New equity records amidst stronger releases

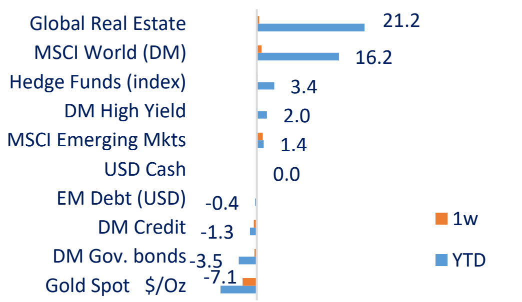
- **Services recovery in full swing both in the United States and in Europe**
- **Strong US jobs report takes Fed one step closer to tapering**
- **Equity investors celebrating in DM - EM still lagging**

The past week saw further gains in global equities, with the MSCI World returning 1% and closing at all-time highs, and losses in longer-duration defensive assets following the strong US jobs report. Financials and materials led US stocks higher, the yield on the 10-year Treasuries note rose by more than 7bps, gold fell 2.7%, Brent crude slumped by almost 8% for the worst weekly decline since last October, and the US dollar advanced.

All eyes were on the US labor report, which came out strong across the board. The economy added more than 940,000 positions in the month of July, the most since last August and way above consensus estimates - the unemployment rate fell to 5.4%. Will the Fed be reassured that the economy is making substantial "further progress" and finally be more outspoken about pulling back stimulus? Other data-points added fuel to the fire of a solid economy, with factory orders, led by non-durable goods, above consensus and the ISM Services Index topping forecasts to print at record levels. In Europe, the final prints of the July PMIs confirmed that growth remains buoyant at the onset of Q3, as Covid-sensitive services catch up from a lower base. This was contrasted with Asian markets marked by a more uneven recovery and China in slowdown mode acting as a drag.

The constructive backdrop helps us maintain our tactical pro-cyclical stance, although we are more comfortable holding a lower equity overweight as against the first half of this year, considering that the bright outlook is priced in and yields should rise into year-end. Less supportive company guidance and rising risks of lockdowns could further cloud the horizon in Q4.

ASSET CLASSES USD % TOTAL RETURN, YTD 2021 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
Head of Fixed Income Strategy
SatyajitSI@EmiratesNBD.com

Note: The next weekly will be published on 29th August 2021

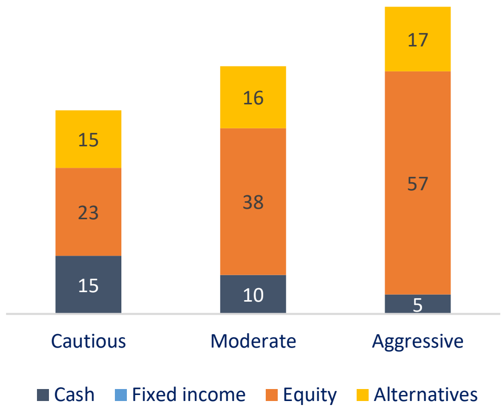
Cross-asset Update

The outlook is bright and nobody can deny it, considering the momentum in the economy, the forecasts, that growth is unlikely to turn on a dime and the extended stimulus. Valuations remain expensive, but they reflect the currently strong backdrop, hence they will not be minded unless we move many steps closer to a contraction phase. So, why worry? Indeed, we should not, if we just look one year from now. If we try to gaze a bit more into the future, we might be wondering if keeping on borrowing from that future can indeed make it a bit bleaker, rather than a bit better. The developed economies at least, are putting an unenviable burden on future generations, from higher debt, to higher taxes, to inflation. In the end, that will be the name of the game, deflate the debt via inflation and make up for what is still missing by hiking taxes. We are getting a flavour of it in the new course taken in the United States by the Fed, trying to run a super-hot economy, and Joe Biden, pushed to 'go big' on fiscal spending. The issue is that the large developed economies are following in these same steps. Markets for now remain unconvinced about the blessings coming with the new policies radically breaking with the past, with US long-dated real yields close to all-time lows, a possible indication of stagflation, rather that both high future growth and high inflation.

