NBAD

From West to East

Weekly Investment View

29th January, 2017

Trump's first week in office

The S&P500 rose by just over 1% during President Trump's first (action-packed) week in office, with European equities up by a similar amount. Japanese equities rose by 1.7%, helped by a yen that was slightly weaker over the period. The yield on the US 10-year Treasury bond edged upwards slightly, by just under 2 basis points, to 2.4843%. Meanwhile, the 10-year Bund yield is now back in firm positive territory (at 0.448%, up from 0.408% at the end of the previous week). The dollar index fell by 0.2%, to 100.53. It tested the lows of the week on Thursday just below 100 where we advocated the DXY looked oversold. In essence, the markets were in a holding pattern, with some rapid sectoral reversals beneath the surface as the Trump emboldened sectors deemed to benefit from the new Administration's policies bounced back having been written-off as likely subject to corrections earlier in the week. **The Dow Jones reached an intra week record high maintaining our call to be long the US equity market with other markets around the world following in sympathy.**

"President Trump has moved quickly – Executive orders overtake his tweets"

President Trump has moved quickly to reverse Obama's own executive orders, for which he does not have to seek Congress's approval, starting with the US's withdrawal from the Trans-Pacific Partnership, and proceding with two Obama pipeline projects previously vetoed on environmental grounds. There should be very few surprises in such actions, as they very much represent the low-hanging fruit in the rollout of the new Administration's policies. Without going through a complete recap of last week's policy pronouncements, we would mention steps taken to begin to unravel the Affordable Care Act ('Obamacare'), and ending with some tough measures brought in immediately to curb immigration and increase security (the latter measures being rather controversial). The rhetoric regarding protectionist threats (including threats to American companies not to move production abroad) has continued, as well as the confirmed intention to renegotiate NAFTA. Added to all this has been the development of the diplomatic spat over the wall along the Mexican border – which Trump must now go through with, irrespective of exactly how it is eventually funded. In this, and from other sources such as China's claims in the South China Sea, could come the realization of expected foreign policy mistakes as the team in reality learns how to lead the country. One of the positives towards the end of the week was the visit of British Prime Minister, Theresa May, and the avowed renewal of the 'Special Relationship'. It must also be said that it is shame that the new President appears obsessed with matters such as the size of the inauguration crowds and possible voting fraud. **Investors, however, nonetheless hope to see Trump be a genuinely transformational president – and to foster markets that progress in line with liquidity generated in responsible and inventive ways.**

Turning to the important US economic statistics of the week, the preliminary GDP figures for the fourth quarter came in at 1.9% annualized, vs. expectations of about 2.2%, making 1.6% for 2016 as a whole. Accordingly, we are expecting these figures to subsequently get revised upwards while taking this data as backward looking under the previous administration. As one commentator observed, annual growth failed to reach 3% for the 11th straight year. Fortunately, this is history, and we believe that by the end of the current year the outlook for US economic growth – and for a cycle extension – will have improved as business confidence improves as the direct result of the Trump administration's expansionary policies.

Claude-Henri Chavanon

Managing Director
Head of Global Asset Management

In other economic news, Markit's 'flash' US manufacturing PMI for January improved to 55.1, from 54.5, and ahead of expectations, reflecting increasing output and a 28-month high in new orders.

"UK Prime Minister will fight hard to avoid a 'Hard Brexit".

Next week the UK House of Commons begins a two-day initial debate on the government's draft law triggering Brexit, following the decision reached by the UK Supreme Court on 24th January to require a parliamentary vote before Article 50 can be triggered. The British government still intends to complete the parliamentary debate, enact the necessary legislation and invoke Article 50 by the 31st March. There remains the possibility that a longer legislative process could be required.

