Emirates NBD
PRIVATE BANKING

INSPIRING WHAT'S NEXT

A quiet week, a binary context

- **The trade relations between US and China are dominating market action…**
- **… Even more so as the Fed minutes confirmed wide support for a pause.**
- **Markets were relatively quiet against such a backdrop.**

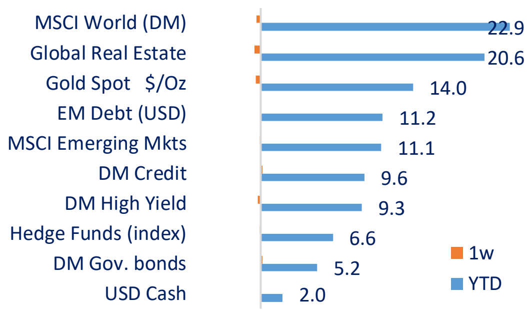
2019 so far has been a great year for markets, with all the major asset classes posting positive returns, half of them at double digit. To put it clearly, we believe that most, if not all, of this performance should be preserved in the last weeks of the year, but the near-term is as binary as ever: it's all about the US and China agreeing on a tangible "Phase 1" trade deal.

Last week delivered mixed messages on that front. Bottom line, Mr Trump stated that both countries want a deal to be signed, but that the Hong-Kong protests were complicating the situation. This could be seen as a way to prepare markets that a deal might not be absolutely imminent, even more so as it appears that the December 15th deadline for some planned tariffs could be postponed.

Markets are holding their breath, and so are central banks. The Fed minutes released Wednesday indicate that they are comfortable with their "wait and see" stance. Economic data (flash PMIs released on Friday) also didn't change the picture, with some stabilization in manufacturing but also deceleration in consumption.

Our positioning is unchanged, with a slight overweight in both equities and cash, against a slight underweight in fixed income and real estate. Barring a last-minute crash in the trade negotiations, markets should end the year close to their current levels. We obviously focus on the Year Ahead, currently working on our end 2020 fair values for major asset classes.

ASSET CLASSES USD % TOTAL RETURN, YTD 2019 AND WEEK



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Cross-asset considerations

In her first policy speech since replacing Mario Draghi as ECB president, Ms Lagarde urged governments to increase public investments for the region to thrive under growing uncertainty as monetary policy "should not be the only game in town". Europe, the world's second largest economy, has a checkered record in terms of economic dynamism, with headwinds to business activity growing significantly on trade-war tensions that hit export-oriented Germany harshly.

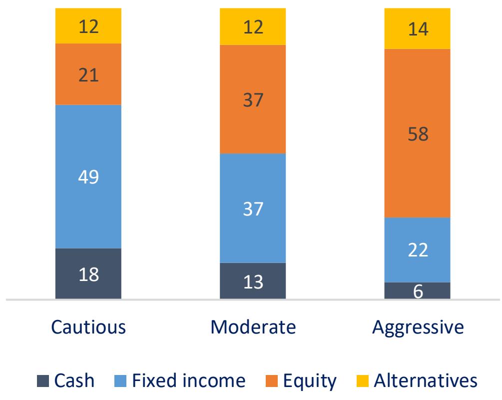
Protracted weakness of the domestic currency is just another symptom of the same malaise. Although the euro is undervalued against the US dollar according to most long-term equilibrium models, its low single-digit negative carry versus the dollar alongside weaker corporate earnings prove considerable hurdles to investors looking to park money in growth assets. The global economy will need to push well past the current green-shoots of recovery for the euro to be considered a currency worth investing in. Hence, the fate of the euro, as well as that of the whole area, ultimately lies in the hands of the global cycle.

Ms Lagarde is driving the right point home, by suggesting that more public expenditure would be increasing demand and at the same time mitigating Europe's dependency on external forces. This would be very much akin to what China has been striving for in the past decade, by steering the economy more towards internal consumption to decrease its sensitivity to exports. In Europe, it would not even be a matter of replicating the gigantic Chinese efforts, but rather just starting to make up for insufficient private demand wherever need be.

