INVESTMENT STRATEGY
GIO 2Q OUTLOOK

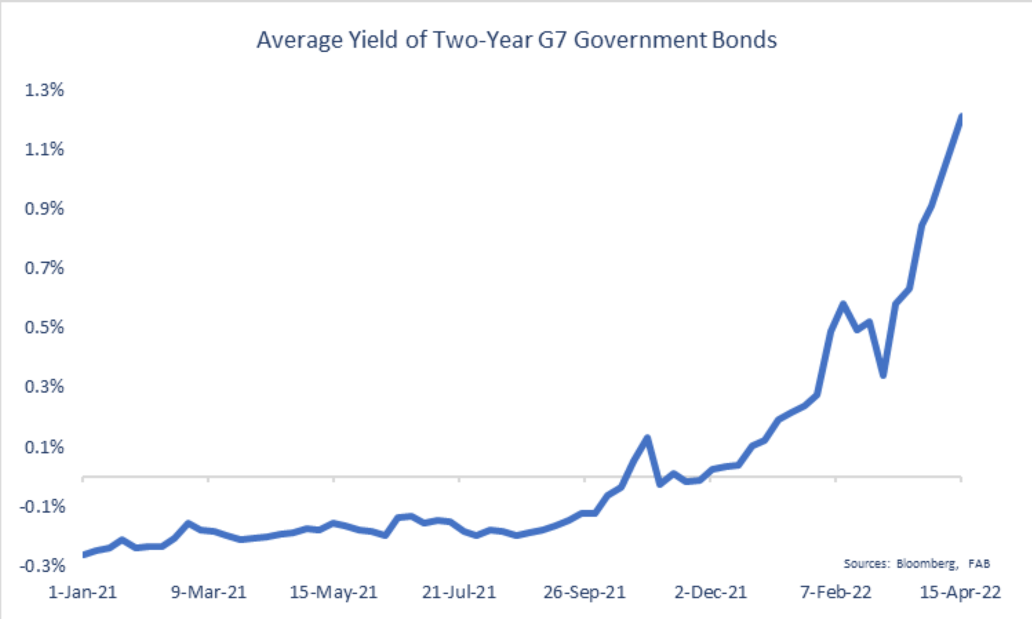
For inquiries related to this article, please contact:
Christofer.Langner@bankfab.com

بنك أبوظبي الأول
FAB
First Abu Dhabi Bank

HOW FAR WILL CENTRAL BANKS TIGHTEN MONETARY POLICY?

April 19th 2022

- The Fed has started hiking rates and is talking about reducing its balance sheet.
- The ECB has announced an early end to its bond buying program.
- Several key EM central banks have hiked multiple times in the past year.
- The question is now whether slowing the world economy will be enough to bat down inflation.



Economists often refer to two basic kinds of inflation: demand-pull and cost-push. There is academic debate about the validity of the concepts, but the simple version of it is that when unemployment is low, and salaries are rising, people spend more, demand increases and spurs inflation. Otherwise, prices rise faster when there is a sudden drop in the production of key inputs, while demand for them remains the same.

Central banks have some power over the demand-pull kind of inflation. As they increase interest rates, they reduce the availability of credit and the liquidity in the country. This increases unemployment marginally and reduces demand, slowing the economy and, finally, price inflation.

As for the kind of inflation caused by supply shocks, there is little that central banks can do to effectively fight it without damaging the country's economic health.

The inflation raging across most global economies now has some elements of both excess demand and supply shortages. Governments and central banks across the world have injected unprecedented amounts of monetary and fiscal stimuli over the past two years, in an effort to fight the historic unemployment levels caused by the COVID-related lockdowns.

This created savings gluts that have started to be deployed in the past year to buy everything, from pencils to houses. With industries and supply chains still feeling the impacts of lockdowns, the goods being bought could not be produced fast enough, and prices rose.

This effect is the kind central banks can fight and means they did well in reviving the world economy after the pandemic.

The yield on two-year government bonds from the G7 has risen some 110bp YTD

More recently, however, the conflict in Eastern Europe has added a supply shock for several key commodities, from wheat to crude oil. This has accelerated the price inflation in a way that central banks cannot control.

From the Federal Reserve to the Reserve Bank of Australia, central banks have started to tighten monetary policy. They are aiming at the excess demand and hoping that the supply issues contributing to the accelerated price increases subside in time.

The risk, now, is that they have to keep tightening monetary policy so much that they tilt many of the global economies into a recession in the next couple of years.

