بنك أبوظبي التجاري
ADCB

ASSET
MANAGEMENT
LIMITED

# QUARTERLY INVESTMENT VIEW

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# Contents

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# Introduction



## Heavy sell-off not necessarily the prelude of worse to come

As we moved into 2018 we had an overweight position in US equities and an underweight position in emerging market equities. With global growth slowing down, we decided on June 4 2018 to remove our Japan and Swiss equity overweight positions, turning neutral the global equity asset class. At the same time, we maintained an underweight position in the fixed income asset class with a long duration in US Treasuries. On that occasion we also raised our cash allocation. We also stuck to our neutral position in alternative strategies, where we have throughout had an overweight in gold and market neutral strategies.

The US equity market correction, which started in October, had a brutal acceleration as 2018 came to an end. We must ask ourselves whether global equities are now entering a protracted bear market. After all, the Nasdaq has already lost more than 20% from its last peak, joining some European markets as well as most emerging equities (the MSCI Emerging Markets index is currently down almost a quarter the value it had reached in January of this year).

It is difficult, however, to talk about global equity markets as a homogeneous group. The reality is that over the last six years emerging and European equities have not moved much. Japan and US equity markets, on the other hand, have gained substantially over the last six years. If we have a look within the emerging market space, we see even bigger contrasts, with China equities going nowhere (albeit through an incredible, but rapidly deflated, bubble in 2015), whilst India equities have kept on moving higher. In other words, equity markets have shown markedly different performances depending on the specific macro-economic conditions of the different countries.

The US equity market is of course the "market of reference" for all other equity markets. Whilst a gradual decline in US equity markets, or their sideward movement, might still be compatible with positive performance of other equity markets, a sharp and protracted correction of US equities, would likely put downward pressure on most, if not all, major global indices. The trigger for a significant further US equity correction, essentially US equities entering bear market territory, would be a US recession.

Economic expansions, the saying goes, don't die of old age: they are killed by the Federal Reserve. If the Federal Reserve thinks that the economy is overheating, i.e. creating too much inflation, it starts hiking interest rates, and thus the borrowing costs for consumers and corporations go up. Such action will at some point inevitably lead to a contraction in consumer and investment spending, read a recession. The Federal Reserve has now indicated that it might only add two more rate hikes in 2019. This makes sense because general credit conditions have naturally deteriorated since the sell-off. Yet, they remain historically manageable, as is also clear from US corporations' still comfortable cover ratio (measuring companies' earnings over interest expenses).

Sustained US equity bear markets are uncommon outside of a recession. As we pointed out in our latest strategy note, US equities had reached too lofty valuations. Also, there was too much bullishness in the markets. A lot of the mispricing and the excessive confidence has now been removed. This does not mean that we will very soon see a decisive reversal of the latest corrections. For the moment it is more likely that volatility will persist for a while, not in the least because global growth is still sluggish at a time of heightened uncertainty because of the US-China trade war, as well as political stress in Europe.

Yet, we suspect that the market is now close to a bottom, whilst we also think that US equities will continue to outperform most other global risk assets. For one thing, the US dollar still seems to have some upward potential because of the current momentum (the US dollar has always been a high momentum currency) and especially because US spreads are still widening versus most developed countries, and in particular Europe. This is bad news for emerging markets, which will also continue to suffer because China stimulus is likely to be minimal, compared to the 2015 experience. As for the other equity markets, as long as the global economy remains sluggish, they are likely to underperform US equities which already by themselves are less exposed to cyclical sectors, such as industrials, materials, energy and financials.

Again, in the short term market volatility is likely to persist, and we stick to our neutral global equity allocation. Global growth, however, is likely to see some pick-up in the latter half of 2019 on the back of a continuing strong US economy, putting a floor to most developed equity markets.

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Head Investment Strategy

## Key indices, Commodities, Currencies and Rates

### Past quarter global markets' performance

| Index | Latest (19 Dec closing) | Quarterly Change % (Q4 2018) | YTD Change % (19 Dec) |
|---|---|---|---|
| **Index Snapshot (World Indices)** | | | |
| S&P 500 | 2,507.0 | -14.0 | -6.2 |
| Dow Jones | 23,323.7 | -11.8 | -5.6 |
| Nasdaq | 6,636.8 | -17.5 | -3.9 |
| DAX | 10,766.2 | -12.1 | -16.7 |
| Nikkei 225 | 20,325.8 | -13.0 | -7.8 |
| FTSE 100 | 6,765.9 | -9.9 | -12.0 |
| Sensex | 36,257.5 | 0.7 | 7.1 |
| Hang Seng | 25474.0 | -6.9 | -13.5 |
| **Regional Markets (Sunday to Thursday)** | | | |
| ADX | 4859.6 | -1.5 | 10.5 |
| DFM | 2544.1 | -10.3 | -24.5 |
| Tadawul | 7860.4 | -1.7 | 8.7 |
| DSM | 10496.4 | 7.0 | 23.1 |
| MSM30 | 4336.79 | -4.6 | -14.1 |
| BHSE | 1314.5 | -1.8 | 0.7 |
| KWSE | 5139.8 | 0.2 | 6.4 |
| **MSCI** | | | |
| MSCI World | 1,892.7 | -13.3 | -10.0 |
| MSCI EM | 967.7 | -7.7 | -16.5 |

| Commodity | Latest (19 Dec closing) | Quarterly Change % (Q4 2018) | YTD Change % (19 Dec) |
|---|---|---|---|
| **Global Commodities** | | | |
| ICE Brent USD/bbl | 56.3 | -30.8 | -14.4 |
| Nymex WTI USD/bbl | 47.13 | -35.6 | -21.9 |
| OPEC Baskt USD/bbl | 56.1 | -31.2 | -13.0 |
| Gold 100 oz USD/t oz | 1245.6 | 5.1 | -3.8 |
| Platinum USD/t oz | 785.7 | -2.8 | -14.6 |
| Copper USD/MT | 5987 | -3.1 | -16.3 |
| Alluminium | 1902.5 | -7.5 | -15.8 |
| **Currencies** | | | |
| EUR | 1.1384 | -1.5 | -4.8 |
| GBP | 1.2636 | -2.9 | -6.4 |
| JPY | 112.07 | -1.3 | -0.4 |
| CHF | 0.9947 | 1.0 | 1.8 |
| **Rates** | | | |
| USD Libor 3m | 2.7920 | 16.4 | 64.8 |
| USD Libor 12m | 3.0613 | 4.9 | 45.3 |
| UAE Eibor 3m | 2.8313 | 15.8 | 57.5 |
| UAE Eibor 12m | 3.6668 | 10.4 | 42.2 |
| US 3m Bills | 2.3866 | -42.0 | 74.0 |
| US 10yr Treasury | 2.7513 | -10.0 | 14.5 |

## Executive Summary

- Even if the Federal Reserve would pause in hiking rates, something the markets are perhaps a bit hoping too much on, a strong US economy remains in stark contrast to the more sluggish European economies. As a result, the ECB will remain reluctant to hike interest rates, and 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 recent turmoil.

- 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 2019. 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, implies – 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.

- 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.

# Market Outlook and Portfolio Positioning

## Asset Allocation

| | | |
|---|---|---|
| Equities | Neutral | Global growth has cooled considerably and the concerns of the trade disputes are in focus. Recent sell-off in the asset class has improved valuations. We retain our overweight position in US equities. |
| Fixed Income | Underweight | Whilst high quality government paper might continue 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 more sensible. |
| **Advanced economy corporate bonds** | Underweight | Spreads remain unattractive. |
| US Credit | Underweight | Valuations remain expensive. US credit to remain under pressure with lower corporate earnings expectation in 2019. |
| Euro Credit | Underweight | Valuations are more expensive than US credit. The end of ECB's CSPP will weigh on the asset class. |
| **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 two rate hikes in 2019. |
| **EM hard currency bonds** | Underweight | Hard-currency bonds preferred over local currency bonds as domestic monetary policy will continue to track the Fed tightening. We only prefer GCC sovereign dollar bonds. |
| GCC | Overweight | GCC sovereign bonds continue to remain resilient amidst the global sell-off. Valuations look more attractive with the GCC inclusion to boost inflows. |
| India | Tactical overweight on short-duration LCY bonds | The central bank to adopt a dovish bias with easing price pressures and slowing growth outlook. A short-duration stance on India GSecs looks appealing. |

# Market Outlook and Portfolio Positioning

## Equity Markets

| | | |
|---|---|---|
| US | Overweight | Cautiously optimistic as the main equity benchmarks have now more reasonable valuations and earnings expectations have probably been trimmed a little too much. |
| Eurozone | Underweight | Move underweight. Weaker economic growth, uncertainty around central bank policy and deteriorating outlook for global trade spell weakness for Eurozone equities. We see downside risks to corporate earnings estimates. |
| Japan | Neutral | Valuations have become more attractive after the recent correction in equities. Whilst the central bank action here is more supportive compared with other major global regions, we find it hard to identify catalysts. |
| Emerging Markets | Underweight | EM equities underperformed broader equity universe significantly this year. The asset class continues to be impacted by a range of headwinds. We remain underweight China and overweight India. |
| United Kingdom | Neutral | With the potential Brexit deadline looming and the possibility of 'no-deal' still being increasingly talked about, the uncertainty remains a major deterrent to the equity market performance. Valuations remain at discount to long-term averages. |

