moreover, the soft-landing consensus may be challenged when the aggressive rate-cuts priced in for 2024 are reassessed. We should not forget the large issuance from US Treasuries, which needs to be absorbed by rate-sensitive buyers in the absence of the Fed. On the other hand, this is an election year, and the Fed may lean to support the economy if growth materially weakens. All these uncertainties plod us to take a neutral stand on duration. We believe the 10-year US Treasury yield may cross our year-end fair value of 4% in the initial months but settle down once the growth and inflation trends present a clearer picture.

Neutral Investment Grade Credit

IG Credit presented one of the best opportunities in a decade to lock in yields in October 2023. Since then, the decrease in treasury yields and tightening of spreads have reduced lucrativeness. The current spread of 105 bps is 0.35 standard deviation below the 20-year mean, trading in the bottom 40 percentile range. The demand for IG would remain robust as pension funds and other real money players look at the absolute return potential, with yields staying in the top 76th percentile. IG supply may decrease as some non-financials may avoid issuing bonds at these high costs and wait for yields to come down before tapping markets.

Neutral High Yield

High Yield asset class has optimistic valuation with complacent spreads below 450. Current spreads indicate a default rate below 2%. However, according to most analysts, the default rate is expected to increase to 4% from current levels. Supply would increase in 2024 with better market access for HY issuers. Refinancing pressures mount in H2 2024 as around 8% of outstanding bonds mature in 2025. This implies the spreads should widen by 75 to 100 bps from current levels. Despite this, the current 8%+ carry offered by the asset class and the short duration are compelling investors not to be underweight quality HY. Should inflation reaccelerate, it would still generate decent absolute income.

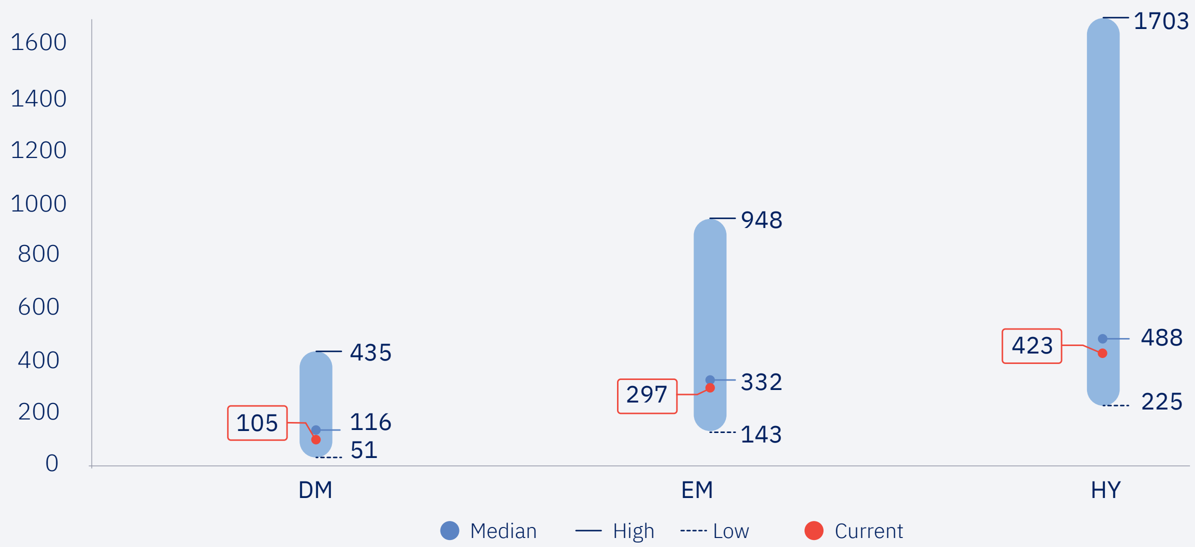
Underweight Emerging Market

Emerging Market Debt is beholden to FX fluctuations and the US monetary policy cycle. We may see some rate cuts starting with LatAm as inflation comes down. Valuations however look excessively rich. Supply would remain constrained as most B-rated commodity importers and EM corporates avoid the market. Global asset allocators are spoilt for choice with high yields in the developed market, so the demand should remain muted. Moreover, with China facing investor angst, the tailwind for spreads to tighten further remains low. GCC and Asia IG spreads are currently trading tight, and we don't see a material opportunity for them to compress. We actually expect a widening to the 350-375 bps range. We see selective opportunities in Indian HY, cash-rich China IG Tech, GCC Govt Related Entities that trade at least 25 bps wider to underlying sovereigns, and national oil and gas companies from LatAm.

