Investment Weekly

For inquiries related to this article, please contact:

Alain.Marckus@bankfab.com
Christofer.Langner@bankfab.com

28 March, 2021

Some of the good news could prompt temporary volatility

♦ The US employment report on Friday is expected to show 635,000 new jobs, the best number since October.

♦ President Joe Biden is also expected to unveil a new infrastructure plan adding up to US$3 trillion this week.

♦ The news, along with the steady progress of vaccination in the US could rekindle some of the reflation trade.

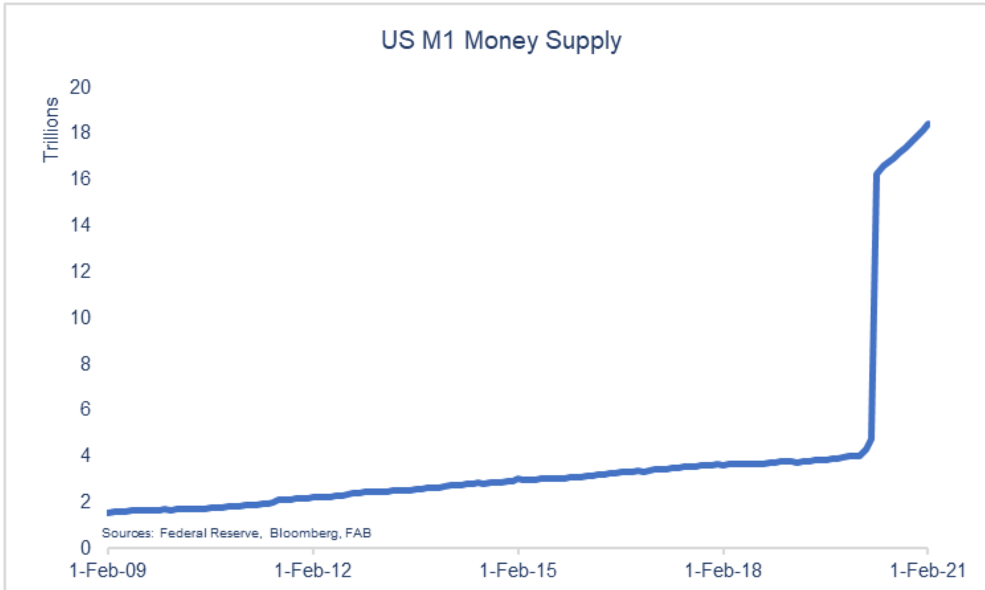
♦ However, international buyers of Treasuries are also resurfacing and could keep yields in check, stemming some of the potential fallout.

♦ The FAB AAC is overweight in equities, gold and IG and EM bonds, and is underweight in alternatives.

It has been a year since most countries across the world began to lock down to try and reduce the spread of Covid-19 and safeguard overwhelmed healthcare systems. While it seems like forever, the fact that many countries are so fast moving beyond that with mass vaccination is nothing short of a miracle of science.

As that miracle unfolds, economists are quickly becoming convinced that life could return to normal soon. Countries where more than half the population has either been infected or vaccinated are seeing many activity indicators return to pre-pandemic levels. While there are scars, the healing has been impressive.

As was the case a year ago, this week the market action is likely to center around the virus. In a different way, however. In the US, nearly half of the states are expected to make all adults eligible for a vaccine in the next three weeks.



The UK is expected to emerge from strict movement restrictions starting tomorrow (though some curbs will remain in place) as more than half the adult population has received at least one dose of the vaccine, prompting the new case count to plunge.

The result is already being felt. Since the start of February, the eight-day average number of passengers going through US airports has increased 12%. It remains 28% below where it was at the start of February 2020, but the steady increase coincides with the rising numbers of vaccinated people and tells a story of quick recovery for airlines. The data could show a bump this week as the US enters the long Easter holiday.

Meanwhile, Europe is facing the complete opposite situation. The vaccination effort started slowly there due to political issues and bringing it up to speed has proven more difficult than expected. As a result, cases are rising and many Europeans may be stuck at home this holiday.

The various US stimulus packages have created an unparalleled amount of money

Faced with a third wave, Belgium last week told people to shelter in place again, as did France. Germany announced stricter movement curbs into the Easter holiday but rolled some of them back amid public outcry against them.

The diverging success fighting the coronavirus is showing in market rates, particularly in the foreign exchange market. The US dollar and the British pound have both been appreciating against the euro, as investors evaluate the impact of the European Union's vaccination program blunders.

The euro has dropped almost 6% against the US dollar and 1.8% against the British pound since the start of February, when vaccination began in earnest in the US.

The reopening chasm is likely to widen this week. On Friday, the US Bureau of Labor Statistics will unveil its monthly employment report, which is expected to show that some 635,000 jobs were created in March. If that number proves right, it would reverse the sharp drop reported in the previous three months.

If the February jobs report is any guide, the leisure and hospitality industry could be a strong job generator. It created the most positions among all industries, 355,000, in February. The industry still employs 3.5 million fewer people than a year ago, but a repeat of the February surprise could be an indication that the gap may be reduced materially this year.

