A decade on... lost and found

بنك الامارات للاستثمار

EMIRATES INVESTMENT BANK

Asset Class	View	Current Allocation*	Benchmark Allocation*
Equities	Cautious	27.5%	40.0%
Fixed Income	Neutral	40.0%	40.0%
Real Estate	Neutral	5.0%	5.0%
Commodities	Neutral	2.5%	5.0%
Low Vol / Alternatives	Overweight	15.0%	5.0%
Cash	Favour	10.0%	5.0%

Overweight, Favour, Neutral,

Cautious, Underweight

* Allocations are based on a Moderate Risk Profile

2020 OUTLOOK

- A decade has passed since central banks came to the global economy's rescue and monetary policy continues to grab headlines. This is unfortunate and has almost become a sad reality. Central bank policy is one of many inputs into the investment process but has warranted too much attention in our view.
- For 2020, and as inflationary pressures continue to undershoot expectations, we foresee monetary policy to continue to be accommodative at the current levels. Rates are expected to remain on hold at these low levels in many economies and are not expected to rise or fall further. In such an environment, investors need to focus more on corporate fundamentals and no longer rely on broad-based, liquidity-driven asset price appreciation.
- The relatively low rate monetary environment has allowed many economies to pursue some form of expansionary fiscal policy, as the cost of borrowing and servicing such debt is relatively low. However, we do not believe that enough is being done. For this economic expansion to continue, expansionary fiscal policy needs to come to the fore and replace accommodative monetary policy.

MONTH IN BRIEF

DEC 2019

- Global equities remained unfazed and continued their uptrend in December on broader abatement of political and trade-related worries.
- Amid few signs of a let-up for the Euro-area, manufacturing activity contracted for the eleventh month in a row in December. German Industrial Production (IP) continues to struggle and widespread protests in France have adversely affected activity in neighbouring economies.
- Japan's government approved a USD120 bn fiscal package to support stalling growth amid offshore risks and to sustain economic activity beyond the 2020 Tokyo Olympics.

About Emirates Investment Bank

EIBank is an independent private bank based in Dubai. It offers a wide-range of investment and banking services to an exclusive, but diverse, client base of high-net-worth individuals from across the region and around the world.

Emirates Investment Bank seeks to build long-term partnerships based on a foundation of trust, stability and integrity, which allows it to appreciate the unique circumstances and objectives of each of its clients. This personalised approach guides the Bank when providing its clients with bespoke banking solutions in connection with their wealth, business, and every day affairs.

THE 2020 OUTLOOK

EXECUTIVE SUMMARY :

A decade on… lost and found

A decade has passed since central banks came to the global economy's rescue and monetary policy continues to grab headlines. This is unfortunate and has almost become a sad reality. Central bank policy is one of many inputs into the investment process but has warranted too much attention in our view. Central banks helped stabilize the global economy at a time of need, with the intention of lending a helping hand to spur global aggregate demand, but cannot continue to be relied upon by policymakers and investors alike.

In sharp contrast to the Lost Decade, a period of economic stagnation in Japan from 1991 through 2000, global asset prices have actually done extremely well over the last ten years. This is largely in part to central bank support by the Fed, European Central Bank (ECB), and the People's Bank of China (PBoC). Credit (please excuse the pun) should be given to bold central bankers who understood economic history and made sound decisions, spurring economic activity and avoiding a global Lost Decade following the financial crisis of 2008. This was previously uncharted territory and they should be commended for making such choices.

However, as we enter into 2020 and look forward to the next 10 years, the global economy is in drastic need of a new round of bold central bankers that realize that they cannot continue to be the backdrop to continuous political dysfunction in many major economies. Accommodative central bank policy needs to make way for effective fiscal policies that contribute to actual economic growth. Central bankers have become hostage to politicians that are simply looking for a quick economic fix in the hopes of getting re-elected. Central bankers, long-known for being independent, have become the 'be all and end all' for economic decision-making.