Risks to our outlook

We see stubborn inflation and continued strength in the labour markets as significant risks to our positioning. If inflation doesn't come down as expected, the Fed would be forced to remain restrictive or even tighten again: yields and spreads would materially rise, leaving no quarters for investors to hide. This will be our worst-case scenario, where cash is the only refuge.

Exhibit 26: Spreads dispersion for last 20 years

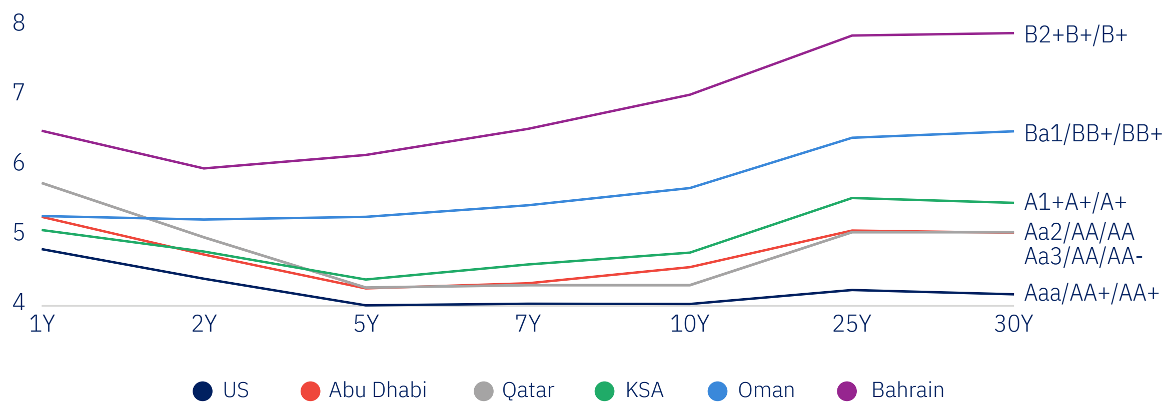


Source: CIO Office, Bloomberg Data as of 29th Dec 2023

Fixed Income Strategy

The Allure of the GCC Region

Exhibit 27: Fixed Income: GCC Sovereign Yield Curves



Source: CIO Office, Bloomberg

Economic Resilience
Most of the GCC regional sovereigns have strengthened their balance sheets and exhibit robust fiscal positions. Oman achieved a fiscal surplus in 2022 following eight years of deficits, sometimes substantial. Dubai's debt to GDP has decreased to 25% in 2023 from the peak of 78% in 2020. The credit strength of GCC countries was also reflected in the rating actions in 2023, where KSA, Oman and Bahrain were upgraded. The ongoing conflict at Israel's borders has had so far a negligible impact on the sovereign spreads. The relatively defensive quality of GCC credit remains resilient, with a low probability of recession fear.

Our Emirates NBD research expects Brent crude oil price to average USD 82.50/b this year. The majority of the GCC countries' revenue is linked to hydrocarbons, which will be impacted by production cuts and a slowdown in global economic growth, ultimately slowing GDP growth. However, the impressively successful focus on non-oil economic sectors, with an expected average growth of 3.6% this year, is clearly positive. Given the lower oil price and production cuts, KSA is the only IG sovereign expected to post a fiscal deficit in 2024. KSA government has an ambitious Vision 2030 diversification program to boost its growth.

Robust Primary Issuance
It was a solid year for GCC hard currency primary issuance as the volume at $62bn in 2023 was almost double that of 2022. Financial institutions and Government-related entities (GRE) were the major issuers, as HY sovereigns from the region mostly stayed out of the market. As China issuance took a backseat, GCC exposure in the EM index increased to around 21% from 16.7% in 2022, cementing its position as the second largest constituent post-Asia. The holding period return of the bonds issued last year from the region was around 4.5% from the issue date. More than $30bn worth of bonds are maturing or have a call date in 2024.

Our preferences
The composition of the GCC Debt market has evolved significantly, as over 80% issuers in recent years are Investment Grade. This explains and justifies the current tight spreads. Even at current valuations, the absolute income potential of GCC index bonds has only been better 15% of the time in the last decade. It presents a great opportunity for investors to lock in high yields.

Within GCC, we prefer strong credits from the financial sector and GREs. The banking sector in the region remains well-capitalised with solid fundamentals. Typically, GCC GRE bond portfolios currently offer between 20 and 100 basis points in excess of maturity-matched sovereign. We also recommend the local currency bonds (SAR & AED) from a diversification point of view. The supply and liquidity of such bonds remain limited; however, we expect non-GREs to come up with more local currency bonds in 2024.

