Emirates NBD
WEALTH MANAGEMENT

Goldilocks, **reloaded**

- **Markets climbed the wall of worries last week, printing steadily positive returns…**
- **… Supported by the US debt-ceiling resolution and hints of no June hike by the Fed**
- **The developments are in line with our scenario and our positioning is unchanged for now.**

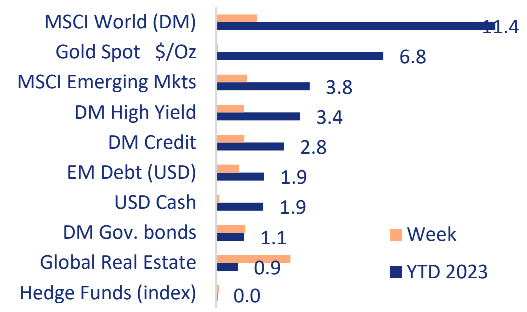
Last week was positive across all asset-classes. The US debt ceiling issue was, as expected, solved, and in addition, speeches from Fed officials expressed doubts about the need for an interest-rate hike at the June meeting to be held next week. Both were not an absolute surprise to us, but markets happily climbed the wall of worries with broad positive weekly returns.

Friday's monthly US job report was very interesting, and so was market response. The US economy created 339,000 new jobs in May, dwarfing the median forecast of less than 200,000. The April print was also revised higher. This looks like a booming job market, raising serious questions about the future trajectory of inflation. However, importantly, some metrics in the report suggested underlying weakness. The unemployment rate materially increased from 3.4% to 3.7%, meaning a sharp increase in job seekers. The average working week ticked lower to 34.3 hours, and finally, the increase in wages was slower than expected. Bond markets reacted with a rise in treasury yields, especially on the front-end of the curve, but stocks saw the glass as half-full and rallied. Indeed, the possibility of an ideal scenario of moderating inflation with resilient activity is not off the table.

Another interesting event was the OPEC+ meeting held yesterday. The Kingdom of Saudi Arabia announced a voluntary cut in their production of 1mn barrel per day from July, to support stability in the market. Good news for our country: the production limit for the UAE will be increased from next year.

The week ahead will see the release of PMI Services in most regions, including the US ISM. We will also hold our monthly tactical asset allocation meeting. Stay safe.

ASSET CLASSES USD % TOT.RETURN, YTD 2023 & LAST WEEK



MAURICE GRAVIER
Chief Investment Officer
MauriceG@EmiratesNBD.com

ANITA GUPTA
Head of Equity Strategy
AnitaG@EmiratesNBD.com

GIORGIO BORELLI
Head of Asset Allocation
GiorgioB@EmitatesNBD.com

SATYAJIT SINGH, CFA
Head of Fixed Income Strategy
SatyajitSI@EmiratesNBD.com

Cross-asset Update

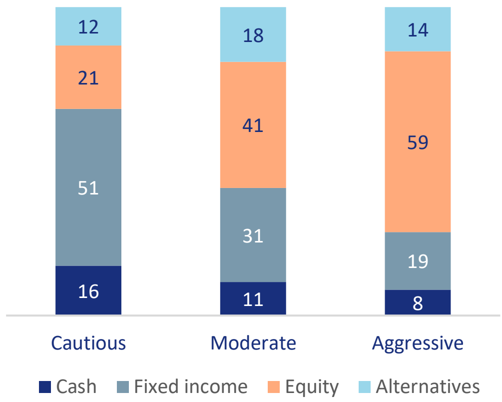
Markets took a pro-cyclical turn last week, leaving behind recessionary concerns. That was true of US assets that outperformed in the wake of a strong jobs report, while the DM ex-US indices lagged behind. It is notable that cyclical stocks joined the rally, while at the same time smaller companies outperformed and the dollar continued to rebound, suggesting that US exceptionalism is back, with European growth flatlining and the Chinese recovery still having to prove itself in terms of durability. It seems the rally can continue in the next few months, with inflation falling and growth still solid, making for a brief Goldilocks interlude.

A July hike is increasingly likely as per market pricing and this is hurting long-duration trades from gold to Treasuries. But it is not all gold that glitters. Average hours worked in May decreased in spite of solid hiring. Usually, companies increase or decrease hours worked before proceeding to hiring and firing. Also, the unemployment rate increased, in contrast with the payrolls report. All of this suggests a labor market that is turning and finally going to soften down the road.

