A good start to June, but uncertainty still prevails

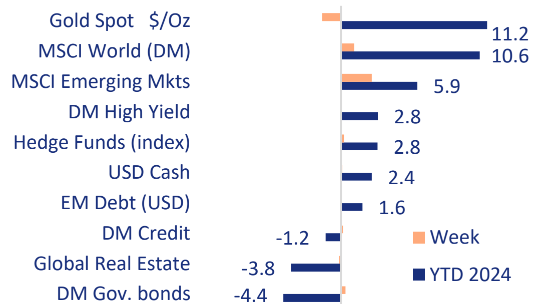
- **Last week was positive for most major asset classes, with many encouraging economic data**
- **The US backdrop remains unclear amidst some contradictory signals**
- **The week ahead will focus on the Fed's updated guidance and the US inflation report**

Last week was not a bad start to the month of June, even as volatility continued, as expected, to be very elevated. Most asset classes had positive weekly returns, led by stocks from the emerging markets. The second part of the monthly "PMI season" confirmed an overall improvement of the global picture, with constructive signals from pretty much everywhere. The US, however, was a bit ambiguous. On one hand, the ISM manufacturing was disappointing, with a drop to 48.7, and both weekly jobless claims and monthly job openings indicated softness. But on the other, the same leading indicator calculated by S&P Markit showed a buoyant manufacturing sector, and the number of job creations in May was much higher than the median forecast, at 272k versus 180k expected. Very strong.

This won't simplify the Fed's monthly policy committee, which will conclude Wednesday at 10PM Dubai time, especially as the May CPI inflation report will be released at 4.30PM the same day. The consensus expects to see a slight moderation in the YoY core CPI, from 3.6% in April to 3.5%. Coming to the FOMC, we obviously do not expect any change in interest rates but all eyes will be on their updated projections, including on rates through the "dot plot", which currently signals 3x25 bps of easing in 2024. The new projection will most likely be less dovish, at two or even just one for the year. The Bank of Japan will also meet on Friday.

Markets stay in shallow waters, as we wrote last week. We keep on thinking that central banks will start cutting without committing to much more, as the ECB expectedly just did. Political developments take a centre stage: after Mexico, South Africa and India, volatility could move to the Eurozone, and later to the US with the presidential debate. We will not issue a weekly publication next week due to Eid holiday. Take care.

ASSET CLASSES USD % TOT.RETURN, 2024 & LAST WEEK



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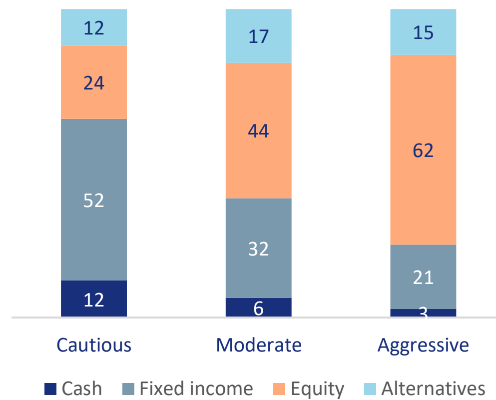
Cross-asset Update

The past decade got us unused to macroeconomic volatility, that was suppressed by the ongoing post Great-Financial-Crisis Quantitative Easing of central banks. The combination of the healing from GFC imbalances, of QE, and of the reassuring forward guidance from central banks produced an environment of modest growth and muted inflation, that was great for financial assets, that rallied hard against a super placid macro backdrop. Fast forward to today and you can see what we could label as some sort of an opposite state of affairs: high-pressure economies boosted by fiscal stimulus, uncertainty about sticky inflation, that allows only for shallower easing cycles. And these economies are now harder to read, meaning that it is unwise to extrapolate future tendencies from a few data points. Take for instance the manufacturing and services sectors in the United States. While services are resilient, manufacturing is in contraction according to one business survey, and in expansion according to another. And this discrepancy has been lasting for months now. Or take the labour market. According to the latest JOLT report companies are slowing down hiring as job openings per unemployed person are at a three-year low. Yet, Friday's jobs report surprised to the upside with another blowout payroll's number and solid hourly earnings, even as unemployment did rise. Despite rising volatility in data releases, the final take should be, in our view, that momentum in the US job market remains strong, and that US business activity is resilient in services, and to an extent recovering in manufacturing. And this is reflected in the global composite PMI, with its output measure now rising for a seventh straight month, and in the pickup in global manufacturing that is broadening beyond the tech-exporting Asian economies.