Investment implications…

Monetary policy has caused correlations across the various asset classes to converge. This was evident in 2018 where fixed-income, equities, hedge funds, and real estate all sold off in unison, as investors lowered their cash flow expectations following four interest rate hikes by the Fed that year. Rate normalization was set to continue in 2019 but the Fed reversed course and lowered rates three times instead. As a result, fixed-income, equities, hedge funds and real estate all rebounded by 11.5%, 24%, 8.6% and 23%, respectively last year.

For 2020, and as inflationary pressures continue to undershoot expectations, we foresee monetary policy to continue to be accommodative at the current levels. Rates are expected to remain on hold at these low levels in many economies and are not expected to rise or fall further. In such an environment, investors need to focus more on corporate fundamentals and no longer rely on broad-based, liquidity-driven asset price appreciation.

Fixed-income prices and equity valuations have already priced-in much of this additional liquidity in last year's rally and investors should not expect a repeat this year. Yields on many fixed-income assets are low and many bonds are trading in bubble-territory. Equity valuations may look relatively more attractive but are also trading at lofty valuations. European equities and Emerging Market (EM) local currency fixed-income and equities may pose some upside but investors need to be ever more selective. Profit margins are being squeezed from rising wage pressures and from protectionist measures that are increasing costs, which are not completely being passed-through to the consumer. We continue to focus on companies that exhibit strong free-cash-flow generation and earnings growth trading at attractive valuations.

Going forward…

The relatively low rate monetary environment has allowed many economies to pursue some form of expansionary fiscal policy, as the cost of borrowing and servicing such debt is relatively low. However, we do not believe that enough is being done. For this economic expansion to continue, expansionary fiscal policy needs to come to the fore and replace accommodative monetary policy.

Some market observers will argue that fiscal policy and monetary policy need to work in conjunction for the expansion to continue. We believe that this is relatively short-sighted, as monetary policy has been exhausted and is hurting savers, pensioners, insurance companies, and the banking sector as a whole. A sound banking system should help sustainable economic growth over the long-term and should be the priority, in our view, and the current low or negative rate environment has the potential to do more harm than good from here.

To be fair, many major economies have pursued various forms of expansionary fiscal policies and are running budget deficits as a result. However, they have not done so in unison and can still do much

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more. In the US, India and China, individual and corporate tax cuts have resulted in higher disposable income and profitability and boosted spending. China is also considering a targeted tax cut for high-tech manufacturing firms. In Japan, a consumption tax hike was implemented to improve the government's budget deficit. To counter the effect, approximately USD120 bn in fiscal stimulus was unveiled by the Japanese government, to be used in disaster relief, infra-spending, and as a way to boost the productivity of small and medium sized enterprises. Meanwhile, Germany has plans for a EUR50 bn package to launch a short-term program to help boost domestic demand.

The key point to focus on here is that although many governments are running budget deficits, they still have significant excess fat and their capital spending is neither always efficient nor effective. Populist pressures may be partly to blame but a government running a budget deficit does not mean that their resources are necessarily being put to best use. Budget deficits and current account deficits may be holding some governments back in terms of spending but they can still revisit their policies, government receipts, and their budgetary spending in order to get their house in order. Should they be successful in doing so, they can make more effective expansionary fiscal policy decisions, supporting this economic expansion over the next decade.

For now though, we visit several themes below that we believe investors should focus on over the course of 2020.

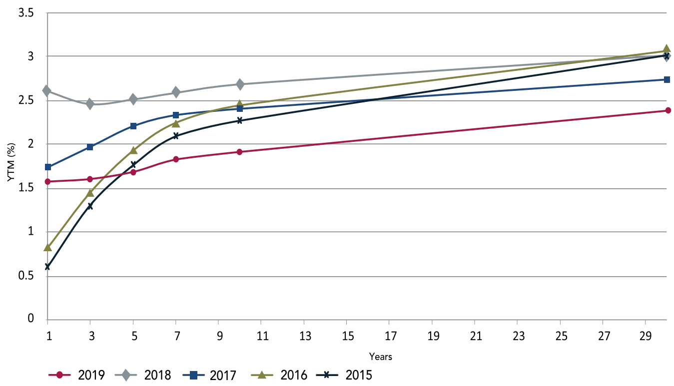
2020 THEMES:

