It’s **not as bad as it seems…**

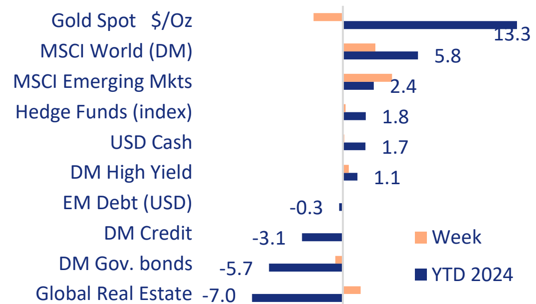
- **The US GDP report for Q1 was a shock with materially slower growth and faster inflation than forecast**
- **However, consumption is healthy in the US, on the mend in Europe, and March core PCE inflation was benign**
- **Adding a few brilliant corporate earnings to the mix: the week was volatile but ended pretty well.**

No doubt, warning about high volatility in 2024 (with three sources: economic data, geopolitics and politics) was not the most difficult call ever, but it’s proving right.

Last week was all about a succession of shockwaves, from economic data and corporate earnings. With regards to the former, the US Q1 GDP report was not far from a trauma. Sequential real GDP growth came in at +1.6% annualized, which compares to a median forecast of 2.5%. To make things worse, the quarterly core PCE inflation came in at +3.7% QoQ where the consensus was expecting +3.4%. Less growth, more inflation, all asset classes fell, especially as the beginning of the week was full of hopes. Big tech earnings were also a rollercoaster: investors hated Meta’s massive AI spending plan, but were very impressed by Alphabet’s numbers, guidance, and decision to pay dividends, as well as by excellent numbers from Microsoft. Finally, Friday provided the monthly core PCE number for March, which came in just in line with expectations.

Overall, and as surprising as it may sounds when looking at market action, we do not think that the situation has materially changed. The details of the GDP reports are not particularly alarming, with negative contributions from government spending, trade deficit and inventories in particular. This doesn’t sound like a consumer recession, especially as confidence remains strong in the US, and as surveys improve in Europe. No doubt, the Fed, which meets next week, cannot deny the fact that the US is running out of disinflation drivers. But they probably don’t want to make (another) U-turn in their guidance, especially as they will update their own forecasts (the dot-plot) in June. We haven’t changed our positioning, and our key take away from this noisy week is that it’s still not time to extend duration. Have a great week.

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



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Cross-asset Update

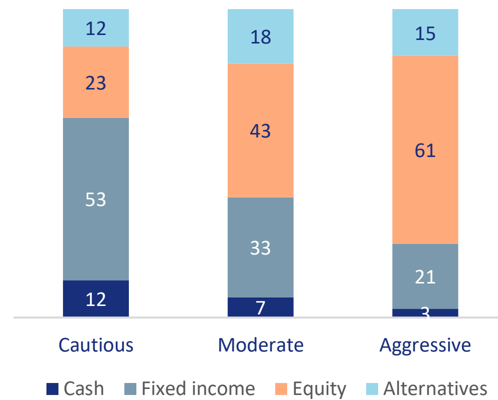
We are starting to see the first signs that US exceptionalism could be about to be fading, leaving scope for outperformance in other markets. Last week showed that US corporate earnings remain strong, the economy resilient, though growing at a slower pace, while inflationary pressures persist. This is overall a combination still supportive of markets, that recovered half of April's losses, though one that is likely to keep the Fed on hold through June this year. At the same time, inflation surprises are now overpowering growth surprises, pointing to a bumpier phase in US equites. Whereas both in the euro area and in the UK growth is accelerating, with different nuances on price pressures, that remain definitely subdued in the former and are again ticking higher in the latter. The outlook for easier policy in Europe starting from June alongside a better economy could provide an interesting window of opportunity for an improved performance of European shares. Interesting developments are also underway in China, with investors warming up to the idea that stocks are very undervalued, and more support measures can be on the way. This is at least the message we are getting from the returns of the Hong Kong shares (+8.8%) for the week, and the Goldman Sachs China Fiscal Stimulus basket, that has been outperforming the broader market year-to-date and is geared towards stocks sensitive to Beijing's fiscal measures.

Non-US equities are more cyclical, so more volatile, hence a sustainable broadening of the rally would require that US yields remain well-behaved. Yields are up for the year in the United States and the recent inflation surprises are not boding well for the immediate future. With growing shorter-term uncertainty on price pressures and the Fed on hold most likely through June, the upside should not be exhausted, especially at the longer end of the curve. But we would not tend to see this as a destabilizing factor, as the US economy is on a slowdown path and eventually the cost of servicing debt will weigh on growth, allowing the Fed to ease policy and maintain domestic and global markets on a positive trajectory.

With Chinese equities on the mend, emerging markets would be the main beneficiaries and should be able to leave behind a prolonged period of underperformance. Cheap EM valuations were lacking a catalyst that is now coming in the form of growth upgrades for China. The JPMorgan China Forecast Revision Index, that measures revisions to the country's real growth, has been rising throughout the year, reflecting China's improving macro outlook. Also, the global manufacturing cycle is now starting to expand again, historically a positive factor for the EM countries that are heavily exposed to the goods sector.