This provides food for thought for gold. The yield curve should stay inverted for longer, unable to steepen anytime soon given the unwillingness of the Fed to go back to an easing mode on still high inflation pressures. At the same time, an increasing number of central banks is adding to gold in their vaults as a means of exchange to avert threats related to the weaponization of the US dollar, hence creating additional demand that would not be there for purely macro reasons. The US economy should sooner or later buckle under the weight of higher policy rates, as the details of the labor report suggest. Yields would eventually be falling and supporting a rerating of the yellow metal, alongside unabated geopolitical risks, especially on the Russia-Ukraine front. Investors should stand the chance of buying on weakness, with the still strong US economy and the incomplete repricing of a more hawkish Fed acting as headwinds in the shorter term.

As for equities and bonds, the Goldilocks interlude should see the cyclical stocks continue rebound and catch up with the IT sector, while yields could be more resilient than expected against a backdrop of improved economic conditions. Investors can enjoy the Goldilocks interlude, before the delayed effect of the Fed's tightening makes itself felt in the latter part of the year.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

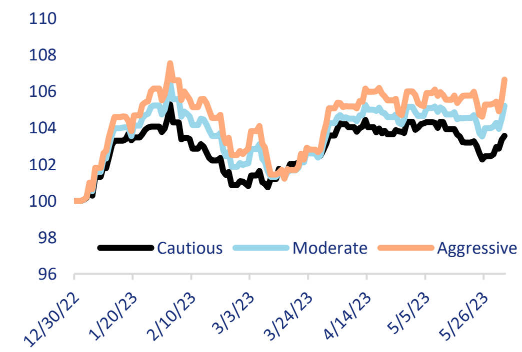


TAA – RELATIVE POSITIONING – MODERATE PROFILE

UW/N/OW:Underweight/Neutral/Overweight

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

TAA – 2023 INDICATIVE PERFORMANCE



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

Fixed Income Update

We remain confident about our longer horizon call of lower yields. However, the short-term direction of yields is a puzzle and needs to be analyzed under a dual scanner of positioning versus macro triggers. As mentioned in our earlier weeklies, the positioning in 10-year Treasuries remains moderately bearish. Hence, there is a high hurdle for the 10 Year to sell off sharply. It would require a broad-based acceleration in the global economy.

While US exceptionalism holds so far, four out of five leading indicators used by the erstwhile Chief Economist of GS, Jim O'Neil, currently point to a future slowdown. Moreover, the puzzling US NFP data released last Friday could indicate an inflection point in the labour data. The unemployment rose by 0.3%, with both WARN layoffs data and May Challenger data confirming layoffs have increased, and new hiring has slowed down. This should lead to cooler wage growth, impacting the core services inflation.

The future rate path repricing was driven by easing concerns of external banking risks, and we believe that the Fed would be pausing in the June meeting. Moreover, the credit tightening has had some impact on small businesses. The May NACM credit survey indicates that the combined services and manufacturing bankruptcy filings have reached the highest levels since Covid and GFC, with an expectation of a worsening outlook in Q3. Therefore, the Fed should pause and judge the impact of the cumulative rate hikes before taking a decision.

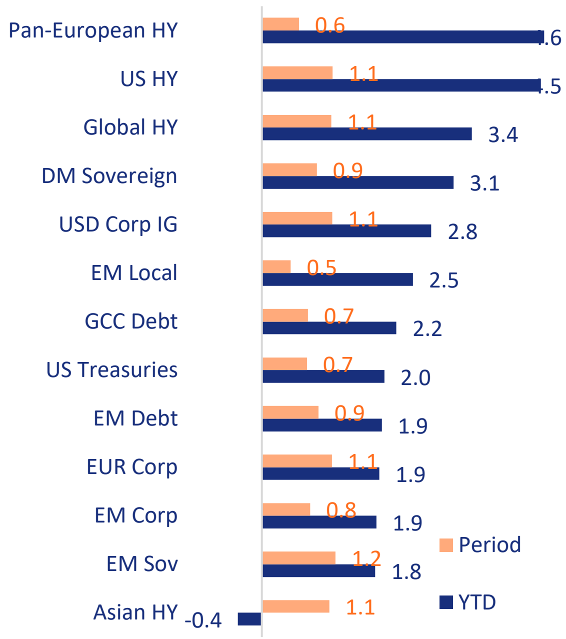
The different segments within fixed income look very tight in terms of OAS spreads. On an YTD basis, the spreads are slightly below the median. The High Yield spreads compressed by 35 bps for the US and 26 bps for the European Bloomberg indices. High Yield still leads the returns chart with a YTD return of 3.4%, slightly ahead of the 2.8% return of the IG index. JPM's recent HG fundamental research highlights the deteriorating trends in revenue, EBITDA, leverage, and interest coverage and the conservative steps companies are taking in this environment, including slow debt growth and less money going out to shareholders. This would also hold for the High Yield companies and makes us cautious.

