CIO OFFICE MORNING MARKET WRAP – Thursday September 3rd, 2020. ALSO AVAILABLE ON ALEXA.

Wednesday was another greatly positive session on global markets, confirming the impression of an unbreakable rally. Global stocks added 0.7% led by the West with Europe and the US both gaining 1.5%. Emerging Markets were down 0.5%. Interestingly, technology was not the usual superstar yesterday: utilities, sought after for their stable cash-flows, and materials, exposed to the starting manufacturing recovery, were leading. Both share the characteristic of being laggards this year, and to show reasonable valuations. Dome tech icons were down. We wrote it yesterday, the combination of fiscal stimulus, factories reopening and the idea that even inflation will not stop the flow of magic money from Central Banks is favorable to cyclical sectors. Assuming, of course, that stock markets are right in pricing-in a perfect economic trajectory. So far they are, but interest rates are disagreeing, with the US 10-year Treasury yield losing 2bps to 0.65%. Implied volatility also disagrees: the implied volatility index VIX, dubbed the fear index, is at 26 and rising, which is abnormal given the sharp rally in stocks. The Presidential election is now implicitly considered by volatility markets as one of the most uncertain and market moving events ever. This can be read as a high probability of not having a clear result in November but disputes which could leave the world's largest economy without a leader for some time. Oil was also not well oriented: the

price of Brent crude oil moved down 2.5%, below $45 again. US crude oil stocks fell by 9 million barrels last week, which should be a positive in absolute, but as the reason is the current disruption in US refinery capacity, demand should temporarily remain under pressure. Saudi Aramco is also on the cautious side: the world's most valuable energy company is delaying petrochemical and natural gas projects to prioritize cash and dividend, waiting for a healthier demand environment to invest. Our domestic markets did well yesterday, outperforming the broader EM universe, with Dubai and Abu Dhabi gaining 0.4% on average. The Government of Dubai issued a 10 year Sukuk and a 30 year bond, generating strong investors' interest. This follows Abu Dhabi's successful offering which included for the first time a 50 year maturity bond. No doubt that the timing is smart given the current level of interest rates. Staying in Dubai, the GDRFA announced a new 5-year retirement visa, promising fantastic initiative which will have long-term impact on the economy and on the residential property market in particular.

Moving East, the Caixin China PMI Services index was strong this morning at 54, but as we write this morning, Emerging Market stocks are not reflecting yesterday's rally in the West. To put it simply, their underlying dynamics are not exactly similar. While in the West, the pandemic has brutally reset the cycle, and triggered an accelerated recovery turbocharged by fiscal and monetary support of epic dimension, China or Korea have had a much milder economic impact, and their responses are also different and probably less stock-market friendly, especially as China's sensitivity to global recovery is threatened by its current confrontation with the US. It's good to remember however that China's economy will be one of the very few to avoid contraction in 2020. Developed Markets in Asia are well oriented this morning with Japan, the pioneer in the implementation of modern monetary theory, Australia, boosting policy response to its first recession in ages, and South Korea, the most developed of officially emerging markets, all gaining more than 1%. Europe stock futures are also up 1%, and commodities are stable.

Back to the big picture. Our scenario was not for an acceleration of the rally this summer, because we are fundamental investors and we care about valuations. Having said that, we were aware of the melt-up risk, due to a simple analysis of behavioral factors and potential catalysts, from the Fed to the rebound in manufacturing indicators, which have actually happened. This is why we were very marginally defensively positioned, which allows our three asset allocation profiles to maintain great performance so far this year as they all delivered between +5 and +6%, better than their strategic benchmarks and outperforming our international peers. We will hold our monthly tactical asset allocation committee next week and it's not an easy one. On one hand, the fundamental picture is unchanged. Valuations suggest caution, and there are many potential risks ahead. Covid19 cases are still rising in the world, not only in the US where is has never been under control, but also in the countries who have very successfully contained it, including the UAE with 700 new cases yesterday alone. The political risk is extreme, between an impasse in Washington and the risk of a wild institutional situation if the results of the US election are disputed, not even mentioning the Brexit current chaos. Any blip in confidence could affect the recovery and reverse the current enthusiasm of retail investors on stocks. Having said that, the current combination of monetary and fiscal support is incredibly powerful. The Central Banks are widely discussed

but the fiscal side should not be forgotten. The average income in the US in 2020 is so far higher than in 2019, due to benefits, which is astonishing. Higher in a recession! In Brazil, the government has distributed so much cash that the poverty rate is approaching national historic lows. Loan guarantees to companies in Europe by authorities represent more than a fifth of the size of their economies. The US budget deficit will more than triple to a record 3.3 trillion this year and the US national debt will cross the 100% of GDP mark. And of course, if central banks are tolerant towards inflation, then there is no limit to liquidity, to debt, and no return to expect from risk-free assets. There is no alternative to stocks. The free money fuels the recovery which boosts earnings, and rates at zero means justify significantly higher valuation multiples. Adding the current buying panic of wrongly pessimistic institutional investors (some prominent Wall Street investment bank was warning for a crash just 10 days ago), there are also reasons to stay in. Our job is not as simple as it looks sometimes.