Indeed, this kind of predicament is running on a global scale, where reliance on monetary policy has been excessive as compared to inaction on the fiscal side, with the exception of the US where tax cuts were enacted in place of more government outlays. It is also expected that fiscal stimulus will naturally pick the baton considering the adverse impact of negative yields for prolonged periods of time. Yet, a world where public spending comes to the foreground and central banks play less of a pivotal role would not just be a matter of replacing one kind of instrument with another to support the economy.

Investors may shudder at the prospect. Fiscal policy eventually boosts inflation and yields, monetary stimulus propels financial assets higher by depressing yields. Asset markets could in the beginning have to pay a high price for much coveted economic growth. As much as public outlays would increase the natural growth rate of the economy, they would also push bond yields higher, a mere reflection of improved macro conditions. So, risk assets would be off to a bad start if world governments suddenly did wake up to Ms Lagarde's call, to be boosted higher by stronger growth only further down the road.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

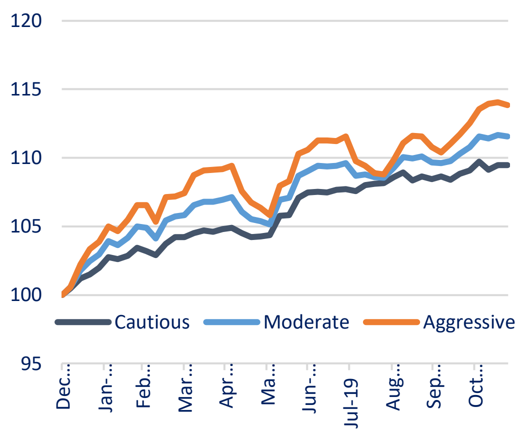


TAA – RELATIVE POSITIONING – MODERATE PROFILE

	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 – YTD INDICATIVE PERFORMANCE



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

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Fixed Income Update

FOMC Minutes highlighted that the policymakers are not ready to finalize whether the FED should have a standing repo facility or a modestly sized frequent repo offering to control the Fed Funds Rate. The central bank's overnight repo operation on Wednesday was undersubscribed, with dealers submitting USD 74.4Bn of securities, below the maximum 120Bn limit. The US treasuries ended stronger with yields down from 1.81% to 1.77% while Euro-area benchmark yields edged also lower anywhere between 2 to 5 bps after Services PMI across the region were lower than analyst expectations. UK Gilts were the top performer on the back of the lowest Markit composite PMI data print since July 2016.

In a sign of lower market confidence in risky bonds, US CCC rated bonds' spreads widened above 1,000 bps for the first time in the last three years. The Bloomberg Barclays Index had Option Adjusted Spreads of 1,020 bps and overall YTW of 11.98%. However, US HY Index excluding CCC rated bonds has rallied significantly this year with spreads decreasing by more than 160 bps YTD. This reinforces our strategy on exposure to the sub-investment asset class whereby committing to prefer quality credit within the category.

The macroeconomic data were mixed with retail numbers disappointing while manufacturing and services data improved in November. The IHS Markit US flash manufacturing sector PMI index rose to 52.2 in November from 51.3 in October. This is the fastest rate since April meanwhile the U.S. flash services sector PMI index rose to 51.6 from 50.6. US Macro data is going to dominate this week with markets keenly awaiting the Chicago FED activity index and Dallas Fed Manufacturing activity due today and GDP, personal consumption, MBA mortgage applications, Capital goods orders due on Wednesday.