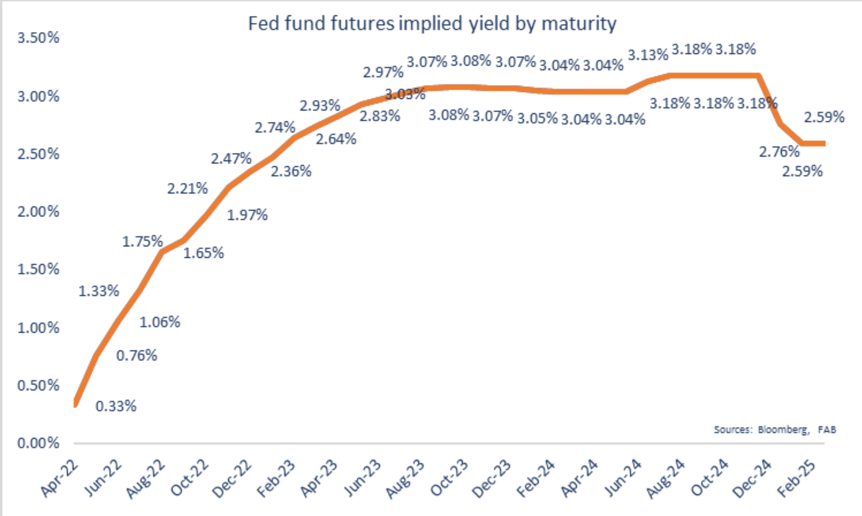
Bond markets are signaling that they expect this to happen. The yield on two-year US Treasuries rose above that of the 10-year bond in the first days of April, usually a sign that economic growth in the US will turn negative in the next two years.

Stock markets have continued to take the sanguine view, given the strong momentum and high nominal growth most economies are still enjoying. However, if it becomes clear that central banks are going to choke the economy, they could start to price in a less optimistic earnings growth scenario.

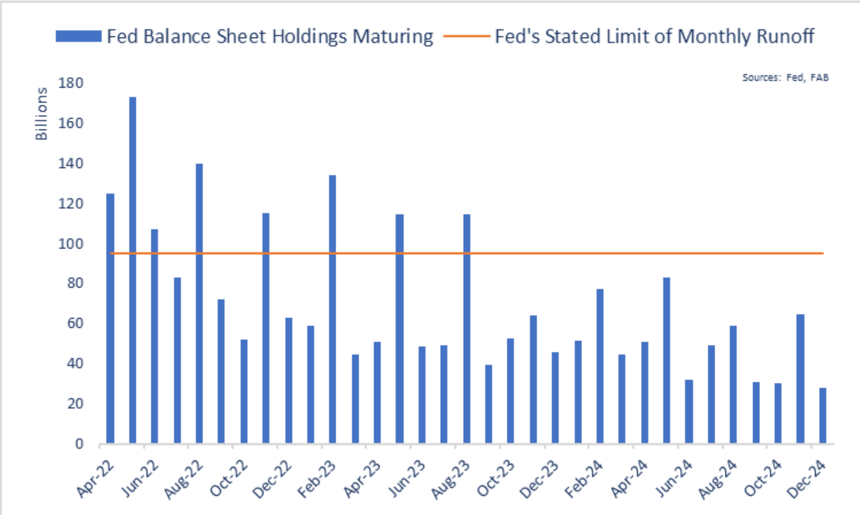
This may lead to a temporary pullback in global stocks. Investors may need to prepare for that event, but also be ready to take advantage of it when it happens. After all, once the fear is gone, risk assets are likely to continue to rally.

FUTURES MARKETS EXPECT THE FED'S BENCHMARK RATE TO HIT 3.1% BY Q4 OF 2023

- Several Fed speakers are suggesting the central bank will make bigger moves in the near-term and futures markets were recently pricing in two 50 basis points hikes this year.
- Current implied yields in Fed fund futures have the benchmark at 2.5% by January.
- According to futures markets, rates would peak by September 2023 at 3.1% — however, futures had that peak at 3.25% earlier this month.
- Such a rate hike schedule would be the most aggressive since 2004.



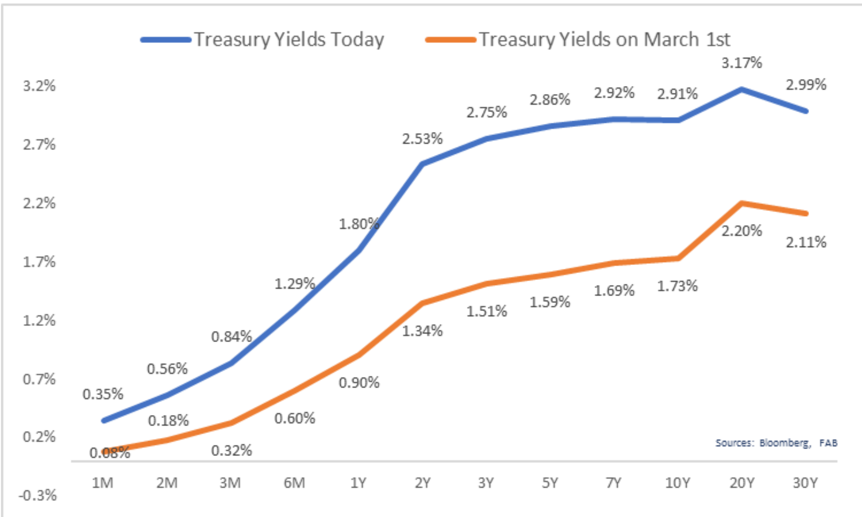
THE FED MAY ALSO SHRINK ITS BALANCE SHEET BY ABOUT US$95 BILLION A MONTH



- The minutes of the March Fed meeting said the FOMC favours not reinvesting up to US$60 billion of maturing bonds and coupons of Treasuries and US$35 billion of mortgage-backed securities.
- The schedule suggests a reduction of about US$650 billion and US$780 billion in the holdings this year and next respectively.
- The liquidity drain has already started to affect money market rates and could increase short-term borrowing costs in dollars.