Here, we would like to highlight the opportunity in the GBP fixed-income space. The UK has the biggest mispricing between a potential fall in inflation and market expectations for rate hikes. The risk-reward looks favourable now when it comes to fading aggressive BoE tightening expectations. Market implied rate hike expectations are 80 bps within the next six months which seem aggressive given that the gap between the UK PPI and UK CPI has increased significantly. Typically, in the past PPI led the CPI by around five months, and we could see markets slowly reprice the BoE future rate path. With many solid credits offering 6% + in this space, we advise clients with GBP liquidity to add these bonds to their portfolios and look for a high total return with a horizon of 12 months.

FIXED INCOME KEY CONVICTIONS

DEVELOPED MARKETS
OW Quality corporates
OW Government Bonds
UW High Yield
EMERGING MARKETS
Overall UW EM Debt
Favor quality and selectivity
OW Selectively Asia,

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



Source: Bloomberg

Equity Update

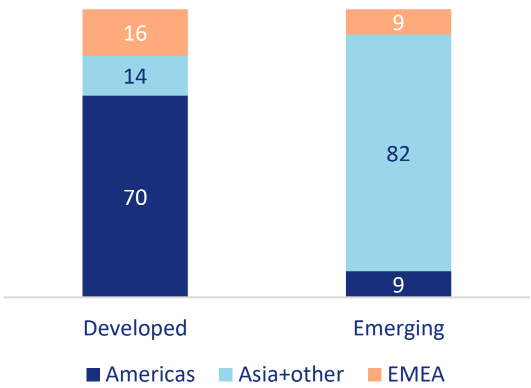
Markets are not yet tired of everything "AI". The recent rally is definitely all about AI and its potential implications on boosting productivity and growth and the differential in performance between companies that will be the leaders in generative AI starting from the platforms with large data, to enablers, that is the semis, and finally with the applications in fintech, healthcare, EV's, robotics, agriculture, climate control, et al. The market for generative AI could be $1.3tn in 2032 from just $40bn last year, (Bloomberg Intelligence). Compound annual growth over the period 42%, driven by systems like OpenAI's ChatGPT and Google's Bard. Advertising, customer service and banking will see the most impact. Nvidia briefly crossed the trillion-dollar market cap, fuelled by AI's growth potential. The tech FOMO continues, somewhat justified with the AI productivity addition to global growth, though rising valuations need to be carefully watched. This is not a dot.com rally as these are high growth profitable companies. However, there is more than just the big seven tech companies that will gain, there are opportunities in the med-tech space and analytics that benefit too.

US equities closed at their highest level in the last 9 months. The S&P 500 was up 2% last week, close to 4300 as was the Nasdaq, holding above 13,000. Whilst yield volatility continues, tech is counting on a diminishing path of future hikes. VIX at below 16 is indicative that equity volatility continues to stay down and wouldn't disregard that, even the doom and gloom gurus are now more muted after the recent equity rally. We have an underweight positioning on DM equities and overweight EM equities where we see higher growth. However, US corporate margins have exceeded expectations and we have a neutral stance to the US, reiterating a focus on quality – a clear path to growth, profitability and low leverage.

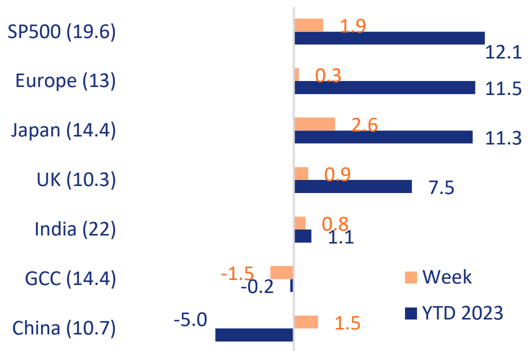
Our overweight in equities is centered on Asia – with India a strategic long-term preference and Japan for the near term as a tactical play. Japan is changing after three decades of weak GDP growth and average ROE of 5%, with gains in productivity growth and corporate profits to take ROE to 12%, in line with the MSCI World by 2025, driving a valuation re-rating. Expect a revival in growth, driven by stronger domestic demand and supported by reopening. There is not yet high inflation and real rates should remain accommodative, helping to catalyse a revival in capex. No tightening in sight. Other factors supporting Japanese equities, which are at a 33-year high are margins and consumption.