Fixed Income Strategy

Generating Quality Income from Contingent Convertibles

Exhibit 28: Fixed Income: Bloomberg Capital Contingent Index Yield Chart

Source: CIO Office, Bloomberg

What are CoCos?
Contingent convertible bonds are complex instruments in the form of Additional Tier 1 (AT1) perpetual or Tier 2. Regulators cleared the way for the issuance of AT1 Perpetuals, setting the stage for bondholders — rather than taxpayers — to bear the consequences of bank insolvency post the Great Financial Crisis and giving lenders a way to raise capital with loss absorbing features, without further diluting shareholders. A Typical AT1 structure has either a mechanical (occurrence of a pre-defined event) or discretionary trigger (decided by the issuer). These capital securities are subordinated, conditional, and unsecured obligations of the issuer and risk large drawdowns if the issuer cannot maintain minimum regulatory capital levels.

Despite alluring returns, it's crucial to recognise the hybrid characteristics of CoCos, which entail equity-like volatility especially on the downside. Consequently, one should be thoroughly aware of associated risks. These include non-call risk, coupon cancellation risk, coupon reset risk, and the risk of equity conversion or capital write-down. In the controversial Credit Suisse case, the write-off of CoCos was an exceptional event where equity retained its value while the bonds were written down to zero. The topic remains controversial: for some, CoCos are senior to stocks so it shouldn't have happened, while for others, they are precisely designed to avoid a bankruptcy and thus the full wipe out of the bonds.

How to analyse CoCos
When evaluating CoCos, it is imperative to assess the bank's capitalisation, a positive deposit growth trend over the last four quarters, a healthy maximum distributable amount (MDA) buffer, and the absence of negative report in the Central bank stress tests (when available) while ensuring the bank has not been compelled by regulators to raise capital. Credit Suisse perpetuals were absent from our recommended lists and advisory offering based on these criteria.

Why we like CoCos
The banking sector's current financial metrics remain healthy, entering 2024 with robust capitalisation, heightened profitability due to increased interest rates, a substantial MDA cushion, and lower Non-Performing Assets (NPAs). While asset quality deterioration remains a risk in 2024, improved capitalisation positions the banks well to absorb potentially higher loan losses. Strict regulatory oversight of major banks' liquidity, capital, and regulations contributes to overall stability.

Current higher interest rates, coupled with widened spreads, offer an attractive yield. This higher coupon payment reduces the extension risk in the future. In 2023, 20 out of 25 European Bank AT1s with a first call were redeemed, except for Deutsche Pfandbriefbank, Zürcher Kantonalbank, and Credit Suisse (where three AT1s were written down). Santander initially failed to call its AT1 but eventually did, within the next three months.

This year, our fixed income strategy involves a barbell approach to portfolio building. We aim to generate income through robust, short-duration, high-quality credit exposure while seeking protection from turbulent markets through Government Bonds. CoCos have a role to play in the first bucket with an attractive yield, ranking in the top 85th percentile currently. We prefer CoCos from strong banks compared to the high yield non-financial credits. We like strong, highly regulated Global Systemically Important Banks, as well as adequately capitalised entities with strong deposit bases and well-diversified asset bases from the Euro-Area.