I. 2019 Fed U-turn here to stay

For the most part of 2019, Fed officials grappled with how to cushion the slowing domestic economy from the onslaught of the US-China trade war as well as the weakening external environment. While conceding that monetary policy alone is inept in tackling the impact of the unprecedented trade war on business and investment sentiment, Fed officials preferred to be proactive in 2019 and duly adjusted their economic assessment in the face of policy uncertainty. After having raised the benchmark rate four times in 2018 and was set to continue on the rate normalization path, the Fed was forced to quickly reverse course in 2019 and cut rates three times to just 1.5%-1.75% as traders pushed yields lower in response to volatile trade-related news flow.

While Fed Chair Powell called the move "insurance" against a trade war-induced slowdown, persistently low inflation despite very low unemployment have increasingly led many major central banks including the Fed to believe rates can remain lower for much longer than they initially thought at the beginning of 2019. Even with US unemployment rate at a 50-year low of 3.5%, the Fed's preferred inflation gauge remains stubbornly low and well below the Bank's 2.0% goal. Similar is the case with other developed economies.

Flattening US Yield Curve



Source: Bloomberg, EIBank

Meanwhile and from a risk management viewpoint, low interest rates have significantly raised global indebtedness and with growth subdued, the global economy may have difficulty handling higher rates and is vulnerable to an upward shift in the yield curve. This is yet another concern that prevents policymakers from normalizing an extremely distorted monetary policy.

For now, with inflation dormant and global economic growth facing downside pressures, there is no will by central banks to start tightening monetary policies anytime soon. While policy uncertainty and geopolitical worries seem to have receded at the end of 2019, they haven't completely gone away. And with the global economy still in the grips of a slowdown led by a severe manufacturing slump, the case for any hawkish turn in monetary policy looks unlikely.

We therefore envisage that central bank will not raise interest rates anytime soon. In fact, if the slowdown worsens and inflation disappoints further, we could have another round of monetary easing, although a neutral policy rate is the more likely scenario for 2020. In light of this, investors will have to contend with extremely low (or negative) interest rates and seek ways to generate stable returns.

II. Weakness in manufacturing is not spilling over to the services sector

Decades ago, the global business cycle used to be dominated by the manufacturing of industrial goods. While factories are still a significant source of employment and hold importance from a national security standpoint, the global economy is a lot more diversified today and contribution from manufacturing

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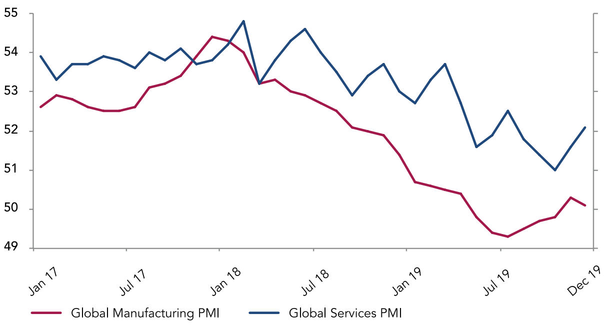
continues to fall in the wake of technological advances, robotics, and the overall shift to a service-oriented society. Although manufacturing output is still relatively large in many Asian economies including China, as well as developed countries like Germany and Japan, services now account for a disproportionate share of growth across the globe.

Last year, global growth prospects took a blow in Q2 when US protectionism started to disrupt key trade relationships and caused global manufacturing to contract. While the US economy was initially resilient, the picture changed sometime in August as US manufacturing too started to slip meaningfully. An almost synchronized global slowdown in manufacturing and trade ensued, raising concerns that a sharp manufacturing slump would spread to the much larger services sector, and drag global growth down with it.

Services PMI continues to hold up well



Source: Bloomberg, EIBank

But signs that the downturn remains contained and more than offset by the strong consumer-led services sector allayed fears. While trade disruption impacted business sentiment and the uncertainty forced companies to pull back on capital spending, the more domestically-focused services sector came to the rescue. Consumer spending, which remains robust in most of the developed economies owing to record low unemployment and gradually recovering wage growth, continued to hold up and offset the weakness in the manufacturing sector. Moreover, some of the headwinds that caused the manufacturing slump gradually turned around as the year progressed. While the Fed decisively responded with three straight 25bps rate cuts to support flagging global demand, the headwinds of the trade war and a disorderly Brexit waned towards the end of the year.