If the above gives comfort in terms of support for risk assets, it is less constructive for safe-have assets, and in particular gold. The yellow metal lost almost 1.5% for the week on the double whammy of the People's Bank of China stepping back from purchases and on the stronger jobs report. It should take a while for the overbought conditions to be worked out, meanwhile investors should look to $2,200/oz as the next support level. Conditions remain in place for the bull market in gold to resume, though not in the shorter run.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

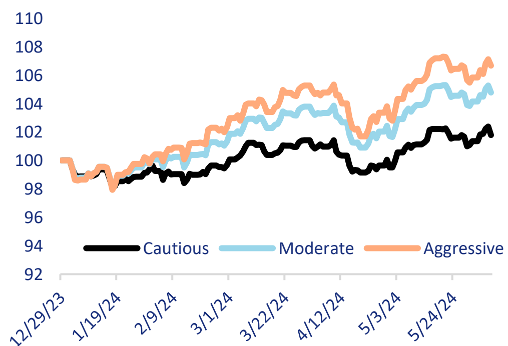


TAA – RELATIVE POSITIONING – MODERATE PROFILE

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.

Emirates NBD WEALTH MANAGEMENT

Fixed Income Update

Last week, the first four trading days saw bond-friendly data that kept on driving treasury yields lower. The 10-year benchmark yield lost 23 bps in those four days. We had weak ISM Manufacturing data on Monday and lower Job openings on Tuesday. Disappointing ADP Jobs data on Wednesday and finally higher weekly jobless claims on Thursday. However, the real non-farm payrolls that came on Friday turned the narrative on its head. A blowout jobs report (+272k) pushed back rate cut expectations to December. Yields across the curve increased by 10 to 15 bps. However, the unemployment rate unexpectedly ticked higher from 3.9% to 4.0%, and the labour force participation rate declined from 62.7% to 62.5%.

In this environment, the Wednesday CPI print gains importance. If the strength in employment doesn't translate into reaccelerating price pressures, the Fed may not have much to worry about. According to Bloomberg estimates, headline CPI is anticipated to moderate to 0.1% from the 0.3% print a month earlier, while the Core CPI is expected to be stable at 0.3%. This is the last key data point before the Fed's decision on rates. The central bank is almost sure to leave the target range unchanged at 5.25-5.5%. However, the Dot-plot may change to show two rate hikes for the year. The committee could be divided between 1 or 2 rate cuts for the year. The neutral Fed rate should also increase, reflecting the new regime. Chairman Powell could continue his dovish tone during the press conference set in the May FOMC.

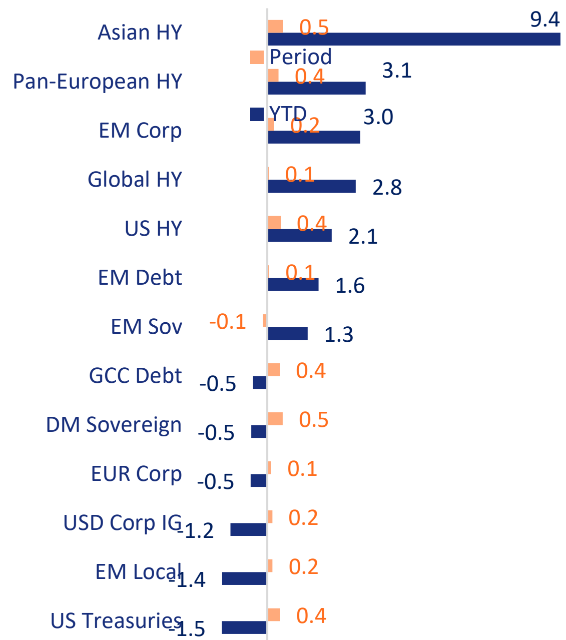
The ECB delivered a well-telegraphed 25 bps rate cut on Thursday. The central bank was prepared to cut despite inflation remaining sticky, despite persistent wage pressures, and despite some signs that the European economy might be improving. Governor Lagarde used the post-meeting press conference to give herself as much optionality as possible, saying the ECB would not provide any further forward guidance until "much later in the summer," seemingly snuffing out any thoughts of another cut in July.

The spreads on credit told a different story than the yields. Investment Grade spreads widened while the high yield spreads tightened over the week. The IG widening can be attributed to lower yields for most of the week, which moderated the demand amidst a significant issuance week. However, the High Yield spreads followed a similar narrative for four days last week before tightening after the strong employment data, taking solace from the still robust economy.

FIXED INCOME KEY CONVICTIONS (2024)

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

Emirates NBD WEALTH MANAGEMENT

Equity Update

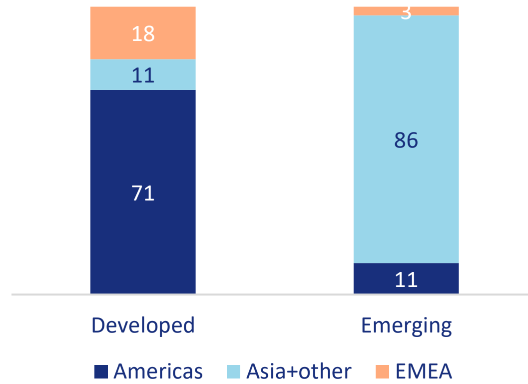
A positive week for markets, following a very upbeat May, driven by elections, central bank action, AI impact on industry and labour market strength. Leading regional returns YTD are India (growth market) and the US (tech concentration though rally broadening). The global monetary policy shift is gaining traction with rate cuts by the BOC and the ECB. Strong US labour data raises the focus on European labour strength and the future path of rate cuts. The Fed's policy path is less clear with robust job growth playing into higher-for longer rates.