Global Topics

Oil Outlook

A mixed outlook for demand should lead to lingering oil prices in 2024

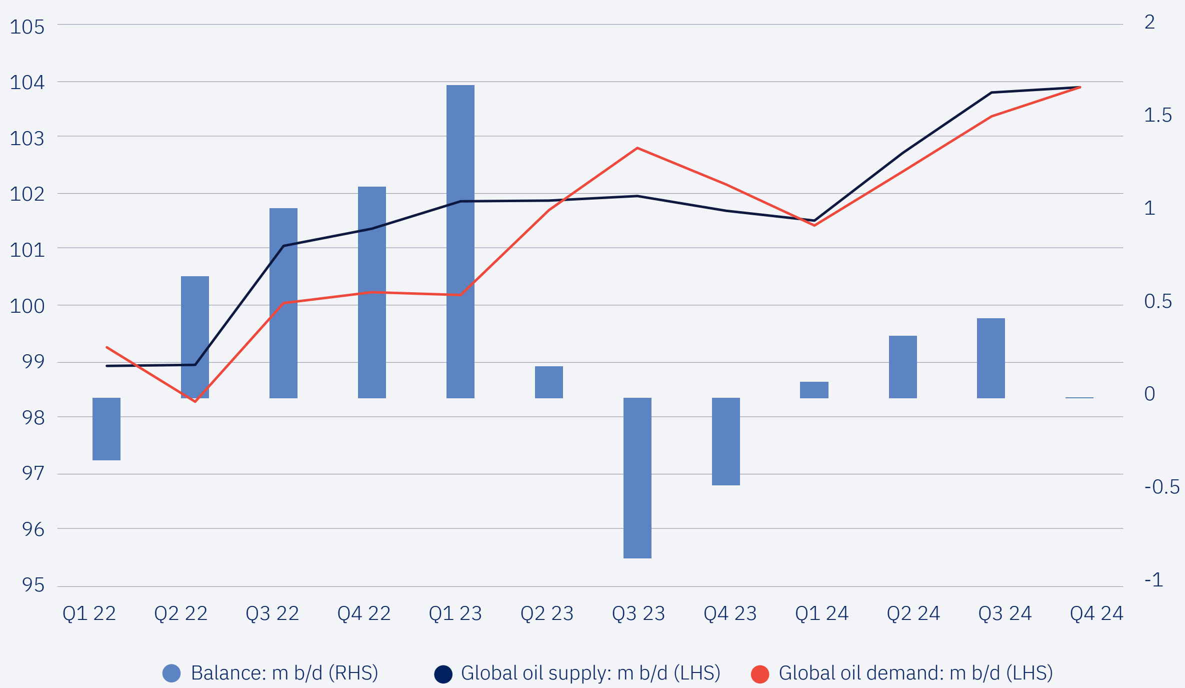
The global economy looks set to tread water in 2024 as recovery in China cools and developed economies contend with the effects of high interest rates. That disappointing outlook for global growth is weighing on the outlook for oil demand after a strong 2023 when consumption was helped by the return of China from its stringent Covid-19 restrictions. Oil demand projections from the IEA are for a substantial slowdown in consumption growth to just 1.2m b/d in 2024 from demand growth of almost 2.3m b/d in 2023. Unlike in 2023 when China's reopening helped to lift oil consumption, there will be no clear standout country supporting oil demand in 2024 as most economies endure the impact of tighter monetary policy and elevated overall price levels, even if the pace of inflation is cooling.

The IEA outlook for demand still stands in sharp contrast with OPEC which projects another strong year in 2024. The producers' alliance estimates that global oil demand will grow by 2.2m b/d, expecting an acceleration in OECD demand. Slower economic activity across developed markets will limit investment and industrial appetite, weighing on oil consumption. A "soft landing" in many markets may dampen the slowdown somewhat but oil demand accelerating while economic output slows appears incongruous.

Even as OPEC itself had been consistently forecasting another year of robust oil demand growth for 2024, several members of OPEC+ outlined further voluntary production cuts for Q1 2024. In total, the cuts amount to about 2.2m b/d though that includes 1m b/d of output restraint from Saudi Arabia which it has maintained since July 2023 and 500k b/d of production and export curbs from Russia. The new volumes to be cut are shared amongst Iraq (223k b/d), the UAE (163k b/d), Kuwait (135k b/d), Kazakhstan (82k b/d) along with smaller adjustments from other members of the OPEC+ grouping. Along with these cuts, new quotas were announced for several members.

OPEC+ production cuts during the pandemic helped to bring oil markets closer to balance but as prices have recovered thanks to higher

Exhibit 29: Oil markets poised for modest over-supply in 2024



Source: IEA, Emirates NBD Research

demand the argument of using cuts to reduce volatility seems to be losing credibility. OPEC's own assessment of strongly rising oil demand would seem to work against the plan to cut production unless it is solely an attempt to support oil prices. After the cuts were announced at the end of November several oil ministers from OPEC+ noted they could be extended beyond Q1 as oil prices dropped substantially over the following sessions.

The effectiveness of OPEC+ cuts in supporting prices is waning and with no enforcement mechanism for over-producers, markets have cast serious doubt on how meaningful the voluntary cuts will be. The main beneficiary of the cuts actually seems to be non-OPEC+ members who aren't bound by any production restraints and who will still reap the benefit of rising oil prices: both the IEA and OPEC estimate that US oil supply will expand by about 600k b/d in 2024.

Were the voluntary cuts to be implemented in full for Q1 then oil markets would remain in a modest deficit of about 500k b/d. But after that a substantial volume of OPEC+ oil would be returned to markets—including Saudi Arabia's 1m b/d lollipop—that would likely overwhelm markets and lead to stockbuilds. As non-OPEC+ supply is set for further increases in 2024, output from key producers like Saudi Arabia, the UAE or Iraq will only be able to come back into the market tentatively which may fuel further frustrations with the OPEC+ framework.

With some compliance with the Q1 voluntary cuts, oil markets will likely be close to balanced in Q1. For the rest of the year we expect to see markets slightly over-supplied as OPEC+ and non-OPEC+ supply flows to market amid slower demand growth than in 2023.

