Emirates NBD PRIVATE BANKING

INSPIRING WHAT'S NEXT

Glimmers of hope in the global economy

- **Positive economic news over the week, supporting the case for improving global growth**
- **We acknowledge this supportive environment by selectively adding risk to our asset allocation**
- **Emerging Market equities offer value, and backdrop should be supportive for hedge funds.**

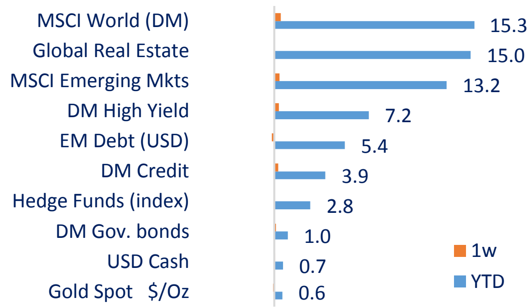
Most markets modestly gained last week, as there were simply no bad news to break the recent rally, and as investors are still far from being overexposed to it. Weekly performance hasn't been spectacular in absolute numbers, with +0.5% for global DM and EM equities, but they have been unequivocally "risk-on" with credit also well oriented while gold was slightly negative.

On the economic front, it looks like the stimulus measures are starting to bear fruit in China, at a time when most disruptions from the trade tensions are being digested, and when the probability of a deal with the US is rising. In Europe, the Brexit extension to October doesn't solve anything but removes the risk of an imminent shock on the economies. More important for the region was the pick-up in industrial production, especially outside of Germany.

Improving macro conditions, less political risk and Central Banks still firmly on the dovish side bode well for risky assets, especially as many investors are still defensively positioning. We have thus decided to slightly increase our allocation to Emerging Market equities (DM have reached or exceeded our year end fair values) and Hedge Funds, funded by cash and a further reduction in DM Government Bonds.

After the macro, the micro: 2019 Q1 earnings season, to kick-off this week, will be the key driver for markets in the short-term.

Asset classes USD % total return, YTD 2019 and week



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Cross-asset considerations

No sooner has the International Monetary Fund expressed concern about the current state of the economy by labelling it a synchronized slowdown, than conditions for a stabilization may be falling into place. Labor markets remain healthy globally, as indicated by the latest US jobs report and almost record-low unemployment in the OECD countries, EM Asia exports to China are picking up, following the firming of the Chinese economy, and Europe seems to be on the mend too, with manufacturing output surprising to the upside.

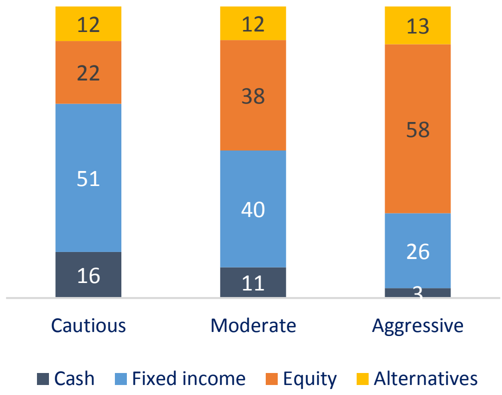
The stubbornly low inflation both in the US and in Europe remains a source of discomfort, in the long run. Shorter term this is enough for central banks to decide to keep monetary conditions accommodative, a net positive for risk assets. Financial markets have already preempted improvements in the outlook, with global equities +15.3% YTD and credit spreads tightening since the start of the year. The rally has seen almost all assets reach or come close to fair value, with few exceptions. At the same time, with bullish sentiment and positioning far from excessive, markets are poised to grind higher, unless unexpected cracks appear in the earnings or economic outlook.

So far the US and China have accounted for the bulk of policy efforts and the improvement in business conditions. Should Europe pick up consistently and join in, investors would indeed take heart and prolong the current bull run. This is far from impossible, although the Euro area nowadays rather comes to mind for lack of economic fervor and rising political risks. Fiscal easing might do the trick and help investors look at developments from a more benign viewpoint.

Markets and Washington made a big deal of Mr Trump's fiscal easing approved by Congress in early 2018, which raised hopes of a permanent hike to growth prospects. Nothing of the sort has happened, although the US budget deficit has been expected to balloon to about $1trn or more every year going forward. The US is a trend setter and in Europe the strings of the fiscal purse are being loosened too, although on a much smaller scale. According to some studies based on governments' announced plans, Germany should do a fiscal easing which amounts to 0.8% of GDP in 2019, alongside Italy, with 0.5%. This would reverse the austerity regime which has reigned in the Euro area since the financial crisis.

Italy may be throwing good money after bad, with fiscal efforts forecast to generate hardly any growth. Germany is another story: its debt-to-GDP ratio is low, hence via the fiscal multiplier growth should be lifted somewhat in the country and in the whole of Europe as well. If this happens, most likely in the second half of the current year the yield curve should steepen, equities rally further, finally not only taking cues from US markets, and the euro appreciate against the US dollar. As Trump's tax cuts proved, the effects would be transient, but enough to provide investors with new sources of return.

