The beginning of the beginning

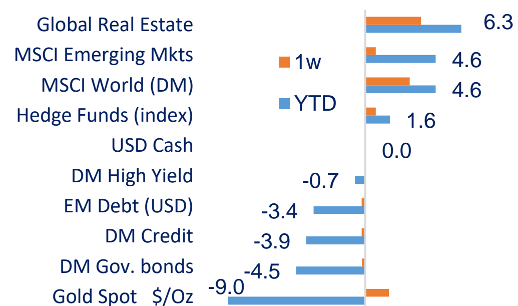
- **President Biden's stimulus plan got final approval with individual payments already on their way**
- **Better virus control and already resilient economies should see stellar quarters ahead**
- **Risk assets rallied in the wake of benign inflation numbers**

Last week, President Biden's $1.9 trillion stimulus plan was approved, and individual payments of $1400 immediately started being sent to eligible individuals in the largest "helicopter money" experiment in history. There may be more to come, as discussions have started on a second plan, targeting US infrastructure, with proposals ranging from $2trn to $4trn.

Against such a backdrop, interest rates kept on pushing higher, but their rise was overall reasonable as the CPI release came below expectations for February, drawing an ideal picture alongside strong PMIs. While the Fed sticks to its "patient" stance, the ECB came with a "dovish" surprise as the institution committed to increasing bond purchases to contain the rise in yields. No surprise then that US stocks printed a new all-time high, and that rotation towards the most cyclical segments accelerated: the top 5 sectors of 2021 so far include energy, financials, materials and industrials. Staying within stocks, the GCC has now taken the top spot in the Emerging Regions, up 10% YTD. Developed markets however caught up with their developing peers last week: a stronger US dollar and a recovery in its early stages in the West provides an additional boost in the short-term.

We still hold the view that inflationary pressures will be material but temporary, and that investors are better off in cyclical assets such as stocks and real estate. It is however important to keep in mind that markets are prone to overshooting and that a higher volatility regime may create opportunities across asset classes. We could shortly see irresistible levels to come back on to Treasuries or Gold, and we won't hesitate to put cash to work, should inflation fears become outsized. Stay safe.

ASSET CLASSES USD % TOTAL RETURN, YTD 2020, 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

Cross-asset Update

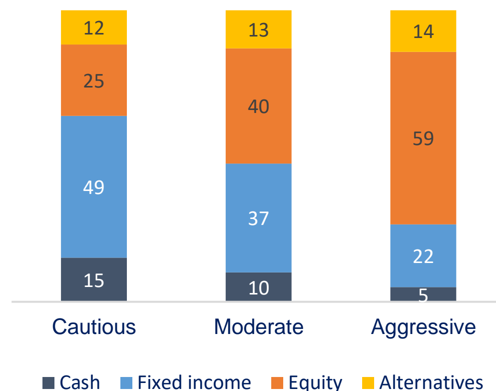
Hardly is the ink dry on the latest US pandemic-relief bill, carrying the impressive tag of $1.9tn, that Joe Biden's focus is shifting to an infrastructure plan worth between $2 and 4tn, an even more astounding magnitude given that it would see the economy, already recovering much faster than expected, overheat. Commodities and equities would be the greatest beneficiaries of this initiative being most exposed to the reflationary pressures exerted by more public spending. The former are by definition the inputs necessary to make the plan operational, which would further underpin cyclical stocks and translate into stronger earnings growth supporting equities and trumping concerns about higher rates. Bond investors would once more be left with the short end of the stick, as Treasuries still embed little inflation risk at current prices in spite of the recent rise in yields. Although Washington's initiative is quite extraordinary, real commodity prices and commodity-related stock valuations still show little-to-no premium versus historical averages, as one would expect once markets fully price in the benefits of infrastructure works.

When reworking the Strategic Asset Allocation Templates late last year, we kept in mind the reflationary goals pursued both by central banks, in particular the Federal Reserve, and governments, hence produced strategic portfolios with a more cyclical bias, partially preempting the trends which are starting to unfold today. We increased the share of EM assets, more exposed to the global cycle and correlated with higher price pressures, to reduce higher-quality bonds, no longer offering value following repeated Quantitative Easing programs. We also added to DM HY bonds, in order to make the portfolios less sensitive to the duration risks clouding the horizon of fixed income investors. At the same time, we maintained a capital-preservation constraint limiting downside potential during challenging times. Hence, the clients trusting our judgement would be allocating capital to a mix of assets built on a blend of foresight and prudence, which would most likely help grow capital to an extent, while avoiding harsh drawdowns.

Our tactical positioning, mainly biased towards equity and credit, matched by an underweight in global Treasuries and absolute-return funds, is based on our conviction that the shorter term outlook remains bright and is actually a reflection of a longer reflationary wave. Investors should also be aware that the preference of the authorities for more inflation comes with new risks. Yields are set to rise further, as the gap between their current level, historically very low, and the projections of future economic growth is the largest since 1966 in the United States. On a longer time frame, the strong growth impulse, entirely engineered with public interventions, is nowhere near to being self-sustained. One may wonder what will happen when Mr. Powell dares to communicate that the Fed intends to start the tapering of asset purchases in order to reduce financial stability risks.