LONG-TERM TREASURY YIELDS ARE ALREADY PRICING IN MOST OF THE RATE HIKES

- The 10-year Treasury yield hit 2.91% today, 118 basis points higher than where it was on March 1st.
- The 30-year US Treasury has fallen by more than 20% in price year-to-date.
- Fed fund future yields suggest the 10-year Treasury yield could still move past 3% before retreating.
- Even if the 10-year US Treasury yield rises to 3.25%, that would be a price drop of less than 4% from here.
- The two-year Treasury yield has moved the most since the start of the year — it is up by 180 basis points.



بنك أبوظبي الأول
FAB
First Abu Dhabi Bank

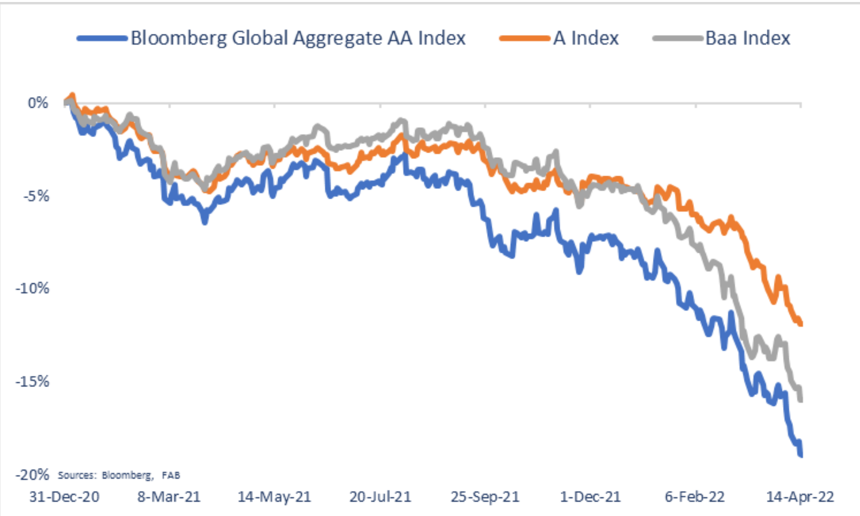
BONDS: HIGH QUALITY AND LONG DURATION DEBT IS LOOKING CHEAP

- Bond markets have suffered their worst quarter in 30 years
- High quality bonds had the biggest losses relative to their historical yields
- Investors are getting well rewarded for relatively low risk in corporate bonds
- Chinese bonds remain the cheapest, but Japanese dollar debt is also affordable

Markets are usually very good at pricing in potential outcomes, whether it is economic growth or a merger. Right now, bond markets have priced in most of the potential pain of an aggressive rate hike schedule by the Fed (with its natural ramifications across the globe). As a result, the longest-duration, highest quality bonds have seen the biggest losses compared to their history. The average yield of the AA-rated bonds in the Bloomberg Global Aggregate index, for instance, has risen to 1.92%, the highest since September, 2011, and higher than the yield on the A-rated bond index.

The outperformance of A versus AA is not random. Most of the Chinese state-owned issuers are in the A category, so the index had enough excess spread to buffer some of the losses from the recent big moves in benchmark yields. On a wider scale, EM bonds have broadly outperformed developed markets, suggesting there are better relative value opportunities in the latter than in the former. Japanese dollar-denominated debt, for instance, is cheap. Within EM, commodities importers have underperformed. Many of these moves are likely to reverse and may pose good opportunities.

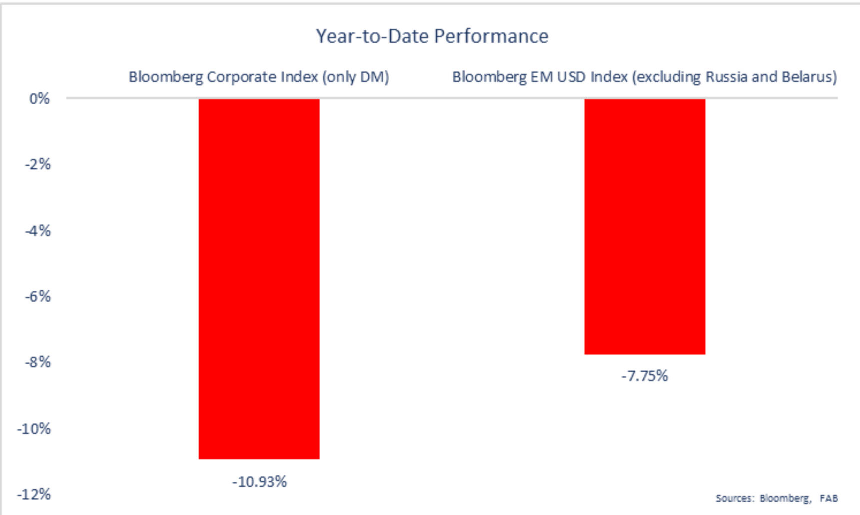
THE HIGHEST QUALITY CORPORATE BONDS HAVE SEEN THE DEEPEST LOSSES SO FAR



- Bonds rated AA were the worst performers since the credit market peaked, on December 31st, 2020, with the Aggregate subindex down by 19%.
- The bottom of the investment-grade spectrum, BBB bonds, have fallen 16% in the same period.
- The A-rated bucket had more spread than other categories thanks to the large Chinese weighting, which meant a better buffer for losses.
- The recent moves have left many high -quality bonds maturing before five years trading below 90% of par value.