Although there are obvious doubts about the sustainability of the above scenario, for now we think that a window of opportunity is about to open that can be leveraged by investors.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

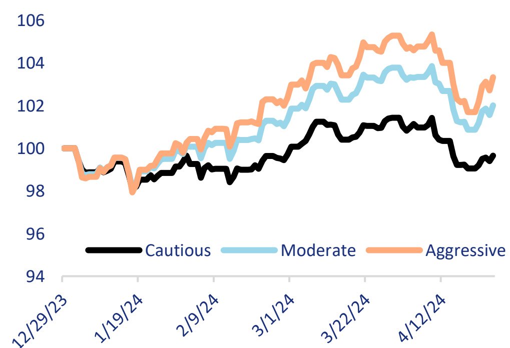


TAA – RELATIVE POSITIONING – MODERATE PROFILE

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

Last week turned out to be a volatile and interesting one. Macro data generated some surprises. The flash PMIs showed a slowdown in services printing below expectations. Annualized Q1 US GDP came in at 1.6%, much below last quarter's 3.4% and short of the consensus estimate of 2.5%, with govt spending and net exports being the main culprits. On the other hand, the Fed's preferred inflation gauge, the core PCE deflator, was up 0.3% MoM, leaving the YoY reading steady at 2.8%.

The lower growth and sticky inflation in the US raised the specter of stagflation in a tiny corner of the investor's minds. The yield curve bear steepened as the 10 and 30 years moved up between 4 to 6 bps with very high volatility within the week. The 10-year traded between a high of 4.73% and a low of 4. 56% last week. Last week, there was a packed Treasury auction schedule with record amounts of 2, 5, and 7-year issuance, which the markets absorbed without a hiccup due to the recent run-up in yields.

Analysts are drawing parallels to last October, with yields at YTD highs and crucial Fed and Treasury announcements due. However, we think last year's moves resulted from a combination of factors, including moderating inflation prints, a dovish tilt in the Fed's outlook, and lower-than-anticipated Treasury auction sizes. These factors seem to be absent this time as the Treasury should hold its nominal auction sizes, and this week's FOMC meeting could turn out slightly hawkish given the recent turn in Fed speak. We don't expect a bullish run in Treasuries anytime soon.

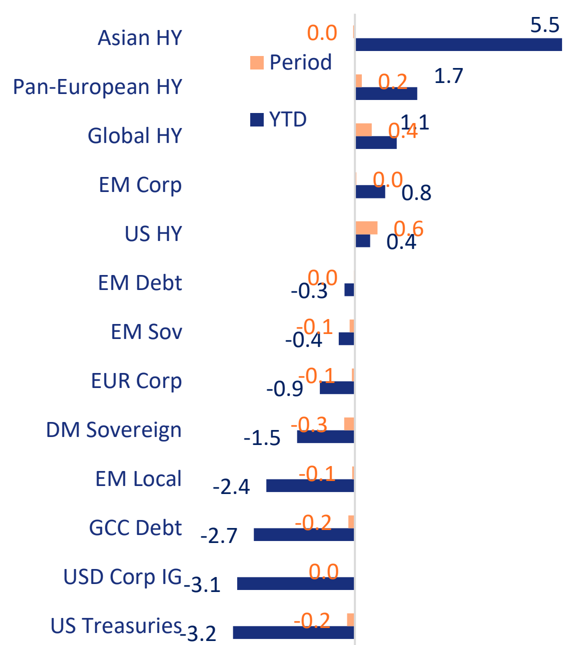
Broader market volatility has been ticking higher in recent days and weeks, spurred by a few notable earnings misses as well as larger re-evaluation of the path towards eventual Fed cuts. According to JPM, IG fund inflows have slowed significantly as rate vol has picked up and total return losses hover around -3% YTD, but on the flipside, supply has also slowed significantly with this week, the slowest of the year so far and MTD supply of $86bn below the $94bn average for April. Moreover, as the 'Higher for longer' paradigm remains in place we expect the yield buyers demand to remain strong keeping spread volatility contained.

This week, we have a heavy data and events dossier. Straight off the bat, the FOMC meeting shouldn't generate surprises on the rates front, but investors will parse the Q&A and the policy statement to find clues. This also may be the meeting where we finally get an announcement of the QT taper roadmap. We get the Final US Manufacturing PMI on Wednesday and the conference Board consumer confidence on Tuesday. The all-important payroll data wraps up the week with consensus estimates of a +250k increase in the payrolls. The unemployment rate is anticipated to be around 3.8%, the same as the previous print.