## Energy and Commodity Prices

| | | |
|---|---|---|
| Energy | Neutral | Trump blinking on Iran has been a trigger for the massive reversal in the oil price rise. OPEC decisions to reduce output should now stabilize the price. There remain some upside risks related to potential Venezuela and Iraq supply disruption, but they have arguably taken a backseat for the moment. |
| 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 the end of 2019. |
| GBP | Some further corrections expected | The Pound Sterling is to follow the euro rather than the US dollar. More uncertainty-induced downward pressure on the currency is in the cards as we approach 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. |

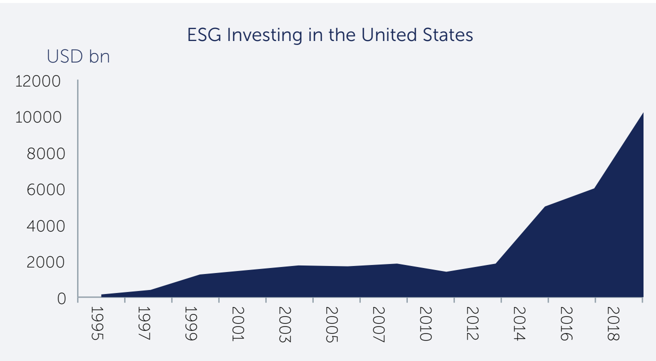
# What's trending: ESG



With 10tn US dollars invested in ESG strategies in the United States, and over 20tn US dollars invested globally, ESG ranks among the mega-trends.

## What is ESG?

ESG is a concept of integrating environmental, social and governance factors into an investment process and decision-making. The idea builds on the notion of Socially Responsible Investment (SRI) that dates back to 1700s, when members of the Religious Society of Friends refused to take part in the slave trade and to invest in weapons of war. However unlike SRI, which is based on ethical and moral criteria, uses mostly negative screens and thus avoids so called 'sin industries' such as gambling, alcohol or tobacco, ESG involves also positive screens. Those screens, or factors, can focus on various issues including climate change, human rights, anti-corruption policies, gender diversity and workplace safety. While the concept is not new, most of the growth has come in the last few years.




Source: US SIF Foundation

## What's driving the growth of ESG investing?

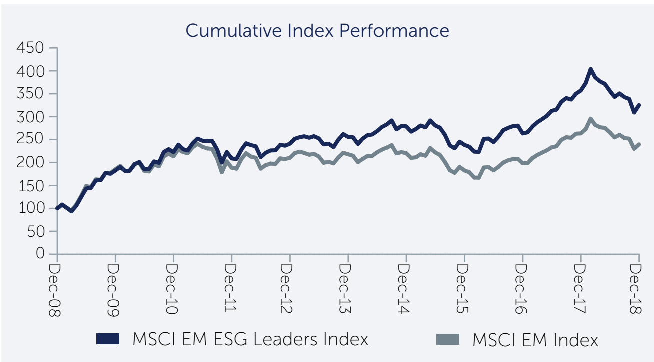
For once, global sustainability challenges such as global warming, sea level rise and demographic shifts have resulted in growing pressures from consumers for more sustainable products and processes. Similar changes were demanded within companies when it comes to hiring practices and values companies represent. In many cases monetary benefits are no longer the leading criteria when it comes to hiring and retaining staff. Non-monetary aspects such gender diversity, sense of purpose and values play a much stronger role. This has strongly contributed to putting ESG aspects on many people radars.

ESG has also provided a way for investors to tilt their investments toward companies that are doing the right things for society and the planet. In other words, ESG investment products give investors an opportunity to make a difference with their money while at the same time working toward meeting their financial goals. This concept has been particularly popular with millennials, who believe that companies with good social and environmental practices are better long-term investments. With millennials making more than a quarter of the global population, their preference for responsible investing would be foolish to ignore. Indeed, it is estimated that over the next two to three decades, millennials could put between USD 15 to 20 trillion into U.S.-domiciled ESG investments.

## ESG integration improves returns

While one could think that integrating ESG factors would come at a cost, studies prove otherwise. Good corporate sustainability is associated with good financial results and introduction of ESG factors may help manage risk, avoid common ESG shocks like labor stoppages, accounting fraud, and supply chain disruptions. A comparison of the MSCI ACWI ESG Leaders index (representing the best-in-class companies from an ESG perspective) vs the MSCI ACWI index shows that indeed the former index tends to deliver better risk-adjusted returns. While only moderately, it has nevertheless outperformed the conventional index over 1, 3, 5 and 10 years (on a gross basis to 30 Nov 2018); it has also taken less risk over 5 and 10 years, as measured by its standard deviation. Since its inception in 2007, its maximum drawdown was lower and returns in negative years of 2008, 2011 and 2015 were less severe.

Having said that, a closer look reveals that those trends do not hold across all regions. For example the MSCI North America ESG Leaders index failed to outperform its conventional counterpart. Meanwhile, the degree of outperformance of the MSCI EM ESG Leaders index vs its conventional counterpart has been very significant, reflecting the fact that markets with the worst ESG standards tend to see the biggest improvement in performance when ESG factors are considered.




Source: Morningstar Direct. Data as of 30.11.2018

## How to go for it

Our Investment Advisory team has identified number of ESG investments. If this is of interest to you, please reach out to your relationship manager.

# Volatile oil price sentiment dampener but unlikely to alter fundamentals

### Upward shift in supply expectations led to oil price volatility

Strong momentum in the US shale oil production in recent months led to upward shift in supply expectations for coming years that caused market to adjust the oil price relatively sharply. International Energy Agency estimates that the non-OPEC supply will rise by 2.4mn barrel per day in 2019 while demand will only increase by 1.4mn barrel per day, resulting into potential inventory build-up. This provides an explanation for OPEC+ (including Russia) agreeing to cut the production by 1.2mn barrel per day, starting in January 2019. We believe that the market is factoring in currently the most optimistic expectation on the global supply increase that creates room for disappointment. A potentially balanced market is likely to support the oil price, and we believe the oil price is most likely to remain in a sideward range.

### Slow but steady recovery in fundamentals remain intact

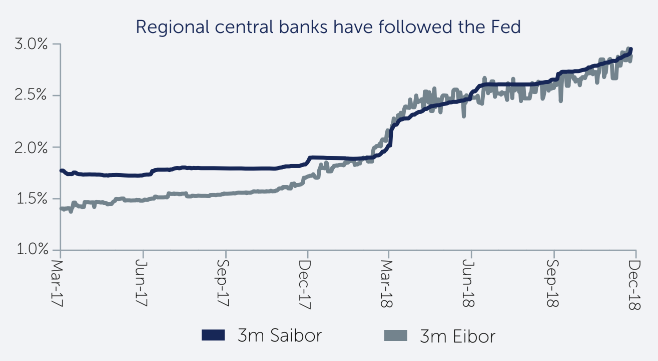
Volatility in the oil price came at a time when optimism in the GCC economy were getting traction. Correction in the prices has acted as a sentiment dampener. However, it is noteworthy to highlight that despite the recent volatility, Brent price has averaged USD72 per barrel in 2018, highest since 2014. This would be sufficient to balance government budgets in most GCC countries for the year, as per IMF estimates of the fiscal breakeven oil prices (we have discussed the details in our previous quarterly report). We believe that the short term volatility is unlikely to have any impact on the ongoing recovery in the real economy in the region as governments remain on track of supporting growth. ADNOC announced a five-year plan of spending AED400bn, 60% of which will be directed towards upstream projects while remaining will be spent on downstream refining and petrochemical industry. This will not only directly increase the capacity in the oil & gas sector but also support the non-oil sector through higher employment and associated boost. Moreover, government in Abu Dhabi is also supporting the non-oil sector directly through the AED50bn package announced last June. These spending plans are well complimented by the reforms announced such as visa and business license liberalization. The largest economy in the region, Saudi Arabia has also announced an expansionary budget for 2019 with 7% increase in spending.

### Drag from VAT and higher interest rates likely to diminish

Like most other structural reforms to improve government budget, implementation of Value Added Tax (VAT) at the beginning of 2018 had affected the consumer sentiment. The impact is likely to diminish in the new year as consumer and business have largely adjusted with the tax. Moreover, due to hikes in interest rate by the Federal Reserve, regional central banks also increased the local interest rate which increased the cost of capital for business and cost of mortgage and personal loan for consumers.