Concerns along these very similar lines have been expressed by ex-Goldman Sachs billionaire, now hedge-fund investor Leon Cooperman, who in a recent interview said that "the market is facing the fact that taxes are going up, interest rates are going up, and inflation is going up". Of course, nobody knows when this is going to end, so one watches "the things that would normally indicate an end". The remarks made by St. Louis Fed's president Bullard last week tie in well too with this kind of narrative on the rates and inflation side. He mentioned that the post-pandemic environment could be one of stronger growth, higher productivity, but higher interest rates and faster inflation as well, advising against extending stimulus for too long. It is quite striking that both Cooperman and Bullard raised similar concerns from very different angles. According to Cooperman "Mr. Powell will be surprised by inflation", while for Bullard asset purchases should be trimmed soon and policy rates raised if inflation threatens to remain at higher levels.

On our side, we hold the view that the fading of the liquidity impulse in the second half of next year, alongside the starting of tapering and possibly the not so temporary inflation dynamics would all be playing against equities. But, to put it in Powell's terms, this is still "a ways off", so we will monitor this and keep a close watch on "the things that would normally indicate an end"

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

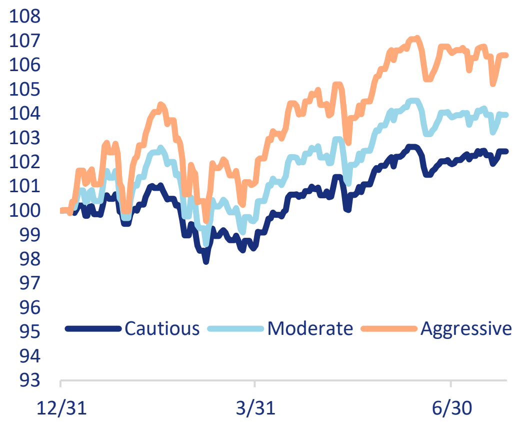


TAA – RELATIVE POSITIONING – MODERATE PROFILE

	UW	N	OW
Cash		=	
DM Gov.	<<<<<<		
EM Debt			>
DM Credit			>
DM H. Yield		=	
DM Equity			>>
EM Equity			>
Gold		=	
Real Estate			>
Hedge Funds		=	

UW/N/OW:Underweight/Neutral/Overweight

TAA – 2021 INDICATIVE PERFORMANCE



Source: Bloomberg. CIO Office calculation based on TAA applied to market indices, net total return in USD.

Fixed Income Update

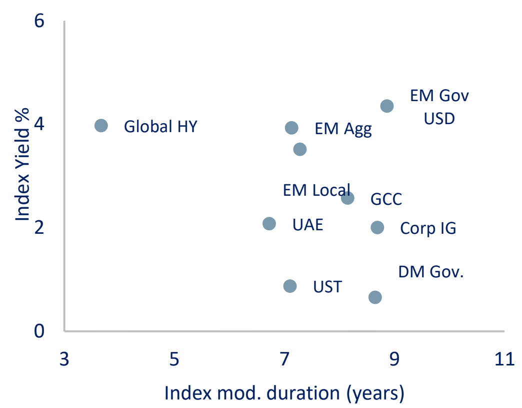
The past week delivered the message of a still strong global economy, led by the developed markets, where the United States and Europe are ahead of the pack amongst the major countries. Fed officials have acknowledged this in that they have become more outspoken about the partial removal of stimulus via the tapering of asset purchases. The strong labor market is playing a relevant role in guiding the Fed's assessment of the US economy, and the latest jobs report reinforces the conviction that the deadline for the implementation of the winding down of the bond-buying programs can no longer be put back. Treasury yields promptly responded to the prospect of a more solid outlook and the yield on the 10-year note rose by almost 8bps to settle at 1.3%. Having had many false starts one may wonder why this time bonds should not continue to rise, as they have since March this year. A straightforward answer is that, unless business confidence, for instance as gauged by the Purchasing Manager Index, is soon going to slump in the low 50s, the current level of rates is not compatible with the outlook. US growth is projected to be above 6% in 2021 and still above trend throughout 2022 and inflation could prove to be less transitory than the Fed's narrative would have us believe. Public figures from Blackrock's Larry Fink, to JPMorgan's Jamie Dimon and the ex US Treasury Secretary Larry Summers have clearly said that price pressures could be persistent even after the easing of today's bottlenecks. We stick with our 2021 fair value of 1.75% for the 10-year Treasury yield, which we recently revised higher.

