بنك أبوظبي التجاري

ADCB

ASSET MANAGEMENT LIMITED

QUARTERLY INVESTMENT VIEW

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The downward pressure on emerging markets is not over yet

This summer emerging markets continued the downward slide that had started at the beginning of the year. US equities continued their upward movement. Most developed markets are down for the year, with the exception of Japan which is slightly up. We recognize that the environment for equities is becoming increasingly challenging. In fact, on June 24 we had reduced our global equity stance from overweight to neutral and at the same time we had maintained our long-standing US equity overweight and emerging markets underweight exposure. At this stage we still think that US equity markets have some more upside. If anything, a temporary correction of the US equity market in response to the adjustments in the yield curve could provide a buying opportunity, as we have argued in our latest strategy note. At the same time we believe that emerging equity markets, as well as emerging bond markets, have not seen the bottom yet.

The main reason for continuous US equities' resilience and emerging markets' vulnerability is, in our view, the combination of strong us economic growth and complacency by the markets about the Federal Reserve's determination to hike rates. The US economy is likely to continue to surprise positively. Not only are financial conditions still relatively accommodating, but also tax cuts and discretionary spending programs continue to provide stimulus to the economy, as is deregulation. Perhaps most importantly, whilst household balance sheets look better than ten years ago, corporate debt, up from 2008, is still absolutely manageable. What does that mean? It simply means that the US economy is in a relatively good position to withstand some more upward pressure on interest rates. At the same time though, we think that there might be some surprises on the very extent of the upcoming interest rate hikes. As things stand now, the market is pricing in less than a percentage point of a rise in the Federal Reserve Funds' rate, whilst the Federal Reserve itself penning in at least half a percentage point more. A closer look at the labor market and inflation indicators tells us that if there is going to be any surprise to what the market is expecting, it is going to be to the upside rather than to the downside.

It is this surprise potential that still spells trouble for emerging markets. Most emerging markets' balance sheets have over the last ten years gone exactly the opposite direction as those in the US: emerging markets' dollar denominated debt has risen as a share over GDP, rather than fallen. A stronger US dollar, because of still higher US interest rates, is likely going to increase that debt burden, which will be detrimental for both emerging equity and emerging bond markets.

You might ask yourself, of course, if this bad news is already priced into the markets. Perhaps emerging markets are, unlike the Federal Reserve Futures markets, already discounting a more aggressive stance by the Federal Reserve? A stronger US dollar is already part of the valuations? It is true that on the equity side we see many emerging markets that are trading at a valuation with respect to the S&P 500 which is significantly lower than their long-term average discount. In our view, however, such valuations should be taken with a grain of salt. What has really driven emerging equity market valuations over the last years is currency and interest rate movements. It is difficult to argue that the exchange rates and the bond spreads of emerging markets already discount the worse scenario. On average these indicators don't even discount a scenario that is significantly worse than it was a year ago. Brazil, which currently has a real effective exchange rate that is perfectly in line with its long-term average, is a case in point. Whilst its external US dollar debt appears manageable at 30% of GDP, and has actually stabilized over the last three years, its domestic government debt has sky-rocketed from 60% to almost 90% over the same period. The country is running fiscal account deficits to the tune of 8% of GDP. To us it would seem that its soon-to-be-elected populist president will find it hard to resist the temptation to monetize that growing debt. And, with the exchange rate not particularly cheap, the downside for the Brazilian real would be still considerable.

Of course, at some point the situation in emerging markets should stabilize. We would assume that to happen when a stronger US dollar, and continuing US economic strength, will start contributing to an improvement of the business cycle in Europe and Japan. Sometime in 2019 we will see rising expectations of rate hikes by the ECB. This should be the trigger for the US dollar to stabilize and risk asset markets to rotate away from the US into Europe and emerging markets.

For now, there is one more reason for emerging markets are likely to remain under pressure. It's called China. Actually, it's called China and trade. In 2015 China came to the help of emerging markets by injecting stimulus to its economy, and by allowing its currency to depreciate only gradually. In 2017 China provided further support by actually allowing the Renminbi to appreciate. China is now moving in a totally different direction. As we explain in our China page, the authorities are now totally dedicated to deleveraging. At the same time, they are quite happy to allow the Renminbi to resume its downward trajectory. It should be reminded, trade disruptions are a concern for emerging markets (and for Europe). They are less so for the United States. By attacking China on trade the US administration has however given the Chinese authorities an excuse to insist on deleveraging. The resulting hardship can now easily be blamed on an external scapegoat. Its name is Trump. And to the extent that some of the hardship must be mitigated, it will happen through further renminbi depreciation. For the moment, this is still bad news for emerging markets.

Luciano Jannelli, Ph.D., CFA
Head Investment Strategy

Key indices, Commodities, Currencies and Rates

Past quarter global markets' performance

Index	Latest (30 Sep closing)	Quarterly Change % (Q3 2018)	YTD Change % (30 Sep)
Index Snapshot (World Indices)			
S&P 500	2,809.9	7.2	9.0
Dow Jones	25,798.4	9.0	7.0
Nasdaq	7,645.5	7.1	16.6
DAX	11,819.0	-0.5	-5.2
Nikkei 225	22,841.1	8.1	6.0
FTSE 100	7,070.6	-1.7	-2.3
Sensex	35,261.1	2.3	6.4
Hang Seng	25,462.3	-4.0	-7.1
Regional Markets (Sunday to Thursday)			
ADX	4,910.8	8.2	12.2
DFM	2,743.2	0.5	-15.9
Tadawul	7,674.9	-3.8	10.6
DSM	10,117.4	8.7	15.1
MSM30	4,459.85	-0.6	-10.0
BHSE	1,310.8	2.1	2.5
KWSE	5,006.6	4.9	6.2
MSCI			
MSCI World	2,091.2	4.5	3.8
MSCI EM	984.7	-2.0	-9.5

Commodity	Latest (30 Sep closing)	Quarterly Change % (Q3 2018)	YTD Change % (30 Sep)
Global Commodities			
ICE Brent USD/bbl	81.6	4.1	23.7
Nymex WTI USD/bbl	72.07	-1.2	21.2
OPEC Baskt USD/bbl	79.0	7.7	26.4
Gold 100 oz USD/t oz	1,222.5	-4.8	-8.5
Platinum USD/t oz	838.3	-4.4	-12.1
Copper USD/MT	6202	-7.0	-13.7
Alluminium	2,039	-5.0	-9.0
Currencies			
EUR	1.1558	-0.7	-3.3
GBP	1.3168	-1.3	-3.6
JPY	112.29	2.7	0.9
CHF	0.9913	-0.9	0.8
Rates			
USD Libor 3m	2.4488	2.7	41.6
USD Libor 12m	2.9668	5.6	38.5
UAE Eibor 3m	2.6775	0.6	36.0
UAE Eibor 12m	3.4628	1.0	28.8
US 3m Bills	2.2943	-42.0	59.7
US 10yr Treasury	3.1615	7.0	27.3

Executive Summary

- A very strong US economy is providing the backdrop for a continuous upward revision of the Federal Funds rates. As long as we see no clear indications of the ECB also starting to hike interest rates, upward pressure on the US dollar is likely to continue. This means continuing pressure on emerging markets, which have bond and currency valuations that have not yet been seriously dented by the turmoil of the past summer.

- US radical global policy rethink is jeopardizing free trade across the world, and fiscal prudence in developed markets. We reiterate our stance that these tensions are very unlikely to go away in 2018. Even if a full blown global trade war seems still unlikely, the fear alone of it is likely to keep markets volatile, with recurring downward pressure. It will take a while, before they will feel confident to climb once more the proverbial "wall of fear".

- We had been long surprised by the resilience of emerging markets. The end of the US dollar weakness, which had characterized most of 2017, together with the trade war concerns are now finally exercising their toll on emerging markets. The renewed strength in the US dollar, in fact, implicates – together with rising US interest rates – a significant deterioration in the financial conditions of emerging markets, in particular those with high US dollar debt levels. The stronger greenback is also not favorable for commodities, of which some emerging markets are major exporters. Finally, global trade concerns impact emerging markets more than developed economies.

- Federal Reserve tightening combined with some signs of growth cooling have determined a further flattening of the curve. Whilst continuing flattening is on the cards, we would exclude a significant inversion of the US yield curve, as it seems more likely that the Federal Reserve would pose hiking towards the end of the year, especially if the US dollar further strengthens. On the upside, we would not exclude a temporary break-out of 10 year yields towards 3.5%.

- China is now dedicated to deleveraging. It also feels no longer committed to prevent its currency from depreciating. These are important and radical changes in the country's long-standing policy direction. They also add to trouble for emerging markets which at previous times of global downturn – specifically in 2008 and in 2015 – could at least count on China's picking up the baton of stimulus injection. This time China policy is truly different, and we steer clear from those markets that are most dependent on China.

- The key risk to the global outlook remains a further hike in the oil price as a result of tensions in the Middle East. This would be particularly harmful for emerging markets, and to some extent for Europe too. It would be more manageable for the United States.

Market Outlook and Portfolio Positioning

Asset Allocation

Equities	Neutral	Global growth has cooled considerably and has become less synchronous across regions. With monetary policy turning less accommodative globally, non-restrictive fiscal policy is still creating equity opportunities, in particular in the United States.
Fixed Income	Underweight	Whilst high quality government paper might continuing doing well, we see risks for further spread widening and higher yields on the short end of the curve.
Alternatives	Neutral	We maintain our exposure to hedge fund strategies that are less correlated to the market, as well as gold and treasuries as an insurance against risk-off moods.