An oversupplied market, even if only modestly so, will be a headwind to prices for 2024 and we now expect them to trade with a much flatter trajectory. For 2024 we now target an average Brent price of USD 82.50/b, moving from USD 85/b in Q1 to USD 80/b for Q2-Q3 before returning to USD 85/b in the final months of the year. For WTI the trajectory will be similar but at a shallower base and we target an average of USD 76/b for 2024. Slowing demand growth and an oversupplied market will likely mean a consistent contango structure in both markets.

Exhibit 30: Oil prices to linger in 2024

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

Real Estate Outlook

Light at the end of the tunnel: property values to recover in 2024

- Challenging year for global real estate due to high inflation and rising rates
- Rates have peaked and property values set to recover in H2 2024
- ‘Beds, meds, sheds and creds’ remain our preferred sectors

Last year was one of the most challenging for real estate since the global financial crisis in 2008. High inflation and rising yields have placed intense pressure on valuations whilst high interest rates have severely curtailed appetite from debt buyers and, as a result, investment is down by 50% to its lowest level in almost 15 years[1].

Global REITs produced a total return of 10.9%[2] over the year, but this masks the fact the asset class was firmly on course for another period of double-digit losses up until Q4 when a drop in inflation and more dovish tones from central bankers led to a sharp rebound, in the context of a “rally of everything”. However, these headline numbers do not show the wide discrepancy in performance between the various property sectors as highlighted in our chart.

Offices have had the lion’s share of both negative media headlines and poor performance caused by changing working practices and a resultant drop in occupier demand and rental prospects. Similar to the structural changes seen in the retail sector in the 2010s, what was once a broad investment and occupier market has now largely shrunk down to the core areas of central business districts in gateway cities with a focus on assets with smaller floor plates to accommodate less staff and strong ESG credentials. Assets which fail these criteria have experienced catastrophic corrections and are still struggling to find their floor.

Elsewhere, industrial, housing and housing-related assets (collectively known as the ‘living’ sector) have weathered the storm far better. Underlying occupier demand and rents here are supported by changing consumer habits, inflation-linked revenues, demographics and, in the case of rental housing, high mortgage rates making renting cheaper than a buying a home in the current environment.

After a difficult year for real estate, property values are set to recover in 2024. Investor demand has not gone away and many would-be

Exhibit 31: Global REITs: Sector Performance 2023

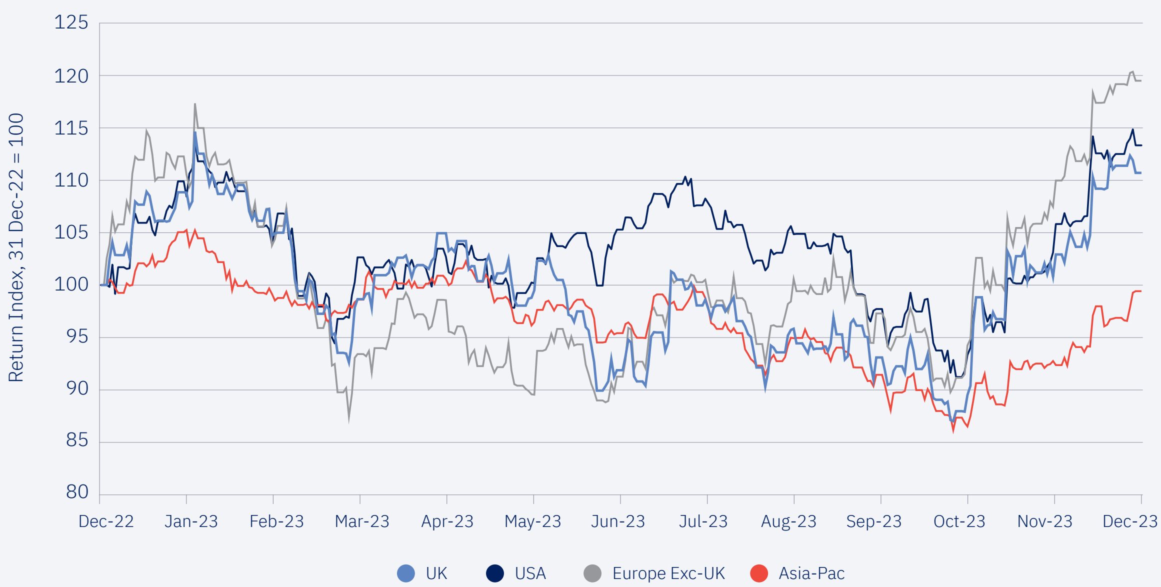
Source: Morningstar, Emirates NBD London calculations, 2024 buyers will now be tempted to re-enter the market with more bargaining power at far more attractive pricing levels now that interest rates are on a downward trajectory. Given the time it takes for a transaction to complete though, it is unlikely that we will see a material recovery in investment volumes and property values until H2 2024 although public markets will take this into account long in advance of private market activity (indeed they have already begun to do so). Downside risks remain though from a return of inflation due to geopolitical tensions, the effect of possible recessions on rental prospects and last, but by no means least, the impact of funding gaps on already leveraged owners struggling to refinance existing loans on affordable terms. In the latter case, a restrictive financing environment could lead to an increase in supply from forced sellers which would keep values subdued for a protracted length of time.