Tactical Asset Allocation (TAA): simplified positioning

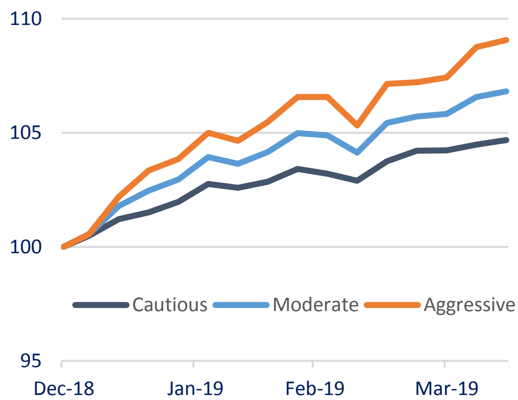


TAA – relative positioning – moderate profile

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

UW/N/OW: Underweight/Neutral/Overweight

TAA – YTD indicative performance



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

Fixed Income Update

The International Monetary Fund warned governments to tread carefully on the trade wars front at a time when the global economy is very fragile. The agency cited “We see downside risks and that means one has to be very careful, “With trade tensions, not knowing where monetary policy is going to go, not knowing how Chinese growth will turn out, it’s time to make sure policymakers do no harm.” The IMF downgraded its outlook for world growth in 2019 to the lowest since the financial crisis a decade ago, as conditions worsened in most major advanced economies. This comes as the third time the agency has downgraded its outlook in six months. Global growth has been downgraded to 3.3% from 3.5%. Growth in the US, Euro-area, Japan, and Canada were all revised lower. China saw an upward revision by 0.1% to 6.30%.

US Treasuries sold off on the back of some encouraging numbers, particularly from China. Benchmark US Treasuries yields rose almost 7bp to 2.56% while those UK Gilts and Germany Bunds followed to respectively 1.20% and 0.05%. China’s credit growth came in higher than expectations in March. Aggregate financing was 2.86 trillion-yuan last month, compared with about 700 billion yuan in February. This week, liquidity conditions are expected to tighten on the back of expiration of some previous liquidity injections, and also tax payments by mid-April which could provide some reason for PBOC to lower RRR rates. Moreover, China's exports rebounded in March while imports fell for a fourth straight month, and at a sharper pace. Exports rose 14.2% from a year earlier, the strongest growth in five months.

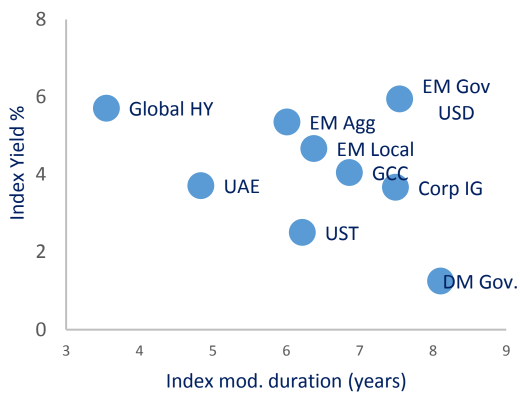
On the global inflation front, US consumer prices were mixed, with core CPI at +0.1%, below expectations, even as headline inflation surprised to the upside at +0.4%. Headline inflation in China was driven up by rising food prices, rising +2.3% year-over-year from an average of circa 1.6% in January- February readings. Moreover, India’s consumer prices ticked higher by 0.57% in March versus -0.07% (MoM) and Turkey’s consumer prices rose 19.7% from a year earlier in March, with the core measure dropping to 17.5%.

Saudi Arabian Oil Company (Saudi Aramco) blockbuster transaction was well received with global primary interests over $100 billion. The company raised $12 billion across multiple tenors starting from three years to thirty years. In terms of geographic allocation, North America scooped 50% while European accounts were allocated 24% followed by Asia Pacific region and Middle East Africa at 19% and 7% respectively. Across the Aramco curve, we find value on the twenty and thirty-years tenors and expect to see spreads compress by circa 20bp to 30bp to fall in line with global peer groups. Saudi Arabian Oil Company is the world’s top exporter of crude oil and natural gas and has the largest proven crude oil reserves at more than 260 billion barrels, with a production capacity of 12 million barrels of oil per day. It manages over 100 oil and gas fields in Saudi Arabia, including 288.4 trillion standard cubic feet of natural gas reserves.

Fixed Income key convictions

DEVELOPED MARKETS
OW US within Government
OW Corporate Credit
UW High Yield
EMERGING MARKETS
OW GCC
OW Local Currency
UW Latin America

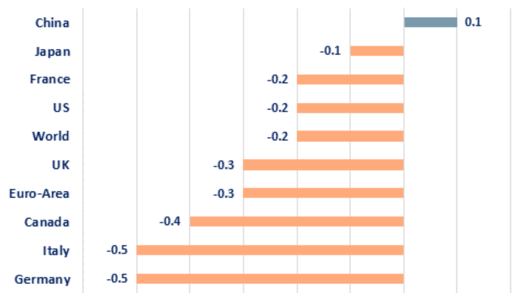
Fixed Income valuations



Source: Bloomberg, indices modified duration and YTW

Chart of the week:

Evolution of IMF 2019 growth forecast since January



Source: IMF

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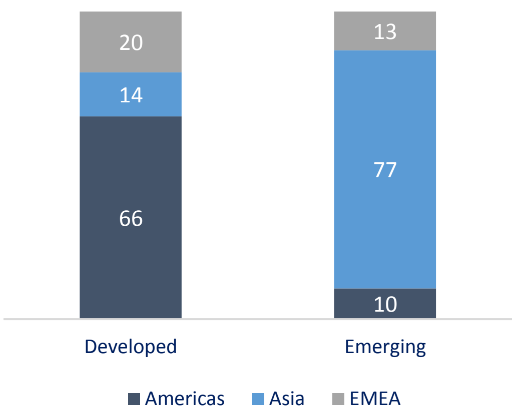
Equity Update

The recent rally in the Dubai equity market (+13.4% total returns tear to date), was long awaited and has fundamental undertones to support it further. Whilst the Abu Dhabi Index rallied in 2018 rallied, Dubai lagged. Even post the 2019 rally, Dubai remains attractive a t a 7X forward Price to Earnings metric. Corporate profitability growth in Q1, as is the case in the rest of the world will be closely watched to determine the future path for the market. The UAE continues to deepen financial consolidation, and is looking to merge more banks in a very concentrated market, where approximately 50 banks compete. The cost synergies will lead to higher quality banks and improved profitability. The logistics sector continues to benefit from growth in the region. In 2018, Air Arabia added 26 destinations to its network, serving 11mn passengers while maintaining an 80% average seat factor from its four hubs. DP World continues its inorganic growth, through M&A, having recently acquired USD 2.5bn worth of companies in related sectors. The company plans to continue heavily investing in ports worth USD 1.4bn in the next year across the UAE, Ecuador, Somaliland, Senegal and Egypt. The company plans to shift its strategy towards end-to-end logistics, warehousing and services.

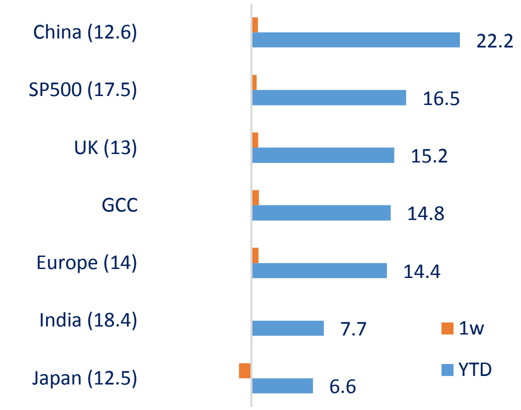
KSA corporate earnings have begun well with Extra providing a fillip to the consumer sector with a year on year revenue growth of 22% and Almarai growing Saudi revenues by 4.3% in Q1 due to a general improvement in the market. Whilst global attention was on the Saudi Aramco debt issue, other reforms continue at a quieter pace. Saudi Arabia's Communications and Information Technology Commission (CITC) has eased permit procedures aimed to ease procedures of obtaining licenses, to promote telecom business and create investment opportunities, positively influencing the Kingdom's business environment. On the tourism front too, potential growth is on the cards with the tourist arrivals to the Kingdom expected to increase by 5.6% per year from 2018 to 2023. Religious tourism is expected to remain at the heart of the sector, for the next decade.

As the technology sector continues to lead global equity performance and worries on valuations emerge, we highlight select opportunities that have not yet reached maturity. With the focus on connectivity and data speed, countries are in a hurry to adopt 5G. The 5G ultra-high speed network will augment the use of cloud services, virtual reality, connected automotive, smart manufacturing, and connected energy, wireless eHealth, wireless home entertainment, social media, AI, internet of things and the future of smart cities. South Korea is the first to have 5G services provided by mobile carriers. A price war amongst carriers will make it hard to boost ARPU and the winners will be the providers of affordable 5G enabled phone providers. In the UAE, Etisalat has partnered with Ericsson to deploy a 5G network. The solutions provided by Ericsson will enable Etisalat to address the industry 4.0 digitalization opportunities by exploring AI and machine services learning services and automation for UAE industries.

Equity recommended regional positioning

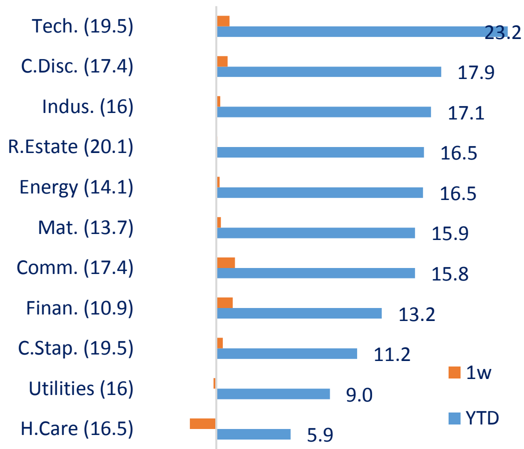


Major indices US$ total return and 2019PE (brackets)



Source: Bloomberg consensus. MSCI Indices unless specified.

Global sector US$ total return and 2019PE (brackets)



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

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