Fixed Income

Duration	Barbell approach	A barbell approach combining long-term Treasuries and short-term money market paper seems most sensitive.
Advanced economy corporate bonds	Underweight	Spreads remain unattractive.
US Credit	Underweight	Valuations remain expensive. High yield spread compression is not likely with flattening US yield curve.
Euro Credit	Underweight	Valuations are more expensive than US credit. Investment grade and High yield bonds are trading at yield level lower than some of the sovereign global bonds (safe-haven assets).
US Treasuries	Overweight duration	Any rise in long-term bond yields will be limited compared to short-term bond yields with increasing signs of global slowdown and Fed pressing on more rate hikes this year.
EM hard currency bonds	Underweight	Hard-currency bonds preferred over local currency bonds as monetary policy rhetoric will become more hawkish and emerging currencies remain under pressure due to broad US dollar strength and tightening US financial conditions. We only prefer GCC sovereign dollar bonds.
GCC	Overweight	GCC credit spreads yet to fully reflect the recent rise in oil prices. Valuations appear attractive.
India	Neutral	Rising inflation pressures and front-loaded RBI rate hikes to check the drop in local-currency sovereign bond yield.

Market Outlook and Portfolio Positioning

Equity Markets

US	Overweight	Cautiously optimistic as the equity benchmarks constantly scale record highs. Earnings growth underpinned by tax reforms and growth premium associated with positive decoupling from rest of the world. We acknowledge expensive valuations and strong investor positioning.
Eurozone	Neutral	Political risks, Brexit, anaemic earnings growth are key downside risks. Strong cyclicality and light investor positioning stop us from going underweight.
Japan	Neutral	Tail winds come in the form of strong domestics. Tighter labor market and relatively easier monetary policy are likely to help the domestic sectors. Headwinds could arise from a reversal in yen weakness.
Emerging Markets	Underweight	For the moment the downward pressure is likely to continue with trade war concerns and weakening of domestic conditions likely to dominate. Overweight India and Underweight China. We also like GCC equities, and in particular Saudi Arabia. Elsewhere, there could be tactical opportunities emerging, but it will be key to remain selective.
United Kingdom	Neutral	No-deal Brexit is a potential risk. However, the equity benchmarks are commodity-heavy and a still weaker currency because of Brexit would be a positive. Valuations are neither cheap nor expensive.

Energy and Commodity Prices

Energy	Neutral	OPEC decisions to increase output are likely to have a limited impact on the oil price, given the reduction in output by Venezuela and Iran. If anything we would expect the market share of the GCC suppliers to rise. Also, the recent increase in tensions between the US and Iran, might well lead to more turmoil in the more troubled parts of the region, specifically Iraq, and thus continue to put upward pressure on the price.
Industrial Metals	Underweight	China tightening will put downward pressure on industrial metals.
Precious Metals	Overweight	The US "reflation" theme is bad for precious metals. Yet, bouts of risk-off jitters are still very likely over the years to come. Thus we keep them as a "market insurance" risk hedges in our portfolios.

Currencies

EUR	Moderate downward pressure	Trade war concerns and emerging market woes are also more likely to benefit the US dollar, the Japanese yen, and the Swiss franc, rather than the euro. As such we would expect the euro to continue to move sideways with a downward bias, at least until ECB starts thinking about hiking rates, which is unlikely before 2019.
GBP	Some further corrections expected	The Pound Sterling is to follow the euro rather than the US dollar. Some more uncertainty-induced downward pressure on the currency cannot be excluded, in the run-up to the Brexit deadline for a deal with the EU.
JPY	Moderate downward pressure	The combination of moderate Fed tightening and BoJ yield curve targeting would normally put continuing downward pressure on the yen. The risk is that further global risk-on concerns would undo that outlook.

What's trending: smart beta ETFs

October 2018

Smart beta ETFs have exceeded the $800 billion assets milestone, reflecting the strong interest the strategies are enjoying.

What are smart beta ETFs?

Smart beta ETFs just like any other ETFs (exchange-traded funds) are securities traded on a stock exchange that track indexes. The difference between them and traditional plain-vanilla ETFs is the type of indexes they track. Traditional indexes tend to be market capitalization weighted. Smart beta ETFs on the other hand track factor-based indexes, for example indexes focused on cheaper stocks, stocks with higher dividend payouts, or stocks with lower volatility.

Consider the S&P 500 index. It is a standard market capitalization weighted index. The S&P500 Growth index would be an example of a factor-based index; it draws constituents from the parent index, the S&P 500, but adds a style tilt, screening stocks using sales growth, the ratio of earnings change to price, and momentum factors. While its constituents represent different sectors, e.g. Apple from the technology sector, or Amazon from the consumer cyclicals, they all share 'growth' characteristics as defined above. An ETF tracking this index would be considered a smart beta ETF.

Cost efficient hybrids

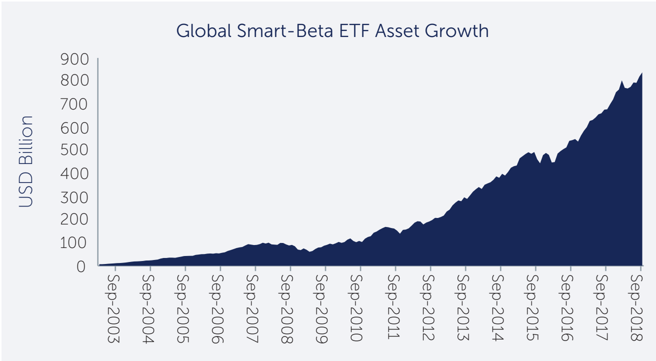
For once, smart beta ETFs have gained popularity as a panacea to often criticized market capitalization weighted investment approach, which overweight large cap names in equity indexes and debt-laden issuers in fixed- income indexes. Factor investing provides also the cleanest access for investors seeking access to a subset of a broader index. Given the latter approach has traditionally been employed by active investment managers, smart beta ETFs are often considered hybrid solutions, falling between active funds and traditional plain-vanilla ETFs.

The smart beta ETFs' growth has also coincided with increasing scrutiny around high fees charged by active managers.

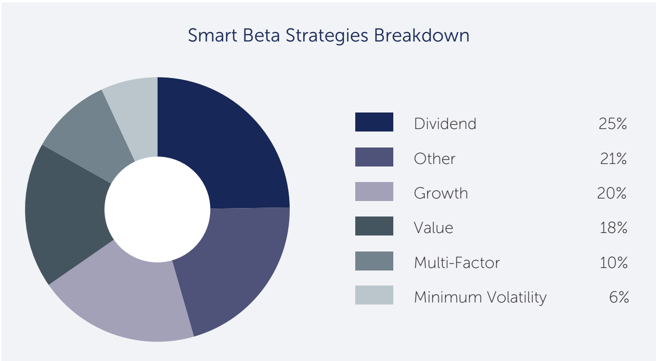
In the US alone, the market has grown to over 700 billion USD since the launch of the first smart beta ETF in 2003, making it by far the largest smart beta ETF market in the word. But other markets are catching up. According to Morningstar, between 2016 and 2017 Europe has seen 38% growth and Asia-Pacific a whooping 61% growth, taking AUM of smart beta ETFs globally to nearly $840 billion by 31 August 2018.

The two players taking the lion-share of the market are iShares and Vanguard, with the former taking 38.5% of the market share and the latter nearly 23%. The third largest provider PowerShares takes only 6.8% of the market share.

In terms of strategies, while historically the bulk of money has gone to three single-factor products: value, dividend and growth, multi-factor products have been catching up. For one thing, they address the cyclicality problem of single-factor strategies, but they also allow investors to follow a mix of factors they believe position them better toward achieving their objectives. An example of such strategy would include high-dividend, low-volatility products. For example, the S&P 500 High-Dividend Low-Volatility ETFs track a dividend-yield-weighted index comprising the 50 least- volatile names chosen from a shortlist of the S&P 500's 75 highest- dividend-yielding securities.



Source: Morningstar Direct. Data as of 31.08.2018



Source: Morningstar Direct. Data as of 31.08.2018

No such thing as a free lunch

Smart beta ETFs tend to invest in sub-set(s) of broader indexes: they are more concentrated, carry higher security specific risks and are more likely to suffer from a crowding effect. While smart beta ETFs are cheaper than active funds, they tend to be more expensive than traditional plain- vanilla ETFs. Also a lot of factor-based strategies have been introduced through back-testing and may be unable to replicate hypothetical results in real life market conditions.

How to go for it

Our Investment Advisory team has identified a number of smart beta ETFs, which are also in line with our house view. If this is of interest to you, please reach out to your relationship manager.

Rising oil prices bring back governments' comfort in spending

Oil price recovery looks sustainable

The dynamics of the oil market once again seems to have turned into the producers' favour as the recovery in the price of the commodity has been sharper than analysts expected. Strong demand growth, at more than 5 million barrels a day since 2014, sharp cuts in investments during the low oil price period, as well as supply disruptions (mainly Venezuela and Iran) have supported the price rally. These three broad factors remain in place as total demand for oil is expected to increase another 1.4 million barrels a day into 2019, thereby exceeding, according to the IEA, 100 million barrels a day. According to IEA, demand for oil has surpassed the total supply in the last six quarters, reflective of declining crude oil inventory.

