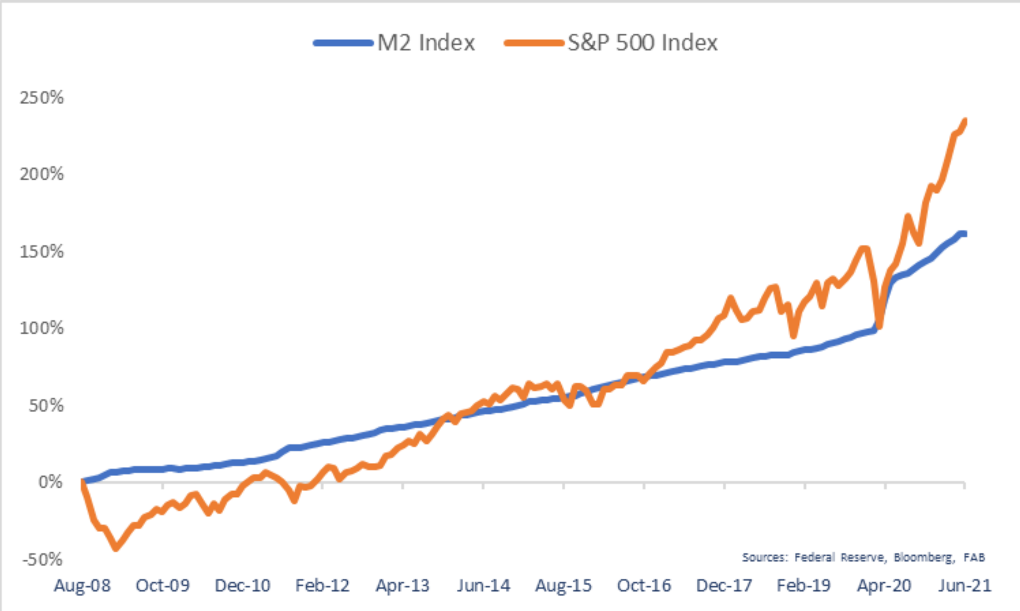
INVESTMENT STRATEGY
WEEKLY VIEW

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

INVESTORS ARE WATCHING DOLLAR LIQUIDITY

August 22nd 2021

- The VIX index, spiked last Wednesday after minutes of the Federal Reserve's last meeting showed growing willingness to taper.
- Investors also seem to be pricing in a lower probability of additional infrastructure stimulus packages in the US.
- The return of Congress, and of many portfolio managers, from vacation as well as the Jackson Hole symposium will start to establish the trend for the fourth quarter.
- The FAB AAC is overweight in equities, IG and EM bonds. It is underweight cash and neutral in gold.



The S&P 500 returns and liquidity increases have been correlated since the 2008 crisis

A lot of the financial news lately has centered around whether the Federal Reserve will, or not, taper its asset purchase program. Many investors remember the so-called 'taper tantrum' in the second quarter of 2013, when the Fed's then-Chairman Ben Bernanke announced that the central bank would start reducing its balance sheet. This time, perhaps, the concern is even more serious, given the high correlation seen in the past decade between dollar liquidity and risk assets.

In fact, some strategists argue that part of the stellar recovery in US stock markets was due to the unusual liquidity injected into the system over the past 16 months. That may be true, but there is reason to believe that the stimulus injected by Congress may have had the bigger role in the 68.88% rally the S&P 500 has staged since it bottomed on March 26th, 2020.

The US$5.5 trillion of stimulus unveiled since mid-March of last year helped bring the US economy back from one of its worst recessions in history at record speed. It also fueled a rally in all risk assets, from real estate to stocks and high-yield bonds. In the same period, the S&P 500 alone saw its market cap rise by US$31.8 trillion while the US high-yield index gained 31.03%.

Hence, investors have probably been excited about yet another fiscal stimulus package being passed in the US, this one focused on rebuilding the country's ageing infrastructure. The passage of a bipartisan US$1 trillion bill to fix bridges and tunnels in the US Senate on August 10th reversed losses from the day before and helped to push the S&P 500 to new records.

That bill, however, is about to hit a snag as it goes to a vote in the House of Representatives. Lawmakers are returning from recess tomorrow and the Democrats are facing an increasingly fractious and slim majority in both houses of Congress.

House Speaker Nancy Pelosi, spurred by so-called 'progressive' Democrats, has called for a vote on a US$3.5 trillion budget resolution to precede the final approval of the 'bridges and tunnels' bill. This larger package includes several resolutions related to welfare and climate change, along with potentially higher taxes on corporations and the wealthy.

Republicans have rejected the resolution in unison, and they are now joined by a few 'moderate' Democrats, who are threatening to stall the bill in the House and even in the Senate. Given the even split in the Senate and the small majority Democrats have in the House, these lawmakers could be enough to stop the budget resolution. And if Pelosi insists this should come first, the bridges and tunnels bill also stops.