China growth looks set to slow, though the 5% 2023 target should be met, with growing indebtedness and once the post Covid rebound is over consumption will go lower. Although China is credited for the luxury sector boom, wide inequalities result in demand constrained by excess savings. Supply remains constrained by a falling productivity trend as the working age population is shrinking.

EQUITY RECOMMENDED REGIONAL POSITIONING

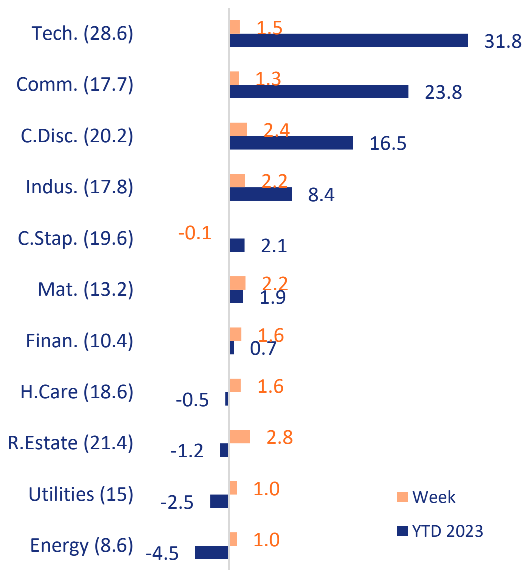


MAJOR INDICES PERFORMANCE (TR, US$) AND 2023PE



Source: Bloomberg consensus. MSCI Indices unless specified.

GLOBAL SECTOR PERFORMANCE (TR, US$) AND 2023PE



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

DISCLAIMER

Reliance

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

Confidentiality

This publication is provided to you upon request on a confidential basis for informational purposes only and is not intended for trading purposes or to be passed on or disclosed to any other person and/or to any jurisdiction that would render the distribution illegal. The investor may not offer any part of this publication for sale or distribute it over any medium including but not limited to over-the-air television or radio broadcast, a computer network or hyperlink framing on the internet without the prior written consent of Emirates NBD or construct a database of any kind.

Solicitation

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

Third party

The security or investment described in this publication may not be eligible for sale or subscription to certain categories of investors. This publication is not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law or regulation. It is the responsibility of any person in possession of this publication to investigate and observe all applicable laws and regulations of the relevant jurisdiction. This publication may not be conveyed to or used by a third party without the express consent of Emirates NBD. The investor may not use the data in this publication in any way to improve the quality of any data sold or contributed to by the investor to any third party.

Liability

Anything to the contrary herein set forth notwithstanding, Emirates NBD, its suppliers, agents, directors, officers, employees, representatives, successors, assigns, affiliates or subsidiaries shall not, directly or indirectly, be liable, in any way, to you or any other person for any: (a) inaccuracies or errors in or omissions from the this publication including, but not limited to, quotes and financial data; or (b) loss or damage arising from the use of this publication, including, but not limited to any investment decision occasioned thereby. Under no circumstances, including but not limited to negligence, shall Emirates NBD, its suppliers, agents, directors, officers, employees, representatives, successors, assigns, affiliates or subsidiaries be liable to you for direct, indirect, incidental, consequential, special, punitive, or exemplary damages even if Emirates NBD has been advised specifically of the possibility of such damages, arising from the use of this publication, including but not limited to, loss of revenue, opportunity, or anticipated profits or lost business. This publication does not provide individually tailored investment advice and is prepared without regard to the individual financial circumstances and objectives of person who receive it. The appropriateness of an investment activity or strategy will depend on the person's individual circumstances and objectives and these activities may not be suitable for all persons. In addition, before entering into any transaction, the risks should be fully understood and a determination made as to whether a transaction is appropriate given the person's investment objectives, financial and operational resources, experiences and other relevant circumstances. The obligations relating to a particular transaction (and contractual relationship) including, without limitation, the nature and extent of their exposure to risk should be known as well as any regulatory requirements and restrictions applicable thereto.