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

Equity Update

Last week was upbeat for global equities after three weeks of declines. The standouts were China finally in positive territory up 8% last week and the global tech sector up almost 5%. The S&P 500 index rose 2.7% despite a slowdown in economic growth in Q1, as strong corporate earnings balanced worries over potentially higher- for-longer interest rates. In Europe the STOXX 600 and FTSE 100 were up last week 2.0% and 3.1%, respectively, with the former rising on dovish ECB commentary and the latter on higher commodity (oil) prices. Japan markets were lacklustre last week, and the Yen reached 160 to the USD which is good for exporters but not for Japanese market USD returns. In other EM, India saw gains of 2% after declines the month before and the GCC was one of the few regions to see a down week, surprising as Brent oil remains above $85/barrel.

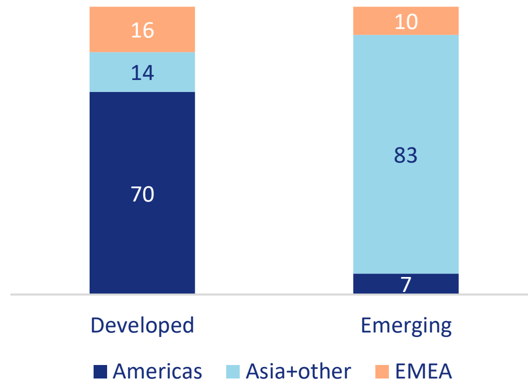
This week has plenty of catalysts with geopolitics, more tech earnings, rate expectations - top of the mind. Stay with quality across regions and sectors. Also, companies that invest see resilient earnings growth and capture the trend. Earnings drive stocks and more important with higher equity valuations (tech, the US and India) and rising bond yields, with persistent inflation.

Last week was crucial for earnings, the UAE saw stellar earnings from the banks and dividends from real estate developers. The economy remains strong. Higher oil, tourism and diversification is leading to more resilient growth for corporates. Valuations are still attractive both absolute and relative specially for banks.

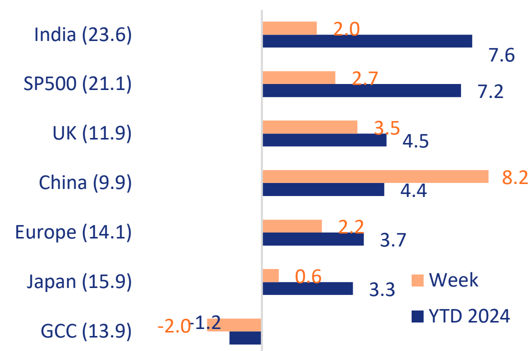
C.40% of the S&P 500 firms reported last week. For Q1 2024, the blended y/y earnings growth rate is 3.5% the third-straight quarter of earnings growth with technology and comm services delivering stellar results. Materials, Energy and the Healthcare sectors have disappointed on the earnings front. Out of the magnificent 7, four reported. Tesla missed the top and bottom lines, but announcement of a more-affordable model to be launched in 1H25, earlier than the previously communicated 2H25, has eased concerns about potential stagnation in its AI and autonomous vehicle initiatives. The stock rose post earnings, it was -40% YTD prior to that. Alphabet's record $23.7 bn quarterly net income was nearly 25% above expectations. Microsoft announced high capex but this was well received as focus remains on cloud and AI. Meta's future capex plans in the AI field, spooked investors and the stock fell 11% despite providing a 9.4% earnings surprise.

Visa stock gained as earnings beat with continued growth in spending, worldwide payments volume and processed transactions rose. GM topped earnings and sales estimates, and raised full-year financial guidance, up 5.3%. EVs are poised to reach variable cost break-even in 2H, aided by lower prices for raw materials. PepsiCo fell 3%, despite beating on earnings. The North American food and drinks divisions sold fewer goods by volume compared with a year earlier. Drinks volumes were down 5% in the region. International sales were up. Similar feedback from Nestle on North America volumes. Strong earnings reports from Novartis and SAP and European banks are trading the highest since 2015.

EQUITY RECOMMENDED REGIONAL POSITIONING

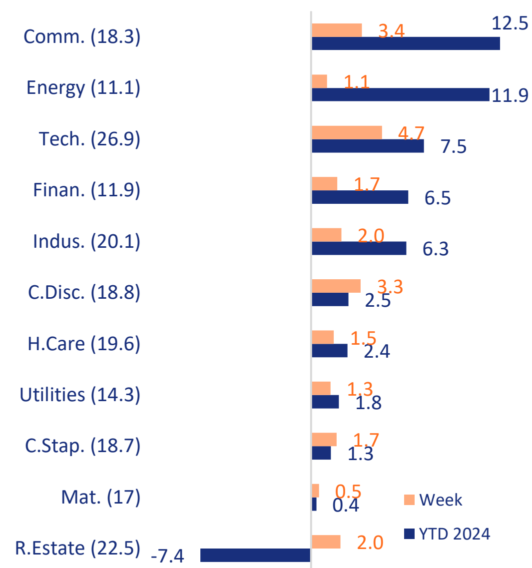


MAJOR INDICES PERFORMANCE (TR, US$), P/E in brackets



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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