Current oil prices above fiscal breakeven levels

With the oil price recovery, most GCC countries seem to have reached to a comfortable fiscal situation where government budgets are soon expected to be in surplus. The average Brent price in the first three quarters of 2018 was 73 US dollars per barrel which is significantly above the required level for balancing government budgets in the UAE (62), Kuwait (47) and Qatar (also 47). At the same time, it is not far from the levels required to balance the budget in Saudi Arabia (70) and Oman (USD76.3), according to the IMF. Decline in the fiscal breakeven oil prices has not come at the expense of spending cuts this year, rather it has come on the back of governments' reforms that has boosted their non-oil revenues (implementation of VAT, rationalizing fuel and energy subsidies, increasing fees for most government services). Saudi Arabia's fiscal spending is expected to grow by 10% this year, and then again by 7% in 2019, taking total spending in excess of SAR 1 trillion next year. Pressure on foreign reserves has also abated as Saudi Arabia added SAR 84 billion in its foreign reserve assets from the lows in February this year.

Reforms continue beyond managing fiscal balance

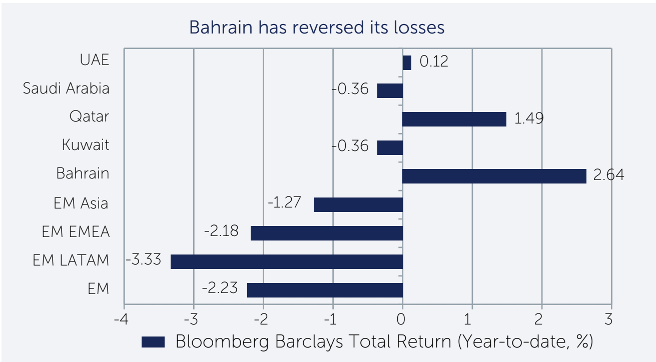
Reforms in the region started with managing the fiscal balance in the wake of lower oil prices two years ago, and have now moved to social and structural labour reforms. In Saudi Arabia labour reform has received renewed impetus to replace expat workers with local workers which is now leading to exodus of expats and their families. This has been affecting consumption negatively in the recent past. However, we believe that as local workers with relatively higher salary and higher propensity to spend adjust in their new jobs, consumption is likely to recover sooner rather than later. Social reforms such as women driving is likely to facilitate the labour reform in the next few years as more women will be able to drive to work. On the other hand, reforms in the UAE are focused on bringing in more expats and incentivising them to stay here for longer. The recent announcement of retiree visa along with the liberalization in business environment and additional spending of 50 billion Emirati Dirhams in Abu Dhabi over the next three years go in the similar direction.

Attractive valuations underpin GCC bond markets

While some pressure of external headwinds is evident, GCC sovereign bond yields have remained anchored given their low-correlation characteristics. In addition, jump in oil prices, lower government bond issuance and better economic prospects have provided support to the GCC sovereign bond markets. Weaker economies like Bahrain and Oman have outperformed the most. Bahrain, in particular, has fully recovered its previous losses with the sentiment boosted by the confirmation of financial support extended by its rich neighbours.

Overall, we believe that bond market sentiment should remain sanguine given the backdrop of higher oil prices. In addition, the GCC inclusion in JP Morgan EM bond index will further boost appetite. The inclusion in the bond index is likely to improve the visibility of GCC bond markets and result in index-related inflows, leading to tighter spreads Separately, GCC government's proactive stance in boosting economic outlook and increasing spending at a time when oil prices are moving higher are also positives.

In spite of the recent EM sell-off, valuations of GCC bond markets are still attractive. Lower-rated sovereigns including Bahrain and Oman, even after rallying recently, are trading cheap versus some of their EM peers. As such, with other EM more susceptible to external headwinds, GCC bond markets is an attractive proposition given its low-correlation characteristics.



Source: Bloomberg

Regional equity markets defy the EM rout

Regional equity markets have avoided the negative sentiments prevailing in the Emerging Markets as most regional equity indexes are up on a year to date basis, with the exception of DFM and MSM indexes. The rise in crude oil prices not only bodes well for the regional equity markets in general but specifically for the petrochemical sector in Saudi Arabia as prices of petrochemicals have a high positive correlation with the crude oil price. The sector constitutes almost one-fourth of the Tadawul market capitalization. Another sector that we believe is expected to benefit from the early phase of the business cycle turnaround is the banking sector. Overall the Saudi equity market is poised to receive global capital flows starting next year owing to its inclusion in the MSCI and the FTSE Emerging Market indexes. Kuwait equity market is likely to remain the investors' favourite on the back of strong government infrastructure spending and potential inclusion into MSCI Emerging Markets index next year. UAE equity markets, especially the real estate sector has been under pressure due to a soft residential market. However, the sector offers one of the cheapest valuations globally.

Overall, the UAE equity market, part of the Emerging Markets group, has one of the lowest valuations.

Solid growth outlook cools moderately

Some cooling is inevitable, and with it long-term yields will stabilize

Whilst the US economy is by and large steaming on, some cooling should occur as credit conditions tighten marginally, also as a consequence of the stronger greenback. This should also lead to some flattening of the yield curve as treasuries appear at this stage oversold. Having said so, the general backdrop of increased deficit spending is and the tax reductions are likely to keep the overall economy in expansionary territory and the unemployment level, already at a historically low level, might well end up below 3.5% of the total workforce.

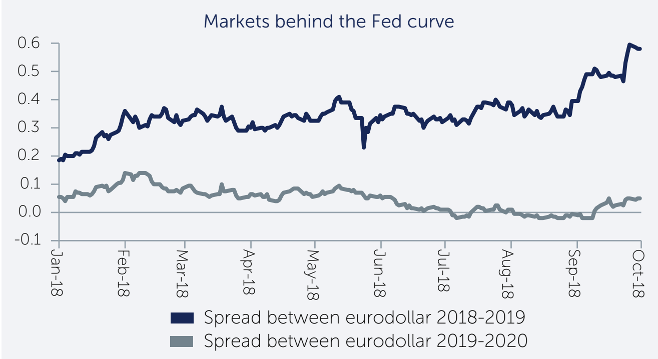
Balance sheets are solid and policies more stable than you think

Balance sheets in the US are today more stable than they were in 2008. True, we have seen a rise in corporate debt, but that rise is absolutely manageable. In addition, and in spite of the increased political polarization the country is facing, economic policy is in fact stable. Whatever happens in the upcoming November Midterm elections, the current profligate fiscal policy, based on tax cuts for the rich and increased spending across the board, is unlikely going to be undone. The rise in rates, as well as in the value of the US dollar, should therefore not have an enormous impact on either consumer spending or investment spending. This environment remains overwhelmingly favorable to continuing growth.

The key concern in our view remains a higher than expected rise in the oil prices. Such rise might impact consumer confidence and deter investment growth. Even in such an eventuality though, the US would likely be less affected than other economies. It would be less affected than most other developed markets because it imports less oil. It would be less impacted than emerging markets because energy is simply a smaller size of consumer spending. Having said so, the oil price is currently probably the single biggest risk for the US business cycle and even more so for the global economy.

Fixed income: Curve to flatten

The 10-year US Treasury yields have edged higher in reaction to strong economic data, touching the highest level since 2011. The sell-off in long-end US treasuries has resulted in steepening of the bond yield curve. The main trigger of the sell-off was the upbeat ISM non-manufacturing release, followed with the job reports indicating unemployment rate declining to lowest level since Nixon era. However, the sell-off appears exaggerated particularly post the "mixed" jobs report of September. Wage gains as indicated by the change in average hourly earnings has not seen any upward surprise. The only reason of the steepening of the curve could be attributed to the recession risks being pushed back given the backdrop of strong US economic data. We believe that, barring these bouts of jump in long-end bond yields, the 10-year US treasury yields are likely to settle around 3%. At current levels which are above the indicated long-term Fed median rate, the long-end US treasury yields are pricing in a possibility that the Fed could turn more aggressive than its current indicated rate hike trajectory. We believe that the Fed will stick to its current dot plot unless economic data showing signs of weakness going into 2019. The Treasury yield curve will continue to see more flattening pressures. The markets are underpricing the 2019 and 2020 Fed rate hikes, signaling more volatility in the short-end of the curve. On the other hand, long-term bond rates (US 5yr5yr forward swap) are fulling pricing in the Fed's current indicated long-term median Fed rate. Separately, inflation expectations are likely to remain stable as stronger dollar and Fed tightening stance will keep price pressures anchored.



Source: Bloomberg

US credit spreads tightened during the third quarter with signs of further improvement in US growth outlook and strong Q2 US earnings season. In fact, US credit was largely immune to the August sell-off as well. While the high yield sector continued to outperform in the third quarter and also year-to-date basis, the investment grade sector managed to reverse its previous losses. Lower corporate issuance coupled with the backdrop of robust economic growth and US corporate profitability has contributed to recent performance of the US IG sector. With the US economy gearing up to grow at almost 3% this year and low corporate default rates could support the US credit sector. Yet, valuations continue to remain stretched, particularly in the US high yield segment. In addition, the flattening yield curve environment does not bode well for performance of the US high yield sector. We remain underweight on US credit.

US equities: party before the hangover – remain overweight

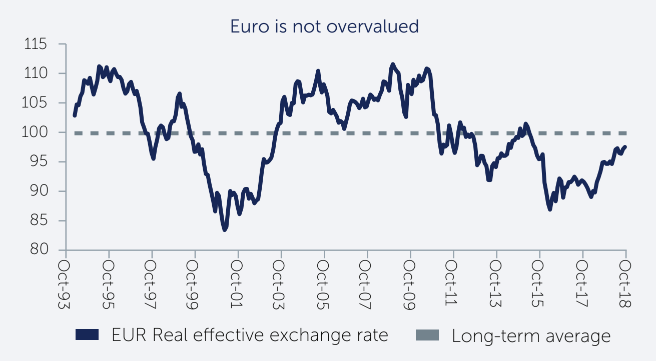
US equity performance has been strong with the market indices constantly scaling new highs - this has been, in our view, underpinned by strong earnings growth and up-trending total returns to shareholders. Also, the US economy has positively decoupled from the rest of the world and this is giving the asset class a positive growth premium. Make no mistake – downside risks are building, though they may take time to materialize. Weaker earnings growth and associated disappointments are major risks and they are likely to come through when the tail winds associated with tax reforms fade. Valuations are expensive and investor positioning is high too. Also, so far, the trade skirmishes have had a limited impact on US equities but this could change looking ahead.