Despite these risks, our preferred sectors of industrial warehouses, healthcare (including life sciences) and the living sector are well placed to deliver in 2024. All are supported by robust fundamentals which remain intact and will therefore continue to enjoy tailwinds in the coming period. US assets should lead the other regions in performance given the prominence of the Federal Reserve in global monetary policy. It is also an opportune time to be providing lending to the real estate market. Despite the need for refinancing by leveraged owners, there is a general 'risk off' sentiment and limited appetite to grow loan books from banks and other traditional lenders. This allows for non-bank participants to gain attractive pricing due to the lack of competition. The elevated rate environment also makes for superior risk adjusted returns versus equity participants.

The performance of real estate around the world was dominated by inflation and rates in 2023. Now that these pressures have most probably started to ease, the market has scope to recover – there is light at the end of the tunnel. Our preferred sectors of warehousing, healthcare, living and credit - best described as 'beds, meds, sheds and creds' - are well placed to benefit from the recovery and deliver reliable income and growth even if the economy slows and inflation persists.

[1] *As at end November. Source: JLL, 2023*
[2] *Source: Morningstar, 2024*

Exhibit 32: Regional REIT index Performance 2023



Source: Morningstar, Emirates NBD London calculations, 2024

UK Outlook

Another year, another leadership change?

- General Election must be held before 28th January 2025
- Opposition Labour Party the likely winners but Conservatives could stage a comeback as the economy improves
- Markets likely to shrug off victory for either party but risk of a hung parliament remains
- UK equity valuations attractive after several years of underperformance

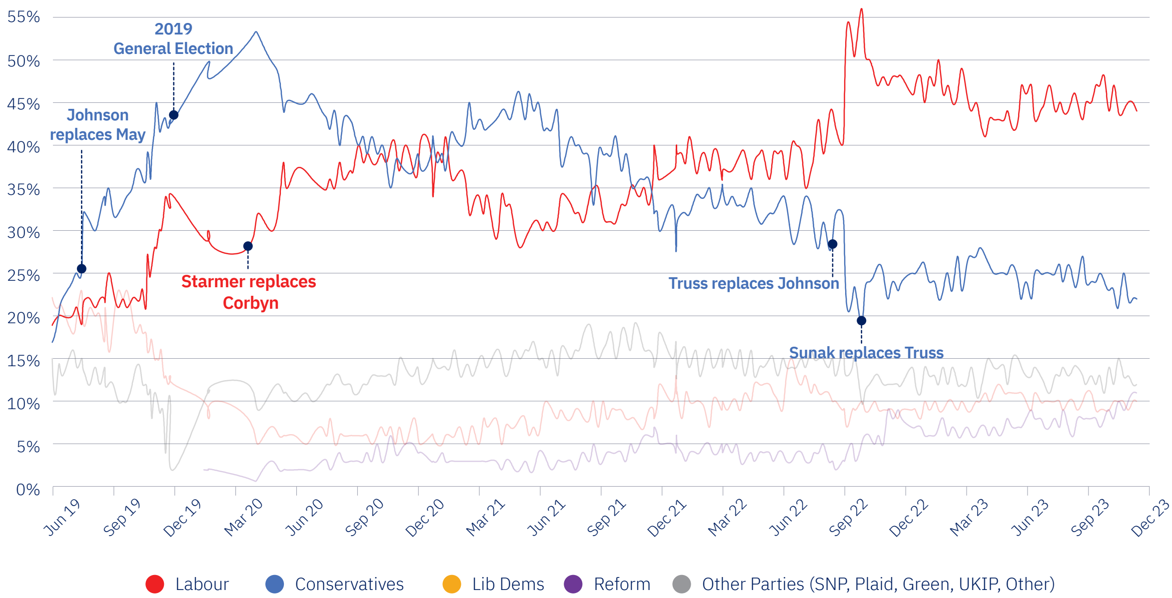
At some point during 2024 the Prime Minister will announce a General Election. Exactly when voters will be called to the polls remains undecided. The UK is enduring the most severe cost-of-living crisis for over forty years and looks almost certain to enter an economic recession. These are not ideal conditions for fighting a re-election campaign and there can be little surprise that polling figures show dwindling support for the ruling Conservative Party. Nevertheless, Rishi Sunak has managed to restore some order to Government since succeeding Liz Truss as Prime Minister and will remain hopeful of bringing himself into contention ahead of the planned vote.