EM BONDS HAVE OUTPERFORMED THEIR DEVELOPED MARKET PEERS YEAR TO DATE

- Debt from junk-rated raw materials-exporting countries have performed the best, as have bonds from companies in the materials sector.
- Within EM, Asian bonds remain the cheapest, driven by China's zero-COVID policy and regulatory doubts.
- In developed markets, Japanese debt and bonds of insurers and European banks are historically cheap.
- Bonds maturing within the next four years are the cheapest in both the EM and the developed markets right now, thanks to the move in Treasuries.



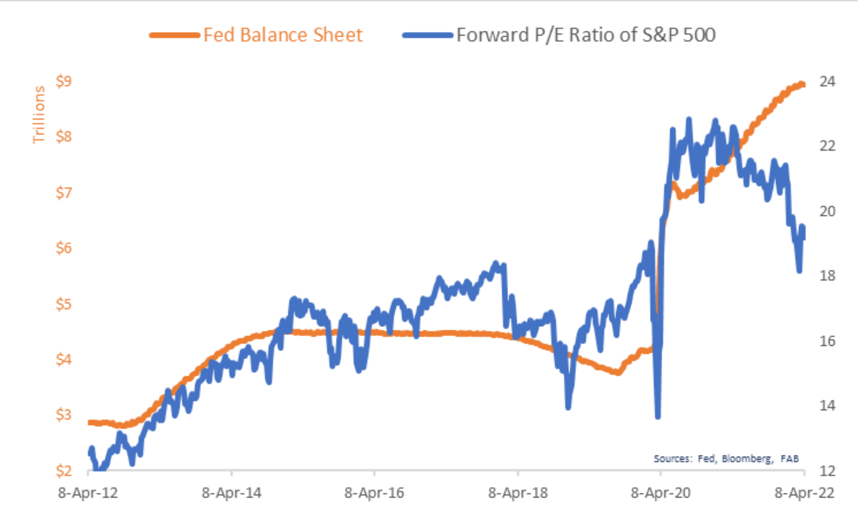
EQUITIES: THE FOCUS IS CHANGING FROM DEVELOPED TO EMERGING MARKETS

- Corporate balance sheets remain very strong across the globe
- The first quarter sell-off has left P/E multiples in line with historical averages
- Tighter monetary policy and an economic slowdown in the EU and US could hit earnings
- EM countries which tightened policy early could outperform as they reverse course

Forward price-to-earnings ratios, while controversial, are the most used metric to evaluate a market. The expected P/E of the S&P 500 peaked in January of 2021 at nearly 23x, but it took a clear message from the Fed that it would reduce its balance sheet, delivered in the minutes of its December meeting, for the index to correct, bringing the P/E to 18.7x as of mid-April. That is not far above the 17x average of the past 10 years. The biggest risk to another leg of the bull market, now, is whether the earnings component of the ratio can continue to grow at the current pace.

Corporate leverage is near the lowest in 30 years in the EU and the US, while profitability is near the highest, so companies have what it takes to keep earning more. However, as central banks in developed nations tighten policy, there is a risk they go too far. That could mean slower earnings growth and markets are likely to price that ahead of time. Meanwhile, central banks in countries such as Brazil, Mexico and China may be going in the opposite direction. As such, global investors are also likely to favour investments in certain emerging markets versus the US and the EU in the months ahead.

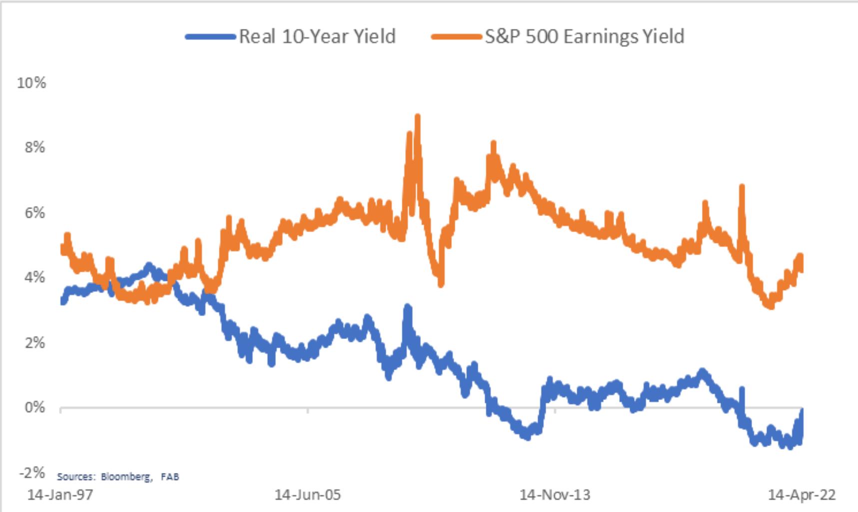
MARKETS HAVE ALREADY PRICED IN THE REDUCTION IN THE FED'S BALANCE SHEET



- At 18.7x, the forward P/E of the S&P 500 is slightly above the 10-year average of 17x, while the NASDAQ Composite is still trading at 25.8x, higher than the 21.8x average.
- Multiples already reflect less liquidity, but are still forecasting strong earnings growth this year and next.
- The biggest market risk now is that profit forecasts turn bearish and start pricing a deep economic slowdown.
- If this happens and markets correct, it will represent a unique opportunity to enter the next bull market.

