بنك الإمارات دبي الوطني
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“Trump trades” resume, with confirmed **US exceptionalism**

- **Last week was overall positive for global markets, with US assets outperforming.**
- **Flash PMIs also highlighted a sharp difference between America and other developed regions.**
- **Our three profiles continue to show a very robust year so far**

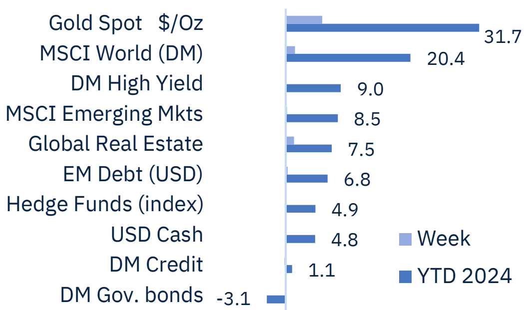
Last week saw most asset classes print positive returns, with a clear “Trump trade” flavour. The dollar strengthened, bitcoin approached the $100,000 mark, and US stocks outperformed most of their peers. Still, the best performing item in our list was gold, which gained 6% over the course of the week. Part of it is linked to the fact that long-dated Treasury yields stopped rising last week, however the main reason is probably the dangerous escalation between NATO and Russia. The same explains why oil prices were also up sharply, while usually commodities do not rise when the dollar is stronger.

Flash PMIs for November were also fully in line with the idea of US exceptionalism. The US composite index printed 55.4, a high level in absolute terms and an improvement over October. By comparison, the eurozone, UK and Japan were all below 50, signalling higher odds of a contraction ahead. The gauge for services showed a worrying drop in Europe. This also explains the weakness of the Euro: the ECB will have no choice but to support the economy with most probably deeper rate cuts. Inflation is not particularly concerning, and the worrying trend of demand prompts some monetary action.

The end of the week saw President Trump picking Mr Scott Bessent, a former hedge fund manager and a free market advocate, to lead US Treasury. This is good news for markets, expecting deregulation, fiscal discipline, and a balanced approach to tariffs.

The week ahead will provide the FOMC minutes and the PCE inflation report on Wednesday. There will be no weekly publication next week due to the UAE National Day celebrations. Have a great week.

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



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Cross-asset Update

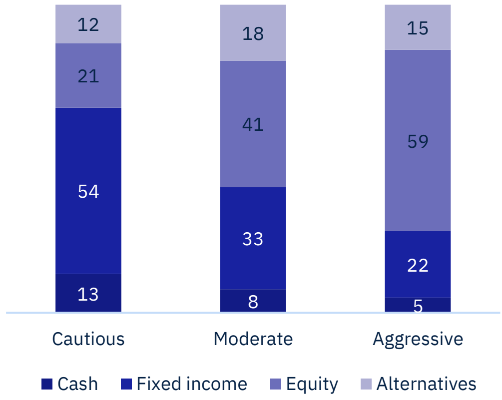
As per the MSCI AC World Index global equity markets keep on rallying, defying gravity despite rich valuations, with a remarkable performance of 17.6% YTD. The major central banks easing and a particularly strong US economy account for the bulk of the gains achieved so far. On the surface there seems nothing to be concerned about, considering on top of this that the policies of president-elect Trump are seen as leaning investor friendly. Yet, looking closer we see yet again a case of US exceptionalism, with the S&P 500 Index leading global markets higher with little follow through. Breadth, the number of countries in the MSCI AC World participating in the rally, is shrinking, putting the current upleg on a weaker footing. While US growth remains strong, European activity is still anaemic, and the Chinese recovery is not as vibrant as to ease investor's concerns. Hence, to solve the riddle on how a one-way US bull market that can be kept going, one must fall back on liquidity. Given the current high multiples, the only way equities can avoid excessive volatility is that the US economy slows down and the Fed cuts rates above market expectations. Failing this, high Treasury yields, especially at the longer end of the curve, would remain a hurdle to bullish sentiment.

And to put a number to when a high 10-year yield means too high for stocks, we think that 4.6% would be too high. The 10-year stabilizing above the 3-month yield, currently at 4.5%, would imply that investors would be uncomfortable about the outlook for inflation and start to discount a forthcoming end to monetary easing. At that point, risk premia across equities would have to rise. This is the reason why we retain conviction about the continuation of the rally into president-elect inauguration time, the exact day is 20th of January 2025, when then a reassessment of our stance is due. Historically, under a new presidency equities have rallied into inauguration to then stall as investors reevaluate risks related to the new policies.

