بنك الإمارات دبي الوطني
Emirates NBD

China announces **massive stimulus measures**

- **China's policymakers came with a surprise series of measures to support the economy…**
- **… Including strong monetary and liquidity support as well as commitment from the Politburo**
- **We are neutral China within our EM equity allocation: it's not time to be underweight**

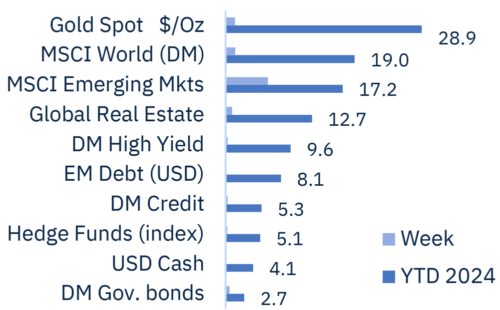
Mid-September was all about the Fed, and last week all about China. The PBOC held a surprise briefing on Tuesday, which was followed on Thursday by China's politburo. Bottom-line, policymakers announced a massive stimulus plan, spanning across both monetary and fiscal levers. The PBOC cut banks' reserve requirement ratio, as well as mortgage rates, while opening a funding facility to brokers and asset managers to support the stock market. On the fiscal side, the Politburo committed to achieve the country's growth target, with targeted measures on the property market as well as, reportedly, up to RMB1tn injection of capital into top banks and a RMB2tn of sovereign bond issuance. Adding all the numbers leads to a very material 3% of annual GDP, while the most important is certainly the determination of the Politburo, given their track-record of achieving what they announce.

Before the announcement, Chinese stocks were cheap and under owned by international investors. Market reaction to this surprise catalyst was thus brutal, including today, with a ~20% gain for Chinese indices. This also happened just before China's national day celebration and market holidays, adding to the fever.

Is it too late? Valuations are still reasonable, and some international investors are slow to act. We do not recommend underweighting China where we are neutral, that is between 1 and 3% of our respective profiles. Our overall positioning remains slightly defensive however as we still expect volatility.

The week ahead will provide an avalanche of data, from regional PMIs everywhere to the always important monthly US NFP job report on Friday.

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

When the PBOC started easing policy and cut rates across the board. ranging from the reserve requirement ratio to the Medium-Term Lending Facility, to mortgage rates and more, commentators were not yet convinced. It was seen as more of the same and inadequate to address the issues related to the beleaguered real estate sector. The much-awaited change came on Thursday in the form of the Politburo pledging to support fiscal spending and stabilize the property sector. The urgency and determination to support the economy came from the outspoken commitment to boost growth, halt the property rout, shore up the stock market and stabilize employment.

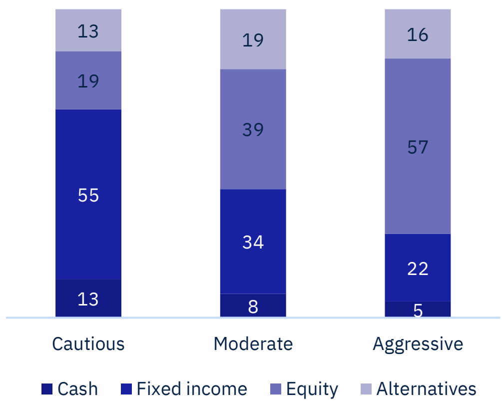
The planned measures are significant in size and at least partially address the current deflationary pressures via adequate fiscal packages. We agree that they will not solve all of China's woes but will at least provide a cyclical push and reason for the rerating of the Chinese markets. It is also of significance that investors can now be convinced that central banks are having their back: the PBOC has joined the easing cycle led by the Fed where the ECB is a major player as well. Rising liquidity should stoke risk taking and eventually positively impact global growth, enticing investments in non-dollar-centric assets. In other words, non-US markets and themes other than AI should start to outperform.

A bias towards EM versus DM equities, as well as towards mid and smaller companies versus the larger caps would be in line with increased risk appetite and tie in with the expected positive impact of the stimulus measures. And first and foremost, being China the world manufacturing hub and marginal commodity buyer, commodity-related themes would be in the limelight. Copper jumped more than 7% in a week and basic resources stocks recorded new all-time highs well ahead of the official announcements. Platinum has lagged other metals and is an important material for EV manufacturing, where China plays a leading role. And gold has already rallied significantly and may well cruise higher, well past our fair value for the year, as long as liquidity remains plentiful.

Additional liquidity translating into an improved growth outlook will not bode well for longer-dated bonds, though. US money markets have already discounted rate cuts above what is implied by the Fed's official projections in the so-called dot plot. So, it is hard to find catalysts that could justify further downside to yields from the current levels.