THE PREMIUM STOCKS OFFER OVER BONDS REMAINS HEALTHY DESPITE HIGHER YIELDS

- 10-year US real yields have risen 101 basis points since December 31st.
- However, the sell-off has increased the earnings yield in the S&P 500 as well and the premium of the index over 10-year real yields remains around 450 basis points.
- The average premium in the past 10 years is around 475 basis points so, at this level, stocks remain fairly valued.
- A drop in expected earnings along with a further rise in real yields could, however, start making bonds look more attractive than stocks.



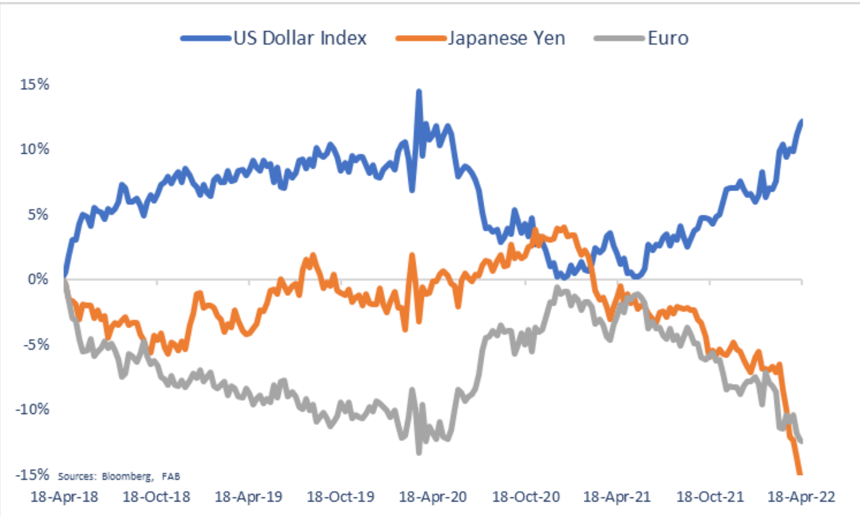
CURRENCIES: COUNTRIES THAT STARTED TO HIKE EARLY ARE LIKELY TO PERFORM WELL

- The US dollar index is testing an important resistance as the Fed powers ahead
- The yen is trading at the weakest against the US dollar since 2002
- The euro is nearing multi-year lows too, which is helping to spur inflation in the EU
- EM countries which began tightening last year have started to reap the rewards

The simplest way to value a currency against another is to compare interest rates, though that method often fails given the multitude of factors that affect a nation's fiat. Lately, as global central banks scale back record stimuli, foreign exchange markets have reflected more accurately the future rates paths across nations. The Japanese yen, for one, is down nearly 9.1% against the US dollar so far this year, as the Bank of Japan remained committed to ultra-loose monetary policy even as the Fed accelerated tightening. The euro has fallen 5.3% as the ECB has moved more slowly than the Fed.

Another key element to consider is the country's current account. This, along with the rates argument, has helped to buoy the currencies of commodity-exporting countries, from Australia and Canada to Brazil and South Africa. The EM countries of this group, however, could see further gains in their currencies even as central banks stop hiking or even start cutting rates. Aside from higher exports, many of these countries now offer carry trade opportunities, which may attract foreign investors to their government bonds, further boosting their dollar inflows.

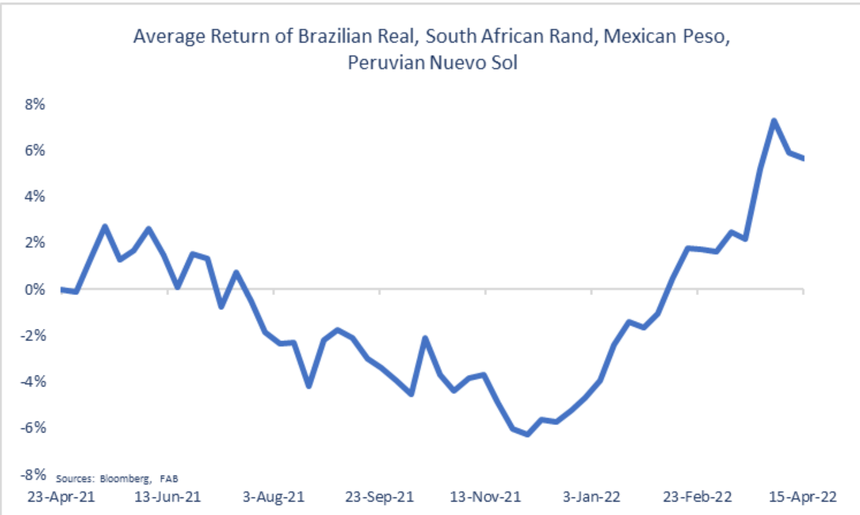
POLICY DIVERGENCE IS CURRENTLY THE KEY DRIVER FOR MAJOR CURRENCY PAIRS



- The Bank of Japan has remained committed to its ultra-loose policy, pushing the yen into its deepest dive in decades during the first quarter.
- The ECB has started to talk about tightening policy, but not as fast or aggressively as the Fed, which has pushed the euro below the key USD1.1/EUR marker.
- The best-performing G10 currencies year-to-date are the Australian and Canadian dollars as central banks in both commodity-exporting countries have been hiking rates.

