CIO OFFICE MORNING MARKET WRAP – 26th September, 2021. ALSO AVAILABLE ON ALEXA.

Market returns of last week looked like business as usual. Global stocks were slightly up in developed markets and down -1% in emerging regions; interest rates were modestly firmer with the US 10-year Treasury rate adding 9 basis points to close at 1.45%, which translated into moderate negative returns across the fixed income universe. Oil prices kept on rising, with the Brent crude oil barrel gaining almost $3 to $78, getting closer to the $80 mark. Those benign numbers however don't reflect the fact that volatility was definitely back last week, with two major concerns fuelling it, from respectively China and the US.

Indeed, the week started with immensely worrying news from China's Evergrande, one of the world's largest real estate developer and without a doubt the most indebted. With over $300bn in liabilities, and most of its assets being illiquid, the Chinese giant was unable to pay some interests due to banks. This triggered a global "risk-off" episode at the beginning of the week, with fears of a Chinese systemic Lehman-like moment. Of course, the financial situation of Evergrande is well known, actually for years, which is why their bonds are not on our recommended list. However, the prevailing view so far was that it was too big to fail. Its $300bn of assets represent 2% of Chinese GDP. More importantly, it's real estate: the count of direct and indirect stakeholders is an astonishing number of millions, across clients, suppliers, employees and investors. A default of Evergrande would have severe consequences: a real estate crisis impacting growth, local governments funding (for which land sales matter), and China's overall bond market. Such a backdrop led to some investors being very confident, if not outright complacent, with the mountain of debt at Evergrande and the common sense of financial analysis. They were betting that Chinese authorities would not let it go. Authorities however remained silent on the topic last week, which of course roiled global markets. This crisis happens at the worst possible time for China's markets: growth is in a clear downshift, and the ongoing regulatory crackdown under the "common prosperity" objective is relentless: after tech, education or gambling, additional scrutiny was announced precisely on real-estate. In the very short-term, anxiety moderated from last Wednesday, which was by coincidence when China's domestic markets reopened after a holiday. Evergrande announced an agreement to settle some local note interest payment. It's still not clear if the company will make a crucial payment on a US dollar denominated bond, due last Thursday. However, the local settlement was seen as a sign that authorities were quietly stepping in, and in addition, China's central bank made its largest liquidity injection for months the same day, a whopping $71 billion. Later last week, the PBOC also suddenly announced that all crypto-related transactions are from now illegal, and that financial institutions are not allowed to offer any service in the field. This of course had an immediate adverse impact on crypto asset prices.

That's a transition to the second key topic of last week: central banks meetings, starting with the most important, the US Fed. The institution marginally downgraded its outlook for growth, while releasing a new set of rates projections which was slightly more hawkish than before, leaving open the possibility of rate hikes in 2022. More importantly, the Fed almost announced that the tapering of asset purchases would start at the next meeting, i.e. in November, and also indicated that they may aim at completing the process by the middle of next year. From the current $120bn of monthly purchases, going to zero in 8 months requires a reduction of $15bn of the envelope every month. This is faster than many forecast, which explains why interest rates went up, with a steepening of the curve. Having said that and as often, the verbal comments were more nuanced than the cold numbers: the employment market remains the key factor behind monetary policy, rather than inflation, which is still seen as temporary. To have an idea of where we are to that extent, out of the 22 million jobs lost by the US economy during the pandemic, which is close to 15% of the workforce, around 17 million have come back. The recovery is not complete: some people have simply exited the labor market and almost 3 million are still looking for a job. This means that the Fed could find reasons to be cautious on rate hikes, and with regards to tapering, the institution has been excellent at preparing markets to the withdrawal of a now outsized support without creating a shock. Tapering without bond tantrum is on the cards and it's good news.

The Fed wasn't the only one to meet and make announcements. We would highlight the Bank of England, who doesn't exclude a rate hike for the end of this year which can be seen as a way to prepare markets for it to happen in the first quarter of 2022. In Turkey, the CBRT surprised markets by cutting its one-week repo rate by 100 basis points to 18%, despite inflation approaching the 20% annualized level. The Central Bank seems to definitely target economic support over price moderation, and the lira was weaker on the news. Finally but importantly, the UAE Central Bank said on Thursday it was starting to gradually reduce their stimulus measures. The Targeted Economic Support Scheme, introduced last year, had been and still is very successful at preventing a credit crunch and supporting growth. Staying in our country, some changes in the UAE cabinet were unveiled, including the nomination of several new ministers, with a focus on major transformative projects. His Highness Sheikh Maktoum bin Mohammed was appointed as Deputy Prime Minister and Minister of Finance; Mohamed Al Hussaini was made Minister of State for Financial Affairs. Other changes included Justice, Human Resources and Emiratisation, as well as Climate Change and Environment.

Back to global markets and their backdrop. There is no doubt that the global economy has lost momentum, at a time when elevated valuations and consensual bullishness creates vulnerability in the short-term. With regards to growth, we remain reasonably confident: virus control is improving, which should support the most versatile component of growth: consumption. Monthly PMI numbers for September will be released in the coming days and they should confirm softness, but we do not think that markets will be surprised. Policy support remains significant, and we do not think that the current heated debates in Washington over the US debt ceiling are really a meaningful risk. Valuations are a concern in developed markets, for both stocks and bonds, as we write for some time now, which limits the potential returns especially in the short-run. However, earnings growth remains extremely strong and will mechanically reduce equity multiples – the Q3 earnings season will also start in the first part of October. Interest rates are too low for the backdrop but the adjustment should be very gradual. Finally, the good news in the current stress is that sentiment could have started to normalize – less optimism across the board. We cannot -ever- exclude the possibility of a material correction, but at this stage of the virus situation and of the global rebound, we would tend to see it as an opportunity to add to exposure. Opportunities are scarce globally, but the long-term prospects for assets in emerging regions remain compelling. EM debt is our preferred segment within the fixed income asset class. We do not recommend to put any money in Evergrande but we tend to think that China will avoid a systemic crisis. When it comes to stocks, we are only slightly overweight as short-term volatility could remain high, but our conviction for the long-run is intact.

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**