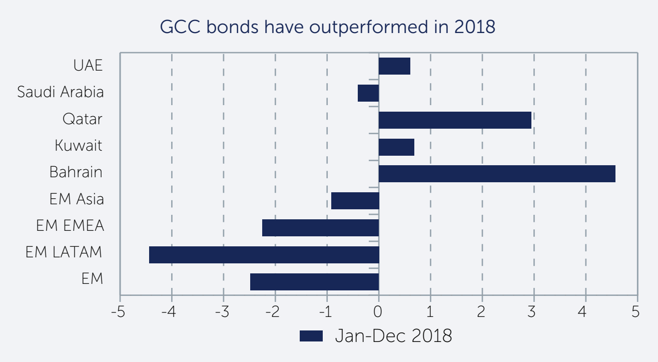
### Attractive valuations underpin GCC bond markets

GCC sovereign bonds have exhibited strong resilience to external headwinds and emerging market volatility in 2018. This is clearly indicated by the total 2018 performance of the bond indices. Government bonds in GCC have released positive returns when compared to the EM bond index. Even the recent fluctuations of oil prices have not negatively impacted the sentiment in the GCC bond market. Lower bond issuances during the period and improvement in economic fundamentals is likely to have provided support to the GCC sovereign bond markets. In addition, the announcement of GCC inclusion in JP Morgan EM bond index has been a positive for the bond markets.




Source: Bloomberg

Overall, we believe that bond market sentiment should remain sanguine. The GCC inclusion in JP Morgan EM 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 are also positives. In spite of the recent EM sell-off, valuations of GCC bond markets are still attractive and trading above the EM dollar bond averages. With other EM more susceptible to external headwinds, GCC bond markets remains an attractive proposition given its low-correlation characteristics.




Source: Bloomberg

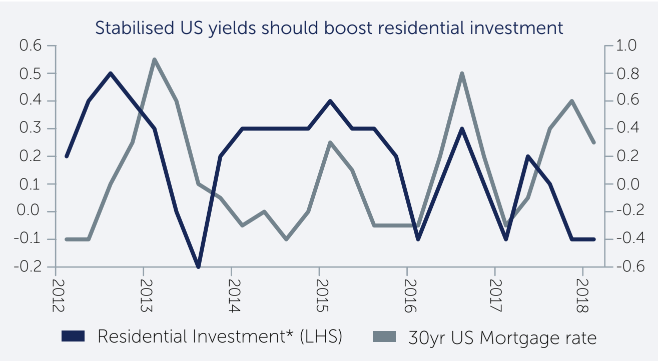
### Equity markets offer cheapest valuation and event based upside

Regional equity markets performance was divergent in 2018 as Saudi, Kuwait and Qatar markets were among the best performing globally whereas Dubai and Oman markets were on the other side. The correction in DFM has brought the valuation among the lowest as 1yr forward PE is 7.3x with dividend yield of 6.9%. Negative sentiments prevailing in the real estate market has weighed on the index. However, we believe that the market has over-reacted on the lower side. Along with slowly improving economic fundamentals, Saudi and Kuwait equity markets are driven by inclusion in Emerging Markets Index of MSCI and FTSE respectively. Foreign flows will to start in 2019 for Saudi market which is likely to support market.

# Economy to move out of soft patch

### Most of the slowdown is likely behind us

Over the last months markets have been concerned that the US economy is slowing down as a result of continuing sluggishness across the globe. Whilst we had anticipated some cooling, we do not think that the US economy is heading into a recession and we think that most of the soft patch is now behind us. In fact, a closer look at the macro-economic fundamentals tells us that the economy has still room to go. To start with, and in spite of Fed tightening, credit conditions remain relatively accommodating across the economy. In addition consumer spending is likely to remain robust with higher wages and lower oil prices. Critically the fact that the labor market is now very tight, means that also lower wages are going up. This tells us that the savings rate has some more margin to come down. The recent correction of long-term yields, finally, is likely to support the housing market, the traditional driver of the US business cycle. As for US corporations, given still relatively easy lending standards, there is still likely some upside in investment spending in a context of high capacity utilization and rising labor costs.



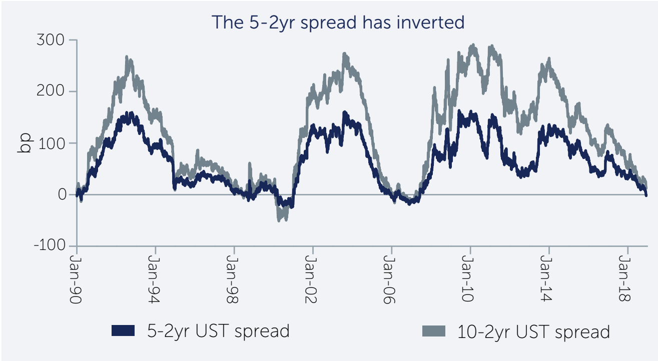

Note: * 2-quarter moving average. Source: Bloomberg

### But political risks remain on the horizon

Against an economic backdrop which still seems favorable, i.e. we expect that 2019 will not see a US recession, political factors will continue to weigh in, and not necessarily in a positive way. For starters, we have so our doubts that the truce in the US-China trade war will hold. If there is one area where US Republicans and Democrats agree that is on the need to be "tough" with China. Given the country's profligate fiscal policy, the current account deficit is likely to be wider when the 2020 presidential elections will take place, regardless of the tariffs. Thus it will be easy for the Democrats to dub any truce with China as weakness of the President. On the other hand, if the economy slows by 2020, or even hits a recession, President Trump will have an easier time to blame it on China with whom he will be waging a war to protect US jobs and wages. On top of the trade concerns, there is also the risk of a Government shutdown if the Democrats – who as of January will control the House of Representatives – won't agree with the President on the country's immigration policy. Finally, recently the risk has risen that the Mueller investigation results will be such that the Democrats will feel "forced" to impeach the President. This will unlikely lead to his removal from office by the Republican-controlled Senate, but it will lead to further uncertainty and potentially market turmoil.

### Fixed income: Curve steepening risks if Fed turns dovish

After hitting the record high level since 2011, the 10-year US treasury yields have consolidated due to increasing concerns on the possible impact of Fed's tightening policy and trade uncertainty on the performance of the US economy. Investors have turned more risk-averse particularly after the 5yr-2yr US treasury spread turned negative for the first time in the current economic cycle. Yield curve inversions have historically been a precursor of possible economic slowdowns. The 10-2yr part of the curve is still positive and could possible invert in the near term. However, based on historical precedents, the economy starts to slow down typically 15-18 months post the first inversion date of the 10-2yr treasury yield curve. At the same time, economic data in US continues to remain upbeat and not showing any signs of descending into recession at least till 2020. . Long-term bond yields and rates are currently fully pricing in the median target long-term neutral rate (indicated by the Fed dot's plot). For the long-end bond yields to decline significantly, economic data needs to show signs of weakness. In the event that the Fed expresses a more dovish stance (one rate hike or no rate hike in 2019), we could, in fact, see the yield curve steepening.




Source: Bloomberg

Tracking the equity market sell-off, US credit has been under extreme pressure amidst the risk-off environment. Over the last quarter, US high yield bonds have underperformed the high quality bonds. US high yield spreads rose by 131bp while high quality bond spreads jumped by 34bp. However, on a year-to-date basis, in spite of the recent widening of spreads, US high yield has outperformed the investment grade bonds. In 2019, US credit spreads are likely to widen with expectations of subdued corporate earnings, Fed tightening and slight moderation of US growth. In addition, valuations remain stretched, particularly in the US high yield segment. We remain underweight in US credit.

### US equities: remaining overweight

US equity markets were down c9% so far in Q4 2018 making the index performance flat year-to-date. A range of factors have impacted this region's equities in the recent months. Growing concerns around the slowing global economic growth, Fed continuing on the path of tightening, prospective slower earnings growth of the corporate sector in 2019, have all impacted negatively. Readers of the October 2018 edition of our 'Quarterly Investment View' will remember our cautiously optimistic stance on the asset class. Then we argued that despite the building downside risks, strong earnings growth and positive economic growth differential provided a relatively encouraging environment. However hence, concerns around the possibility of a recession ¬next year have risen sharply impacting the equity markets quite negatively. As we argued in the Introduction section of this note, sustained US equity bear markets are uncommon outside of a recession; and we see less likelihood of one occurring soon. So overall, given the recent correction, we remain overweight.

# Sluggishness for now, but without a major upset

### 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 continuing 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, whilst we do not believe that the UK will crash out of the EU without a departure deal, the odds have recently risen and the thought of such occurrence alone is unlikely to provide a boost to consumer and business confidence.

### Political risks are here to stay

Italy's populist government is now giving into the EU Commission and moderated its budget stance. Such development was in our view inevitable since the country cannot stand the rise in spreads that has been pushing up its borrowing costs. Whilst we believe that political risks will persist in Europe, they seem to be manageable in the short-term. France "yellow vests" movement is likely to peter out as President Macron has given in to the demands to scrap oil taxes and raise minimum wages. This is likely to isolate the more violent parts of the movement.