Overall, from an equity strategy perspective, we remain cautiously optimistic on US equities. Our overweight on US equities also reflects the lack of strong plausible alternatives.

Growth to remain moderate

For the moment Europe remains hostage of Asia slowdown and trade concerns

Europe, much more than the United States, remains hostage of trade concerns and the Asia slowdown caused by China tightening. The European Union has in fact the largest current account surplus in the world, and its economies and companies are among the most exposed to China and Asia. Whilst our call for weaker growth in Europe was originally mainly driven by China stimulus tightening and the 2017 strengthening of the euro, it is now being additionally supported by concerns about global trade. The bad news is that Europe's growth engine Germany has always been particularly sensitive to the Chinese cycle because of its significant exports to that country. The good news is that overall the euro is strong compared to where it was about a year ago, but historically still quite competitive.



Source: Bloomberg

Even if Europe's growth context has deteriorated since 2018, and we think that growth will remain moderate, a full blown recession seems unlikely. For one thing the real effective exchange rate is from an historical perspective not overvalued, and the recent appreciation of the US dollar is further helping. The ECB, furthermore, is, yes, going to normalize its policy but will do so in a gradual manner. Finally, whilst the risks of trade confrontation have risen substantially, it would be still most realistic to bet on a positive solution for Europe. For one thing, the United States might at times threaten Europe too, but it has an inherent interest in keeping Europe on its side as it renegotiates its relationship with China, its main antagonist. The European Union has also just concluded free trade agreements with Canada and Japan. Nonetheless, the risks have been rising recently and might remain high until later this year, as Trump is likely to maintain an aggressive stance until the November US Midterm elections. Critically, there is also the risk that by October there might be no deal with the UK on Brexit.

Political risks are here to stay

Italy's populist government has surprised expectations and openly engaged in actions that defy EU fiscal budget rules. By significantly altering the country's fiscal stance, it has put bond markets on the alert, triggering a rise in spreads. Italy's equity market has tumbled as a result. Going forward political risks are on the rise in Europe. Italy's electorate feels, rightly or wrongly, that Europe is not helping the country enough on handling immigration. At the same time, Italy's northern neighbours are increasingly unwilling to take on more immigrants.

Whilst we believe that the situation is for now manageable, in the sense that Italy is likely not to push for a major crisis, at some point this situation might change if and when a recession would hit Europe and the country would not be willing to undertake fiscal policies compatible with the European Central Bank framework. It is however also critical to stress that Italy troubles are this time less likely to trigger contagion to other periphery countries, such as Spain, Italy or Greece. This is simply so because in those countries public opinion is less averse to austerity and, unlike the situation in 2012, the ECB now has the tools to immediately help countries willing to abide to austerity policies. This also weakens Italy's bargaining position as Mr. Draghi would not be able to enact policies that support Italy alone, in the absence of the country's commitment to fiscally sound policies.

Bunds to benefit from dovish ECB

Eurozone core bond yields have moved higher, mostly tracking the recent back-up in US treasury yield. However, the sell-off in US treasury yields has been excessive and a consolidation, hence is likely in German bund yields. Separately, risk-off sentiment along with ongoing uncertainty over Italy's expansionary budget plans should drive demand for safe-haven assets including German bunds. While the ECB advocated a hawkish stance at its September meeting, it is unlikely to rush in moving to a less accommodative stance. Economic indicators out of Europe continue to remain disappointing with lower than expected core inflation numbers and PMI releases. As such, we believe that the above-mentioned factors will keep the bund yields consolidated.

Similar to US credit, European credit spreads have tightened during the third quarter, with the high yield sector outperforming the investment grade counterpart. This strong performance of European credit is difficult to sustain. Unlike US, growth outlook in the Eurozone has been underwhelming. PMI indicators continue to show signs of slowdown in growth. Separately, Italian uncertainty has increased and is likely to further weigh on the sentiment. Overall, we remain underweight on European credit and expect the European credit to underperform its US counterpart.

Eurozone equities: waiting for Godot – remain neutral

Eurozone equities are more cyclical when compared to the US and are likely to rebound quite aggressively when they do. Also, cheap valuations and light positioning are supportive too. So now the key question is "What factors are likely to cause a rebound?". Some endogenous and some exogenous, we believe. Fading political risks, an uptick in economic activity and resultant earnings recovery are the endogenous ones. On the exogenous side, Europe being the most open region globally in terms of trade, is likely to benefit disproportionally from an improvement in the news flow relating to trade wars. Risks present themselves in the form of Brexit and associated currency moves. Overall, while the case for Eurozone equities is clear, we think timing becomes key. For now, we stay neutral.

The clouds are not clear yet

Economy stabilising

Economic indicators showed signs of improvement in the UK economy during summer months. GDP in the second quarter grew by 0.4% from the previous quarter, mainly led by strong consumption demand as hot weather and World Cup may have boosted consumer spending. Labour market also strengthened with unemployment rate dropping to the lowest level in almost 40-years while wage growth also rose at a decent pace. At the same time, more frequent core-inflation figures show that price pressures may have stabilized.

However, it may be difficult for the UK economy to sustain the same rate of growth given the global slowdown in growth and increased Brexit-related volatility. Economic activity may have slowed in August with industrial output having declined. Service PMI indicators also indicate that the consumption demand likely to have flat-lined in the third quarter. Going forward, we expect that economic growth is likely to be steady, yet downside risks still remain given the Brexit related volatility.

Brexit uncertainty lingers

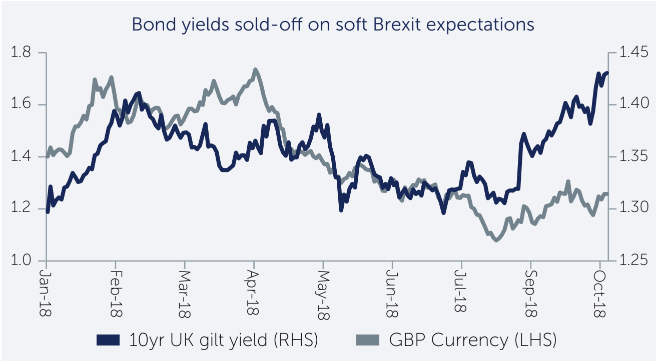
Brexit continues to remain the biggest risk and the most probable drag on economic growth. Increased possibility of the EU and the UK reaching an agreement were dashed with the latest reports indicating that the negotiations between them stalled again. While there has been decent progress in many issues, the key issue remains on the open border with the Northern Island. We could particularly see increased volatility in the UK markets if the possibility of a "no deal" increases significantly. The Bank of England has highlighted that the consequences of a no deal will severely impact the corporates and the property prices.

While we believe that the eventually both the sides will come on terms, however, this will not be any time before December and could well be extended even onto next year. Lack of clarity until then and increased Brexit uncertainty will continue to weigh on the markets and the business sentiment.

Gilts: remain bullish

Gilts yields rose in September, tracking the jump in developed market bond yields and breaking their tight trading range which lasted during most of the summer. In addition to the global bonds sell-off, gilts have come under pressure on expectations of Brexit agreement being finalized. Separately, markets are also anticipating that the Bank of England may become more aggressive in raising policy rates, in case a"soft brexit" scenario materializes. However, the likelihood of an aggressive monetary policy is low. Even though economic indicators are showings signs of rebound in growth, UK economy is still likely to face many risks with the Brexit uncertainty weighing on the business sentiment. In addition, the recent improvement in economic growth has been in line with central bank growth estimates. The UK economy will have to witness a substantial jump in growth rate (way above the BoE estimates) for the central bank to turn aggressive in tightening the monetary policy.

As such, we believe there are still many downside risks to growth even if the Brexit deal is finalized, meaning that the Bank of England will remain in a "wait and watch" mode for a while. Thus, the long-end Gilt yields will remain anchored as economic outlook is unlikely to undergo a massive expansion. We hold a positive stance on the gilt market.



Source: Bloomberg

UK equities: a double-edged sword – remain neutral

Brexit risks loom, especially with the chances of "no-deal" being increasingly talked about. Whilst the Brexit is likely to impact the businesses fundamentally, the key disruption is likely to come in the form of a weaker currency which could also impact in translation for USD investors. Weaker GBP is an equity positive given the benchmark index composition – loaded with Global commodity and Global consumer stocks. Commodities equities – especially the oil counters – have held up relatively well over the recent months. Consumption seems to be relatively strong across regions. Valuations are neither cheap nor expensive when compared to history.

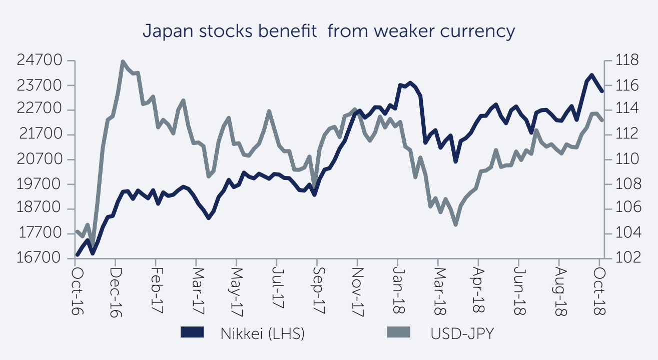
Emerging market turmoil is not good for Japan

Bank of Japan has suddenly more reasons to remain cautious

Prime Minster Abe has been very active recently, regaining the party's leadership and looking for practical solutions and compromised with Mr. Trump on trade. His hold on power remains very solid and he is still dedicated to push through constitutional reforms.