Today, the West will follow China in publishing their non-manufacturing leading indicators: Europe first, then of course the US ISM Services at 6PM Dubai time, and their weekly initial jobless claims in the meantime. The US monthly job report will be released tomorrow.

Stay safe.

MAURICE GRAVIER
Chief Investment Officer
Wealth Management
Emirates NBD

DISCLAIMER

Reliance

Emirates NBD Bank PJSC (“Emirates NBD”) uses reasonable efforts to obtain information from sources which it believes to be reliable, however, Emirates NBD makes no representation that the information or opinions contained in this publication are accurate, reliable or complete and should not be relied on as such or acted upon without further verification. Opinions, estimates and expressions of judgment are those of the writer and are subject to change without notice. Emirates NBD accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this publication. Data/information provided herein are intended to serve for illustrative purposes and are not designed to initiate or conclude any transaction. In addition this publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to the determination of whether a particular investment activity is advisable. This publication may include data/information taken from stock exchanges and other sources from around the world and Emirates NBD does not guarantee the sequence, accuracy, completeness, or timeliness provided thereto by unaffiliated third parties. Moreover, the provision of certain data/information in this publication is subject to the terms and conditions of other agreements to which Emirates NBD is a party. Anyone proposing to rely on or use the information contained in this publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts. Further, references to any financial instrument or investment product are not intended to imply that an actual trading market exists for such instrument or product. The information and opinions contained in Emirates NBD publications are provided for personal use and informational purposes only and are subject to change without notice. The material and information found in this publication are for general circulation only and have not been prepared with any regard to the objectives, financial situation and particular needs of any specific person, wherever situated

Confidentiality

This publication is provided to you upon request on a confidential basis for informational purposes only and is not intended for trading purposes or to be passed on or disclosed to any other person and/or to any jurisdiction that would render the distribution illegal. The investor may not offer any part of this publication for sale or distribute it over any medium including but not limited to over-the-air television or radio broadcast, a computer network or hyperlink framing on the internet without the prior written consent of Emirates NBD or construct a database of any kind.

Solicitation

None of the content in this publication constitutes a solicitation, offer, opinion, or recommendation by Emirates NBD to buy or sell any security, or to provide legal, tax, accounting, or investment advice or services regarding the profitability or suitability of any security or investment and further does not provide any fiduciary or financial advice.

Third party

The security or investment described in this publication may not be eligible for sale or subscription to certain categories of investors. This publication is not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law or regulation. It is the responsibility of any person in possession of this publication to investigate and observe all applicable laws and regulations of the relevant jurisdiction. This publication may not be conveyed to or used by a third party without the express consent of Emirates NBD. The investor may not use the data in this publication in any way to improve the quality of any data sold or contributed to by the investor to any third party.

Liability

Anything to the contrary herein set forth notwithstanding, Emirates NBD, its suppliers, agents, directors, officers, employees, representatives, successors, assigns, affiliates or subsidiaries shall not, directly or indirectly, be liable, in any way, to you or any other person for any: (a) inaccuracies or errors in or omissions from the this publication including, but not limited to, quotes and financial data; or (b) loss or damage arising from the use of this publication, including, but not limited to any investment decision occasioned thereby. Under no circumstances, including but not limited to negligence, shall Emirates NBD, its suppliers, agents, directors, officers, employees, representatives, successors, assigns, affiliates or subsidiaries be liable to you for direct, indirect, incidental, consequential, special, punitive, or exemplary damages even if Emirates NBD has been advised specifically of the possibility of such damages, arising from the use of this publication, including but not limited to, loss of revenue, opportunity, or anticipated profits or lost business. This publication does not provide individually tailored investment advice and is prepared without regard to the individual financial circumstances and objectives of person who receive it. The appropriateness of an investment activity or strategy will depend on the person’s individual circumstances and objectives and these activities may not be suitable for all persons. In addition, before entering into any transaction, the risks should be fully understood and a determination made as to whether a transaction is appropriate given the person’s investment objectives, financial and operational resources, experiences and other relevant circumstances. The obligations relating to a particular transaction (and contractual relationship) including, without limitation, the nature and extent of their exposure to risk should be known as well as any regulatory requirements and restrictions applicable thereto.