The key question is then how the Fed will manage liquidity going forward. While so far chair Powell has leaned dovish, his latest declaration about "not in a hurry" to cut rates any further could signal a change of stance. Currently, some so-called Trump trade, rising yields and a stronger US dollar, seem to be overextended and due for a pause. But unless Mr Powell helps along, financial conditions could easily tighten beyond what markets are able to tolerate, with yields and the dollar marching higher.

On a different note, markets welcomed the nomination of hedge-fund manager Scott Bessent as new Treasury Secretary. He is advocating for 3% growth, a 3% budget deficit, and lower oil prices. That would be great to set the US economy back on a sustainable course, yet much less so for gold.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

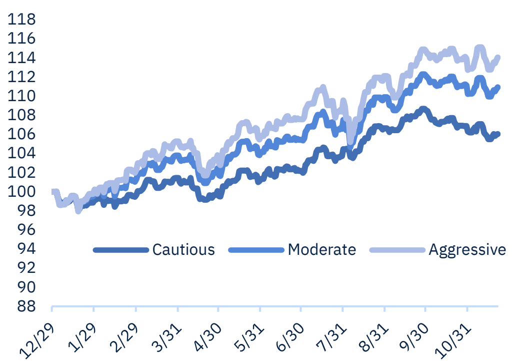


TAA – RELATIVE POSITIONING – MODERATE PROFILE

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.

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Fixed Income Update

US Treasury bond yields have stabilized with the benchmark 10-year yield trading between 4.3% to 4.5% range. The2s10s part of the curve has inverted once again. Bond markets have given a vote of approval to the President Elect Trump's Treasury Secretary pick Scott Bessent. Bessent is considered a fiscal hawk and the market anticipates him to bring stability to the US fiscal deficit and rein in the amount of treasury borrowing. The 10-year US treasury yields have dropped 6 bps on Monday morning as a result. However, we do not think a rally is underway in treasuries since there is no major catalyst at the moment. This underscores our positioning of neutral duration portfolio positioning.

Markets now price in a 56% probability of rate cut in the December FOMC meeting and only 2 rate cuts next year. The Flash PMI data released last week again proved US exceptionalism which would mean that the spreads across credit segment mainly the US IG/HY sector would remain tight. Credit spreads have continued to be range bound last week with IG credit spreads wider by 2bps, whereas HY and EM debt spreads have compressed by 8 and 6bps respectively. This week we have the US Q3 GDP second estimates expected to be around 2.8% and the Fed's preferred Core CPI which the economists forecast to rise 0.3% in October. The markets are closed on Thursday and have an early close on Friday. Light volumes would mean we may get excessive moves should actual data points not come in line with estimates.

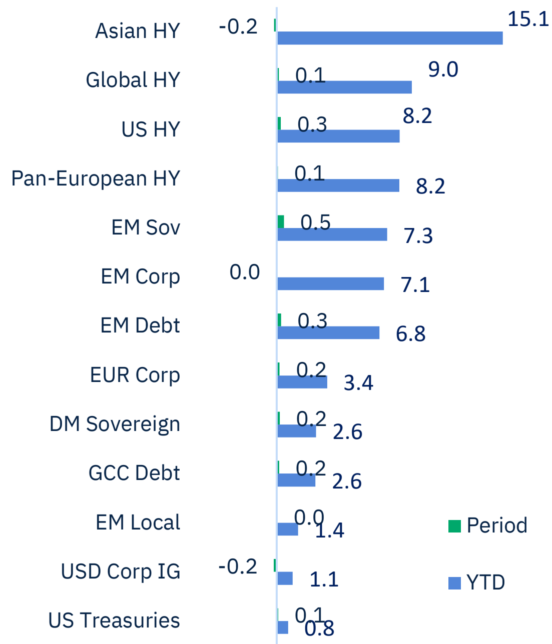
The US DoJ and SEC have indicted Gautam Adani on charges related to allegations of bribes to Indian government officials helping them sign power purchase agreements on Adani Green's specific solar energy projects. This development shuts down Adani's access to offshore bonds and loans markets. However, onshore refinancing by banks is still open. We don't see this as a dip-buying opportunity in the short term since sentiment would prevail over fundamentals, however 350bps spread for ADSEZ is a good entry point. We remain most comfortable with ADSEZ and currently have no bonds of AGEL on our recommended list.

Moody's has upgraded KSA sovereign to Aa3 from A1 with stable outlook for the first time since 2016 due to the progress in economic diversification and strong outlook for the non-oil sectors within the Kingdom. Additionally , S&P has upgraded Ras Al Khaimah Sovereign from A- to A reflecting the strong economic growth of the emirate. S&P expects that Ras Al Khaimah will grow at an average of 4.2% annually from 2024-2027 driven by tourism, infrastructure projects, and mining sector. And despite the significant infrastructure spending, S&P anticipates that RAK government will maintain fiscal surpluses in the next few years.