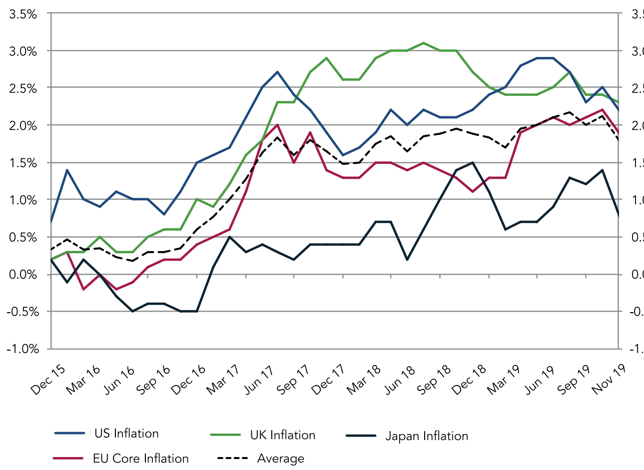
In our view, global manufacturing sentiment indicators and hard data are still weak, but spillovers into services appear contained. While Europe's exposure to trade and reliance on manufacturing made it a casualty of the trade war, the ECB's swift response and some respite on Brexit uncertainty should support a gradual recovery in Eurozone manufacturing as well.

Even China's economy appeared to be reaching the bottom of a cyclical slowdown as 2019 drew to a close, aided by the prospect of the phase one trade agreement with the US. Domestic stimulus efforts, ranging from tariff cuts to support for infrastructure spending, are also buoying sentiment within China.

III. Inflation to remain subdued

Despite strong-willed efforts by the Fed, inflation in the US hasn't risen materially although the expansion now ranks as the longest on record. Neither low or negative interest rates nor central bank asset purchases have produced enough inflationary pressures and the narrative now is that entrenched low inflation is a sign of a shift in consumer preferences and poor pricing power by corporates. The fact that the US unemployment rate declined from roughly 10% immediately following the crisis in 2009 to 3.5% today – a 50-year low – while inflation continues to undershoot government's target not only poses challenges to policymakers battling deflationary pressures but also signals the inflation process may have undergone structural changes. First, globalization and increased competition have eroded firms' pricing power. Second, years of low inflation has anchored inflation expectations. Increases in productivity due to technological innovations (Google, Amazon, Uber) have allowed for a higher rate of economic growth without spawning inflationary pressures.

Headline inflation remains subdued



Source: Bloomberg, EIBank

As a result, the US economy is creating more lower-paying service jobs (Amazon delivery, Uber drivers) and losing relatively better paid manufacturing jobs (autos, steel) to lower-cost Emerging Markets (EM). Abundant energy supplies due to new fracking technologies have diminished the threat of an oil supply shock, further underwhelming inflationary

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pressures. Meanwhile, demographics have worsened in several major economies slowing labor force growth and constraining aggregate spending. The fear of job losses in the last recession has caused a "fear psychosis" and restricts the willingness of people to spend while saving more. With each year of the expansion, while the fear has declined, it remains a painfully slow process in this era of creative disruption.

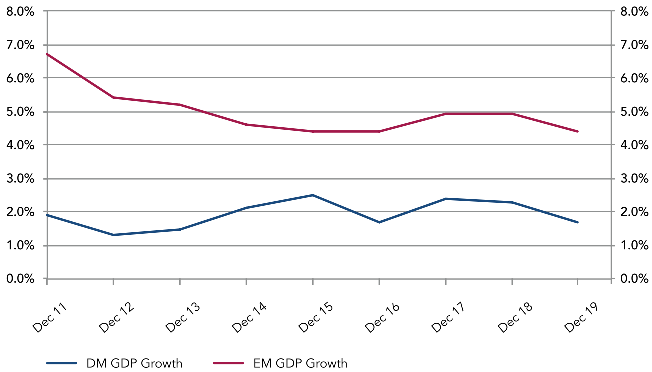
While this prevailing disinflationary trend appears to be a paradigm shift, it wouldn't be prudent to rule out a return of inflation over the longer term. The oft-repeated Amazon-Google-Uber effect and the rapid strides in Artificial Intelligence / Big Data technologies that are pushing prices lower today could eventually displace traditional old-economy jobs triggering industry-level consolidation and reduced competition. That has the potential to offset the structural disinflationary effects they created in the first place and catch policymakers and investors by surprise.