Critically, whilst we believe that the Italian budget risk is now fading away, any future 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 yields unlikely to drop further

Eurozone core bonds have rallied, in spite of the ECB ending its asset purchase program in 2018. The decline in bond yields was mainly on account of continuous softness in the region's growth outlook. China slowdown along with the trade tensions have further aggravated growth concerns in Europe. While the ECB at its final meeting of 2018, ended its monthly bond purchases, the central bank sounded dovish and also reduced its growth forecast for 2019. Given the disappointing economic backdrop, we believe that the ECB is unlikely to rush to raise policy rates and could possibly wait at least until end-2019. At the same time, bond yields are already pricing in the ECB's dovish stance for 2019 and are unlikely to drop significantly.

Similar to US credit, European credit spreads have widened significantly since October 2018. European high yield again underperformed the high quality bonds. While valuations may look attractive, particularly in the EUR high yield sector, 2019 will be difficult for the EUR credit given the backdrop of underwhelming economic growth in Eurozone. Even EUR IG bonds should underperform as they lose their main source of demand with the end of the ECB's CSPP. Overall, we remain underweight on European credit and expect the European credit to underperform its US counterpart.

### Eurozone equities: move to underweight

Eurozone equities have had a torrid time in Q4 resulting in the year-to-date performance falling to -14%. Weaker economic momentum in the region and uncertainty on the potential ECB action have impacted the asset class. Also, being the most open region to trade globally, European equity markets were impeded by the headlines of ongoing trade skirmishes. Uncertainty relating to Brexit has also impacted the broader region too. Current valuations are just in line with the 10-year averages. The earnings growth is expected to revive next year. IBES consensus earnings estimates are for EPS growth to rise to 9.8% in 2019 from 4.4% in 2018 for MSCI EMU. Whilst this makes Eurozone the only major region to see earnings accelerating next year, we think there are likely to be downside risks to earnings estimates given the ongoing weakness in economic momentum. We move underweight Eurozone equities.

# Brexit bleakness

### No end to Brexit uncertainty

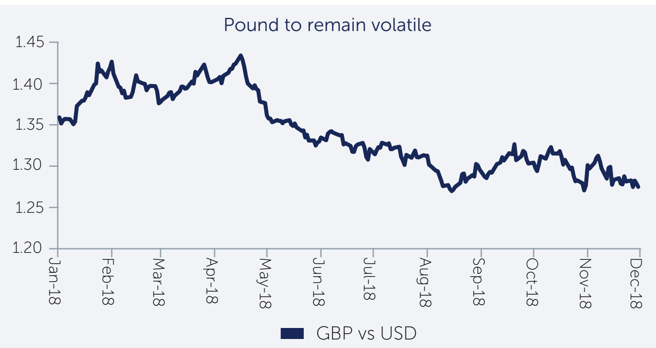
Brexit will continue to be the biggest risk for the economy in 2019. Markets have been extremely volatile with the recent developments on the Brexit front. The government postponed the Parliamentary vote of the Brexit agreement which will now take place on 14th January 2019 while Prime Minister Theresa May was successful in winning the leadership challenge. In the event that the Brexit deal is approved by the Parliament, the situation could improve as it will lift off some of the uncertainty and the UK will begin its transition phase from 29 March 2019. If the Brexit deal is not passed by the UK Parliament, then there could be multiple possibilities with different complications. Particularly, if Mrs. May's Brexit deal gets defeated with a large majority, then it could have consequences on her leadership role as the Prime Minister too. In such an event, the extension of Article 50 or a second referendum or even a general election are all likely possibilities. Lack of clarity until the vote and increased Brexit uncertainty in addition to the political upheaval will continue to weigh on the markets and the business sentiment. Overall, we believe that both the situations i.e. "no-deal" or "Mrs. May deal" will have consequences on economic activity, but the former could amplify the economic risks.

### Economic backdrop is bleak

After a strong summer, economic indicators have been disappointing lately. While the GDP in the third quarter surprised on the upside with strong consumer spending, frequent economic indicators have been underwhelming. Growth in industrial production has been negative while the PMI indicators have also been disappointing, in line with the softness seen globally. On the other hand, core inflation has eased and now hovering near the central bank's target level. The backdrop of weak economic data along with Brexit uncertainly should refrain the Bank of England from tightening monetary policy at least in the first half of 2019. If the Brexit situation improves, then chances of a central bank rate hike could begin to rise.

### Pound to remain volatile

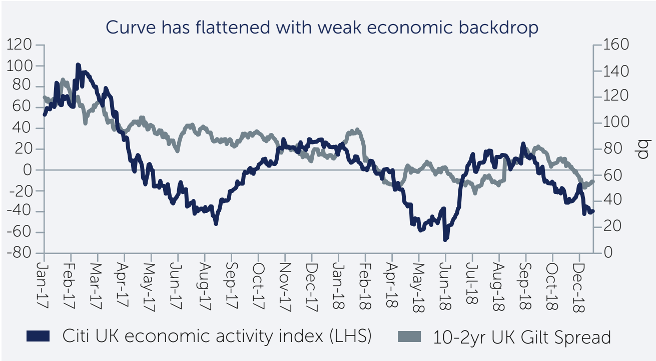
The pound sterling took a beating in 2018 with continuous Brexit uncertainty and domestic political uncertainty being the main drivers. The currency has weakened by almost 7% on a year-to-date basis in 2018, the slide commencing mainly from April 2018. Expectations of a positive Brexit outcome and BoE rate hike had supported the currency in the beginning of the year. Going forward, lack of clarity on the course of the Brexit will keep the pound sterling volatile in the coming months. In the event of a "no-deal" Brexit-which is looking like the most possible outcome-the pound is expected to come under immense pressure.




Source: Bloomberg

### Gilts: remain bullish

Increased Brexit-related volatility and political upheaval in the UK has pushed the gilt yields lower. In fact like European core bonds, UK gilts have been one of the best performers in fixed income space in 2018. The 10-2yr UK gilt yield curve has significantly flattened due to the combination of disappointing macro data and Brexit uncertainty. The possibility of a "no-deal" Brexit has risen with the postponement of the Parliamentary vote to January. This has also reduced the pricing of rate hikes at the front-end of the curve.




Source: Bloomberg

We believe that Brexit-related volatility is likely to linger even if Prime Minister May's deal has been passed by the Parliament. Such an event could reduce the uncertainty a bit, but, at the same time, markets will start pricing in rate hikes at the front-end of the curve. Irrespective of the outcome of the Parliament vote, economic outlook is unlikely to undergo any expansion. We hold a positive stance on the gilt market.

### UK equities: remain neutral

With the potential Brexit deadline looming (29 March 2019), and the possibility of 'no-deal' still being increasingly talked about, the uncertainty remains a major deterrent to the equity market performance. Year-to-date, MSCI UK index is down 13% in USD terms performing broadly in-line with the overall European index but sizably underperforming the ACWI index. As we have highlighted earlier, UK equity benchmarks – loaded with Global commodity and Global consumer stocks – have a strong external orientation. This has two implications: first, the weaker GBP resulting from the Brexit associated travails could be equity positive and second, the UK equity asset class is more influenced by the global developments than the domestic aspects. In this context, within UK, we think overseas earners are likely to outperform the domestic stocks. Further, current valuations (as transmitted by the 12m forward PE ratio) for the overall market are at a discount to the 10 year average levels.

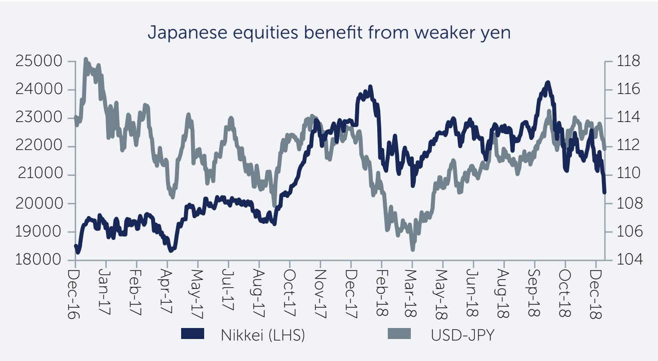
# Positive domestic backdrop in a difficult international context

## No Abe, no problem

Whilst Prime Minster Abe has very effectively strengthening his hold on power, 2019 might be the beginning of the end of his political career. Ideally, he will manage to win his referendum on constitutional reforms and make Japan a "normal" country. Regardless, he is likely to exit the political scene after the 2020 Tokyo Olympics. Is that a problem? Likely not. Abenomics, in fact, will survive Abe, and both monetary and fiscal policy are likely to remain accommodative, with or without Mr. Abe.