Overall, the planned Chinese measures should spur risk taking, provided that in the end they spur growth and the global manufacturing cycle. This will be the ultimate test for Beijing.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

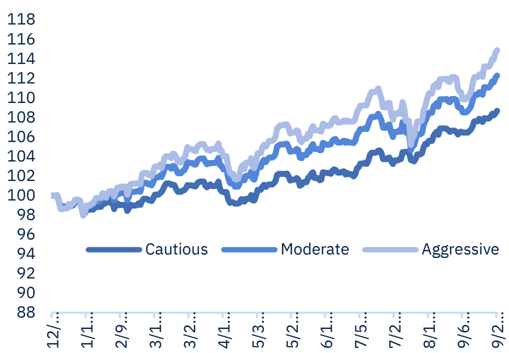


TAA – RELATIVE POSITIONING – MODERATE PROFILE

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

The first full trading week after the surprise Fed rate cuts are over. The market reaction officially endorsed this as a hawkish cut. The US Treasury yield curve has bear steepened since the cut. The long end of the curve has gone up by 12 to 15 bps since the cut while the front-end 2 year remains steady. The 2s10s spread is now at 15 bps and is expected to steepen more. The bear-steepening gives some solace that the market doesn't anticipate a recession in the short term unlike bull-steepening that preceded earlier recession periods.

Within credit, low-quality HY bonds have rallied more compared to the broader HY market. The same pattern hasn't repeated itself in IG credit probably due to high supply. However, the higher carry of BBB names compared to A rated names presents an attractive value proposition. While the average yield for A rated corporates from the US is 4.08% for the 5-year maturity the same increases to 4.5% for average BBB credit. EM Debt spreads remain tight and with an average yield of 6.3% the carry remains attractive. China's stimulus overdrive augurs well for the segment.

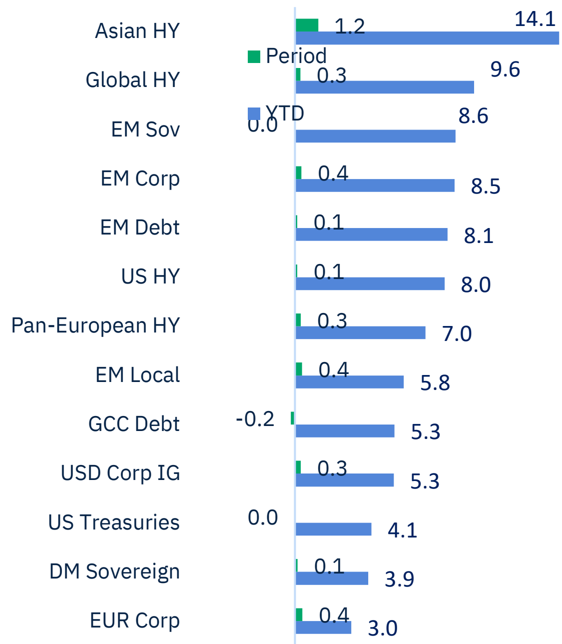
In a boost to GCC credit, S&P has upgraded Oman's credit rating to investment grade BBB- from BB+, with a stable outlook. S&P highlighted that the upgrade reflects the ongoing improvement in the Omani government's public finances and the continued external deleveraging of many SOEs. S&P noted that the authorities remain committed to advancing their longer-term structural reform agenda aimed at strengthening economic resilience. S&P forecast that Oman will achieve a small net general government asset position by the end of 2024, compared to a net debt position of 19% in 2021. Additionally, GRE debt has been reduced to 30% of GDP as of June 2024, down from a peak of 41% at the end of 2021. S&P estimates that the government will post fiscal surpluses averaging 1.9% of GDP from 2024 to 2027.

The MENAT region continues to see primary issuances with three new announcements today. Dukhan Bank, an Islamic bank based in Qatar, has issued a mandate announcement for a 5-year USD sukuk. Additionally, Nama Electricity Distribution Company S.A.O.C., the sole electricity distributor outside the Dhofar Governorate and 100% indirectly owned by the Government of Oman, has announced a mandate for a 7-year sukuk. Furthermore, Türkiye Vakıflar Bankası, Turkey's third-largest bank, has issued a 5.25-year senior unsecured bond today with IPTs at 7.25%.