IV. No strong investment catalyst as EPS & GDP growth are constrained

2019 was a year of slowing economic growth but surprisingly solid market returns. Credit spreads are narrower, interest rates are lower and earnings multiples are much higher than they were at the beginning of last year. Despite the political headwinds, risk assets continue to climb mainly on the back of supportive central banks. Meanwhile, some of the forces that were feared to push major economies into recession at the beginning of 2019 have receded somewhat as we closed the year. China-US trade negotiators ratified a limited phase-one deal at the time of this writing, EPS growth has fallen in line with expectations and not more-so, while the Fed has gone from being hawkish at the start of last year to its current neutral or accommodative stance.

Trade protectionism disrupted global economic growth in 2019, but with trade tensions and monetary policy simultaneously easing, the global economy seems to be on a slow but steady path to recovery. We see global growth stabilizing amid a Fed-led accommodative global monetary backdrop in 2020. Despite the somewhat more stable outlook for 2020, in our view, markets are pricing in a lot of the good news already. With the S&P500 and other major equity indices at record highs, many assets are trading at lofty valuations. While monetary policy globally is expected to be supportive, there are signs that monetary tools are reaching their limits. And with no near-term catalyst like the 2018 US corporate tax cuts to boost earnings, markets will be challenged to match 2019's stellar performance. So, in the absence of a sustainable pickup in the EPS outlook and declining profit margins, fresh impetus to take global equities significantly higher is hard to envisage and return expectations from all asset classes – including fixed-income, equities, real estate and commodities – remain subdued.

Global growth facing downward pressures



Source: Bloomberg, EIBank

For fixed-income specifically, we have a distorted market due to years of ultra-accommodative monetary policy and continue to believe that the risk-return reward for many fixed-income assets is limited. Positioning into selective fixed-income assets is most warranted to protect against drawdown risk (i.e. an equity market selloff) but is not attractive from a valuation standpoint.

V. Asset prices elevated due to monetary policy

The stellar equity performance in 2019 was counterintuitive as the vast majority of it can be attributed to multiples expansion led by aggressive monetary easing despite deteriorating manufacturing data, declining profit margins and falling inflationary expectations. In the decade gone by, fears that lacklustre inflation may spawn a deflationary spiral forced the Fed to keep its policy rate at the recessionary low of near-zero until Dec 2015, more than six years since the recession. And then, after a gradual normalization process and nine 25bps point rate hikes, it had to reverse course early last year with three straight 25bps rate cuts to cushion a rapidly slowing global economy battered by the onslaught of Trump's protectionist policy agenda.

In a sense, a lack of political will to tackle structural issues, geopolitical uncertainties and the perennial inflation conundrum have allowed and perhaps forced major central banks to stay accommodative through the last several years. For the reasons we mentioned in our "Inflation theme" above and not necessarily limited to those, we expect monetary authorities to continue their easy policy stance well into 2020. In fact, major central banks would prefer a temporary inflation overshoot before they seriously consider monetary tightening.

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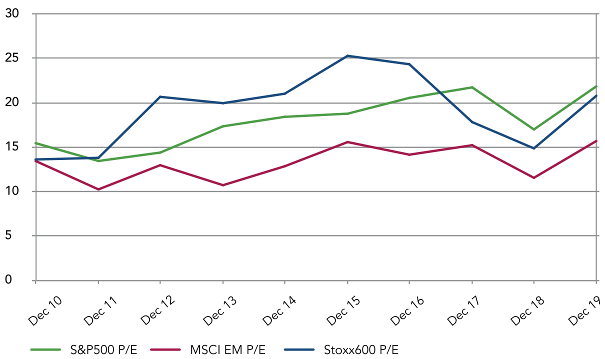
Importantly, a spike in inflation is unlikely, growth is slowing, and fiscal policy is indecisive – which permits the continuation of the accommodative monetary policy environment we live in. Tighter monetary policy will be required eventually as and when inflation pressures start to rise, but we don't envisage that scenario in 2020.