With EM sovereign spreads at the wides of the year and the US dollar stronger, entry points on EM debt seem to be more appealing now. In our view this holds for sovereigns, but not on local debt yet. The US dollar should strengthen further into year-end, on growing expectations for tapering and the solid US outlook, hence EM local bonds do not seem as a whole a good proposition yet. The tactical views expressed in our latest fixed income report 'Income generation in Emerging Markets', where we expressed preference for EM hard currency bonds and corporate debt, are still very much current. Asia high-yield credit has suffered some losses recently on spill-over effects from the regulatory offensive in China. Although a tail risk, the credit market could become a transmission channel for financial contagion, if losses in China credit continue, affecting the region and eventually forcing sell-offs in US HY corporate credit, which has some of the richest valuations recorded both in its history and versus peers. We believe that more short-term pain is in store for Asia High Yield investors, though eventually weakness should prove to be a buying opportunity.

FIXED INCOME KEY CONVICTIONS

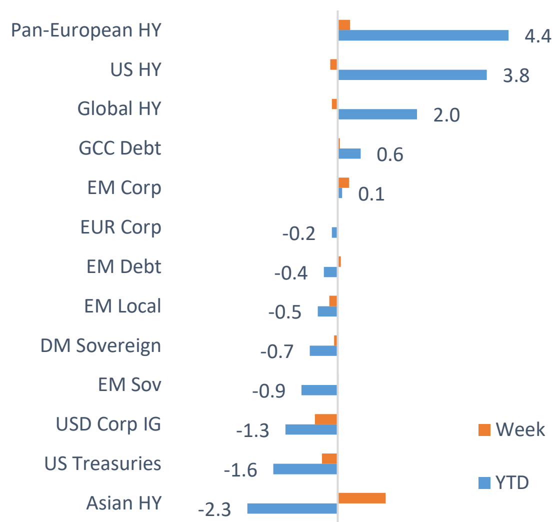
DEVELOPED MARKETS
UW Government bonds
Selective on Credit
Now NEUTRAL High Yield
EMERGING MARKETS
OW Asia
OW IG Sovereigns
OW Latin America

FIXED INCOME VALUATIONS



Source: Bloomberg, indices modified duration and YTW

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



Source: Bloomberg

Emirates NBD PRIVATE BANKING

Equity Update

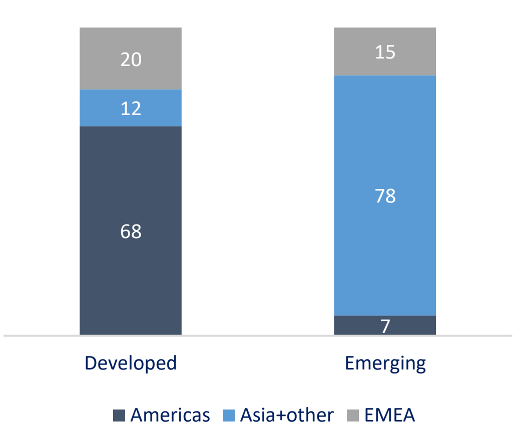
A good jobs report out of the US gave a further boost to the S&P 500 and good earnings data added to European equity gains last week. Europe and US equities have had an uninterrupted trajectory of gains this year and indices are at record highs, total returns +19% for SPX and +15% for Europe YTD. According to FactSet, nearly 90% of S&P 500 companies have reported Q2 results. Blended earnings growth stands at nearly 90%, exceeding expectations by 17%. Blended revenue growth rate is just under 25%. Positive guidance from many companies and as yet no impact of the supply chain disruptions with S&P 500 profit margins at a record 12.1%. Reopening momentum, capital return boosts and fairly sanguine commentary about spread of Delta variant are keeping US equities at records. EPS levels for the S&P 500 for 2021 are on track to be 30% above the prepandemic levels of 2019. Similarly Q2 earnings are +150% y/y for Europe for Q2 supportive of our stronger DM overweight.