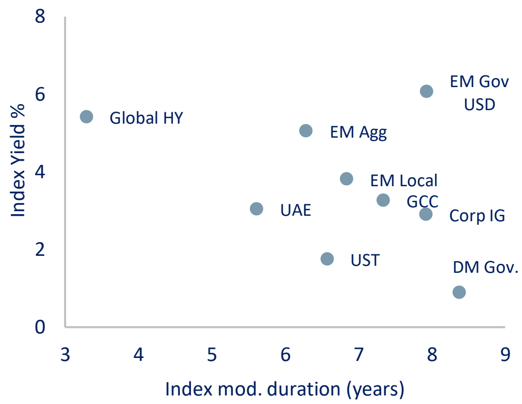
Chinese 10-year sovereign yields had the biggest weekly decline since August post central bank decision to lower the cost it charges on short-term open-market operations for the first time since October 2015. The PBOC had also injected 300 billion yuan of cash into the financial system last week. We consider the change in the monetary policy stance to be more of a signal rather than a material shift, and this rally may be short-lived since the geopolitical risks remain elevated on the backdrop of US congress supporting Hong Kong protests and the ongoing trade flip-flop.

Primary bond activity across emerging markets have topped USD 657bn surpassing last year's USD 538bn. It was a decent week in terms of GCC's primary issuance. Arabian Centres Company, priced USD 500 Mn of their debut Sukuk at 5.375%. National Bank of Kuwait issued the lowest yielding perpetual in the GCC region. NBK sold USD 750 Mn of Non-Call 6Y bond at 4.50%. Books were more than $1.75bn. ONGC of India announced a possible issuance of 10-Year bonds. ONGC's farthest maturity bonds in 2026 yield 3.1%. Considering the comps within the oil sector, we foresee the upcoming bond to be priced around 3.4% to 3.5%.

FIXED INCOME KEY CONVICTIONS

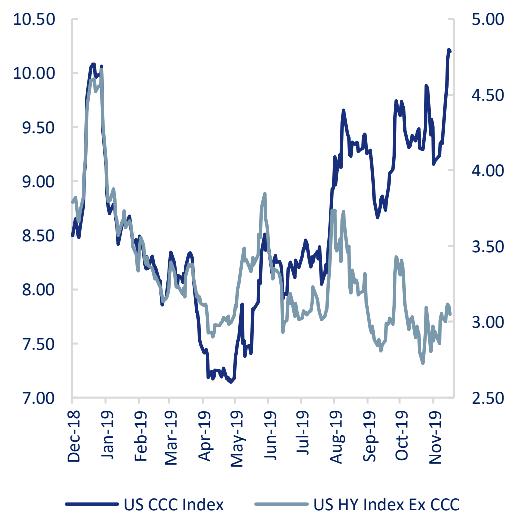
DEVELOPED MARKETS
OW US within Government
OW Corporate Credit
UW High Yield
EMERGING MARKETS
OW GCC
OW Local Currency
UW Latin America

FIXED INCOME VALUATIONS



Source: Bloomberg, indices modified duration and YTW

CHART: HIGH CREDIT QUALITY WITHIN THE HY CATEGORY OUTPERFORMS



Source: Bloomberg

Equity Update

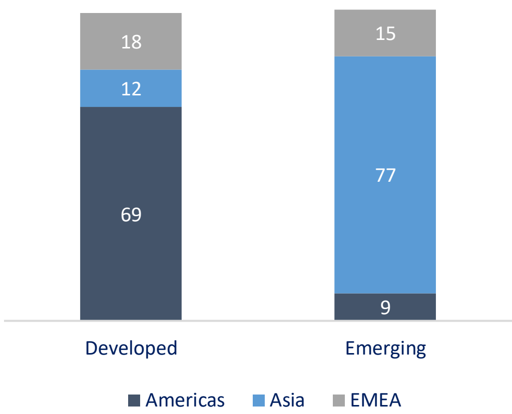
U.S. markets are well oriented this quarter, as the 3Q corporate earnings season point to flat growth, beating consensus expectations of a 4% drop. The health care sector is a standout, posting double-digit revenue growth and +8% rise in profits. US indices, however slightly fell last week, after 6 straight weeks of gains, as the U.S.-China "phase one" trade deal delay dampened positive news from the manufacturing front. Earnings were mixed in the retail sector. Target Corp was a standout, on increasing ecommerce sales. In Asia, Alibaba's secondary listing was successful but the Hang Seng Index has lost all its gains for 2019, with no signs of the Protests abating.

