2024 Special: **The Year of Answers**

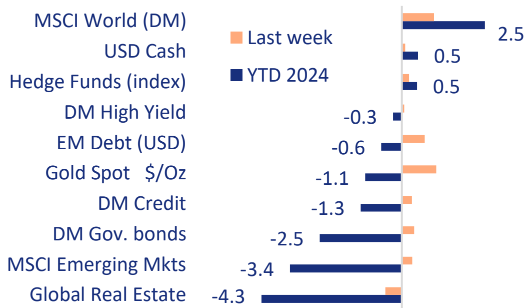
- **Our 2024 Global Investment Outlook is out today, titled "The Year of Answers"**
- **We expect modest returns, with high volatility triggered by data as well as political and geopolitical events**
- **Last week was volatile but ended well, amidst the Fed, earnings, and a strong US job report**

Our 2023 Global Investment Outlook, titled on Unpredictability, was about big questions to which 2024 will bring answers. Our 2024 annual publication is out today for all details on our views and convictions, but here is a summary.

Our central scenario is constructive: we expect global growth to slow enough to keep inflation in check, even as recession is avoided. This sounds like good news, but the issue is that this scenario is extremely consensual, and as a result already priced-in by several asset classes. We thus see a relatively limited upside potential, with, probably, more focus on fundamentals than on just central banks, as their margin for action has arguably narrowed. A strong consensus can only be questioned, by macro data as well as by uncertain developments in elections and geopolitical issues. Modest returns, high volatility: long-term investors should remain diversified and be highly selective, as fundamentals will prevail, while portfolios with a short-term horizon should definitely focus on the safest segments, which, good news, provide comfortable yields for some time.

Last week illustrated this constructive yet volatile configuration. Risk aversion spiked on Wednesday, with troubles in a US regional bank, mixed tech results and the Fed pushing back against anticipations for early rate cuts. But the week ended well for stocks, helped by spectacular results in other big tech names, while markets decided that Friday's very strong US job report should be taken positively for growth rather than negatively for inflation risk. We start the year with a slightly defensive positioning, with an overweight in higher-quality assets, but close to neutral on stocks. You will find all details in our annual publication on our website, and we hope to see you at our client events this week.

ASSET CLASSES USD % TOT.RETURN, 2024 & 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

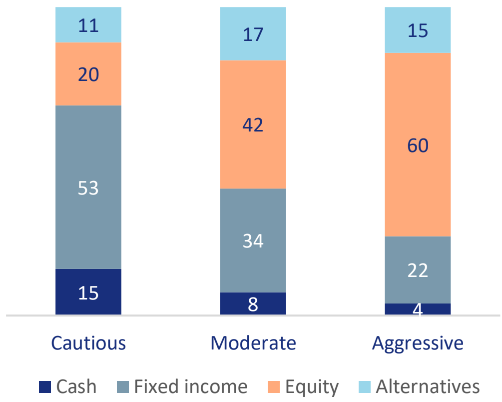
Cross-asset Update

The latest US macroeconomic data points unequivocally to an outlook that in the shorter term could be even stronger than a soft-landing scenario. The latter has been fully discounted, and investors, now looking for a new direction and new events to be priced into asset markets, are awakening to the possibility of a no-landing in the economy. Although all eyes were on the Friday's jobs report, that blew out expectations, the ISM manufacturing release turned out to be at least as relevant, with the headline index rising to a 15-month high to get close to the 50 level. That represents a broadening out of the growth impulse to the goods sector, that had been depressed for months, with services meantime remaining strong on a solid labour market. Overall, US exceptionalism continues, with an added tweak of enhanced sustainability. Dollar centric assets from equities to the US dollar celebrated, while gold and Treasuries as safe havens suffered.

Improving US activity is expected to translate into more robust earnings, and indeed consensus EPS forecasts are making new highs. At the same time, valuations are expensive at index levels, so further upside is likely to be predicated more on sector rotations, than a broad-based advance. It is possible that the cheaper and more cyclical sectors take the baton from the richly valued growth stocks, as investors see more evidence of a recovery. Hence, while returns could be contained, exposure to the right themes would still turn out to be quite profitable. Against this backdrop credit spreads should continue to remain tight and the US dollar resilient versus all major peers.