UK assets have struggled against this backdrop and the size of the equity market has shrunk as investors have moved money elsewhere. A rally at the end of last year gave some room for optimism, but the prospects of an extended recovery in 2024 are greatly improved in a stable political environment and so it is worth considering the potential outcomes of the election given the political and economic rollercoaster of the past four-years.

This time it's different
Firstly, it should be acknowledged that the ballot paper looks meaningfully different to that of 2019 when Boris Johnson scored a huge 80-seat majority over Jeremy Corbyn, a left-wing radical. A contest between Sunak and Labour Party leader Sir Keir Starmer pits two serious politicians against each other with both positioned much closer to the centre-ground than their predecessors. Indeed, with much of the voting world facing an increasingly polarised political spectrum, the UK offers a rare contest between two relative moderates. This removes the uncertainties of extreme policies and is promising for investors.

Labour ahead in the polls
Opinion polls show that the opposition Labour Party have a handsome lead going into the year and that Sir Kier Starmer will likely be the next Prime Minister of the UK. As a former human rights lawyer and then Head of Public Prosecutions, we can assume that Starmer has a

Exhibit 33: Voting intentions at next General Election %



Source: YouGov, December 2023, Emirates NBD London calculations strong moral compass. He has also spent the last four-years courting business leaders and removing the "Corbynite" faction from within his party – bringing it back towards the more centrist New Labour of the Blair-Brown years.

Aside from that, we don't know much about Starmer's politics. With the ruling Conservative Party becoming tangled in a series of scandals and high-profile resignations, Starmer's strategy has been to simply sit-back and let his opponents lose votes rather than put forward any notable policy ideas. As the election approaches though, he will be forced to break cover and table a manifesto for the public vote. This will provide the first real insight into a prospective Labour government, but also revealing areas of weakness to opponents.

A Conservative fightback

Despite Labour's dominance in the polls, there remains a narrow route back to power for Sunak's government. Inflation should continue falling throughout the first half of 2024, paving the way for rate cuts from the Bank of England. At the same time, household incomes are set to benefit from rising wages and tax cuts announced in the Autumn Statement (and likely in the upcoming Spring Budget too). By the summer then, the British electorate may be feeling far more positive about their prospects. If Sunak can deliver a narrative of successfully steering the country through a pandemic, war in Europe and a global inflation shock then it is possible that his party could generate enough votes to survive for another term.

An outright victory for either party should be palatable and reassure markets that the worst political chaos is over. However, we remain cautious of the possibility that, in staging a recovery, the Conservatives manage to secure enough votes to stop an outright Labour victory without winning a majority themselves. Under this scenario any new government would need to form a coalition with another party, encouraging both leaders to vacate the centre-ground to court the support of more radical fringe parties. A hung-parliament therefore raises uncertainty over what the new government might stand for, and how long it can last. This is not the best political environment to foster a revival in UK equity valuations given what investors have endured over recent years.

Prospects for a UK recovery

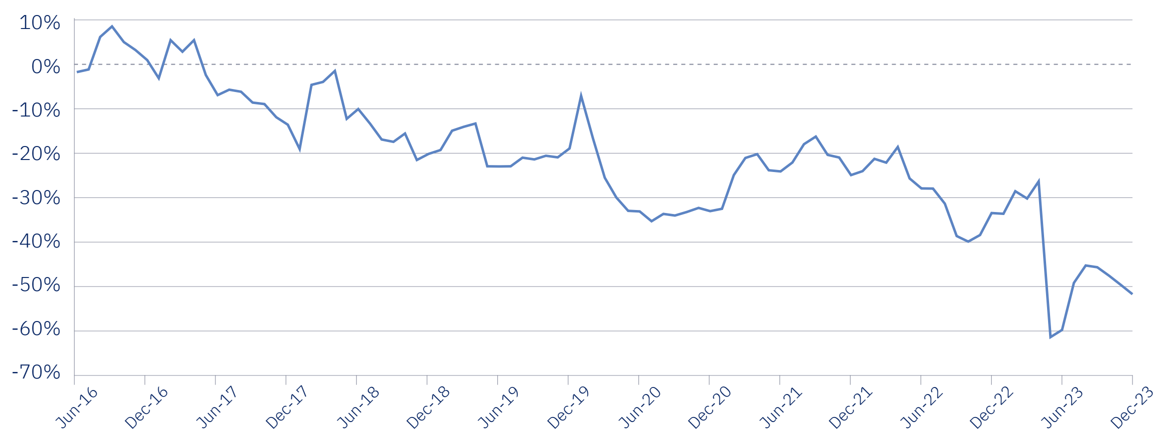
Shares in a typical UK listed company currently cost investors £11.40 per £1.00 of earnings and pay a dividend yield of 4.3%. This is cheap compared to other developed markets where a pound of earnings cost investors £21.11 and earn a 2.2% dividend[1]. This divergence in value began after the 2016 Brexit Referendum and has continued to widen through the disruption that leaving the EU has caused within the British economy.