Good weekly gains for US equities, the S&P 500 + 1.4% and the Nasdaq +2.4%. Three $3Trillion companies (Microsoft joined by Nvidia and Apple) combined market cap of $9.2 trillion is up from $6.3 trillion a year ago. Add Alphabet and Meta and it's 24% of S&P 500 fuelling concerns around market concentration. Nvidia announced "Rubin", the successor to its "Blackwell" chips for data centres in 2026. Worries about AI overheating is offset by lack of a material rise in tech volatility and the secular growth and productivity tailwind from AI. Goldman Sachs see a 15% increase in US labor productivity and GDP expected from generative AI. The Nvidia stock split (after close on 7-Jun) seen as a positive and the Apple WWDC event this week expected to give details on its gen-AI strategy. European equities +1% last week, have Novo Nordisk (obesity therapy leader) and ASML (chips) as the largest by market cap.

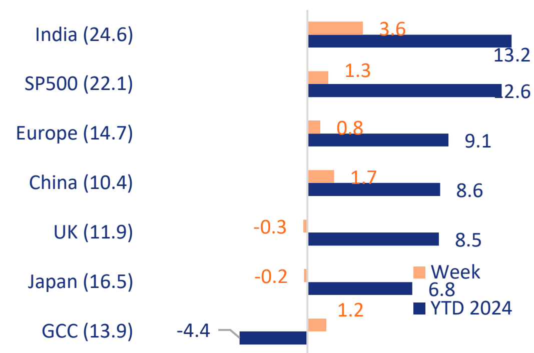
EM equities playing catch up to DM, with another strong week +2.4%, with India and China both up. China's real estate sector is getting some focus from the government and China May exports beat expectations. However, more is needed in growth data to get sustained support for China markets. The world's largest democracy, India, proved itself to be just that. The election results, while giving the Narendra Modi-led NDA coalition a victory, was narrower than expected, leading to volatility in the Indian equity market. Our long-held overweight for India equities has worked well relative to other emerging markets, with the MSCI India +13% YTD following + 21% in 2023 (USD returns). We expect India's outperformance to continue, despite not being cheap at 23x earnings and 4.1x book value, a large valuation premium, but strong economic and corporate growth metrics supporting future returns. On Friday, the Indian Central bank RBI held its key rate at 6.5%, while raising its GDP growth forecast for the fiscal year to 7.2% from 7%.

On the income side the UAE looks attractively positioned as does the KSA. GCC companies continue to successfully place secondary offerings. Aramco's share sale priced in the bottom half of its proposed range, raising $11.2 bn (as per reports demand was for $65 bn) for the Saudi Arabia government. 1.55bn shares placed at SAR27.25, a 6% discount to the stock's last close before the deal was announced. The deal saw foreign institutional investors participate with the attractive 6.6% dividend, backed by strong cash flows. On Sunday shares closed at SAR 28.60. In the UAE, education-tech company Alef Education (ADX) saw demand for $20bn, an over-subscription of around 39 times. Tech Nova Investment and Kryptonite Investments are selling a 20% stake in the company.

EQUITY RECOMMENDED REGIONAL POSITIONING

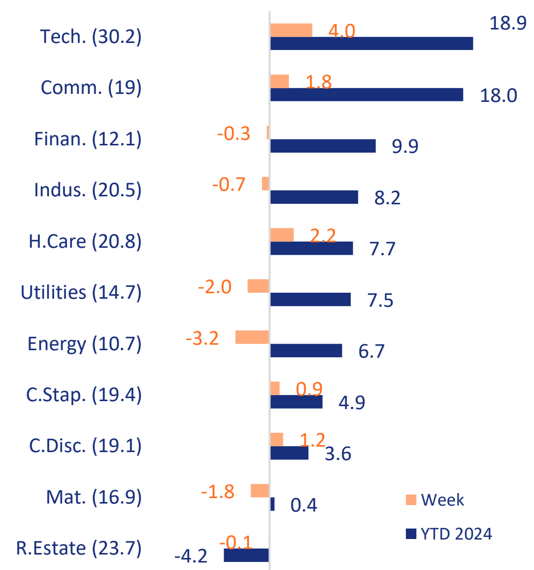


MAJOR INDICES PERFORMANCE (TR, US$), P/E in brackets



Source: Bloomberg consensus. MSCI Indices unless specified.

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



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

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