Other countries on the other have continued to struggle. In China, although commitment to stem the market rout has been reaffirmed, there is need for more action to reawaken animal spirits, rather than good intents. Only a Chinese recovery could break the limitations of US exceptionalism that is coming alongside ever more expensive assets in the United States. Also, the improvement in the ISM manufacturing could prove to be temporary, beginning and ending with inventory restocking unfolding in a few months. For now, investors can enjoy the ride provided by the expectation that the slowdown becomes recovery, though still confined to one specific country.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

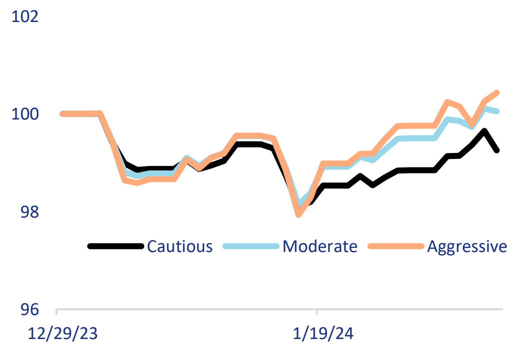


TAA – RELATIVE POSITIONING – MODERATE PROFILE

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 – 2024 INDICATIVE PERFORMANCE



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

Fixed Income Update

There were four major anticipated market-moving events last week, with another unanticipated one raising the stakes for investors. Treasury's Quarterly Refunding announcement was a net positive for yields since the Treasury confirmed this will be the final increase for the year and the new tranches were in line with market expectations. Tech earnings were generally good but highlighted the perils of being priced to perfection. At the Fed's FOMC meeting Chairman Powell pushed back against expectations of March rate cuts. He said policymakers began discussing when to start slowing the pace of their balance sheet runoff, or quantitative tightening, at this meeting, though they plan to have a more robust conversation in March. However, a weak ADP job report and renewed regional bank concerns amidst negative headlines related to New York Community Bank, which reported a well-below-expectations core EPS of $0.27, bolstered reserves, and reduced its dividend, came as a shock. Long-end UST yields declined 11-12bp, and the curve flattened 8bp. We believe NYCB is more of an idiosyncratic risk than a systemic one.

For us, the pivotal moment was on Friday as the NFP data print saw 353,000 jobs added in January, higher than all economist estimates. Average hourly earnings were up 0.6% from the prior month, double the average estimate, and rose 4.5% from the preceding year. The firm headline number took markets and analysts by surprise. Treasuries tumbled after the hot jobs figures, with traders sharply trimming bets on a March Fed rate cut. Less than 5 rate cuts are now priced in until the end of the year. The 2-year yields increased by 16bps, and the long 30-year yields increased by 10bps. The benchmark 10-year jumped above 4% at Friday's close.

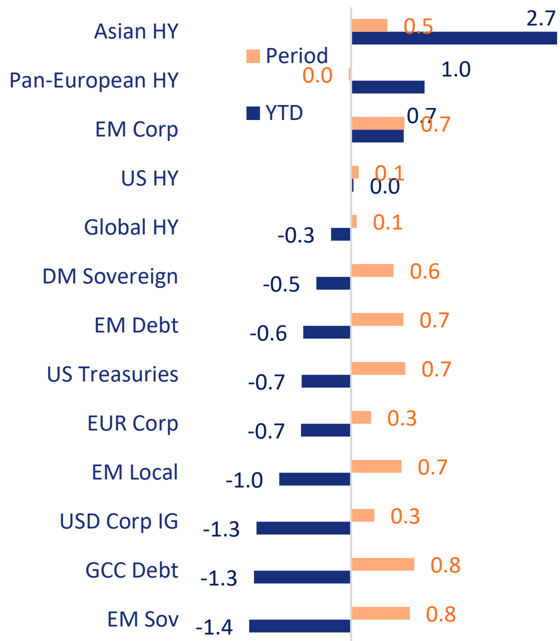
Under such a topsy-turvy scenario, we advise investors to follow a barbell approach to build Fixed Income Portfolios as per our recently released 2024 Global Investment Outlook. The two key pillars of barbell are safety and income. We are overweight Government bonds under the safety pillar, and neutral the Investment Grade and High Yield credit segments as we get excellent carry from short-dated quality credit. Within EM, we prefer Indian HY, cash-rich China IG Tech, GCC Govt Related Entities that trade at least 25bps wider to underlying sovereigns and national oil-&-gas companies from LatAm.

In keeping with the theme of "The Year of Answers" we have tried to find clues to some of the most important investor questions. Markets will be disappointed if the aggressive rate cut expectations don't come to pass, 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. We expect the Fed to slow the pace of balance sheet run-off in Q1 2024 and stop it in second half once bank reserves are around 12-13% of bank assets and the Fed's balance sheet is about 22% of GDP (currently 28.8%). This would be positive for yields. Credit spreads across segments are trading at some of their tightest valuations in a couple of decades. Moreover, historically February has been a bad season for spreads. We see mounting risks to valuations heading into February including geopolitics, seasonality, earnings, and any surprises to the goldilocks assumptions built into market's current expectations.