At any rate, the key concerns for Japan regard much more what is happening in Asia at large, than what is happening in Japan itself. The US seems much more willing to strike a trade deal with Japan than with any other of its allies. But the uncertainty created by the slowdown in China, potentially to be aggravated by US trade tariffs, is now being compounded by additional turmoil in emerging markets. Such developments always trigger upward pressure on the Japanese yen, and thus have the potential of compromising the accommodating stance of the Bank of Japan. Thin turn might then lead to less wage growth, and less consumer price inflation.

In this sense, the Japanese economy, in spite of – or perhaps precisely because of – its global position as a net creditor – is more vulnerable to any global downturn than most other advanced economies. Perhaps surprisingly in a context of emerging markets' weakness, the yen has actually weakened considerably in 2018. Critically, as the chart below shows, Yen weakness is always a boon for equity prices.



Source: Bloomberg

Can monetary policy continue to deliver amidst a continuing emerging markets' correction

The fact that the yen has depreciated in the presence of an emerging equity market correction is perhaps a bit surprising. What to make of it. In our view it probably means that the correction in emerging equity markets has not yet morphed into a general emerging markets crisis, affecting also bond yields and currencies, at least not at a general level. Indeed, it would be the unwinding of the carry trades in the emerging fixed income space that would trigger an appreciation of the yen. Another explanation would be the fact that monetary policy in Japan, specifically its continuing extra-ordinary monetary accommodation, has become more effective when it comes to impacting the exchange rate. We doubt that this is the case.

Indeed, whilst it is true that the Bank of Japan seems much more reluctant than the Federal Reserve, or even the European Central Bank, to unwind its massive balance, it is not at all clear how meaningful its impact will be on domestic inflation expectations going forward. The current policy of yield curve targeting – specifically intervening in the market such that interest rates are negative and long-term yields are zero – can no longer be perceived as shocking the markets. It has become part of the landscape and, as such, inflation expectations might become entrenched, and thus indifferent to additional measures of monetary policy.

What kind of inflation expectations might become entrenched? That is the bug question of course, but what matters is that it may be out of the hands of the Bank of Japan. If the current emerging markets correction would morph into something more serious, the Japanese yen – which is perhaps the most important funding currency for emerging market investments – is likely to appreciate, regardless of yield curve targeting. Only direct intervention by the Bank of Japan, something politically less obvious, would then be able to prevent such a rise. A stronger yen would immediately bring down inflation expectations, and deteriorate the country's growth outlook.

Japanese equities: headwinds vs. tailwinds – stay neutral

Headwinds are likely to present themselves in the form of an appreciating currency. Thanks to the weaker yen so far, the Nikkei composite has hit a 27 year high recently. This we think will likely change looking ahead. Especially given the trade risks, any currency appreciation is likely to be received disproportionately negatively by the markets. While the capex trends are still strong, the recent tankan survey showed that rising raw material costs impacted the business confidence among Japan's big manufacturers in the third quarter. In our view, tail winds come in the form of strong domestics. Tighter labour market and relatively easier monetary policy are likely to help the domestic sectors, in our view. Taking the rough with the smooth, we stay neutral Japanese equities.

Deleverage at any cost, almost

Sticking to policy

The recent decision to reduce to reduce the reserve requirements for banks should not mislead you. This is not 2015, and it certainly is not 2008. China is not going to meaningfully provide stimulus to its economy. And if it is going to do so, it will rather be through a weakening exchange rate, which means stimulus for China only. The appointment of Liu He as China's Vice Premier of Economics is in fact a clear signal. President Xi Jinping has been give wide powers. The ultimate goal of such powers is to pursue deleveraging even in the presence of significant market turmoil. This more hawkish policy stance had been in the making through 2016 and 2017 as Xi was preparing for the November 2017 Congress to appoint a Standing Committee of the Politburo of the Party pretty much in his own image. That very policy is also inevitable in view of the massive debt accumulation that has been accruing since 2009 as the country financed domestic investment spending with a view of compensating for slower global demand growth for its products.

We are now assisting to a significant correction of the country's equity market combined with a depreciation of the renminbi, the country's still non-convertible currency. Again speculations are rife for the government to do something, perhaps release some addition credit spending to prop up equity and property prices. Whilst we believe that the government will do all that is in its power to prevent domestic destabilization, it is likely to do so without injecting further credit into the system. The reason is simple. The hawkish policy stance of reigning excessive credit spending, of which Mr. Liu He is the personification, is absolutely necessary if the country is put itself on a sustainable growth path, capable of lifting it from a middle income- to a high income country. Also, now that the population growth has stabilized, there is less need to create each year millions of new jobs. Thus, from the government's perspective, it is better to allow some financial unrest, and compensate that with social spending aimed at alleviating the pain for the weaker parts of the population, rather than increasing debt levels again and kicking the can down the road once more.

Trade conflict might make the policy choice even easier.

China is suddenly immediately exposed to the risks inherent of an economy that is too much tilted towards manufacturing exports. Whilst a slowdown of the Chinese economy was already in the cards with the government trying to reduce bank credits, deflate the real estate bubble and bring down excess capacity in key manufacturing sectors, it certainly would have preferred doing so in a gradual fashion, not as a result of (the imposition of reduced) export revenues.

Then again, the Chinese authorities have now an external scapegoat to whom – if necessary – blame the hardship of deleveraging, and in reality rally support for the policy of deleveraging. Again, one should not take China's commitment to deleveraging as a non-pragmatic rejection of any form of support to the domestic economy. This is ever so true because manufacturing in China is still more than 20% of gross domestic product and employs also more than 20% of the labour force. In other words, China is much more vulnerable to a potential trade war than the United States which employs only 10% of the work force in manufacturing and which exports to China less than half the value of what China exports to the United States. But China will maintain steadfast to a process that ultimately will reduce debts, and slowdown the economy. And the hardship that will inevitably follow from that will be conveniently blamed to the trade war initiated by the US.

Source: Bloomberg

China will try to play ball, without giving in to total capitulation

Whilst the Chinese authorities will keep their heads cool and try to accommodate, they will not give in to easily. It is true, the US is mostly concerned about having more access to certain domestic sectors of the Chinese economy, than to put tariffs on Chinese imports. Critically, the US wants relaxation on US investments in China, but on the other hand also wants to put a halt to Chinese companies buying US companies. It also wants more Chinese cooperation in cracking down on cyber-attacks and intellectual property rights. China will accommodate as much as possible, provided it can do so without giving the impression of a total and humiliating surrender.

What China will not be able to offer will be a total liberalization of the capital account since such a move would risk triggering massive capital outflows and thus domestic instability. Rather, whilst the country might well further open the finance sector to foreign operators, it will keep the capital account largely controlled also with a view of avoiding excessive fluctuations of the renminbi.

Chinese equities: dark clouds everywhere – remain underweight

Chinese equities are a strong structural proposition but the near term outlook remains darkly clouded, especially with the trade war looming. This has in turn started to impact the domestic conditions. For instance, the latest reading of the PMI indicated weakness not only in the export sector but also in the domestic sector. This is likely to impact both the H-shares and A-shares negatively. The key risk to our underweight is the prospect of a strong reflationary policy by Beijing. As mentioned above, we deem this extremely unlikely given the debt load the country faces. So, in our view, there is no easy solution to the rather tricky situation the country faces. For now an underweight stance on Chinese equities is warranted.

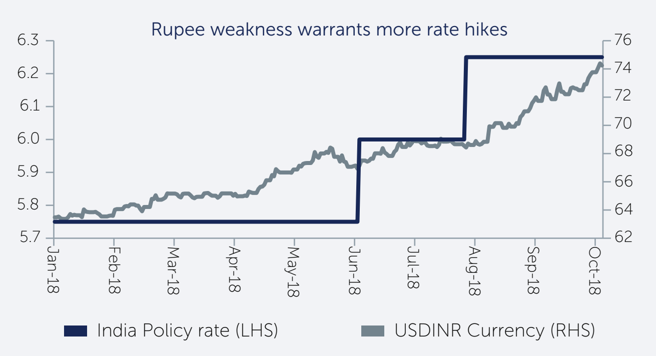
Growth to pick up, but risks have risen

Fast-paced growth

Growth in the second quarter beat market expectations as GDP rose by 8.2%, making India the fastest growing economy in the world. A strong GDP print was expected, mainly on account of the lower base-effects of last year. The 2Q GDP saw a strong revival of the manufacturing activity. On the expenditure side, government spending continued to rise, but the strong increase in private consumption was the dominant driver. Going forward, increased government spending along with improved agricultural productivity on account of better monsoons should keep the growth momentum going. However, the pace of the growth momentum could decelerate a bit, taking into account the concerns of global growth slowdown and trade uncertainty. To add, with the challenges of higher interest rates, weaker rupee and higher oil prices, there is a high possibility of growth moderating in the coming few quarters. Having said that, India's economic fundamentals are still strong and fare better when compared to 2013 taper tantrum period. In spite of the volatile external environment, strong macro fundamentals and better reform momentum to keep the country better placed within emerging market.