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

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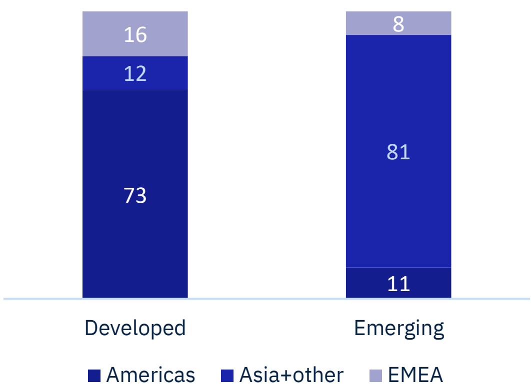
Equity Update

A good week, quarter and month for global equities with indices at new highs, including the US and India. The MSCI ACWI gained +1.9% last week, making up a large part of the monthly gains of 2.4%. With quarterly gains of 6.7%, it's been a good year for equities so far with China the latest to catch up. Economic indicators remain consistent with a soft-landing scenario in the US, and China unveiled a large-scale stimulus package, significantly larger than previous efforts. We enter Q4 with a slightly underweight positioning in both DM and EM equities in an effort to lock in the strong performance already exhibited by most regions. We remain overweight the US, India and the UAE and neutral or market weight China and Japan. Selection remains key as valuations are expensive though the outlook on earnings growth keeps us constructive. We have seen sharper daily/weekly movements in markets beginning August and September though subsequent rallies which recovered any sell offs. We continue watching inflation, labour data and geopolitics with US election rhetoric in the mix.

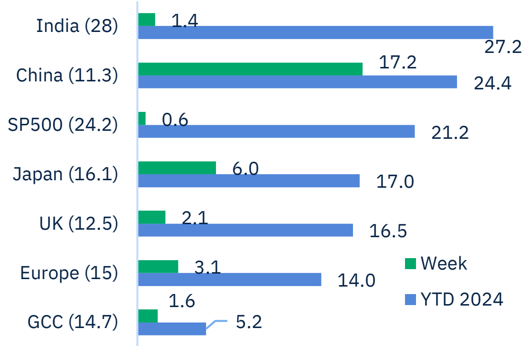
The MSCI China gained 17% last week as the PBOC & CSRC announced a series of measures: cuts to policy and mortgage rates, an RRR cut, support measures for real estate and the Chinese stock market (US $114 bn). Both domestic and offshore China equities gained, i.e. the CSI 300 and the Hang Seng Index. Whilst the real estate sector saw measures later last week, its playing catch up. We are neutral China equities so recommend staying invested and participating in the rally. We see more upside once the markets opens post the one-week national holiday starting tomorrow. Globally, sectors directly tied to China's economy, such as luxury goods, autos, and technology, have been beneficiaries of the stimulus measures. Hermes, LVMH and automakers including Volkswagen, BMW and Tesla rallied on expectations of increased discretionary spending from Chinese consumers. Meanwhile, commodity-linked equities rallied as metals like copper, iron ore, and aluminium reflected the anticipated boost from increased infrastructure activity and construction demand in China. The MSCI Europe is at a record high, with a rally in European sectors highly dependent on China's economic health. ECB rate cuts by the year-end, are keeping cyclical sectors strong. However, this must be balanced with the weak economic backdrop in Europe.

US markets were up a third week and trailing only India YTD both with c. 20% gains. US equities aided by a loosening Fed policy, with the Fed's preferred inflation measure showing only a mild rise in August, strengthening the case for a continued easing cycle. The Mag 7 stocks continue to rally as AI prospects remain bright, providing strong support for semiconductor firms. Overall, risk appetite remained strong, supported by the belief that the US economy is cooling without a significant downturn. A rotation however seen and the best performing sectors in Q3 are real estate, utilities and industrials.

EQUITY RECOMMENDED REGIONAL POSITIONING

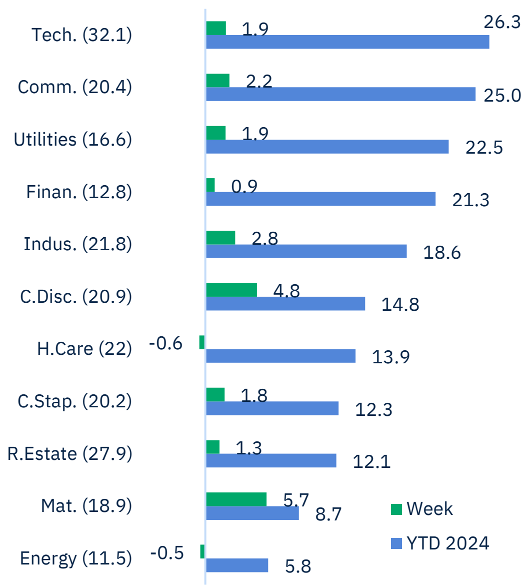


MAJOR INDICES PERFORMANCE (TR, US$), P/E in brackets



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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