Our new SAA, built with new risks in mind, should help mitigate them.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

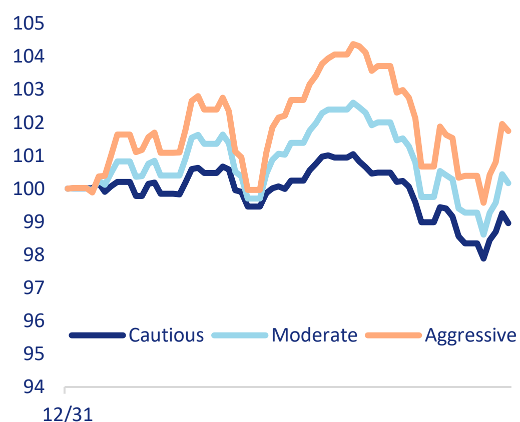


TAA – RELATIVE POSITIONING – MODERATE PROFILE

	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

After weeks of dithering, the 10-year US Treasury yield finally closed above 1.6% as of last Friday, driven by the strong US job report and consumer sentiment release, the ramp-up in vaccine roll-outs and the approval of stimulus measures. All the eyes are now on Wednesday's FOMC meeting. We do not anticipate any additional steps to be announced as different Fed officials have maintained a clear line that the rise in yields is a signal of confidence in the economy. The Q&A session would be most important as Chairman Powell addresses investor concerns.

The ECB meeting last week was very dovish. The Governing Council pledged to buy sovereign bonds at a higher pace, though officials indicated that the overall emergency stimulus program size of €1.85 Trillion would not increase. Policymakers agreed that there had been some tightening of financial conditions due to higher yields in recent weeks. JP Morgan estimates that the central bank may increase buying to €80 Bn from the current €60 Bn. The gap between US Treasuries and German Bunds reached its highest point in a year, which could act as a feedback loop to decrease that spread.

With a total return of -4%, the USD IG market is off to its worst start on record. Meanwhile, the primary issuance market remains red-hot. Verizon sold $25bn worth of bonds in a deal that is touted as the largest YTD and the sixth-largest on record on Thursday. The order-books for the jumbo deal peaked at $109bn, which would increase issuer confidence in this crucial sub-sector, still with YTD negative returns. Simultaneously, the US High Yield issuance has crossed $25bn in March and is only $11bn short of printing a record. These massive numbers indicate that rising yields have not affected the funding markets largely, with the occasional deal getting canceled.

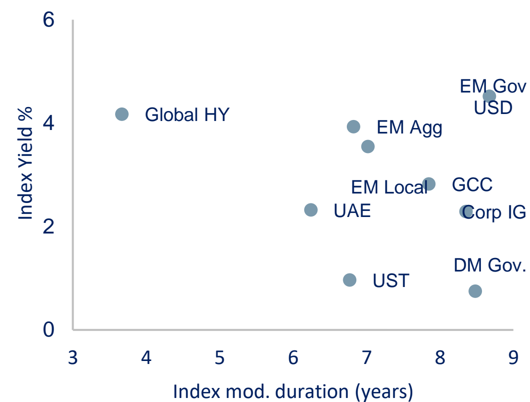
Fixed Income weekly Fund flows turned negative for the first time since November 2020, with both IG and HY developed-market and EM-hard-currency bonds affected. Short-duration bond funds also lost a staggering $9bn. The majority of these outflows are ETF-related and are nowhere close to the 2013 taper tantrum levels. Most analysts expect flows to become positive as soon as the bulk of the $21bn sidelined cash is put to work.

GCC markets returned +0.2% last week, with the Oman curve outperforming the rest of the sovereigns. Long-duration bonds had a better week than the short-duration ones. Bank Muscat, the largest bank of Oman by market share, issued 5-year senior notes with 3x order books coverage. The final pricing of 4.75% was wider by c.50 bps to Oman 26s, and the bonds were trading at a premium in the secondary market according to the latest trader runs.

FIXED INCOME KEY CONVICTIONS

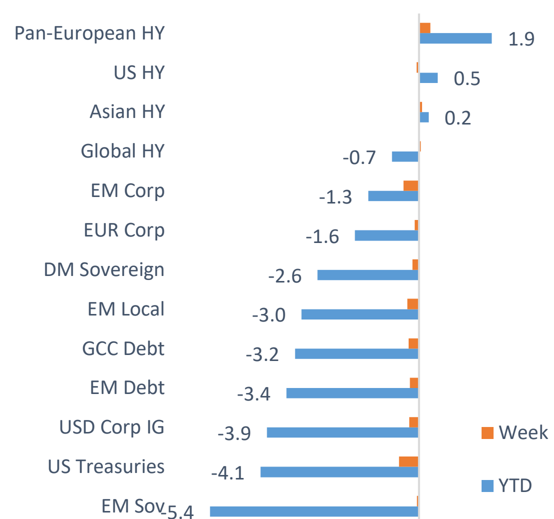
DEVELOPED MARKETS
UW DM Government
OW Credit (Cau. & Mod.)
OW High Yield
EMERGING MARKETS
OW Asia
OW IG Sovereigns
OW Latin America