FIXED INCOME KEY CONVICTIONS (2023)

DEVELOPED MARKETS
Overall overweight DM FI
OW Government Bonds
Neutral corporate (IG & HY)
EMERGING MARKETS
Overall UW EM Debt
Favor quality and selectivity

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



Source: Bloomberg

Equity Update: Our outlook for 2024

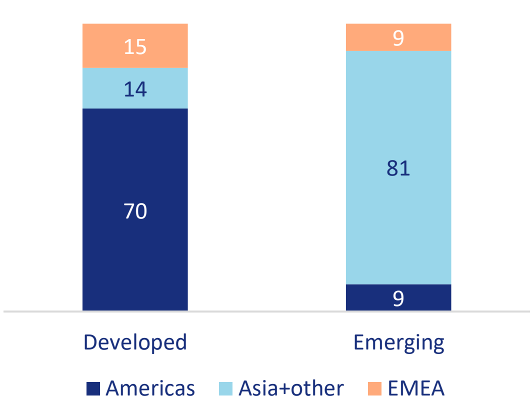
Our positioning is close to neutral on equities. We expect the major equity indices to end 2024 with mid-single digit gains, with higher returns expected from India and Japan. The year starts with decelerating inflation growth, a still strong labour market, real wage growth aiding consumer spending and a buoyant services economy. Corporate margins are steady in spite of higher input costs and wages/ transportation costs. Economic reforms and robust growth should support ongoing outperformance of India and Japan versus China equities. 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 in 40% of the world. Market direction we feel will be influenced more by corporate earnings growth and corporate guidance, than central bank rhetoric. We begin 2024 on higher valuations, hence recommend selectivity when investing i.e., companies with strong business models, growing profits and resilient cash flows.

Positioning in developed markets: we are overweight Japan which is transforming its capital market strategy with a strong focus on shareholder value and ROE by corporates. We are Neutral the US as uptrend is intact but not without volatility. 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 to 4% (both estimates are below consensus). We expect the adoption of generative AI to lift productivity growth, and consequently domestic growth – which is the key driver of equity markets. The US consumer is still strong. We are underweight the Eurozone, as earnings growth is expected to be flat.

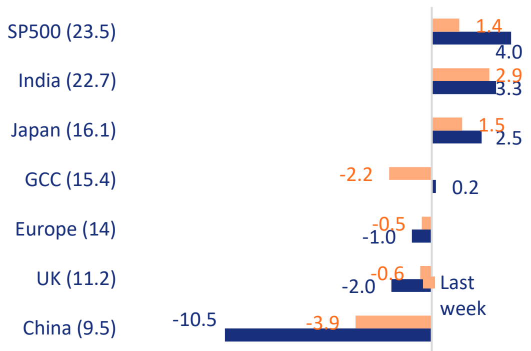
In the emerging markets we like India for growth and the UAE for dividend income. Neutral China as debt, deflation, demographics and geopolitical tensions remain longer-term challenges. Reflationary measures and debt restructuring are getting into shape, but more is needed to deal with the property crisis. A contrast with India with domestic and international inflows into equities. Indian economic and productivity growth stand out as does its resilient earnings growth. In the UAE expect capital issuance to continue adding market breadth and depth. Oil prices should hold steady, while non-oil revenue will boost the economy. Increasing population and economic reforms are encouraging industry and global financial firms to set up base in the UAE. The banks continue to pay high and resilient dividends.

As for themes we move from AI enablers to adopters in the health tech, cyber security space. Continue to like semis. Also like the defensive healthcare sector with obesity/ diabetes therapeutic drug companies at the start of adoption. 230 S&P 500 companies have reported 4Q results and among the Mag 7 big tech Meta, Amazon and Microsoft exceeded expectations while Apple announced slowing sales in China. Alphabet met expectations. If Nvidia meets estimates, revenue for the Mag 7 is over USD half a trillion in Q4 with y/y growth +14%. For the remaining 493 S&P 500 stocks it is just 2%.

EQUITY RECOMMENDED REGIONAL POSITIONING

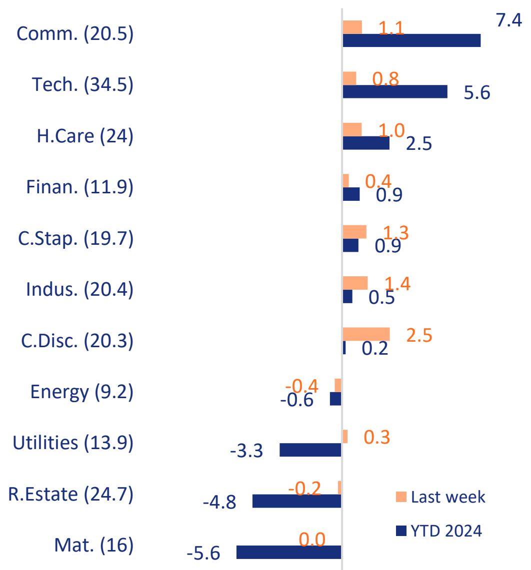


MAJOR INDICES PERFORMANCE (TR, US$) AND P/E



Source: Bloomberg consensus. MSCI Indices unless specified.

GLOBAL SECTOR PERFORMANCE (TR, US$) AND P/E



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

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