Weaker trend in rupee calls for more RBI rate hikes

The Indian rupee was not an exception to the broad-based EM currency sell-off recently. The currency has lost almost 7% versus the dollar since end-June 2018, now trading at its weakest level against the dollar till date. In addition to spill-over effects of the recent EM contagion and the impact of dollar strength, rising oil prices have yet again brought back investors' focus on the country's twin deficit given the country's huge import bill. As a result, the current account deficit has widened this year and is likely to widen further. Even though, India is relatively less susceptible to external volatility, the country still relies on capital flows due to its current account deficit. Hence, it was not surprising when the government announced new reforms- a five-step strategy to boost foreign inflows including relaxing offshore investment restrictions on corporate bonds. This is in addition to the policy rates being raised twice by the central bank this year. However, these measures may not be enough to completely reverse the current rupee depreciation trajectory, especially considering the external backdrop of stronger dollar, Fed tightening and rising oil prices. As such, more measures are likely to be introduced followed with further tightening by the RBI expected as weaker rupee will boost inflationary pressures.

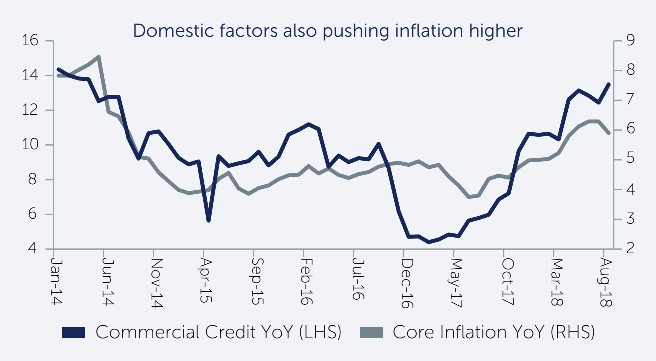


Source: Bloomberg

Bonds: Stay neutral

Similar to other emerging markets, the local currency sovereign bond market has been heavily sold by the market. Significant rupee depreciation and rising oil prices have aggravated inflation concerns. The central bank has raised policy rates twice in order to combat the inflation pressures. Headline inflation in August slowed with the decline in food prices offsetting the impact of higher rupee depreciation and fuel prices. However, core inflation still remains high on account of higher import prices and credit growth. Increase in private consumption is likely to keep core prices elevated. Overall, upside risks to inflation remain taking into account the rupee weakness and rise in oil prices over past month. Higher core inflation at a time when the economy is growing at record high levels also signal risks of overheating. This means that the RBI is likely to stick to its tightening mode for now.

Local currency government bond yields are now trading above 8%. However, the upward trend in bond yields is likely to continue as markets price in the probability of more RBI rate hikes. Separately, interbank liquidity has significantly tightened and the RBI has been conducting open market operations to release liquidity into the system. However, most of the open market operations are likely to be streamlined in a manner to add only a ceiling to the government bond yields. As such, we remain neutral on Indian government securities.



Source: Bloomberg

Indian equities: a thin silver lining – remain overweight

Equities in India along with their counterparts in other EMs, have come under selling pressure in the recent months. Stronger USD, higher UST yields and higher oil prices have brought to the surface, external vulnerabilities of the country. Also, the concerns around the NBFC sector exacerbated the selling pressure.

However, looking ahead, the focus is likely to shift (away from USD strength) towards trade wars and here, India is relatively immune to any negative developments. India is also a bright spot (amongst EMs) with strong earnings growth. While the national elections in 2019 are likely to slow the capital investments, we think equity investors are likely to miss the boat should they decide to stay on the side-lines for too long and till clarity emerges.

Further we view our Indian equity position from a longer-term perspective. The structural underpins of favourable demographics, rising middle income class and domestic orientation of the economy are likely to help.

Shaky grounds

Dollar, Hawkish Fed and trade conflicts pose risks

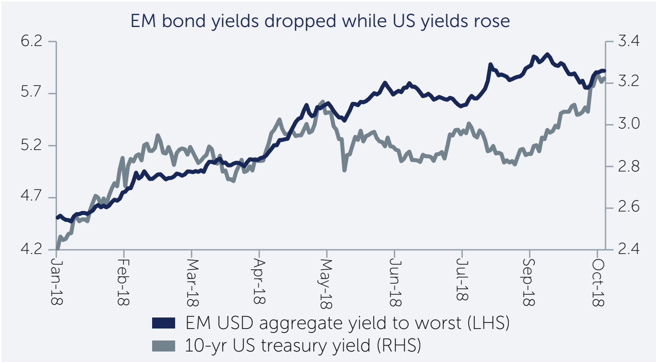
Emerging markets experienced a volatile summer with the dollar appreciation, tightening US financial conditions and escalation of global trade tensions. The sell-off was further aggravated by EM contagion fears with risks emerging from Turkey and Argentina.We believe that the recent contagion was mainly driven by the strength of the dollar which deteriorated the situation further, with other emerging market currencies falling prey. The lira crisis and EM contagion is a reminder of how stronger dollar and increased geopolitical tensions could exacerbate the economic position of emerging markets, particularly with weaker fundamentals. Increased global risks and dollar rebound were also the main underlying reasons why we reduced risk in June, turning neutral on global equities and closing our selective overweight on Indonesia bonds.

Post the sell-off in August, stability returned in most of the emerging market assets in September. While valuations may look attractive after the recent cheapening, we do not believe that that recent relief rally in emerging market assets has further legs. Firstly, there has not been any significant change in the external headwinds. In fact, the external risks have now increased. Compared to other emerging economies and even developed ones, US economy is not showing any signs of slowdown meaning that the Fed will remain committed to hike policy rates. Higher US rates have so far not tightened financial conditions in the US, but the same cannot be said for the emerging markets. As such, the greenback will remain strong on the back of the global policy divergence and Fed's aggressive rate hike stance, putting pressure on emerging market currencies. While emerging market central banks have been proactive in stemming their currency depreciation via raising policy rates, it is coming at the expense of boosting growth and weaker economies are the most vulnerable. Secondly, US and China trade tensions are far from over and possibility of further escalation going further into 2019 remains if there is no progress made on US-China negotiations. Thirdly, China growth slowdown concerns have intensified with the economy showing signs of cooling. Even though, the Chinese government and central bank have recently undertaken measures to stimulate growth, the room for stimulus is limited given their high debt levels. As such, China growth slowdown risks could ultimately spill over to other emerging markets as well. Lastly, rising oil prices are hurting emerging market oil importers, posing risks for higher price pressures and likely to result in more aggressiveness in EM central bank tightening.

EM Bonds- Stay underweight

Emerging market sovereign dollar bonds have rallied in September, partially erasing the losses suffered during the August sell-off. However, on a year-to-date basis, emerging market dollar bonds still remain one of the worst performers within the fixed income asset class. In fact, the recent rally was mainly driven by country-specific factors, i.e. stability in Turkey and Argentina. However, the decline in dollar sovereign bond yields has come at a time when core bond yields have been on the rise. In August, we removed our selective overweight on Russia dollar bonds on sanction concerns. Even though, valuations may look cheap in some of the emerging bond markets, we still express a cautious stance on emerging market bonds. Given the broad-based nature of the sell-off which even impacted countries with relative strong fundamentals, it made sense to close our selective overweight call on Russia dollar bonds. With higher US rates and stronger dollar bias tightening financial conditions in the emerging markets, we expect that emerging market bond markets will remain vulnerable to any jump in global market volatility. At the same time, we believe there are better opportunities in the GCC bond market. Mexico is also looking attractive post the finalization of the new NAFTA deal.

Separately, EM local currency sovereign bonds have underperformed more compared to the EM dollar sovereign bonds. Sharp depreciation in EM currencies has resulted in EM central banks to turn aggressive in their tightening stance. Upside risks to inflation in emerging economies have risen with currency weakness and rising oil prices. As such, we believe that the most of the EM central banks will remain in tightening mode, adding pressure on local currency bond markets.



Source: Bloomberg

EM equities: selectivity is the key (but) – remain underweight

Our overall view of EM equities is still negative. A range of headwinds have impacted the performance of the asset class. Stronger USD, higher US rates, trade tensions and weakening domestic growth are the four key forces. So far this year, the former two have dominated the EM landscape but the latter two are likely to drive the asset class performance looking ahead.

Stronger USD and higher US rates have, more or less, impacted all EMs equally negatively. However, trade tensions and weakening domestic conditions are likely to create relative winners and losers within EM. As discussed in previous sections, China (underweight) is likely to be impeded by trade tensions and weaker domestic conditions while India (overweight) is likely to be immune here. Elsewhere within EMs, some tactical opportunities might be emerging in countries where the equities have suffered losses aggressively – think Argentina and Turkey here. Russia and Brazil, given their higher beta, are likely to respond quite strongly to any cyclical rebound. In case of South Africa, it might be worth to focus on export segments that benefit from weaker currency.