BONDS AND CURRENCIES OF COMMODITY EXPORTERS COULD STILL OUTPERFORM

- The Brazilian real is up by 18.6% so far this year, and is the best-performing major EM currency right now.
- The Chilean, Colombian and Mexican pesos, the South African rand and the Peruvian sol are, together with the real, the only major EM currencies with positive performances this year.
- All of these currencies have two things in common: the central banks of their countries started raising rates last year and are close to concluding their hiking cycles and they are major commodity exporters.



بنـك أبـوظبـي الأول
FAB
First Abu Dhabi Bank

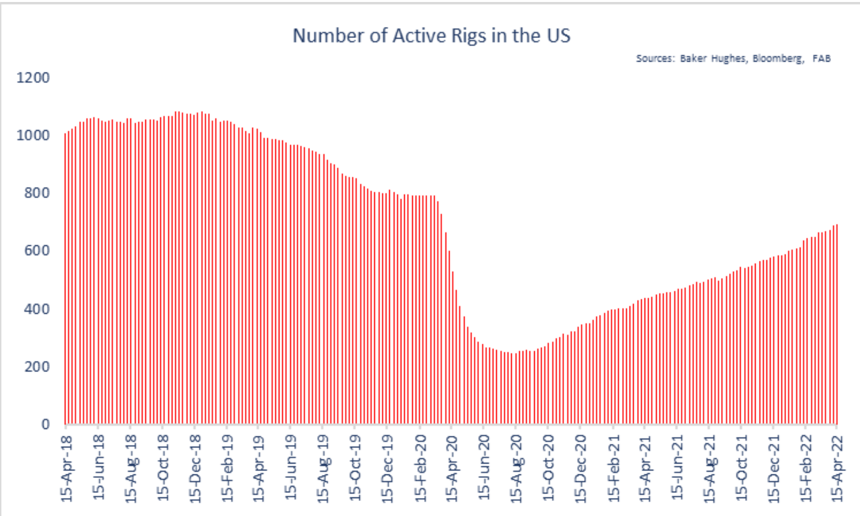
COMMODITIES: THE PACE OF ASCENT MAY TAPER, BUT PRICES ARE LIKELY TO STAY HIGH

- Shale oil output in the US fails to accelerate as ESG concerns limit funding for the industry
- Significant additional metals production may take years to achieve as demand rises
- Africa and Latin America are the most likely regions to replace some of the lost Russian output
- Real yields limit the upside for gold, but interest in store of value could push demand higher

The thing about commodities is that when there is a change in supply, it cannot be quickly corrected. So, unless demand falls, prices keep rising. The pandemic period changed both the demand and the supply of several raw materials, from wheat to oil, boosting their prices. In the first quarter, the conflict in Ukraine exacerbated that as it became very difficult for Russia to export everything it produces, from nickel to refined oil products. Replacing the output of these commodities could take years, and many may not even be fully offset by new production elsewhere.

The result is that the bull market in commodity prices which started around May, 2020, still has legs. The case of oil is the best example. Nearly five million barrels of Russian crude is struggling to find a place in global markets. Even before the latest developments there was a supply deficit. Meanwhile, the US shale industry is having a hard time finding capital to ramp up production. That, then impacts the cost and supply of fertilizers. Wheat needs a lot of fertilizer, so expect the next crop to be smaller, again boosting prices. In short, commodity prices can still keep moving higher.