There are now signs that international firms are beginning to see this as a buying opportunity. Last year saw a considerable growth in overseas competitors acquiring UK businesses, increasingly at significant premiums to prevailing market values. For instance, in November 2023 the US multinational Mars Inc. announced a bid for British confectioner Hôtel Chocolat at 170% above the listed market price. Such deals provide encouragement to investors, highlighting that UK assets are trading at depressed levels which could in turn lead to a broader correction in prices.

Public finances leave little room for fiscal stimulus and can't be expected to drive market returns. However, a decisive election result and smooth transition into the next term should at least ensure political stability and provide a platform for a sustained recovery in UK assets.

[1]Based on MSCI World as at 31/12/2023. Source: Bloomberg 2024, Emirates NBD London calculations

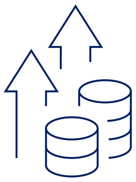
Exhibit 34: Blend of Valuation Measures FTSE 250 (Ex Investment Trusts) vs MSCI World



Equal blend of Price/Sales and Price/Book ratios
Source: Bloomberg, Emirates NBD London calculations, January 2024

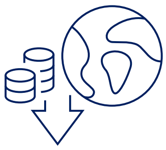
Five Key Risks To Our Scenario

In 2022, four out of the five threats we had identified happened. The 2023 proportion is inverted. Out of five key risks, only one happened and it was the greatest: the year-end “rally of everything”. The bad news is that markets enter 2024 with implicit confidence, which means vulnerability. It’s worth being prepared, and our 2024 top 5 doesn’t include a market melt-up which looks very unlikely this time.

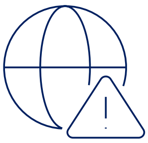


A Come Back of Inflation
The current global economic slowdown is only good news for its impact on inflation, which supports future rate cuts. Any negative (upward) surprise in price pressure would seriously damage the consensual narrative, regardless of the reason, including stronger economic activity. A comeback of inflation would pressure both bonds and stocks, while money market funds would be the best safe haven. Watch the US job market and the CPI releases.

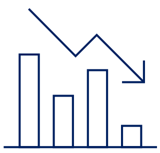
Epic Developments in the US Presidential Elections
Uncertainty about the November US presidential election is considerable, from the ballots to the outcome. There is no popular unanimity on whether the incumbent President is the best candidate for Democrats, the front-runner from the Republican Party is facing challenges in courts, and a third-party candidate is polling higher than any independent in decades. As markets hate uncertainty, this is a recipe for volatility, especially for US stocks.



A Global Recession, of Course
Europe is not in great shape, China is struggling to restart all cylinders: the global economy leans on the US consumer. Our central scenario is not alarming (our Chief Economist was spot-on in 2023), but the lagged consequences of higher interest rates could hit harder in 2024, triggering a negative economic spiral: less confidence, less consumption, less jobs… However, well diversified portfolios could handle this. Safe bonds would clearly benefit, counterbalancing the initial negative reaction of cyclical assets. The latter could then recover as central banks take note and materially cut rates. US consumption and employment are the key metrics to watch.



Geopolitics?
Our multipolar world is not peaceful, with several high intensity conflicts involving in one way or another several powerful blocks, and a decline of “Pax Americana”. The military developments suggest some potential improvement in 2024, but the political entanglements create a hazardous situation: history teaches us that everything is possible, including the worst, especially when international tensions combine with high-stakes elections, control of resources, and international alliances. Let’s hope for peace, and keep an allocation to gold in a diversified portfolio.



Financial Turbulences
Rising interest rates devastated financial institutions in the first half of 2023: some regional US banks failed, Credit Suisse was bought by UBS, while panic in the UK pension system required central bank help. Since then, and despite a subsequent spike in interest rates, there is nothing but a deafening silence. Is it calm before a storm? The probability is low, but the immediate impact would be devastating, especially in a context of record levels of global debt. Central banks would come to the rescue, but magic money could hit the wall of credibility. Rock solid currencies and gold are the assets to own in such a context, and major cryptos could even be considered by the bravest, before rushing to buy risk assets once their valuations reach distressed territory.

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Global Investment Outlook

2024

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