Global equities trading at rich valuations



Source: Bloomberg, EIBank

While loose monetary policy has allowed for a reflation in risk assets, it's imperative to remember that a lower-for-longer interest rate environment comes with its own set of risks. Asset bubbles on the back of a dangerous build-up in debt in an already highly leveraged world are a big worry. While low rates and years of QE have countered a global economic slowdown and proved beneficial so far, the costs have gone up with inflated asset prices and continued existence of undeserving zombie companies that sap economy-wide productivity and crowd out resources available to more deserving parts of the economy. With nearly USD11 trillion in negative-yielding debt even today from a high of USD18 trillion in mid-2019, there is a serious concern of undeserved asset prices. Given the lopsided positioning into risk assets, there is a certain degree of asymmetry which requires a sense of caution in our view and a bottom-up selective approach is key to generating stable returns while protecting drawdown risks.

Even if US-China trade tensions ease meaningfully and Brexit uncertainty diminishes, 2020 is unlikely to be a smooth ride. An election year in the US, monetary policy providing diminishing utility, and lofty asset valuations are likely to continue creating volatility through the year.

VI. Expansionary fiscal policy must finally come to the fore

As we enter 2020, the global economy continues to be impacted by geopolitical uncertainty, cushioned to a great extent by an excessive reliance on monetary policy. With limited ammunition remaining for major central banks, further support for financial markets will have to come from reduced political risks, fiscal stimulus and structural reforms. While the protectionist impulse behind the trade war remains an overhang, awash liquidity continues to support spreads and risk assets in general. Corporate profits are near record highs but have plateaued and are showing signs of decline as companies struggle with tariffs and supply chain disruptions. The growth trajectory from here depends hugely on the still strong but fatiguing consumer.

While consumer sentiment across DM continues to cushion an otherwise slowing global economy battered by policy uncertainty and trade tariffs, excessive reliance on the consumer means the global economy doesn't have a lot of levers. In our view, a limited US-China trade deal and an orderly Brexit are increasingly getting baked into lofty asset prices rendering the short-term outlook for equities challenging. As a result, any further upside has to come from coordinated productivity-boosting fiscal policy measures. If this were to happen - a low probability event in our view - equities would gain further traction.

Although a strong fiscal boost globally would push up sagging business confidence and provide a fillip to vulnerable risky assets, the chances of a global synchronized policy action in 2020 remain mixed in our view. Trump needs to boost economic activity to increase his re-election chances this year but with the fiscal stimulus via the 2018 tax cuts already behind us and 2020 being an election year, he is left with less options on the fiscal side. Japan has already unveiled a USD120 bn fiscal package to arrest downside pressures that would emerge post the 2020 Tokyo Olympics and an effective follow-through would be crucial. Meanwhile and although China has frequently intervened both monetarily and fiscally through 2019, the country's fiscal position is still much stronger than most developed economies. In fact, China has plenty of room to lower benchmark interest rates – a move that could complement fiscal expansion.

Within Europe, calls for a fiscal policy response to boost a chronically weak demand and inflationary environment have been rising last year as Germany, the largest Eurozone economy and in the best position to spend, goes through a deep industrial slowdown. However, given the country's track record and its self-imposed restrictions on budget, a strong German response seems unlikely. While we expect major European countries to do a lot more on the fiscal front, we don't see that happening to the extent necessary to have a meaningful impact.

