



Waiting for uncertainty to lift

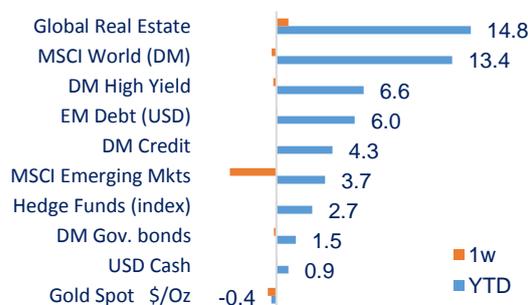
- Trade tensions unlikely to subside in the short term
- The global recovery remains on a weak footing
- Risk assets range bound until current drags lift

Even as the two conflicting parties in the ongoing trade confrontation appear to be nowhere near an agreement, the global recovery remains on a weak footing. Industrial production and retail sales both in the US and China were softer for the month of April, adding to concerns that slower earnings growth ahead and a firm dollar could further undermine business sentiment.

Until tariff concerns lift, equities are likely to trade in a holding pattern and safe-havens linger in overbought territory. The lofty US dollar, although expensive according to Real Effective Exchange Rate models, reflects a premium for resilient US growth and higher policy rates against major countries globally. US long-dated Treasuries, offering no protection against future inflation or a pickup in the growth rate of the economy, are underpinned by Fed dovishness and high geopolitical risks. Gold, still in the doldrums, should rebound to the upper end of its current range, as trade tensions, according to our base-case scenario, spike before eventually subsiding.

In spite of growing near term uncertainties, recessionary risks continue to be contained, with policy support and global unemployment near record lows providing strong offsets to the existing headwinds. The usual harbingers of a downturn, overinvestment and restrictive policy, remain notably absent in the current cycle. This favourable backdrop informs our medium-term constructive view on risk assets.

ASSET CLASSES USD % TOTAL RETURN, YTD 2019 AND WEEK



MAURICE GRAVIER
Chief Investment Officer
MauriceG@EmiratesNBD.com

ANITA GUPTA
Head of Equity Strategy
AnitaG@EmiratesNBD.com

YAHYA SULTAN
Head of Fixed Income Strategy
YahyaS@EmiratesNBD.com

GIORGIO BORELLI
Head of Asset Allocation
GiorgioB@EmiratesNBD.com

Cross-asset considerations

Major events on the global scene are pointing to an increasingly polarized world. Opposing blocks are engaged in clashes of historical memory, causing rising geopolitical uncertainty and in financial markets the continued outperformance of safer US-centric assets. The US-China stand-off marks a major turning point in the relationship between the two countries and in US trade policy, even as populist tendencies spread across Europe to affect the upcoming elections to the European Union’s parliament concluding on May 26.

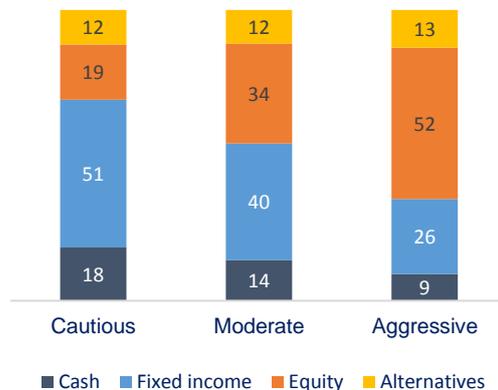
Mr. Trump has broken with the multi-decade-long US tradition of supporting free global trade, which has boosted the rise of the emerging countries, the global integration of supply chains and the thriving of the open German economy. Research teams in investment houses are gradually coming round to the new reality that the increased US tariffs on USD 200bn worth of Chinese goods’ may well become permanent. It is interesting, and at the same time deeply concerning, to observe that global trade as a percentage of GDP in the last 60 years has moved in the opposite direction to the average US tariff rate on imports, which under Mr. Trump is rising by an unprecedented extent. Will the new protectionist order make a durable dent in the developing countries’ and Germany’s growth rates? While it is extremely difficult to make such forecasts, we can say with more confidence that in the short term we are unlikely to have seen the full disruptive effects of higher tariffs on the business cycle and asset markets.

Although according to different models the global economy should not be suffering too much unless a full-blown trade war breaks out, those same models last year underestimated the second-round effects on business confidence, which dropped more than expected and caused a marked slowdown in investments. The probability that the two leaders will agree to a deal at the G20 meeting has lowered somewhat, following the recent heightened brinkmanship. As a consequence, US markets should continue to outperform in the short term as uncertainty rises. While a deeper retracement should be expected, we do not see a double-digit crash either, since positioning across equities remains far from extreme, making the asset class less vulnerable than in Q4 last year.

As the Euro area parliamentary elections approach, tension between populist and the more traditional parties increases. Were populist parties to win big, they would be unlikely to build a cohesive enough front to disrupt legislative processes and jeopardize European values. Yet, the declarations of Matteo Salvini’s, the Italian populist PM following in Trump’s footsteps who advocates for a “fiscal shock” to boost growth, have been enough to see the spread between the Italian BTP and the German Bund widen and the euro weaken further against the US dollar.