Forward looking

Past performance is not necessarily a guide to future performance and should not be seen as an indication of future performance of any investment activity. The information contained in this publication does not purport to contain all matters relevant to any particular investment or financial instrument and all statements as to future matters are not guaranteed to be accurate. Certain matters in this publication about the future performance of Emirates NBD or members of its group (the Group), including without limitation, future revenues, earnings, strategies, prospects and all other statements that are not purely historical, constitute "forward-looking statements". Such forward-looking statements are based on current expectations or beliefs, as well as assumptions about future events, made from information currently available. Forward-looking statements often use words such as "anticipate", "target", "expect", "estimate", "intend", "plan", "goal", "seek", "believe", "will", "may", "should", "would", "could" or other words of similar meaning. Undue reliance should not be placed on any such statements in making an investment decision, as forward-looking statements, by their nature, are subject to known and unknown risks and uncertainties that could cause actual results, as well as the Group's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements. Estimates of future performance are based on assumptions that may not be realized.

DISCLAIMER

Risk

Data included in this publication may rely on models that do not reflect or take into account all potentially significant factors such as market risk, liquidity risk, and credit risk. Emirates NBD may use different models, make valuation adjustments, or use different methodologies when determining prices at which Emirates NBD is willing to trade financial instruments and/or when valuing its own inventory positions for its books and records.

The use of this publication is at the sole risk of the investor and this publication and anything contained herein, is provided "as is" and "as available." Emirates NBD makes no warranty of any kind, express or implied, as to this publication, including, but not limited to, merchantability, non-infringement, title, or fitness for a particular purpose or use.

Investment in financial instruments involves risks and returns may vary. The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, prices and other factors and there is the possibility that you may lose the principle amount invested. Before making an investment, investors should consult their advisers on the legal, regulatory, tax, business, investment, financial and accounting implications of the investment.

In receiving this publication, the investor acknowledges it is fully aware that there are risks associated with investment activities. Moreover, the responsibility to obtain and carefully read and understand the content of documents relating to any investment activity described in this publication and to seek separate, independent financial advice if required to assess whether a particular investment activity described herein is suitable, lies exclusively with the investor.

Intellectual property

This publication has been developed, compiled, prepared, revised, selected, and arranged by Emirates NBD and others (including certain other information sources) through the application of methods and standards of judgment developed and applied through the expenditure of substantial time, effort, and money and constitutes valuable intellectual property of Emirates NBD and such others.

All present and future rights in and to trade secrets, patents, copyrights, trademarks, service marks, know-how, and other proprietary rights of any type under the laws of any governmental authority, domestic or foreign, shall, as between the investor and Emirates NBD, at all times be and remain the sole and exclusive property of Emirates NBD and/or other lawful parties. Except as specifically permitted in writing, the investor may not copy or make any use of the content of this publication or any portion thereof. Except as specifically permitted in writing, the investor shall not use the intellectual property rights connected with this publication, or the names of any individual participant in, or contributor to, the content of this publication, or any variations or derivatives thereof, for any purpose.

This publication is intended solely for non-commercial use and benefit, and not for resale or other transfer or disposition to, or use by or for the benefit of, any other person or entity. By accepting this publication, the investor agrees not to use, transfer, distribute, copy, reproduce, publish, display, modify, create, or dispose of any information contained in this publication in any manner that could compete with the business interests of Emirates NBD. Furthermore, the investor may not use any of the trademarks, trade names, service marks, copyrights, or logos of Emirates NBD or its subsidiaries in any manner which creates the impression that such items belong to or are associated with the investor or, except as otherwise provided with Emirates NBD, prior written consent. The investor has no ownership rights in and to any of such items.

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

United Kingdom

This publication was prepared by Emirates NBD Bank PJSC in the United Arab Emirates. It has been issued and approved for distribution to clients by the London branch of Emirates NBD Bank PJSC which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority in the UK. Some investments and services are not available to clients of the London Branch. Any services provided by Emirates NBD Bank PJSC outside the UK will not be regulated by the FCA and you will not receive all the protections afforded to retail customers under the FCA regime, such as the Financial Ombudsman Service and the Financial Services Compensation Scheme. Changes in foreign exchange rates may affect any of the returns or income set out within this publication.

Singapore

This publication was prepared by Emirates NBD Bank PJSC in the United Arab Emirates. It has been issued and approved for distribution to clients by the Singapore branch of Emirates NBD Bank PJSC which is licensed by the Monetary Authority of Singapore (MAS) and subject to applicable laws (including the Financial Advisers Act (FAA) and the Securities and Futures Act (SFA). Any services provided by Emirates NBD Bank PJSC outside Singapore will not be regulated by the MAS or subject to the provisions of the FAA and/or SFA, and you will not receive all the protections afforded to retail customers under the FAA and/or SFA. Changes in foreign exchange rates may affect any of the returns or income set out within this publication.
Please contact your Relationship Manager for further details or for clarification of the contents, where appropriate.

For contact information, please visit **www.emiratesnbd.com**