MONTHLY INVESTMENT OVERVIEW

Even as the US House of Representatives passed a vote to impeach President Trump, global equities remained unfazed and continued their uptrend in December on broader abatement of political and trade-related worries. While the US-China mini trade pact was officially signed just at the time of this writing, Trump's impeachment vote is likely to fail at the Republican-led Senate. Global equities continued their rise through the month and reached new highs with investors expecting the trade deal optimism to sustain going into the New Year. Easy financial conditions globally played a key role for most of last year as Developed Market (DM) equities, represented by the MSCI World Index, gained 25.2% in 2019, outperforming their Emerging Market (EM) peers, represented by the MSCI EM Index, by 10.0%.

> "December saw the extension of the broader risk-on sentiment as the 10-year US Treasury yield gained 14 bps on the month, lower by 76bps for the year"

While 2019 started with expectations of rising rates, the scenario quickly changed in Q2 as Trump escalated the trade war with China and global economic data deteriorated. The 10-year US Treasury yield fell to a three-year low of 1.46% in September as the Fed did a U-turn and provided three straight 25bps "insurance" rate cuts from July to October. Starting Q4, yields trended higher as risk sentiment got a boost amid easing US-China trade tensions alongside signals that the worst of the global economic slowdown may be behind us. December saw the extension of the broader risk-on sentiment as the 10-year US Treasury yield gained 14bps on the month, lower by 76bps for the year.

Amid few signs of a let-up for the Euro-area, manufacturing activity contracted for the eleventh month in a row in December. German Industrial Production (IP) continues to struggle and widespread protests in France have adversely affected activity in neighbouring economies. With the outlook on global trade still uncertain and a deep slowdown in manufacturing, the bloc's economy will continue to struggle supported to an extent by easy monetary policy. A deeper slowdown is likely to compel the ECB to further ease monetary policy while prompting more calls for a fiscal stimulus. The EUR appreciated by 1.8% against the USD while the EuroStoxx50 gained 1.1% on the month.

Business surveys pointed to a stalled UK economic activity in Q4. The recently concluded snap election and prolonged Brexit uncertainty put investment on hold and dragged down growth. Earlier in the month, PM Johnson comfortably won the general election and immediately got the approval of the UK's House of Commons for his Brexit withdrawal bill, paving the way for the UK to exit the EU at the end of January. While this removes some of the uncertainty surrounding Brexit, Johnson still needs to negotiate a long-term trade deal with the EU, which must be completed by the end of 2020. Johnson's decision to leave the no-deal Brexit option open will continue to weigh on business investment. The FTSE100 gained 2.7% while the GBP whipsawed but ended with a gain of 2.6% against the USD in December.

Japan's government approved a USD120 bn fiscal package to support stalling growth amid offshore risks and to sustain economic activity beyond the 2020 Tokyo Olympics. Although authorities are trying reduce the country's high fiscal deficit and public debt, exports, production and business sentiment have shown some weakness, warranting further fiscal spending. The Nikkei225 gained 1.6% while the JPY appreciated by 0.8% against the USD last month.

MONTHLY INVESTMENT OVERVIEW

Through the month, respite in trade tensions continued to aid risk sentiment toward Chinese assets. Amid broad optimism surrounding the just concluded partial trade deal between China and the US, Chinese equities extended their rally and posted four straight weeks of gains in December. While the "phase one" deal buys time for both sides and steadies a tense relationship, it doesn't address deeper issues between the two sides and risks of a possible re-escalation in the future remain. Meanwhile, data pointing to surprisingly strong growth in China's industrial sector and stabilization in the PMIs further supported investor sentiment. The government's targeted stimulus measures have supported a gradually slowing economy and provided a cushion against the adverse impact from the trade war. The Shanghai Composite is up 22.0% this year after a poor 2018.

> "Data pointing to surprisingly strong growth in China's industrial sector and stabilization in the PMIs further supported investor sentiment"

Caught between rising inflation on one side and a sharp economic slowdown on the other, the Reserve Bank of India (RBI) decided to pause after five consecutive rate cuts this year. While the Central Bank revised its 2020 GDP forecast downward from 6.1% to 5.0%, it allayed investor concerns by saying there was room for further rate cuts in the future even as it expects the full impact of the previous rate cuts to play out. Meanwhile and in a sign the Brazilian economy may be turning around after a severe recession in 2015-2016, Q3 GDP expanded by a faster-than-expected 0.6%. While industry is still struggling from international headwinds, there are some segments doing well such as agriculture and real estate. Overall, the MSCI EM Index is up 15.4% in 2019. All EM assets - currencies, stocks and bonds - made a comeback in 2019 after posting large losses in 2018 as the Fed led global central banks in cutting benchmark rates to support flagging growth.