Again, if economists are right and job creation has increased, it could rekindle some of the reflation trades that dogged some investors in March. Especially as President Joe Biden is expected to unveil a new long-term infrastructure-based stimulus package of up to US$3 trillion.

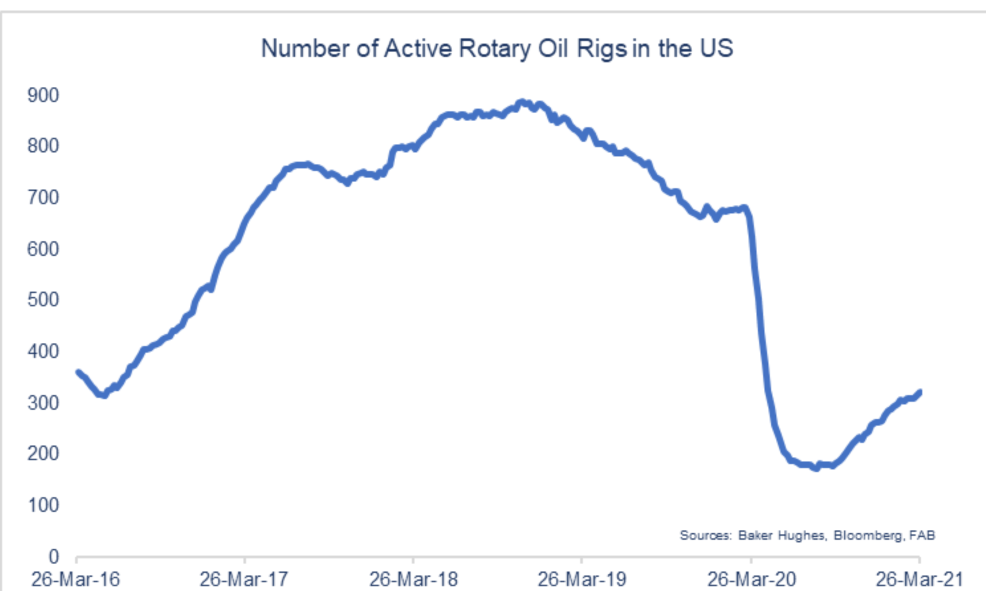
Investors are eagerly awaiting the proposal which news venues say will be focused on rebuilding the US's infrastructure but will also include some taxes on the wealthiest Americans. The two opposite fiscal efforts have different potential effects on the markets.

The possibility of US$3 trillion being spent on infrastructure is particularly bullish for commodities and suggests even more dollars being pumped into the system. Since the pandemic began, the US created approximately US$12 trillion in new money, which can be seen in the M1 chart in the previous page. Adding another US$3 trillion to the unprecedented amount would make the prospect of inflation in the future even more tangible.

This could be reflected in higher inflation expectations and, as a result, in higher yields for long-term US Treasuries. If that turns out to be the case, longer duration assets, such as technology stocks and investment grade debt could get hit.

The difference this time, however, is that long-term US Treasury yields have become more attractive to international investors, who could help avoid another spiral as the one seen in the first quarter. Japanese investors in particular will be in focus. Japanese holdings of US Treasuries fell US$42 billion between July and December, but they started to rise again in January, Treasury data shows.

OPEC+ will have to weigh the impact of more supply as US shale starts to increase output



The drop in holdings coincided with a rise in yields and gains in the Japanese stock market. The coincidence may not be trivial as Japanese banks are big buyers of both local stocks and US Treasuries, and may have favoured the former over the latter recently. The shift in Treasury yields could reverse some of that.

Because of that possibility and due to the slow rollout of the vaccine in Japan, the FAB Asset Allocation Committee last week decided to replace a small tactical overweight position in Japanese stocks by a similar position in US stocks. This brought both the US and Japan equities to neutral, though the model portfolios continue to be overweight in stocks.

Still, any rise in Treasury yields could have a broader impact on stock markets. Technology stocks, in particular those that have seen very significant gains over the past decade, might show themselves especially vulnerable this week. Among the legislation President Biden is likely to present this week is a bill to increase taxes on wealthy people. This could incentivize these investors to take profits on long-term gainers before the new tax is enacted.