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 continuing 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 not strengthened 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 remained stable 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: remain neutral

Japanese equities benefit from weaker yen and cheap valuations compared to history. For the context on valuations, the current 12m forward PE sits at a 17% discount to the 10Y average level. However, the earnings growth for next year is anaemic and the return on equity is low too. Central bank stance is more supportive here when compared with other major global regions. MSCI Japan index is down 9% so far this year and it is hard to identify catalysts for this regional asset class. Overall, we think a neutral stance on Japanese equities is prudent at this stage.

# Slowdown to continue

### Sticking to policy

Industrial output and investments continue to contract as the Chinese authorities insist on deleveraging, hitting in the first place the State-owned enterprises which have in the past been the main beneficiaries of lending. There has been some pick-up in lending, but overall credit has been contracting, especially also when it comes to shadow banking. We disagree with many market commentators who insist that China is going to provide meaningfully stimulus to its economy. Stimulus there will, but it will be a far cry from the 2015 measures, let alone the 2008 story. Critically stimulus will be much more centred on fiscal support to households, rather than credit to corporations. The former is less interesting for the rest of the world as it is less likely to translate into imports of commodities from emerging markets, or capital goods from developed markets. And, to make matters worse, China will remain tempted to sustain its economy through a weakening exchange rate, which is straight bad for the rest of the world.

The appointment of Liu He as China's Vice Premier of Economics is 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.

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: maintain underweight

Chinese equities have had a torrid time with the MSCI China index returning -14% year-to-date. Especially in the second half of this year, MSCI China index entered a bear market with the index losing c20%. Trade war with the US created external headwinds which were exacerbated by concerns around slowing domestic growth. In this context, given the lack of a full-fledged reflationary policy from Beijing, it is hard to see the declines reversing anytime soon. Chinese equities are likely to remain volatile and headline driven looking ahead. Whilst Chinese equities look cheap on a standalone basis (IBES consensus 2019e PE of 10.7x), the current levels are just in-line with the 10 year average levels. Earnings estimate downgrades have been strong over the past six months and we believe there is further downside. A full blown stimulus program remains a key risk to our underweight call.

# A hiccup in growth in 2019

### Growth to slowdown in 2019

While India has historically been less susceptible to external headwinds, 2018 was clearly an exception. Volatility in oil price, EM currency sell-off and higher inflation pressures proved detrimental for the country's macro-economic outlook. Economic activity is now showing early signs of deceleration. After recording upbeat growth in the first half of the year, growth rose by 7.1% in the July-September quarter, lower than the previous quarter print of 8.2% and weaker than market expectation. While government spending rose the most, as expected ahead of the election year, private consumption eased significantly. Growth in manufacturing sector also disappointed.

Going forward, growth could soften further on the basis of numerous domestic and even external factors.  GDP numbers could surprise lower as the base effects will begin to fade. Uncertainty over oil prices is likely to be another driving factor for the health of the country's fiscal and external balances. According to the RBI, every USD10/bbl increase in oil is estimate to increase the current account deficit by almost 30bp. In addition, the key domestic risk is the deteriorating health of the non-bank financial companies (NBFCs). Tight domestic liquidity is making difficult for the NBFCs to pay out their huge liabilities. Given that the NBFCs are key source for credit in the economy, their ongoing financial stress is likely to drag credit growth lower. However, this drag should not last for long as more lending activity could swiftly shift to mainstream banks while the RBI is also likely to step in to infuse liquidity in the system. In addition, with 2019 elections drawing closer and the recent dismal performance of the ruling party at the state elections only mean that the government will be under immense pressure to boost economic activity and increase spending to support growth.

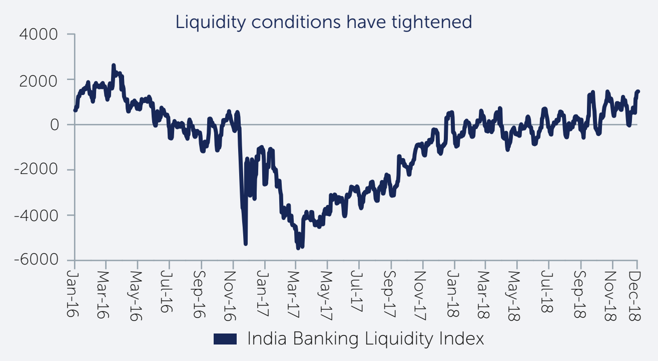
Having said that, we believe that India's economic fundamentals still score strong and any deceleration in activity will only prove to be a temporary hitch. Political uncertainty will rise ahead of the elections. However, irrespective of the final result, we do not expect that any change in the political picture will put a break on the reform momentum. Irrespective of which party wins the election, the policy direction is likely to remain the same. The only election risk is a weak coalition formation which could then slowdown the reform progress.

### Dovish RBI as growth moderates

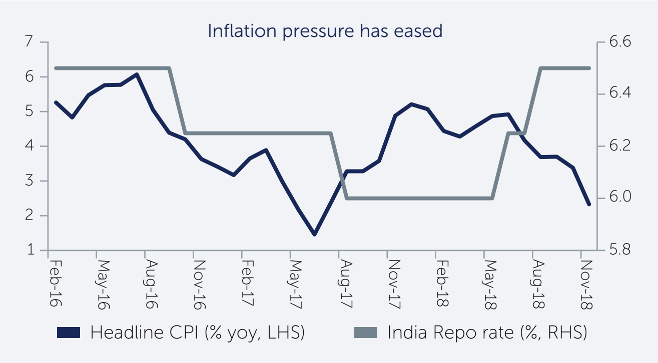
The surprise resignation of the RBI Governor Urijit Patel has raised concerns on the central bank's independence and increasing differences between the RBI and the government. Though the new Governor Shaktikanta Das has made assurances about the central bank's autonomy, he will remain under pressure to resolve these differences. In terms of monetary policy, the RBI was proactive and prompt in undertaking back-to-back two rate hikes to combat currency weakness and inflation pressure. However, inflation pressures have now eased and with the growth outlook weakening too, the RBI is expected to shift its focus on spurring growth in the coming months. As such, the RBI is likely to remain dovish in the near term (particularly ahead of the elections).

### Bonds: Short-duration on India government bonds

Indian government bonds remained under pressure in 2018 with 10-year bond yields rising by almost 100bp during January-October 2018. Oil price volatility, rupee depreciation, inflation concerns and RBI policy tightening kept the bond markets on edge for majority part of the year. However, with increasing signs of growth softening and tight liquidity conditions proving as a hindrance for spurring lending activity, the central bank is expected to shift its focus to growth. In addition, inflation pressures- which rose due to oil price volatility and rupee weakness- have now eased within the central bank's target range. As such, the RBI is likely to be relatively more dovish in the coming months and also likely to add liquidity to the system by conducting more government bond buybacks. At the same time, oil price volatility is still a possible risk for increasing price pressures. As such, we increase our preference for Indian government bonds and recommend to maintain a short-duration.




Source: Bloomberg




Source: Bloomberg

### Indian equities: remain overweight

India is one of the few markets, not just amongst EMs but across the world, with strong earnings growth projections for next year. Valuations appear expensive but the return on equity is high too. Market remains relatively immune to external headwinds – especially of trade disruptions. Lower oil prices in the recent months have helped too. Especially, with the central bank likely to remain accommodative, equities are likely to find support. With the general elections in the first half of 2019, the overall policy stance is likely to remain equity friendly. Structural story for Indian equities remains strong with favourable demographics and reasonably defensive economic model. We view our overweight stance on India as a strategic position and as a quality proposition in the emerging market space.

# Still in deep waters

### Growth stabilized, but risks remain

2018 was a tough for the emerging markets. Global growth slowdown fears along with escalation of US-China trade risks continued to impact the market sentiment even in the final quarter of 2018. However, one cannot deny the improvement in fundamentals as well as valuations since the summer sell-off in EM assets. In fact, more frequent soft-indicators including PMI point that the slowdown in growth may have bottomed out in September and economic activity has stabilised since then. Dollar has not strengthened by the same degree as it did before with some relief in US-China tensions post the G20 meeting and also on account of markets' dovish interpretation of the Fed's outlook. The drop in oil prices also has benefitted the key oil importers including India and Indonesia.

### External headwinds to dominate in 2019

In spite of the recent stabilisation, we believe that 2019 will be another challenging year for the emerging markets. The key external headwinds of 2018- Fed's tightening, dollar strength, trade tensions and oil price volatility- are likely to drag into the new year. It is relatively easy to assess the possible impact of Fed's policy and dollar movement on the emerging market rather than US-China trade tensions. Based on our assessment of US-China trade progress in 2018, we believe that the trade uncertainty and the possibility of escalations risks remains high in spite of the recent relief. At the same time, we believe that growth slowdown in China-which could sustain as the stimulus measures may not prove fruitful- will remain detrimental for the emerging markets.