Most MENA equity indices delivered gains for the year with Kuwait's equities benefiting the most, as investors piled on shares ahead of the country's inclusion in the MSCI EM Index in 2020. On the other hand, Oman's MSM30 Index lost 7.9% in its third consecutive year of declines. Meanwhile, oil prices rallied in December, buoyed by the potential breakthrough in the US-China trade war, the November's OPEC+ agreement to deepen production cuts and slowing shale activity. Brent gained 5.7% in December alone, up 22.7% for the year.

Asset Class Views

Asset Class	November	December	View / Rationale
Equities	↘	↘	
US	↘	↘	At 22x earnings and normalizing EPS growth, valuations are fair-to-rich.
Europe	↘	↘	Weak Q3 GDP growth of just 1.2% for the Eurozone a function of continuous political dysfunction.
UK	↔	↔	Growth may have troughed as some political uncertainty subsides.
Japan	↘	↘	Fiscal policy to play a larger role in 2020 as the government approved a USD120 bn stimulus to offset the adverse effects of the consumption tax hike.
China	↔	↔	Economic data showing signs of bottoming out while trade headwinds recede.
India	↘	↘	Pressure on government to boost flagging domestic demand despite fiscal worries.
Brazil	↔	↔	Economy showing signs of a tepid cyclical recovery.
Russia	↔	↔	Economic growth gradually picking up but private investment remains elusive.
MENA	↘	↘	Investors continue to bottom-fish selective opportunities.
Asset Class	**November**	**December**	**View / Rationale**
Fixed Income	↔	↔	
US	↔	↔	Yield tightening throughout 2019 has caused valuations to fully price in fundamentals.
Europe	↘	↘	Excessive valuations and negative rates vulnerable to an eventual pickup in economic activity.
UK	↔	↔	A dovish tone from the BoE nips any chance of a rise in yields.
Japan	↘	↘	Lack of inflation keeps yields zero-bound despite government’s fiscal spending plans.
China	↔	↔	Monetary policy to remain accommodative as slowdown fears persist.
India	↔	↔	Slowing growth and rising food inflation put RBI on hold.
Brazil	↔	↔	Accommodative monetary policy stance to sustain amid stable inflation outlook.
Russia	↔	↔	Structural deflationary forces dragging down inflation.
MENA	↔	↔	Geopolitical tensions are partially offsetting gradually improving sentiment in Saudi and Egypt.

↑ Overweight, ↗ Favour, ↔ Neutral, ↘ Cautious, ↓ Underweight

Asset Class Views

Asset Class	November	December	View / Rationale
Currencies			
USD / EUR	↔	↔	An improving geopolitical environment should keep the USD range-bound.
USD / CHF	↗	↗	Fundamentals support the USD against the CHF.
USD / GBP	↔	↔	Further gains in the GBP will depend on how Brexit negotiations play out.
USD / JPY	↗	↗	USD120 bn fiscal package in Japan needs to be funded and will likely weigh on the JPY.
EUR / CHF	↔	↔	CHF has some room to correct against the EU after a slight rally late last year.
EUR / GBP	↔	↔	Both currencies need an orderly Brexit.
EUR / JPY	↔	↔	Both currencies to remain range-bound amid economic weakness in each geography.
CHF / GBP	↔	↔	Further gains in the GBP will depend on how Brexit negotiations play out.
CHF / JPY	↔	↔	Neutral stance on CHF versus the JPY at the current levels.
GBP / JPY	↗	↗	Further gains in the GBP will depend on how Brexit negotiations play out.

↑ Overweight, ↗ Favour, ↔ Neutral, ↘ Cautious, ↓ Underweight

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IMPORTANT INFORMATION