Appendix

GDP Forecast	2018 Consensus	2018 ADCB	2019 Consensus	2019 ADCB
US	2.9%	In agreement	2.5%	In agreement
Eurozone	2.0%	In agreement	1.8%	In agreement
Japan	1.1%	In agreement	1.1%	In agreement
China	6.6%	Expect moderately less	6.3%	Expect significantly less
India	7.5%	In agreement	7.4%	Expect moderately less

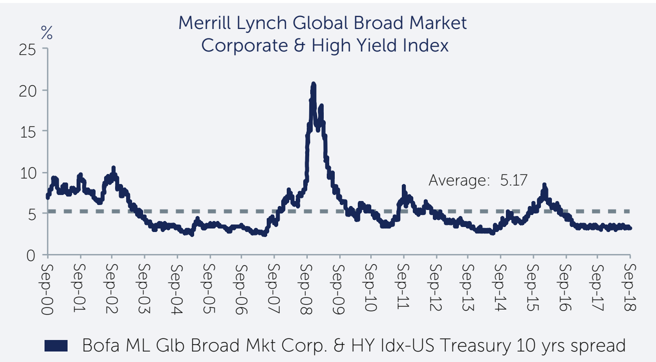
Source: Bloomberg

CPI Forecast YoY	2018 Consensus	2018 ADCB	2019 Consensus	2019 ADCB
US	2.5%	In agreement	2.3%	In agreement
Eurozone	1.7%	Expect moderately less	1.7%	In agreement
Japan	0.9%	In agreement	1.1%	In agreement
China	2.1%	In agreement	2.3%	Expect moderately less
India	4.8%	Expect moderately more	4.6%	In agreement

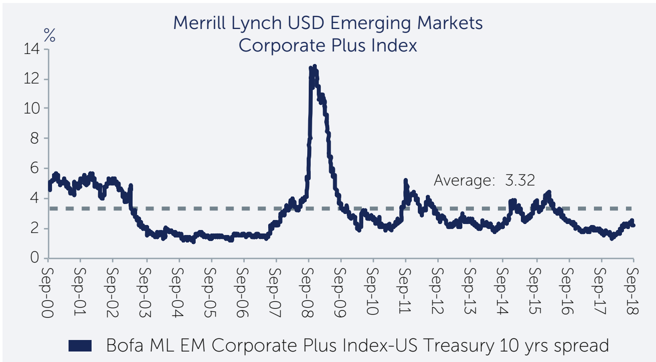
Source: Bloomberg

In agreement | Expect significantly less | Expect moderately less | Expect significantly more | Expect moderately more

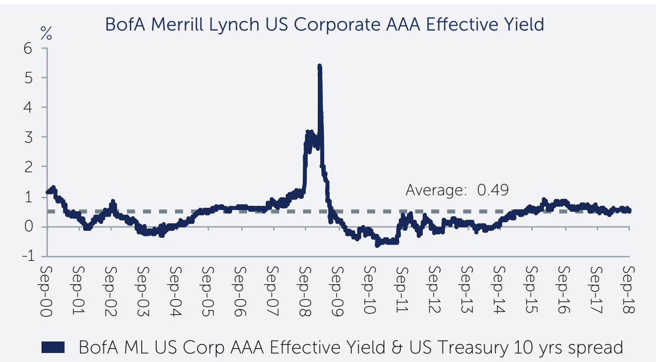
Bond Market Spreads



Source: Factset, Federal Reserve Bank of St. Louis



Source: Factset, Federal Reserve Bank of St. Louis



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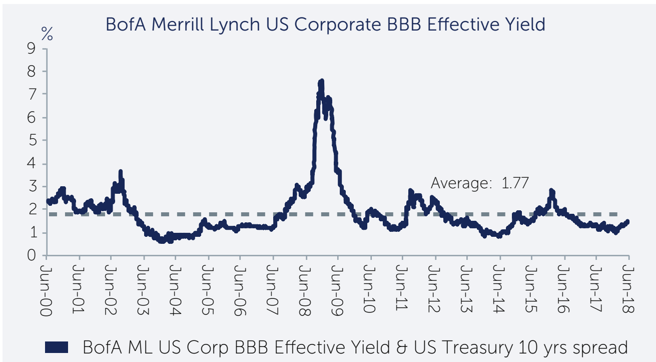
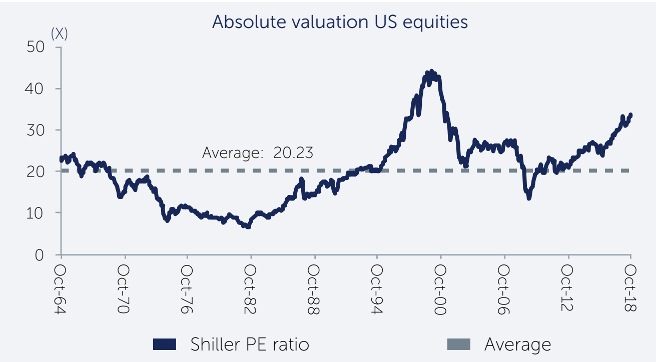
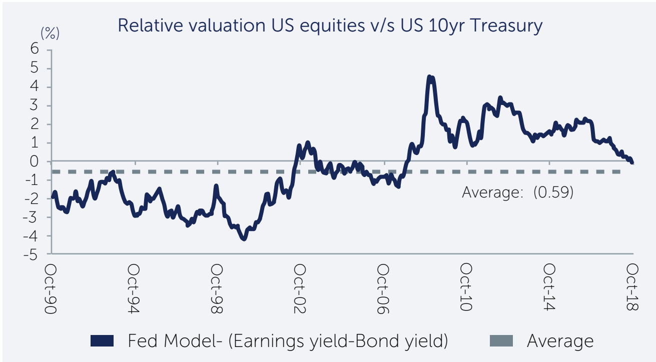


Source: Factset, Federal Reserve Bank of St. Louis

Equity Market Valuations



Source: Thomson Reuters, multpl.com



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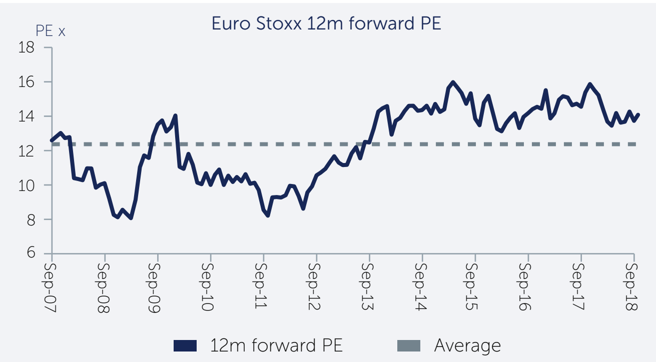

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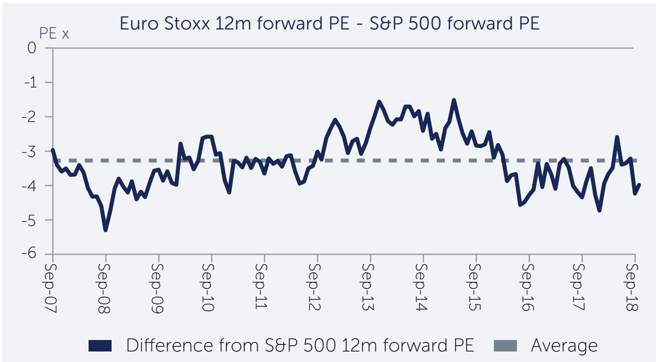

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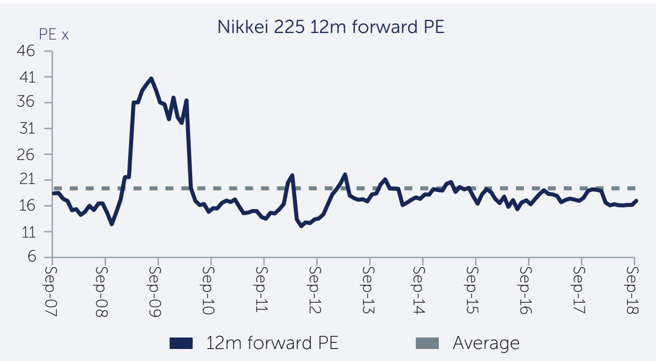

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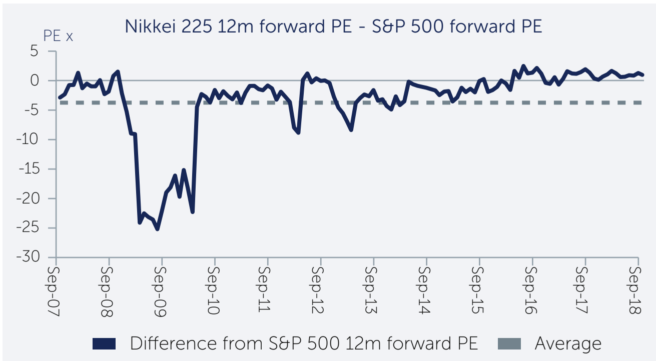

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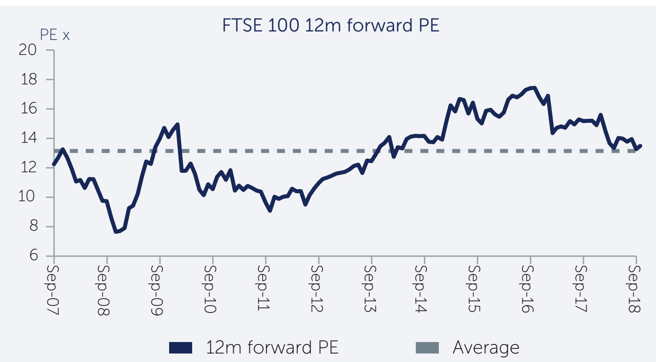

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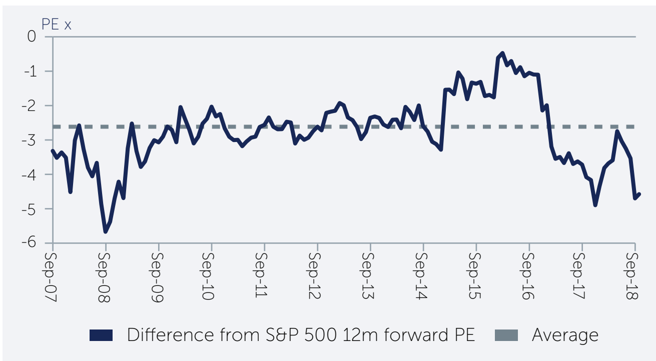
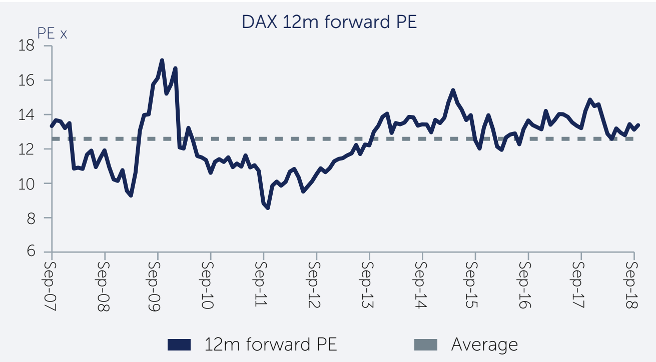