FIXED INCOME KEY CONVICTIONS (2024)

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

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



Source: Bloomberg

Equity Update

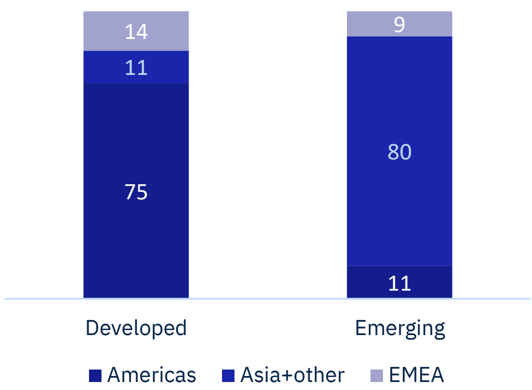
Last week was overall positive for the equity asset class, with higher volatility linked to political and geopolitical developments. Developed markets outperformed, led by the US and closely followed by the UK. Emerging markets were overall slightly positive, with a significant dispersion. China continued to suffer from investor's lack of conviction about forthcoming economic stimulus, and from risks of trade restrictions under the next Trump administration. The MSCI China was down another -1.8%. India by contrast was up 1.3% (MSCI India in US$) over the course of the week, despite concerns following US investigations into Adani group top management.

Interestingly, last week's positive returns in developed markets were broad based, with 9 out of the 11 GICS sectors being in the green. The most awaited event for equity investors was Nvidia's earnings release. In a nutshell, numbers were solid, and guidance was probably a bit conservative. The key point is that there is no slowdown in the demand for high performance AI chips, and hyper scalers continue to fight to get them. The demand side is less simple, as manufacturing is complex, especially on the last generation of chips. Market reaction was muted, not that surprising for a company which grew so quickly into one of the world's largest market capitalizations. The post market initial reaction to earnings was a 5% drop, but the stock price ended the next session flat, before rebounding the following day.

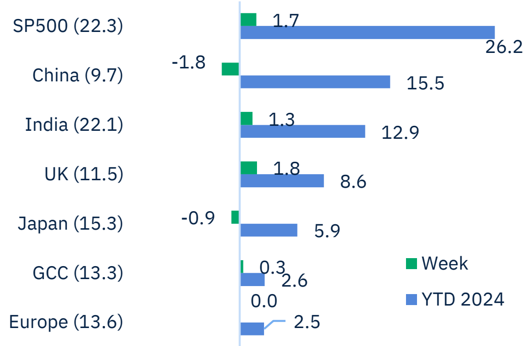
The 2024 regional hierarchy of US$ total return is now unambiguous: the S&P 500 is up 26%, which is almost twice the second-best country (MSCI China, up 15% in US$), while India takes the third spot at +13%. These 3 countries, as well as Japan, have been the top performing YTD at some point of 2024, which highlights the significant rotations of this year.

We are in the preparation phase of our 2025 Global Investment Outlook, and our traditional exercise of setting year-end fair values is proving to be particularly delicate this time. There is no obvious anomaly, as valuations already closely follow the most probable repartition of economic and earnings growth: typically, the US and India are much more expensive than their respective DM and EM peer groups. The level of valuations in a context of potentially "higher for longer" interest rates is a concern that could create some vulnerability, and potentially cap the upside potential. This could be a year of selection and rotation rather than pure direction.

EQUITY RECOMMENDED REGIONAL POSITIONING

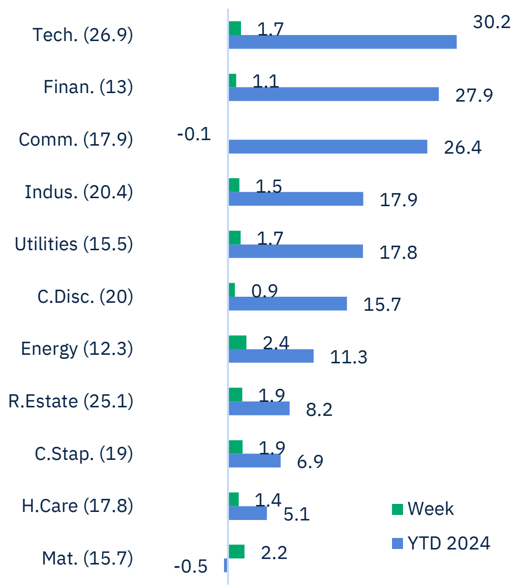


MAJOR INDICES PERFORMANCE (TR, US$), P/E in brackets



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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