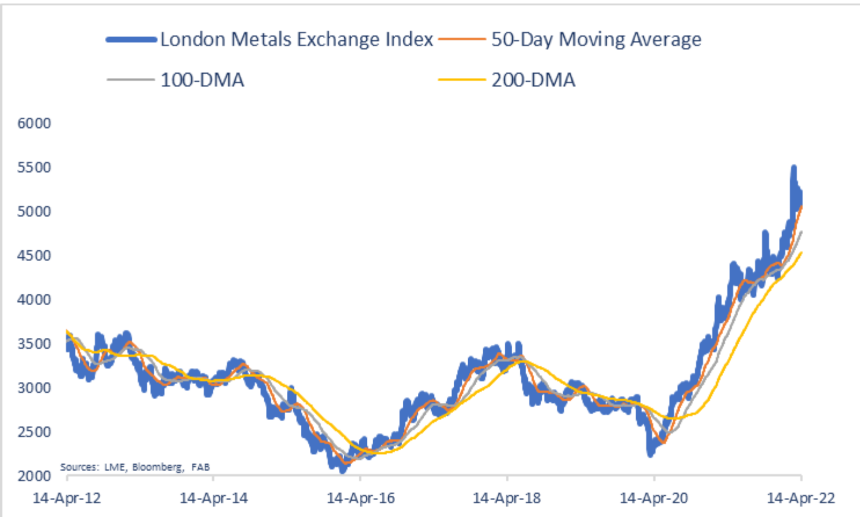
US SHALE PRODUCERS ARE STRUGGLING TO GET CAPITAL TO RAMP UP THEIR OUTPUT



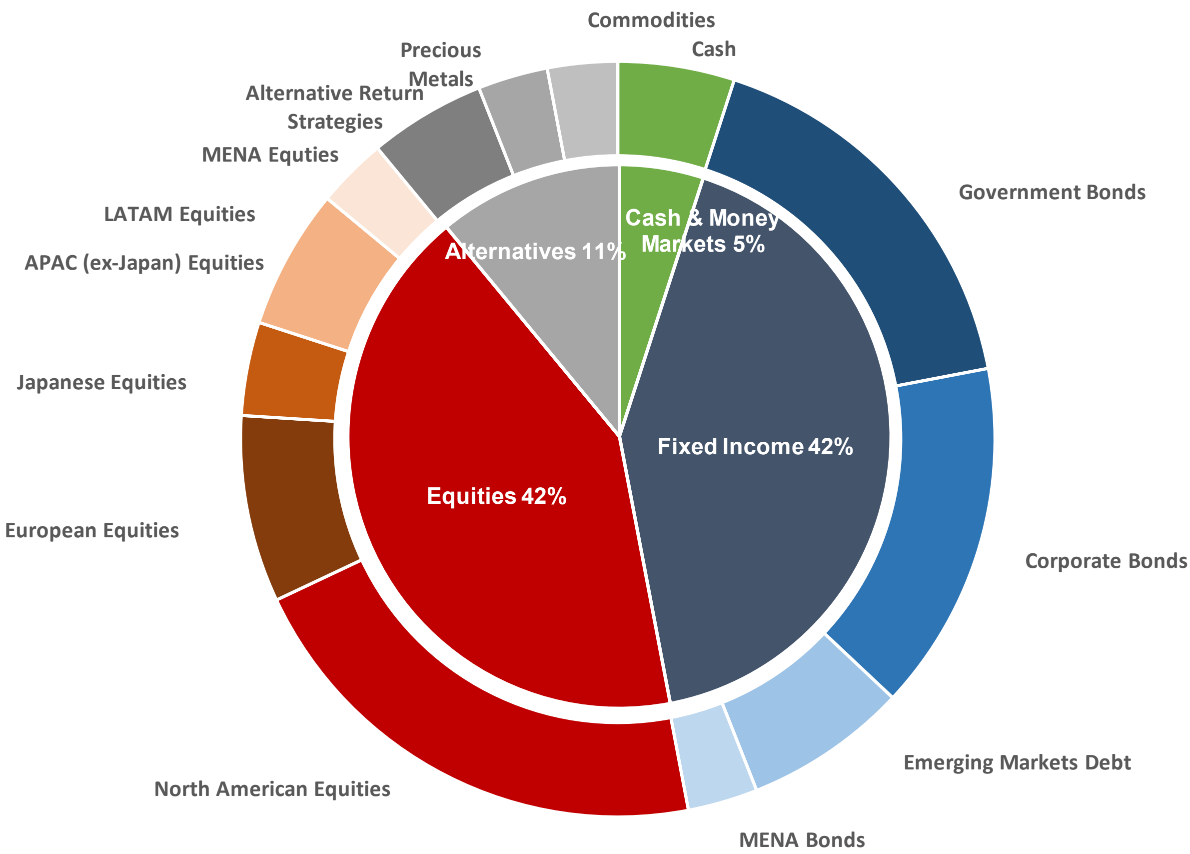
- Mid- and small-cap oil producers saw US$36.6 billion in cash outflows from financing last year, a sign that there was more debt repayment and less financing inflow for shale producers.
- US shale producers may be able to quickly add nearly a million barrels/day of oil supply if they had support.
- The US has recently released 60 million barrels from its strategic reserves as inventories fell to multi-year lows, helping reduce the price pressure on oil, but that will have to be replenished later.

DEMAND FOR METALS IS RISING DRIVEN BY RENEWABLE ENERGY WHILE SUPPLY IS NOT

- The output of metals that are key to build the infrastructure and products necessary to transition away from fossil fuels is suffering from years of underinvestment.
- The pandemic stimulus has also increased the demand for several base metals used in automobiles and construction and for which new supply may take years to achieve.
- Russia is a major producer of several important metals, from nickel to platinum, and replacing its global supply will take time.



Asset Class	Positioning	Detail
Cash	Underweight	Putting cash to work in risk assets.
Fixed Income	Overweight	Keeping a slight overweight focused on EM dollar debt and on corporate investment grade bonds
Equities	Overweight	Slightly overweight in Asia ex-Japan and US markets, while slightly underweight European equities.
Alternatives	Underweight	However, reducing the underweight in hedge funds



Disclaimer: This report has been prepared and issued by Products & Services - Elite & Private Banking ("P&S EPB") of First Abu Dhabi Bank PJSC ("FAB") outlining particular services provided by P&S EPB. This report is for general informational purposes and does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to purchase or subscribe for, any shares in FAB or otherwise or a recommendation for a particular person to enter into any transaction or to adopt any strategy nor shall it or any part of it form the basis of orbe relied on in connection with any contract therefore. Anyone proposing to rely on or use the information contained in this publication should independently verifyand check the accuracy, completeness, reliabil-ity and suitability of the information and should obtain independent and specific advice from appropriateprofessionals or experts.

This report is provided on a confidential basis for informational purposes only andis proprietary to P&S EPB. This report may not be disclosed to any third party or used for any other purpose without the prior written consent of P&S EPB. The manner of circulation and distribution may be restricted by law or regulation in certain countries, hence any unathorised use or disclosure of this document is prohibited.