Similar to 2018, majority of the EM central banks are likely to track the Fed tightening. However, at the same time, there could be few central banks-particularly the ones which have been aggressive and prompt in tightening policy in 2018- moving to a more neutral stance or even reduce policy rates (India, Indonesia and Philippines). Further relief could also come from the Fed, possibly in the second-half of 2019, if there are signs of growth slowing down in the US, pushing the Fed to halt its rate hiking trajectory. In the event of Fed becoming dovish in 2019, EM valuations will begin to look attractive and we could possibly see more offshore inflows into the emerging markets.

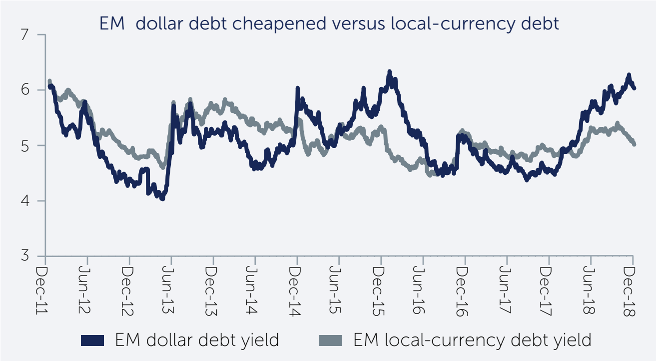
However, there has been increasing evidence of the dollar liquidity draining out in the emerging markets. Financial conditions in the emerging market should tighten further in 2019 with the Fed set to hike rates at least twice in 2019. The US dollar is likely to remain strong (may be not appreciate in the same manner) until the Fed has ended its tightening cycle. EM FX reserves have declined in 2018 as central banks intervened to combat the EM currency volatility. Even though EM currencies have cheapened and may be under less pressure compared to 2018, lower external reserves will make it difficult for the emerging market economies to recover in the event of increased sell-off.

Lastly, volatility in oil prices will continue to remain a concern for the EM oil importers (India and Indonesia) and also EM oil exporters (Russia and the GCC countries). We believe that the former (importers) could face more difficulties given the OPEC cuts should provide a floor to the oil price level.

### EM Bonds- Stay underweight

Emerging market sovereign dollar bonds had a challenging 2018, being one of the underperformers in fixed income space. While the EM dollar bonds managed to partially erode their earlier losses made during the August sell-off, the asset class has recorded an aggregate loss of 2.5% in 2018. We believe that 2019 will be no different for the emerging market dollar bonds. EM financial conditions will continue to tighten with the rising dollar funding costs and Fed's hiking policy. Majority of the EM central banks will follow the Fed's steps, making it difficult for economic activity to pick-up. At the same time, EMs-which adopted proactive and aggressive monetary policy in 2018-could see the lagged impact of tight policy on growth.

While pressure on emerging market bonds is likely to sustain, valuations have become cheap and tactical opportunities could arise especially if there is some ease in external headwinds. EM dollar bond yields have yet again moved above that of local currency bonds. The latter will be under more pressure as domestic central banks will maintain their hawkish bias. In addition, spreads will become more attractive if consolidation of long-term US rates comes with a dovish Fed in the second half of 2019 and then we may look to increasing exposure to EM dollar bonds. However, for now, we stick to our underweight stance on EM dollar bonds.




Source: Bloomberg

### EM equities: build some selective exposure

EM equities underperformed broader equity universe significantly this year. A range of headwinds have impacted the asset class. Whilst the stronger USD and rising UST yields were the key concerns for the asset class in the earlier part of the year, trade tensions and weakening domestic conditions ¬became dominant in the latter part. As we alluded to in the previous edition of the 'Quarterly Investment View', we think there are selective opportunities in the EM equity space. We would emphasize Brazil, South Africa and India (discussed on the previous page) here. All these three markets show potential for strong earnings growth – IBES consensus estimates for 2019e earnings growth are more than 20% for these markets compared with 8% for ACWI and 10% for EM aggregates. Especially given limited scope for valuation metrics to expand from here, we see the earnings growth as key driver of returns looking ahead.

# Appendix

January 2019

| GDP Forecast | 2019 Consensus | 2019 ADCB | 2020 Consensus | 2020 ADCB |
|---|---|---|---|---|
| US | 2.6% | Expect moderately more | 1.9% | In agreement |
| Eurozone | 1.6% | In agreement | 1.5% | In agreement |
| Japan | 0.9% | In agreement | 0.6% | In agreement |
| China | 6.2% | Expect moderately less | 6.0% | Expect significantly less |
| India | 7.3% | In agreement | 7.3% | Expect moderately less |

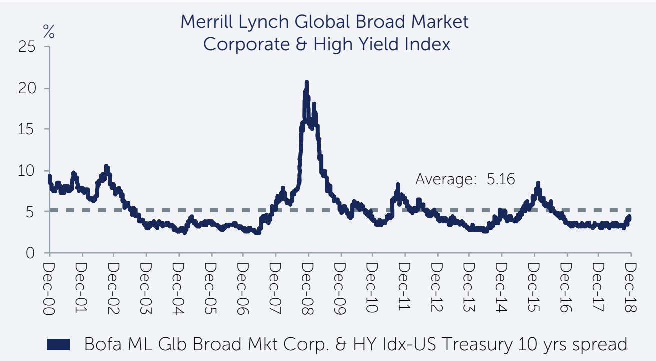
Source: Bloomberg

| CPI Forecast YoY | 2019 Consensus | 2019 ADCB | 2020 Consensus | 2020 ADCB |
|---|---|---|---|---|
| US | 2.2% | In agreement | 2.2% | In agreement |
| Eurozone | 1.7% | Expect moderately less | 1.7% | In agreement |
| Japan | 1.1% | In agreement | 1.4% | In agreement |
| China | 2.3% | In agreement | 2.3% | Expect moderately less |
| India | 3.9% | In agreement | 4.6% | In agreement |

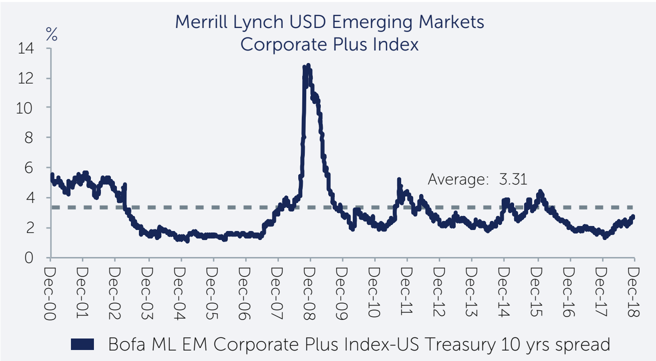
Source: Bloomberg

In agreement · Expect significantly less · Expect moderately less · Expect significantly more · Expect moderately more

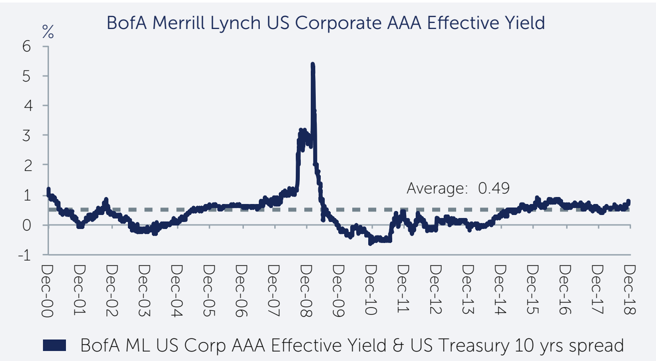
## Bond Market Spreads




Source: Factset, Federal Reserve Bank of St. Louis




Source: Factset, Federal Reserve Bank of St. Louis

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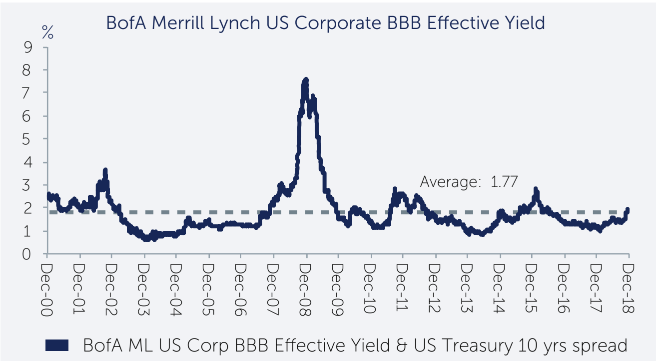
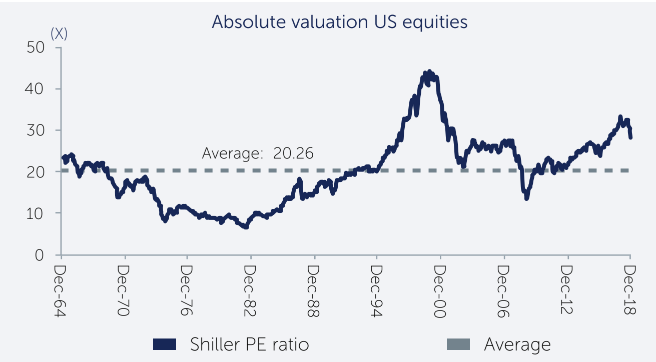
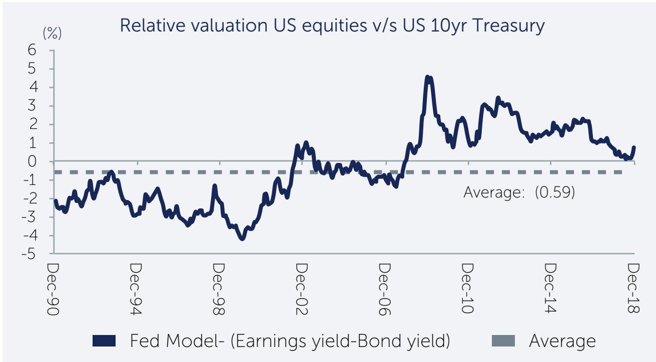