The regular tussle in Washington has also taken a more serious tone given the approach of the midterm congressional elections and the recent headlines around the way the US exited Afghanistan. Editorials even from more Democratic-leaning newspapers have decried the handling of the affair in the past week, going as far as comparing President Joe Biden's handling of the situation with Jimmy Carter's troubles in Iran in the late 1970s.

FAB
First Abu Dhabi Bank

Even some Democratic lawmakers are calling for a probe of the withdrawal of troops from the Central Asian country, amid horrifying images of desperate Afghans clinging on to departing planes in hopes of escaping the country. The now-viral images have further undermined President Biden's popularity, which was already flagging after a few missteps.

In fact, August has been a painful month for the Democratic leader. He has been forced to say publicly that he would seek support from OPEC+ to increase oil output and curb rising gasoline prices, which are contributing to the highest inflation in the US since 2008. Gasoline prices have risen 43.68% in the US, as inventories dropped by nearly 50 million barrels since the start of the year, helping to push broad consumer prices to rise 5.4% year-on-year in July.

At least that part of the inflationary equation may be reversing. Brent crude ended Friday at US$65.18 a barrel, down 7.66% for the week. The commodity has dropped 14.61% since August began amid rising supply from OPEC+ and concerns about the spread of the Delta variant of Covid.

The resurgence of the virus has also dealt a blow to President Biden's image, as he grappled publicly with the decision on whether to provide booster shots to all vaccinated Americans. His remarks to that effect prompted several renowned scientists to say that the President should focus instead on ensuring that those who remain unvaccinated are immunized before mandating additional inoculations for those who have undergone the full vaccination regime.

While the debate rages, the number of new cases in the US is rising fast, as more Americans lower their guards against the virus. More than 1 million people tested positive for Covid-19 last week in the US, the highest number since the last week of January and more than three times the number on the same week of last year. While the share of these people who are getting seriously ill has fallen dramatically, the rise suggests caution given that flu season, when Covid-19 spreads more easily, has not even started.

A new surge in cases and any movement restrictions that may ensue pose a risk to the economic recovery, as was seen in China, where a recent spate of cases prompted Beijing to limit some travel and slowed down the economy. The rising number of positive tests also prompted Dallas Fed Governor Robert Kaplan, generally seen as a hawk, to suggest he might have to revisit his support for tapering asset purchases depending on the trajectory of the virus.

The debate over whether it is too early to start reducing the additional monetary stimulus the Fed has been injecting into the system was also part of the reason for the brief market sell-off seen last Wednesday. The S&P 500 fell 1.07% that day after the minutes of the latest FOMC meeting showed a growing chorus among policymakers calling for an end to the monthly US$120 billion in bond-buying by the Fed.

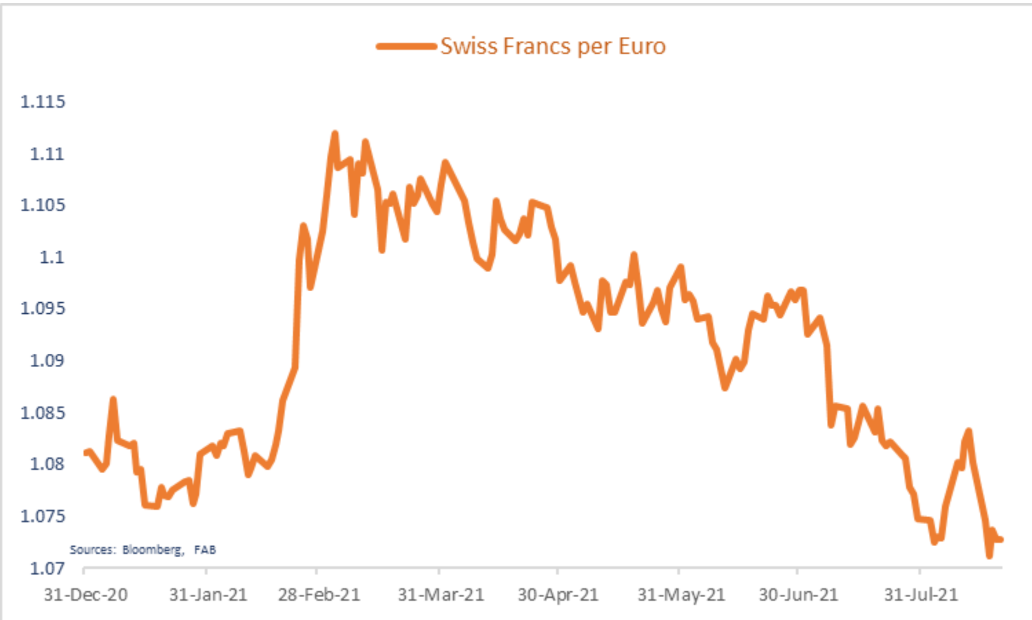
The subject will be in evidence again next week, as central bankers from across the world convene for the annual Jackson Hole monetary policy symposium promoted by the Fed. No decisions are expected to be announced during the symposium, but the discussions are likely to frame what approach the institution will take on the matter.