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

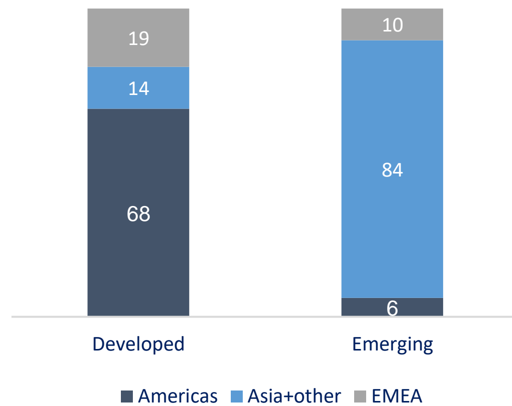
Markets were higher for the week, and year to date global equities are up c.5%, a nice progressive number, not too euphoric or causing pain. Emerging and developed market equities are now at the same level with EM affected by the higher Dollar and China equities losing some of their steam, largely on the backlash of China regulation on big ecommerce, social media and digital payment tech monopolies. US markets are pricing in the impact of President Biden signing a fresh $1.9tn fiscal relief package and expectations for a large infrastructure bill. $1400 stimulus checks flowing into consumer activity, which has already seen growth this year and the savings rate already at 20.5% implies further inflows into equities. The S&P 500 rose 2.6% last week, is at a new high and at 5.3% year to date is slightly outperforming global equities and the Eurozone at 3%. The Nasdaq gained 3.1% last week but tech is under performing and the cyclical rotation has continued into March with energy, financials and industrials leading sector returns. It was another volatile week, but a positive one, as the shift continued from growth to value stocks and those that stand to benefit as the economy progresses to a post-pandemic environment. This is amid the recent spike in bond yields and quick COVID-19 vaccine rollouts. Much debate on the proposed vaccine passport with Qantas for it and as Singapore Airlines initiates IATA's travel pass mobile app for digital health verification on some flights.

In the UAE, focus remains on increasing tourist activity and supporting expat inflows with the new 20-year plan for Dubai with more beaches as well as nature reserves. The target is to increase population by 76%. The week saw telecom stocks rally and a small uptick in real estate. The Dubai Index is in line with global equity performance, the Abu Dhabi Index is up 14% YTD. KSA equities are in line with oil gains up 10% YTD.

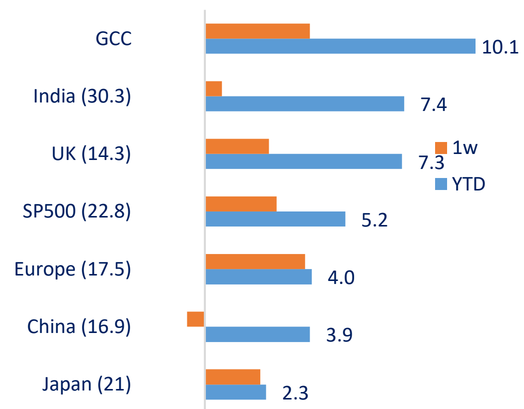
Widespread immunization, accommodative Central bank policy and savings will support the global economic recovery, although new COVID-19 strains remain a concern. However, this is a double edged sword and the massive fiscal support and excess savings risk overheating the economy, however we are still some way away from inflation targets for the Fed and ECB. The next Fed meeting will provide important direction. Stronger corporate earnings remain the dominant catalyst for equity performance at least for now.

Rising yields are behind the recent weakness in technology shares, as the 10-year yield is often used as the risk-free rate in the discount rate in formulas to calculate the future value of stocks, and many technology companies are expected to make a greater proportion of their profits in later years: the high growth expectation. Higher yields, though aid banks by making lending more profitable and reflect expectations for faster economic growth, from the boost in business activity. With the 10-year yield already at 1.6% we are moving our technology overweight to neutral and moving industrials up from neutral to overweight. We have been overweight financials for some time and see continued out performance from them. On the energy front we are neutral, though oil is hovering near $70. We would add to ESG themes, as that remains a focus for the govt. and private sector.

EQUITY RECOMMENDED REGIONAL POSITIONING

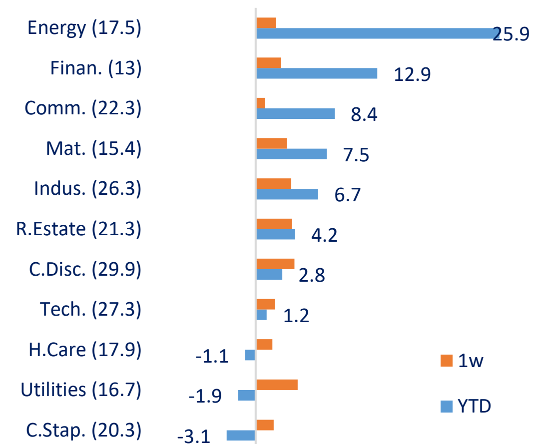


MAJOR INDICES PERFORMANCE (TR, US$) AND 2021PE



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**