Source: Factset, Federal Reserve Bank of St. Louis

## Equity Market Valuations




Source: Thomson Reuters, multpl.com

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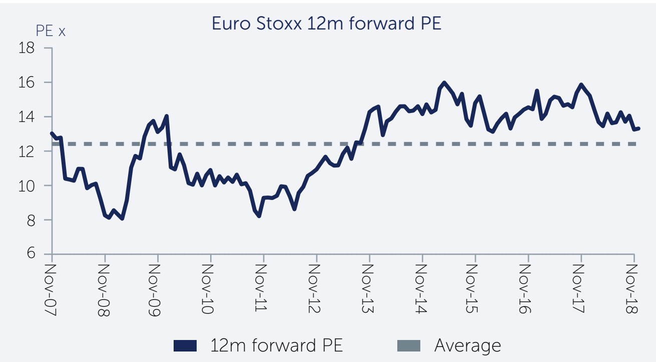


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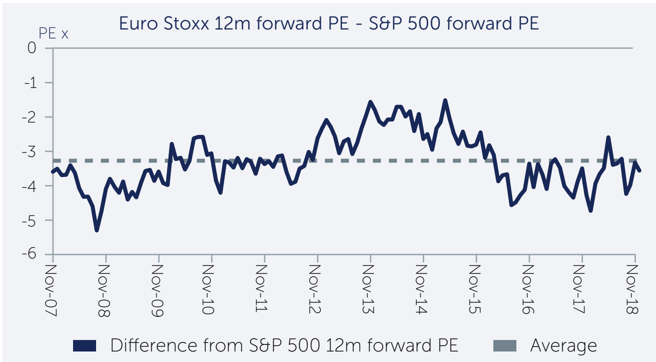


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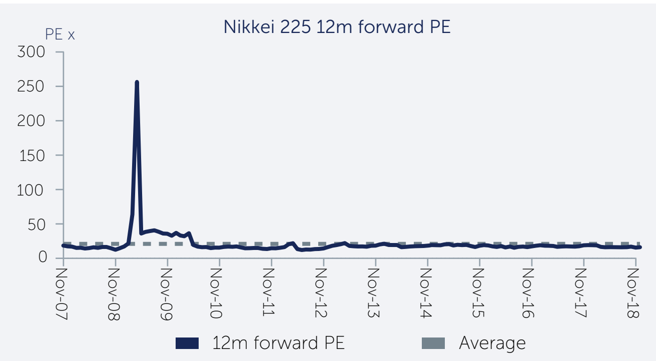


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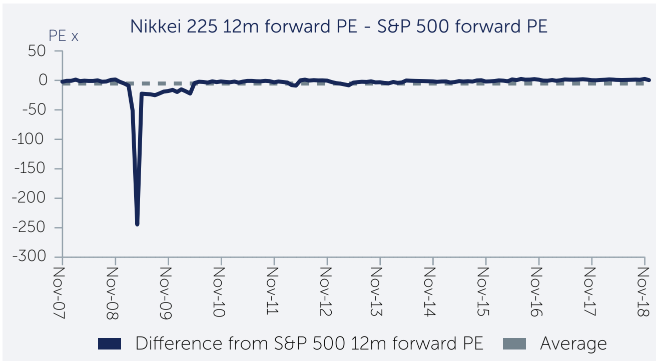


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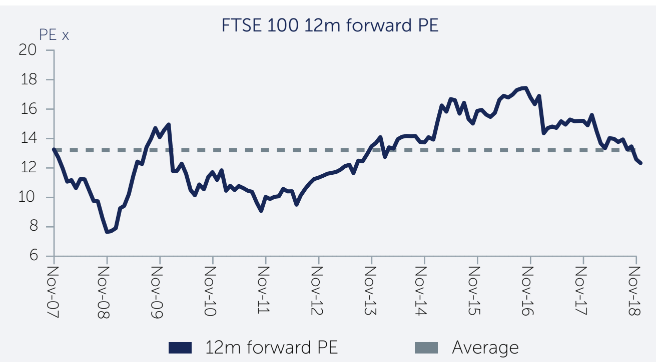
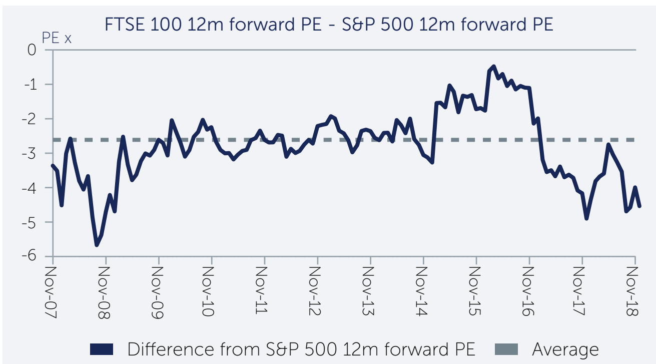
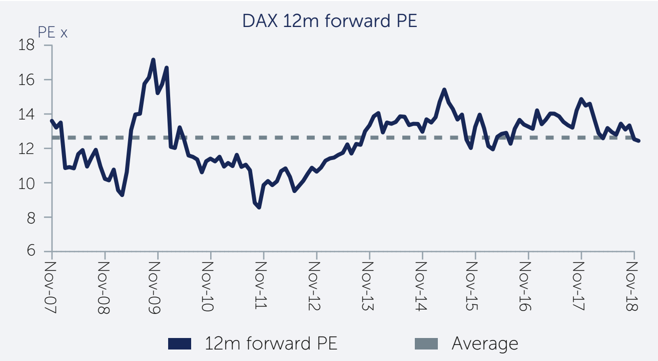



Source: Bloomberg




Source: Bloomberg

## Equity Market Valuations

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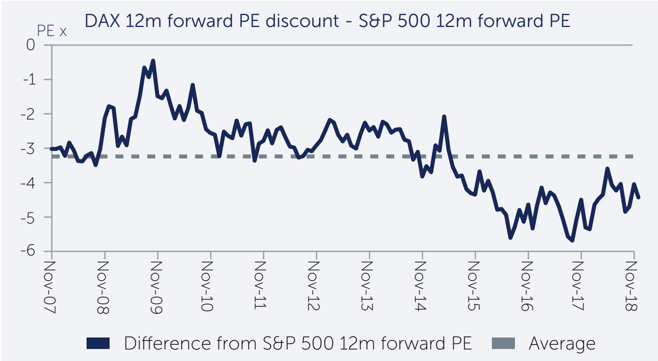


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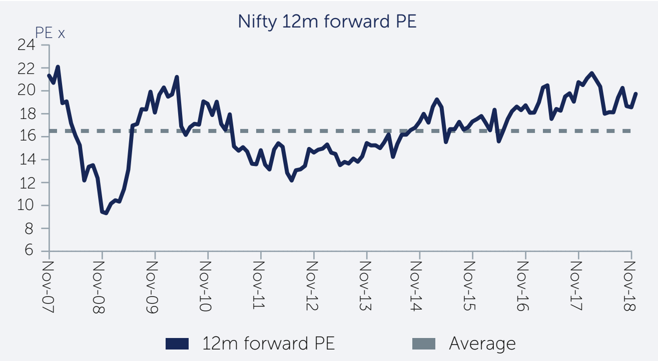


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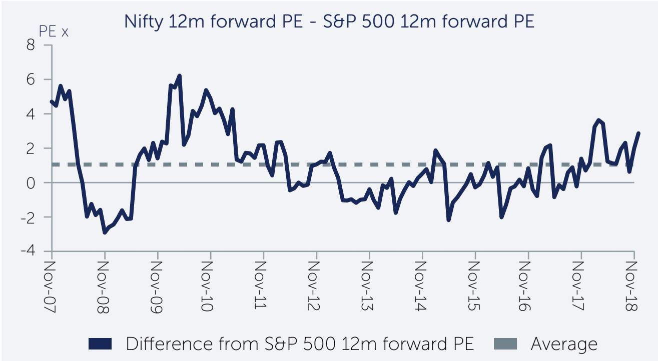