Source: Bloomberg

Equity Market Valuations



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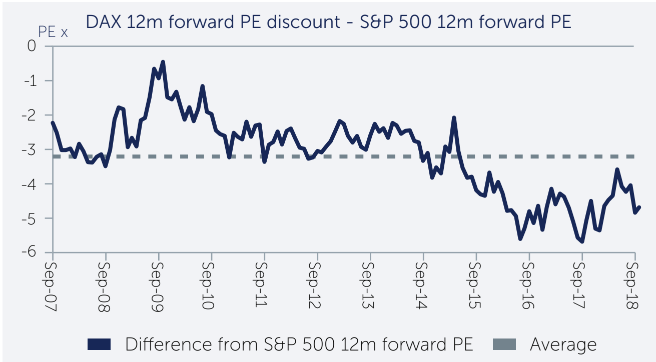

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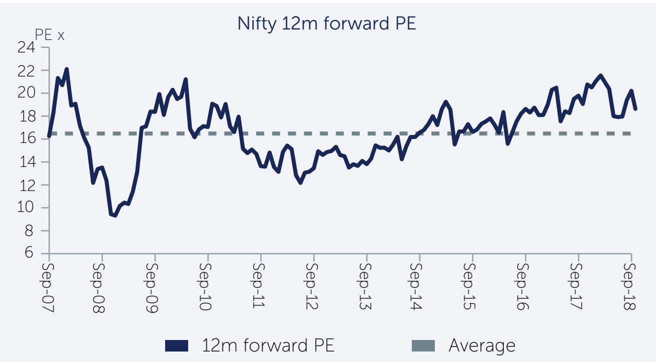

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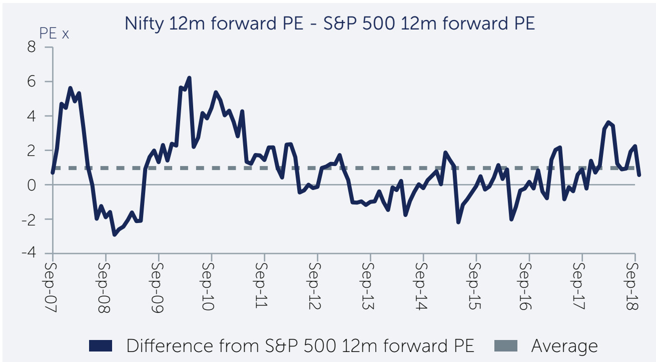

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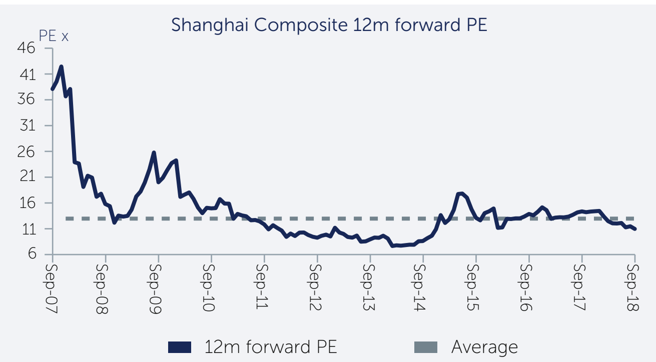

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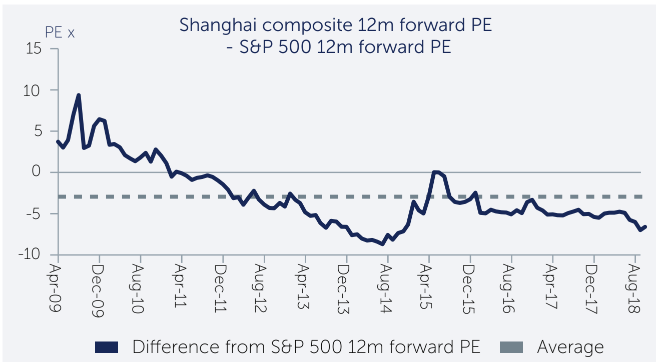

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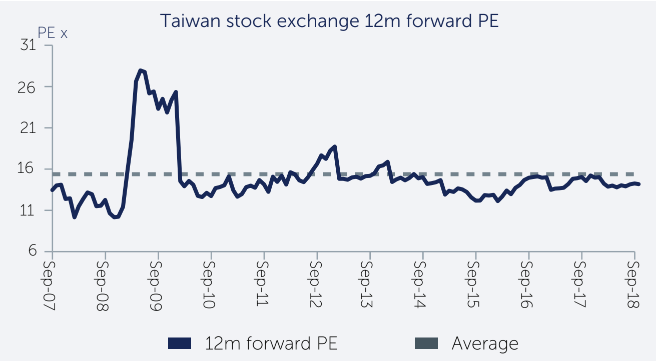
Equity Market Valuations



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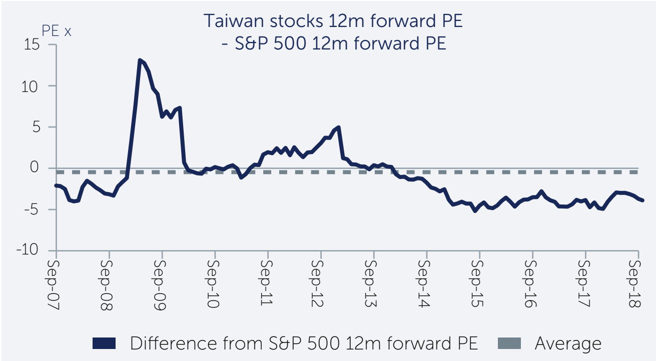

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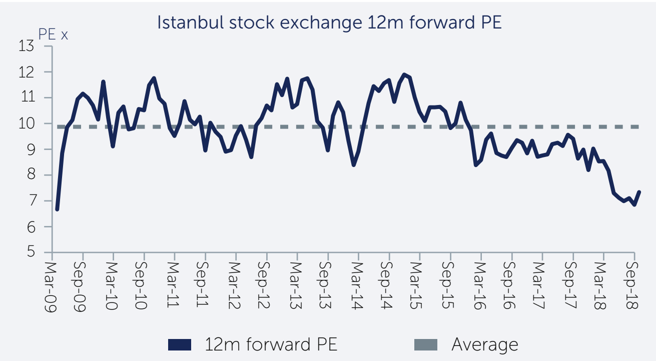

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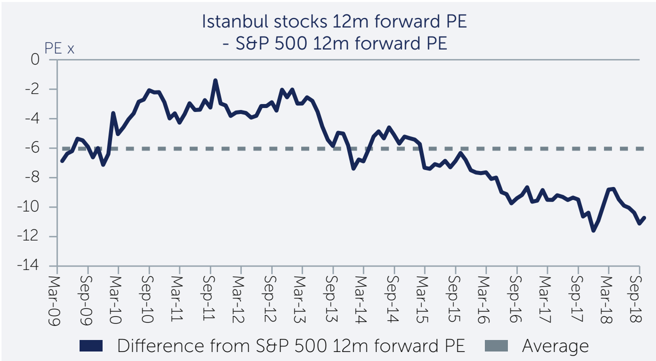

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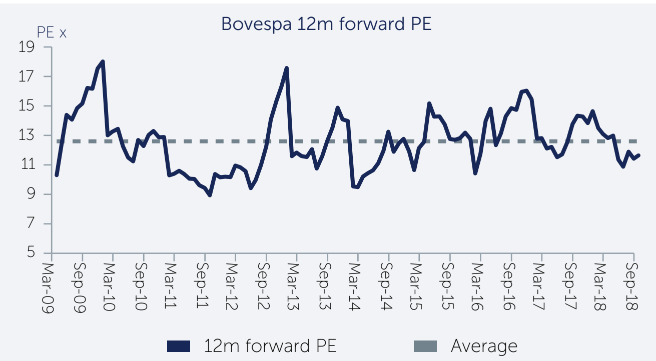

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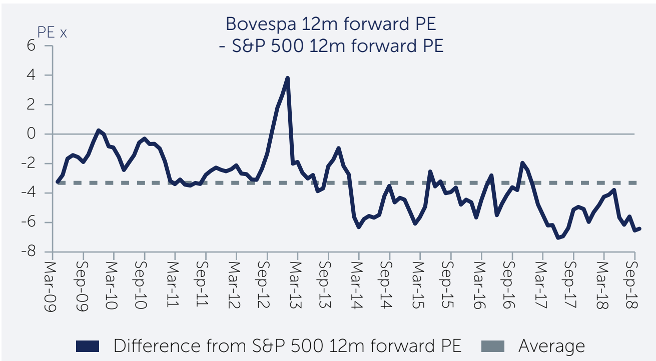

Source: Bloomberg

Important Information

Sources

All information in this report has been obtained from the following sources except where indicated otherwise:

1. Bloomberg
2. Wall Street Journal
3. RTTNews
4. Reuters
5. Gulfbase
6. Zawya

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