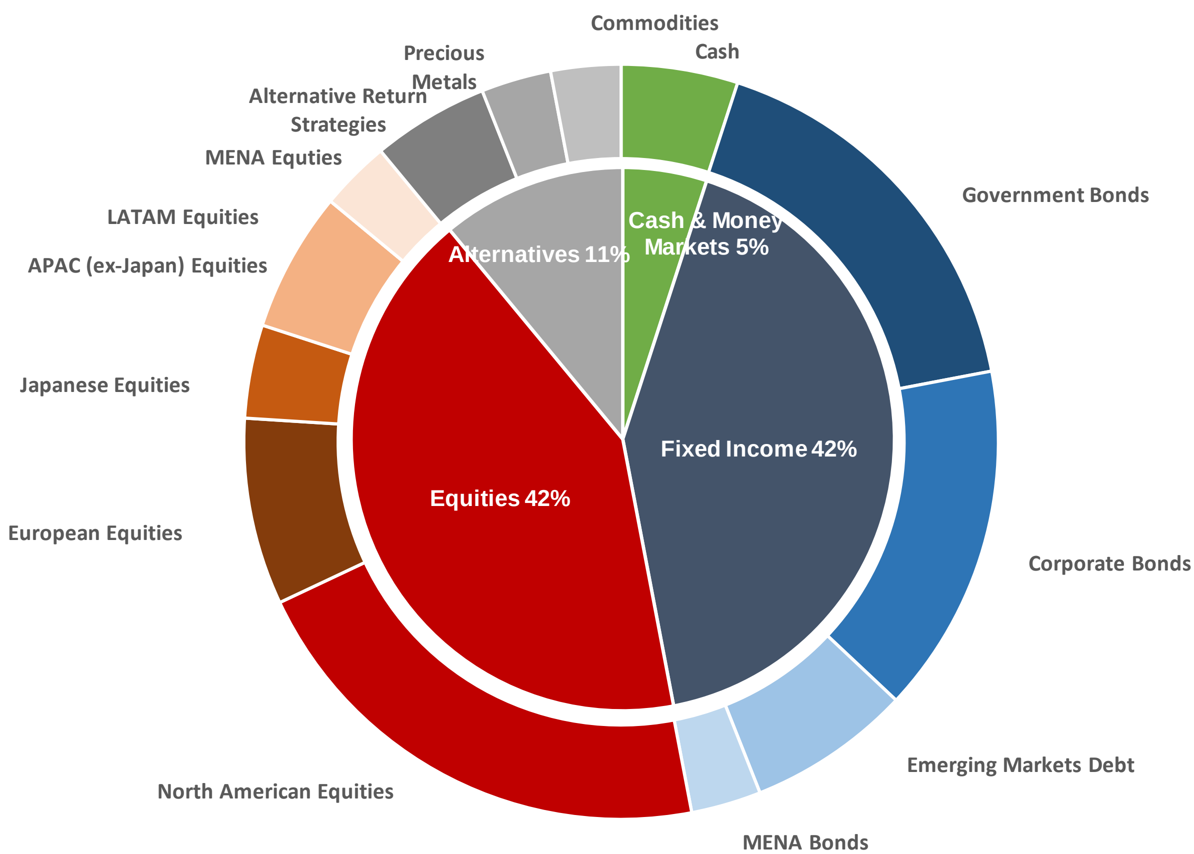
The upside of the package is, again, the expectation that the world's largest economy will not only recover strongly this year but continue to grow fast in coming years. This would be particularly bullish for commodities, with oil potentially the most sensitive of them right now.

Oil prices, however, have a bigger driver in an OPEC+ meeting on Thursday. There will be a lot of pressure from group members to increase output, especially given that US shale companies are restarting operations and could take an increasing share of the market.

A decision to increase supply now, however, could have a temporary negative effect on oil prices and, consequently, on MENA assets. Ultimately, though, oil demand could end the year near where it was in early 2020, so any dips now could be opportunities for savvy investors.

Investment Weekly

Current Tactical Asset Allocation



Asset Class	Positioning	Detail
Cash	Neutral	Moved into overweight equities position.
Fixed Income	Overweight	Keeping slightly overweight focused on EM dollar debt and corporate investment grade bonds
Equities	Overweight	Slightly overweight Asia ex-Japan stock markets.
Alternatives	Underweight	However, still marginally overweight in precious metals

Investment Weekly

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 or be relied on in connection with any contract therefore. Anyone proposing to rely on or use the information contained in this publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts.*

This report is provided on a confidential basis for informational purposes only and is 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 this date, 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 completeness 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 consequential loss or damage which may be sustained because of the use of the information contained and/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 exclusion of 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, market or 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 or otherwise 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 or representation 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 associated 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 potential purchasers 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, all financial, legal, regulatory, tax and accounting consequences of entering into the transaction and an understanding as to how the transaction will perform under changing conditions) and that they independently determine that the transaction is appropriate for them given their objectives, experience, financial and operational resources and other relevant circumstances. Potential purchasers should 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 any accounting, tax, regulatory or legal advice. FAB is licensed by the Central Bank of the UAE.

London: *FAB London Branch is Authorized by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the 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: GB245 3301 91.*

Paris: *FAB Paris Branch is licensed by the French Prudential Control Authority as a credit 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 basis and/or may not be eligible for sale to all investors. This report is for distribution only under such circumstances 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 warranty, express or implied, is made 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 numerous assumptions. 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 or provide 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 identifying the risk to which you are exposed may be difficult 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 arising from 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/invest

Please contact your relationship manager for information relating to subscription, redemption, dividends, client eligibility and/or any other information relating to the investment products.