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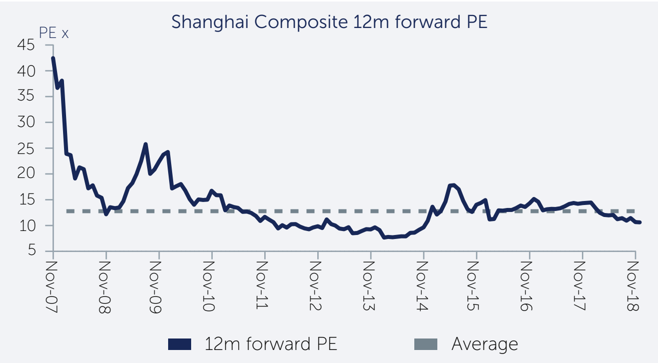


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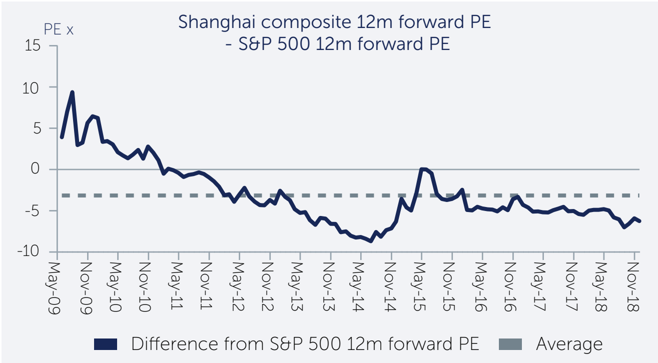


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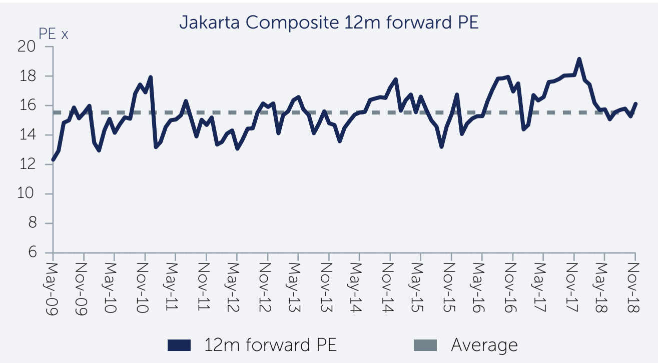


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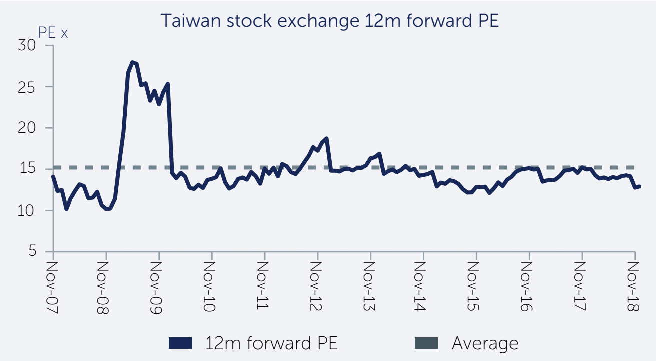
Source: Bloomberg

## Equity Market Valuations

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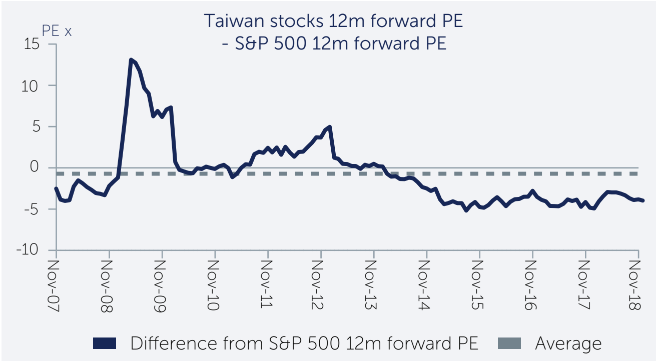


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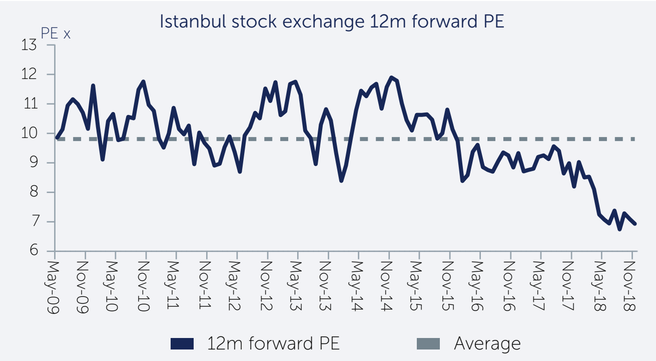


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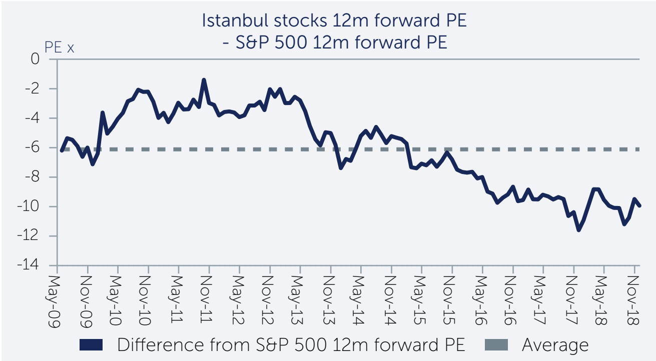


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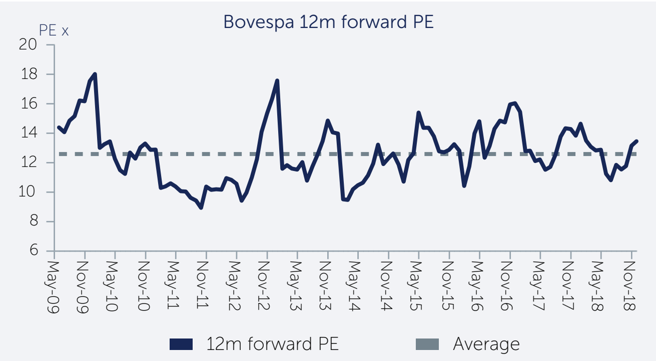


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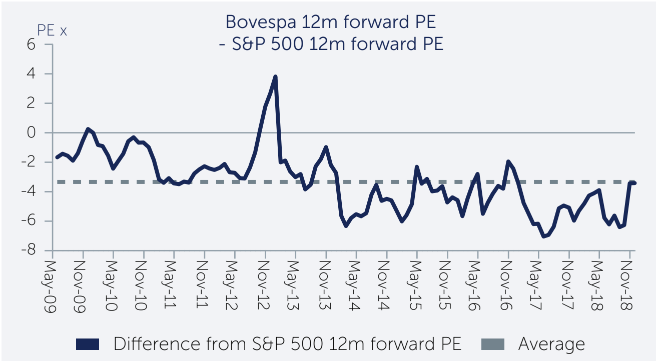


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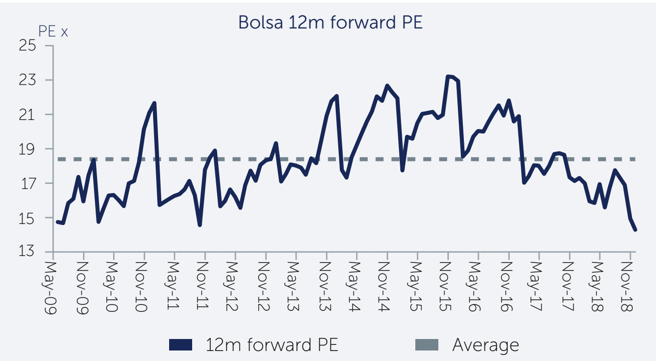


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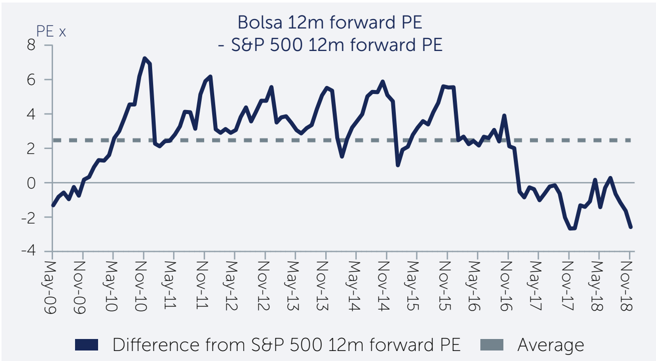


Source: Bloomberg

# 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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