Forward looking

Past performance is not necessarily a guide to future performance and should not be seen as an indication of future performance of any investment activity. The information contained in this publication does not purport to contain all matters relevant to any particular investment or financial instrument and all statements as to future matters are not guaranteed to be accurate. Certain matters in this publication about the future performance of Emirates NBD or members of its group (the Group), including without limitation, future revenues, earnings, strategies, prospects and all other statements that are not purely historical, constitute “forward-looking statements”. Such forward-looking statements are based on current expectations or beliefs, as well as assumptions about future events, made from information currently available. Forward-looking statements often use words such as “anticipate”, “target”, “expect”, “estimate”, “intend”, “plan”, “goal”, “seek”, “believe”, “will”, “may”, “should”, “would”, “could” or other words of similar meaning. Undue reliance should not be placed on any such statements in making an investment decision, as forward-looking statements, by their nature, are subject to known and unknown risks and uncertainties that could cause actual results, as well as the Group’s plans and objectives, to differ materially from those expressed or implied in the forward-looking statements. Estimates of future performance are based on assumptions that may not be realized.

DISCLAIMER

Risk

Data included in this publication may rely on models that do not reflect or take into account all potentially significant factors such as market risk, liquidity risk, and credit risk. Emirates NBD may use different models, make valuation adjustments, or use different methodologies when determining prices at which Emirates NBD is willing to trade financial instruments and/or when valuing its own inventory positions for its books and records.

The use of this publication is at the sole risk of the investor and this publication and anything contained herein, is provided "as is" and "as available." Emirates NBD makes no warranty of any kind, express or implied, as to this publication, including, but not limited to, merchantability, non-infringement, title, or fitness for a particular purpose or use.

Investment in financial instruments involves risks and returns may vary. The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, prices and other factors and there is the possibility that you may lose the principle amount invested.. Before making an investment, investors should consult their advisers on the legal, regulatory, tax, business, investment, financial and accounting implications of the investment.

In receiving this publication, the investor acknowledges it is fully aware that there are risks associated with investment activities. Moreover, the responsibility to obtain and carefully read and understand the content of documents relating to any investment activity described in this publication and to seek separate, independent financial advice if required to assess whether a particular investment activity described herein is suitable, lies exclusively with the investor.

Intellectual property

This publication has been developed, compiled, prepared, revised, selected, and arranged by Emirates NBD and others (including certain other information sources) through the application of methods and standards of judgment developed and applied through the expenditure of substantial time, effort, and money and constitutes valuable intellectual property of Emirates NBD and such others.

All present and future rights in and to trade secrets, patents, copyrights, trademarks, service marks, know-how, and other proprietary rights of any type under the laws of any governmental authority, domestic or foreign, shall, as between the investor and Emirates NBD, at all times be and remain the sole and exclusive property of Emirates NBD and/or other lawful parties. Except as specifically permitted in writing, the investor may not copy or make any use of the content of this publication or any portion thereof. Except as specifically permitted in writing, the investor shall not use the intellectual property rights connected with this publication, or the names of any individual participant in, or contributor to, the content of this publication, or any variations or derivatives thereof, for any purpose.

This publication is intended solely for non-commercial use and benefit, and not for resale or other transfer or disposition to, or use by or for the benefit of, any other person or entity. By accepting this publication, the investor agrees not to use, transfer, distribute, copy, reproduce, publish, display, modify, create, or dispose of any information contained in this publication in any manner that could compete with the business interests of Emirates NBD. Furthermore, the investor may not use any of the trademarks, trade names, service marks, copyrights, or logos of Emirates NBD or its subsidiaries in any manner which creates the impression that such items belong to or are associated with the investor or, except as otherwise provided with Emirates NBD, prior written consent. The investor has no ownership rights in and to any of such items.

Emirates NBD is licensed and regulated by the UAE Central Bank.

United Kingdom

This publication was prepared by Emirates NBD Bank PJSC in the United Arab Emirates. It has been issued and approved for distribution to clients by the London branch of Emirates NBD Bank PJSC which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority in the UK. Some investments and services are not available to clients of the London Branch. Any services provided by Emirates NBD Bank PJSC outside the UK will not be regulated by the FCA and you will not receive all the protections afforded to retail customers under the FCA regime, such as the Financial Ombudsman Service and the Financial Services Compensation Scheme. Changes in foreign exchange rates may affect any of the returns or income set out within this publication.

Singapore

This publication was prepared by Emirates NBD Bank PJSC in the United Arab Emirates. It has been issued and approved for distribution to clients by the Singapore branch of Emirates NBD Bank PJSC which is licensed by the Monetary Authority of Singapore (MAS) and subject to applicable laws (including the Financial Advisers Act (FAA) and the Securities and Futures Act (SFA). Any services provided by Emirates NBD Bank PJSC outside Singapore will not be regulated by the MAS or subject to the provisions of the FAA and/or SFA, and you will not receive all the protections afforded to retail customers under the FAA and/or SFA. Changes in foreign exchange rates may affect any of the returns or income set out within this publication.
Please contact your Relationship Manager for further details or for clarification of the contents, where appropriate.

For contact information, please visit **www.emiratesnbd.com**