This combination of rising uncertainty about whether there will be additional liquidity thanks to fiscal stimulus and whether the Fed will continue to expand its balance sheet at the same pace could prompt some short-term volatility.

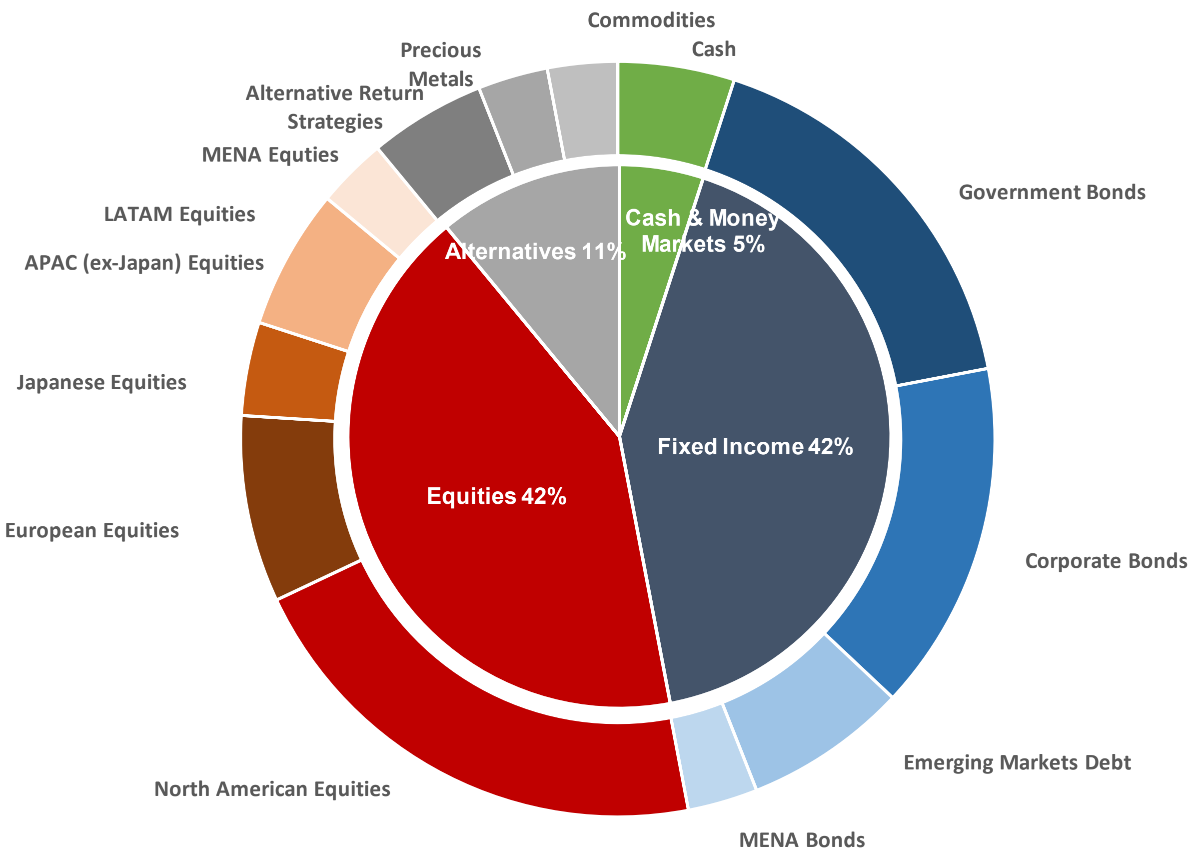
Investors seem to be flagging that they are aware of the fact and some are taking cover in the currency markets. The US dollar index rose 1.06% last week and other currency trades associated with haven-seeking followed a similar path. The Swiss franc rose 0.69% against the euro, for instance, pushing closer to the CHF1.06/EUR level which has prompted the Swiss National Bank to intervene in the past.

Ultimately, all that liquidity which has already been injected, along with the ebullience of a reopening economy, is likely to prevail and risk assets are likely to continue their ascent. However, savvy investors seem to be indicating there could be a pause for breath ahead, even if just for a very quick while.

The Swiss franc to euro exchange rate suggests investors are wary of volatility



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.
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 appropri-ateprofessionals 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, value or 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