Attempts to make America great again are likely to be depressing global growth in the end, attempts to shake the existing order in Europe could see it sink further.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

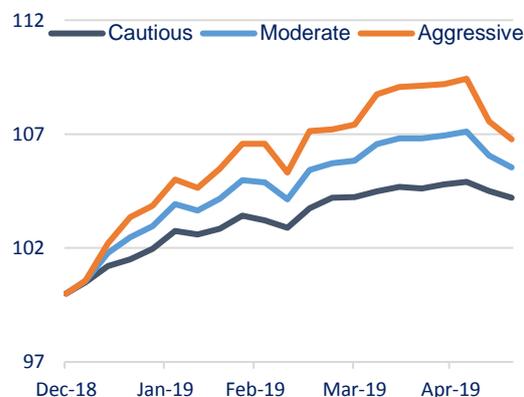


TAA – RELATIVE POSITIONING – MODERATE PROFILE



UW/N/OW: Underweight/Neutral/Overweight

TAA – YTD INDICATIVE PERFORMANCE



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

Fixed Income Update

US benchmark Treasuries in a tight trading pattern with yields below the 2.40% level underpinned by the safe haven bid while the German Bunds and UK Gilts also strengthening by over 3bps to 6bps to yield -0.10% and 1.03% respectively. The biggest gainers over the week were Portugal and Italian bonds strengthening by over 10bps in absolute yield terms to 1.04% and 2.65% respectively. Some gains on the Eurodollars futures pointing to market expectations of pricing in close to 30bps of cuts by the December FOMC meeting and two full cuts into July 2020 FOMC. The effective fed funds rate fell to 2.39% at last weeks close.

Capital outflows continue within emerging markets. EM Local-currency and Hard-currency debt funds faced their largest weekly outflows YTD. The scale of outflows from EM Local-currency debt funds has been large, and outflows are likely to continue. Almost 79% of inflows have been towards the EM local-currency debt and have been channeled through ETFs, and only 21% to active funds so far, this year. This positioning makes EM local currency debt more vulnerable and volatile during market stress, particularly with US-China impasse.

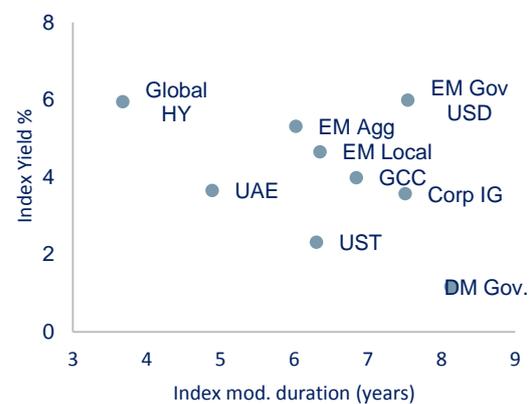
Chinese primary bond sales have surged totaling 3.6 trillion yuan or USD 522bn in April. The stock of Treasury bond issuance amounted to Yuan 465bn, while local government bond issuance was worth Yuan 226bn, according to a statement by the People's Bank of China. China will accelerate local government bond issuance this year to help the timely implementation of various projects. The debt balance of local governments stood at Yuan 18.39tn at the end of 2018, well below the official ceiling of Yuan 21tn. As of April-end, the size of the outstanding bond market debt was Yuan 90.1tn. Credit growth in China eased last month and remains accommodative for economic growth expansion, in our view. The aggregate social financing growth rose 10.3% (stock basis) YoY for April 2019 driven by RMB denominated bank loans, corporate bonds and local government debt. The Chinese industrial production rose by a modest 5.4% year-over-year in April, down from 8.5% in March, and below the consensus of 6.5%, slowed by manufacturing and mining.

On credit markets, Asian investment-grade outperformed Asian high-yield on the back of uncertainty over US-China trade rhetoric. On a total return basis, Asia IG delivered 30bps of positive returns compared to minus 32bps of returns in Asia HY. Sovereign and Quasi-Sovereign bonds dominated top performing sectors over the week while laggard were high yielding non-financial corporates. In GCC, regional geopolitics were the main drivers for widening credit spreads. The benchmark GCC broad aggregate credit index widened to 171bps (in spread terms) from this month's lows of 153bps to yield at just 4% while the composite UAE investment-grade index has had a modest spread correction of 11bps MTD to 133bps at an index yield of 3.66% on an effective duration of 4.92 years.

FIXED INCOME KEY CONVICTIONS

DEVELOPED MARKETS
OW US within Government
OW Corporate Credit
UW High Yield
EMERGING MARKETS
OW GCC
OW Local Currency
UW Latin America

FIXED INCOME VALUATIONS



Source: Bloomberg, indices modified duration and YTW

Chart of the week: Major 10Y benchmarks now hover close to their respective policy rates.