Sterling has rallied quite strongly as a result and is moving closer toward our outlook 2017 range of $1.35-$1.40 fair value range. It was a mixed picture for

Middle East markets last week, with the price of crude oil remaining steady for the week at $53.17 for WTI, up only slightly from $52.42 the previous week, and with Brent almost unchanged at $55.52. The Baker Hughes US crude rig count (oil only, not including gas) published last Friday showed an increase of 15 from the previous week, to 566; on 27th May last year the comparable rig count number had fallen to a low of 316, so fracking activity has been increasing. **Broadly speaking, the market appears to see the progress of the proposed OPEC and 'NOPEC' combined production cuts offsetting increases in US oil production at close to current prices.**

"MENA equity market performances diverged last week".

Last week the Dubai Financial Market General Index closed 0.3% higher, Abu Dhabi's ADX finished 1.7% lower (due to profit-taking in banks ahead of final rsults), whereas Saudi Arabia's Tadawal index put in an impressive gain of 3.8%, explained as a broad catch-up to the others for the year-to-date. The latter's index is now up some 30% from last Autumn's lows in the continuing belief that the country's liquidity position is improving and following the restructuring measures put in place over the last two years. **The 3-month Saudi Riyal interbank offered rate is trading at 2.01%, the lowest level since April last year, and down from 2.39% last October.**

MENA new bond issuance has started the year with a bang. US$ 7 billion in stock has already been issued and absorbed well by the market. Investment Corporation Of Dubai (ICD) successfully tapped markets last week, with US $1 billion in an unrated Euro MTN, yielding 5%. The issue closed last week with a healthy premium, and now yields around 4.8%. The issue was about three times oversubscribed, showing that investors have good appetite for regional bonds and are willing to pay for decent yields with recognized issuers. **This is a positive sign for the MENA bond markets.**

"RAK looks in quite good shape, economically".

Elsewhere in the wider region, ratings agency S&P downgraded Turkey's outlook to 'negative', from 'stable', while maintaining the country's rating at below investment grade at 'BB'. S&P highlighted headwinds Turkey faces in response to continuing weakness in the lira fueling a buildup in inflationary pressures. The lira has depreciated 18% in the last three months since S&P's previous analysis, giving the agency some cause for concern with respect to the country's balance of payments. The overall market reaction in terms of Turkey's hard currency sovereign bonds has been muted, however. Credit default swaps (that show the risk of investing in Turkey) actually improved to 272 basis points, from the previous week's level of around 280 basis points for protection. S&P also downgraded the Emirate Of Sharjah to BBB+/A-2 from its previous level of A/A-1. S&P said that Sharjah's fiscal performance was below their expectations, and that the Emirate's debt to GDP has deteriorated since 2014. The Sharjah government had postponed a number of revenue-raising initiatives. At the same time S&P affirmed it's a/A-1 rating on the Emirate of Ras Al Khaimah, citing the economy as being 'fairly diverse'. It expects Ras Al Khaimah's GDP growth to increase from the current level of 1.4%, to nearly 3% in the coming years as business activity and capital spending rises ahead of Dubai's EXPO 2020, as well as an expected pick up in regional spending in the GCC. Manufacturing is 25% of RAK's GDP, which also features contributions from construction, business services, and tourism. **In summary, RAK is in quite good shape, economically.**

Next week the larger Abu Dhabi banks are due to release their 2016 financial results. Looking globally, the FOMC meets on Wednesday, and seems likely to maintain its benchmark Fed funds rate at 0.50 to 0.75%. On Thursday the Bank of England is likely to keep its Bank Rate unchanged, at 0.25%.

"Our Asset Allocation Committee is adding to a 'risk-on' position".

INVESTMENT SUMMARY: Our Asset Allocation Committee met late last week, and made the following decisions: (1) To increase the overweight position in US equities; (2) To increase the overweight position in Indian equities; (3) To similarly increase the overweight position in MENA equities; and (4) To fund these incremental moves by (a) reducing Government Bonds below neutral, and (b) further reducing the weighting in Alternatives by liquidating some of the overall position in hedge funds. Thus the AA group is looking to increase risk by adding to a selection of equity positions, and during a period in which global bond markets are more likely to see rising than falling yields. Hedge funds are usually used by the Committee to mitigate risk in persistent 'risk-off' periods. **Meanwhile, a discussion continues regarding the attractiveness and valuations of High Yield Corporate, and MENA bonds.**

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