The KSA markets had a good week with the Index back above the 8000 mark. The Saudi Aramco IPO is being well received by institutional and retail investors according to the lead managers. The company is expected to list on the Tadawul exchange in the second week of December and enter the EM indices soon after, attracting passive inflows. In the UAE, the logistics sector (we are overweight) is rallying. Tourism and commercial travel are growing, as evident with Air Arabia placing a 120 aircraft order with Airbus. FOLs (Foreign ownership Limit) are being ramped up by the banks. Emirates NBD recently raised its FOL and its rights issue was subscribed 2.8X.

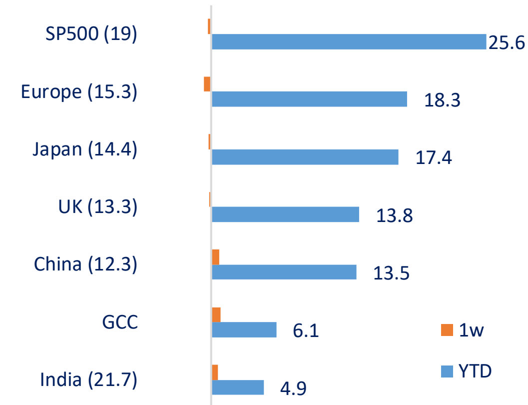
The Electric Vehicle industry is making some noise. Tesla's Cybertruck's glass window shattered when its strength was tested with a metal ball. The failed launch dented the 40% rise in share price since Teslas' surprise third-quarter profit last month, but the futuristic truck is said to have gathered 200k orders already. The auto industry (still dependent on the combustion engine for 95%+ of sales) is focused on a makeover with several EV launches. Ford unveiled an all-electric SUV, the Mustang Mach-E, priced at $45,000 much cheaper than Porsche's Taycan, at $150,000. 50% of all Porsche sports cars sold by 2025 will have an electric engine. Weak market momentum is weighing on the automotive sector, according to S&P Global Ratings with pressure coming from trade disputes, increased competition and higher costs, "We expect no revenue growth for the industry in 2020 and 2021. Any recovery hinges on a potential modest revival of the Chinese market, and would come no earlier than 2021 in our view." S&P expects light vehicle sales worldwide will fall about 8 mn next year.

China may not be home to the world's largest tech companies, but is leading on innovation. China's one billion Internet users are helping drive e-commerce growth with the streaming technology being used to gain consumers attention. 7.5% of overall sales on Alibaba's Singles Day ($38.4 bn) were on account of live streaming, the modern version of cable TV shopping platforms. Live streaming, which combines shopping with entertainment, includes recommendations from key opinion leaders, real time comments from peers to help consumers make decisions faster and limited-time offers. Voice shopping is also gaining traction. Over one million orders were placed and paid through voice command using Tmall Genie, the smart speaker from Alibaba Labs.

EQUITY RECOMMENDED REGIONAL POSITIONING

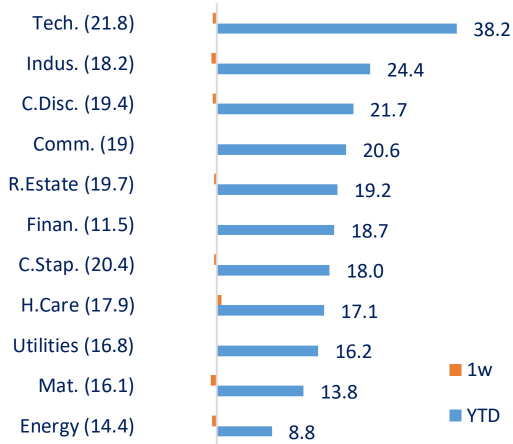


MAJOR INDICES PERFORMANCE (TR, US$) AND 2019PE



Source: Bloomberg consensus. MSCI Indices unless specified.

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



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

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