Source: Bloomberg

Equity Update

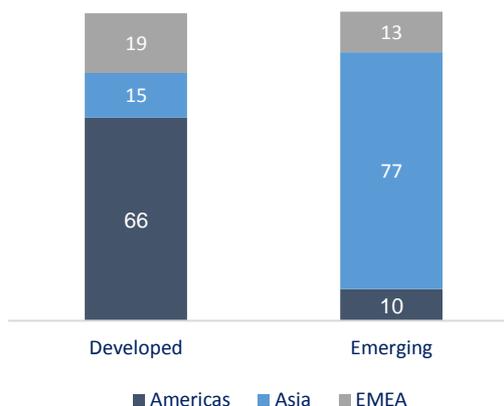
The S&P 500 seems to be moving in a range, with support at 2800 and resistance at 2900. This is consistent with our year end fair value of 2825. The recent earnings season has been supportive, as have good numbers on consumer sentiment, both of which helped mitigate the concerns over US China trade issues. The delay of auto tariffs and the lifting of Mexican/Canadian metals tariffs were also rays of hope in a week fraught with geopolitical concerns. Positive earnings reports from Wal-Mart & Cisco overshadowed a ratcheting up of trade tensions, as US companies were banned from doing business with Huawei, putting pressure on the supply-chain. Cisco gave a bullish sales and profit forecast for the current period, a positive sign on corporations infrastructure spending. Walmart remains focused on growing its ecommerce activities and forecast online sales growth to accelerate 35% in fiscal 2020. The retailer, however, warned that tariffs will translate into higher prices for shoppers.

Consumption has been and remains the bedrock of the mid to high single digits economic growth in China and India. Traction in China is maintained by the increasing spend on upmarket products such as luxury watches and apparel whilst in India white goods still have plenty of room to grow. The China market could however remain volatile till stimulus successfully counters the potential economic fallout of tariffs. For the MSCI India Index year to date returns in Dollar terms are flat and we went overweight India last week. As we wrote earlier in the year, we expect the market to be agnostic as to the election outcome as long as there is a clear mandate. Exit polls are showing. PM Modi's ruling coalition is poised for victory. The focus for the new government will have to remain on job creation, encouragement of the private sector investment and management of credit risk. An unhelpful global growth environment is creating its own quagmire.

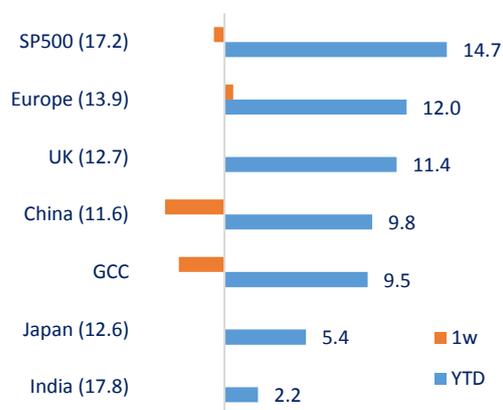
Alibaba and Tencent make up c. 30% of the MSCI China Index and are also the poster stocks of China. However the exponential growth of Tencent is now slowing whilst at Alibaba margins look to be in jeopardy. Q1 Revenue rose 16% for Tencent however at the slowest pace since it went public in 2004. The FinTech division was a standout with revenues up 44%, driven by WeChat payments, insurance services and cloud computing. Sales at Alibaba increased 51% with 83% of sales from commerce activities, indicating shoppers are spending more but this was in contradiction to China retail sales for April, with growth decelerating to 7.2%, the slowest pace in 16 years.

The Tadawul Index (12.1% YTD, total returns) reversed direction at the end of last week, recovering from the selloff which began 10 days ago. With a total of 30 Tadawul stocks to be added to the MSCI EM index, this inclusion is expected to boost trading in the Kingdom's stock exchange and attract foreign investment. The UAE indices however gave up some of their strong year to date gains, except for a mid-week rally on the real estate stocks that retained their MSCI EM status. Index rebalancing also led to some repositioning in the MSCI EM constituent names.

EQUITY RECOMMENDED REGIONAL POSITIONING

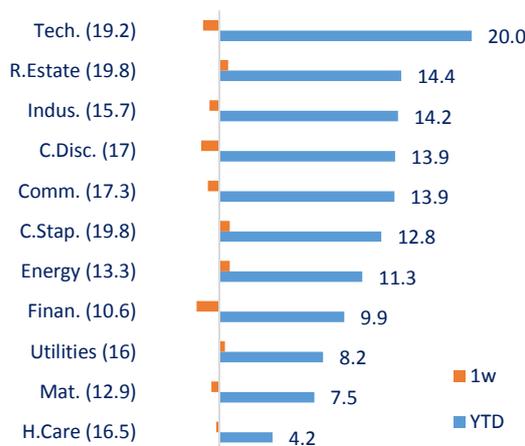


MAJOR INDICES PERFORMANCE (TR, US\$) AND 2019PE



Source: Bloomberg consensus. MSCI Indices unless specified.

GLOBAL SECTOR PERFORMANCE (TR, US\$) AND 2019PE



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