The US market reaction on Friday was in line with good job numbers: the 10 year yield rose, gold fell, S&P 500 up slightly, Nasdaq down as tech (growth) is now inversely related to yields. Cyclical sectors outperformed growth, with Financials the best performers. Cyclical sectors are leading year to date sector performance i.e. Energy in line with higher oil prices as mobility numbers tick up and financials as they are a barometer for economic growth. Technology performance is however not far behind. We think markets will continue to rotate between growth and cyclical factors, from digital COVID winners to reopening trades. The Fed is focused on employment numbers, hence markets are in a Goldilocks regime – exceedingly positive job growth could see a hawkish Fed, while an underwhelming one would indicate dovishness and that lower rates continue. However, the current spread of the COVID variant favours the Fed continuing its accommodative policy which is good for corporate profits and hence equity performance.

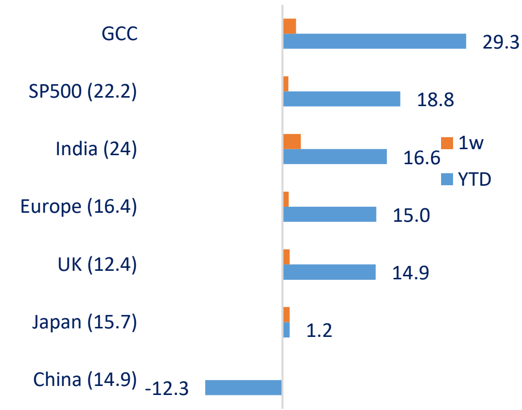
The outstanding performer is the UAE with another up week, with total year to date returns for the Abu Dhabi Index +53% and the Dubai Index +17%. India equities in line with global equity performance are up 16% year to date. India has also recently seen a sentiment boost to foreign investment, with the reversed $ 1 bn tax charge for Cairn energy UK, and Amazon winning its ruling against Reliance Industries takeover of the Future Group's assets..

Emerging market equities have however lagged, pulled down by China underperformance. China is 40% of the MSCI EM Index. The gap between EM and DM performance is now 15% and China tech now lags US tech performance by 30%. 5 companies Alibaba, Tencent, JD.com, Meituan, Pinduoduo make up one third of MSCI China and each has been a subject of China's tech crackdown and lost roughly 30 to 40% from peak. We went nt neutral EM Asia last month just before the China regulation crackdown on for profit education and gaming. This was post the Ant Group IPO withdrawal and fine on Alibaba as signs were emerging that hitherto unaffected sectors could see some angst. Also, we advise no specific China bet in portfolios just a broad allocation to EM equities as per asset allocation profile guidelines.

EQUITY RECOMMENDED REGIONAL POSITIONING

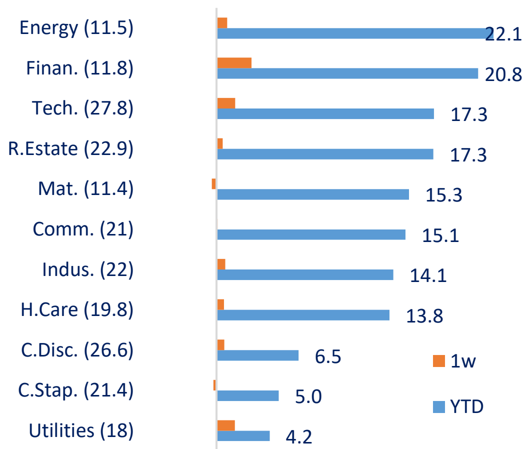


MAJOR INDICES PERFORMANCE (TR, US$) AND 2021PE



Source: Bloomberg consensus. MSCI Indices unless specified.

GLOBAL SECTOR PERFORMANCE (TR, US$) AND 2021PE



Source: Bloomberg consensus. MSCI All Country World sectors US$.

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**