The information in this report reflects prevailing conditions and our views as of thisdate, which are accordingly subject to change. In preparing this report, we have relied upon and assumed, without independent verification, the accuracy and completeness of all the information available from public sources or which was otherwise reviewed by us. FAB PJSC makes no representation or warranty, expressed or implied, as to the accuracy, timeliness or complete-ness of the information in this report. FAB PJSC shall have no liability to the Customer or to third parties for the quality, accuracy, timeliness, continued availability or completeness of any data or calculations contained and/or referred to in this report nor for any special, direct, indirect, incidental or conse-quential loss or damage which may be sustained because of the use of the information containedand/or referred to in this report or otherwise arising in connection with the information contained and/or referred to in this report, provided that this exclusionof liability shall not exclude or limit any liability under any law or regulation applicable to FAB PJSC that may not be excluded or restricted.
Past performance is not a guarantee of future performance and should not be seen as an indication of future performance due to a variety of economic, marketor other factors. The information contained in this report does not purport to contain all matters relevant to any particular investment or financial instrument and all statements as to future matters are not guaranteed to be accurate. Any projections of potential risk or return are illustrative and should not be construed as limitations of the maximum possible loss or gain. Data included in this report may not take into account all potentially significant factors, such as market risk, liquidity risk and credit risk. Undue reliance should not be placed on forward looking statements in making an invewstment decision.

In addition, our analysis are not and do not purport to be appraisals of the assets, stock or business of the recipient and has been prepared without taking into account the objectives, financial situation or needs of particular person. Even when this presentation contains a kind of appraisal, it should be considered preliminary, suitable only for the purpose described herein and not be disclosed orotherwise used without the prior written consent of P&S EPB. FAB clients may already hold positions in the assets subject to this report and may accordingly benefit from the buying or selling of such assets as referred to in this report.This document does not purport to set out any advice, recommendation orrepresentation on the suitability of any investment, transaction or product (as referred to in this document or otherwise), for potential purchasers. In receiving this report, the client is fully aware that there are risks associat-ed with investment activities. Potential purchasers should determine for themselves the relevance of the information contained in this document and the decision to purchase any investment contained herein should be based on such investigation and analysis as they themselves deem necessary. Before entering into any transaction potentialpurchasers should obtain the investment offering materials, which include a description of the riks, fees and expenses and ensure that they fully understand the potential risks and rewards of that transaction (including, without limitation, allfinancial, legal, regulatory, tax and accounting consequences of entering into thetransaction and an understanding as to how the transaction will perform under changing conditions) and that they independently determine that the transactionis appropriate for them given their objectives, experience, financial andoperational resources and other relevant circumstances. Potential purchasersshould consider consulting with such advisers and experts as they deem necessary to assist them in making these determinations.

FAB is acting solely in the capacity of a potential arm's-length contractual counterparty and not as a financial adviser or fiduciary in any transaction unless we have otherwise expressly agreed so to act in writing. FAB does not provide anyaccounting, tax, regulatory or legal advice. FAB is licensed by the Cen-tral Bank ofthe UAE.

London: FAB London Branch is Authorized by the Prudential Regulation Authority.Subject to regulation by the Financial Conduct Authority and limited regulation bythe Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from FAB London branch on request. Registered in England & Wales: Company No: FC009142: VAT No: GB2453301 91.

Paris: FAB Paris Branch is licensed by the French Prudential Control Authority as acredit institution. FAB Paris is registered in France under the company number: RCS Paris B 314 939 547.

Switzerland: This publication is for informational purposes only and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted ba-sis and/or maynot be eligible for sale to all investors. This report is for distribution only under suchcircumstances as may be permitted by applicable law. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or war -ranty, express or implied, ismade as to its accuracy or completeness. All information and opinions as well as any prices indicated are currently as of the date of this report, and are subject to change without notice. The analysis contained herein is based on numerousassumptions. Different assumptions could result in materially different results. At any time the First Abu Dhabi Bank PJSC and/or FAB Private Bank (Suisse) SA may have a long or short position, or deal as principal or agent, in relevant securities orprovide advisory or other services to the issuer of relevant securities or to a company connected with an issuer. Some investments may not be readily realizable since the market in the securities is illiquid and therefore valuing the investment and identi-fying the risk to which you are exposed may be di icult to quantify. Futures and options trading is considered risky. Past performance of an investment is no guarantee for its current or future performance. Some investments may be subject to sudden and large falls in value and on realization you may receive back less than you invested or may be required to pay more. Changes in foreign exchange rates may have an adverse effect on the price, valueor income of an investment. First Abu Dhabi Bank PJSC and/or FAB Private Bank (Suisse) SA expressly prohibit the distribution and transfer of this document to third parties for any reason. First Abu Dhabi Bank PJSC and/or FAB Private Bank (Suisse) SA will not be liable for any claims or lawsuits from any third parties arisingfrom the use or distribution of this document.

Singapore: First Abu Dhabi Bank P.J.S.C., Singapore Branch is regulated by the Monetary Authority of Singapore and holds a Wholesale Bank license.

For more details relating the investment products, please refer to the Prospectus and/or offering document on https://www.bankfab.ae/en/investPlease contact your relationship manager