INVESTMENT STRATEGY WEEKLY VIEW

First Abu Dhabi Bank

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THE FED STARTS TO TAPER AND US TREASURIES RALLY

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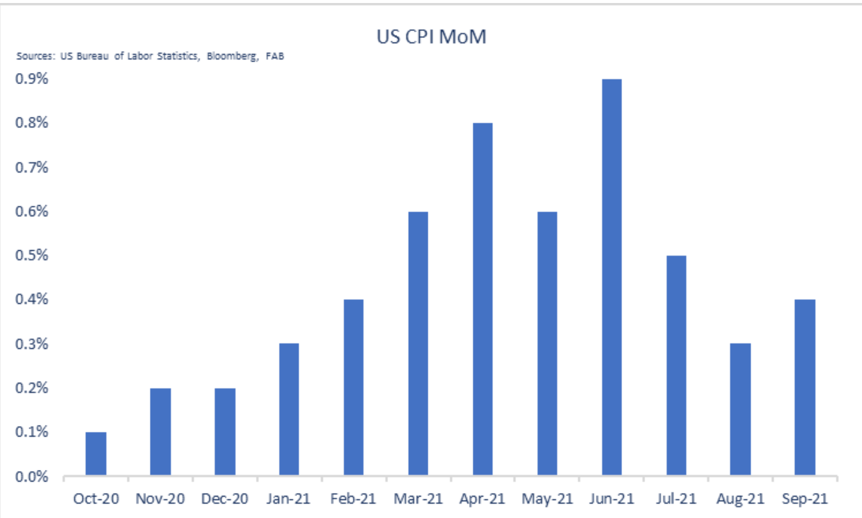
- The Fed will reduce its Treasury purchases by US$10 billion a month
- The Bank of England surprised markets by not hiking rates, prompting a global bond rally
- The S&P 500 marked its 64th record this year after its fifth consecutive weekly gain
- Oil prices retreat for the second straight week as US inventories rise

Last week, Chairman Jerome Powell announced that the Federal Reserve will reduce the amount of US Treasuries and mortgage-backed securities it buys every month by US$10 billion and US$5 billion respectively, establishing an eight-month plan to end liquidity injections. The market reaction could not have been more positive: the S&P 500 hit a new record and Treasury yields fell.

Part of the move in bonds was driven by a surprise across the Atlantic, where the Bank of England decided not to hike rates. The move was a reminder that the bar for rate rises may be higher than expected and that even when the Fed does start hiking, low rates elsewhere in the world might limit how much US Treasury yields can rise. In other words, risk assets remain attractive.

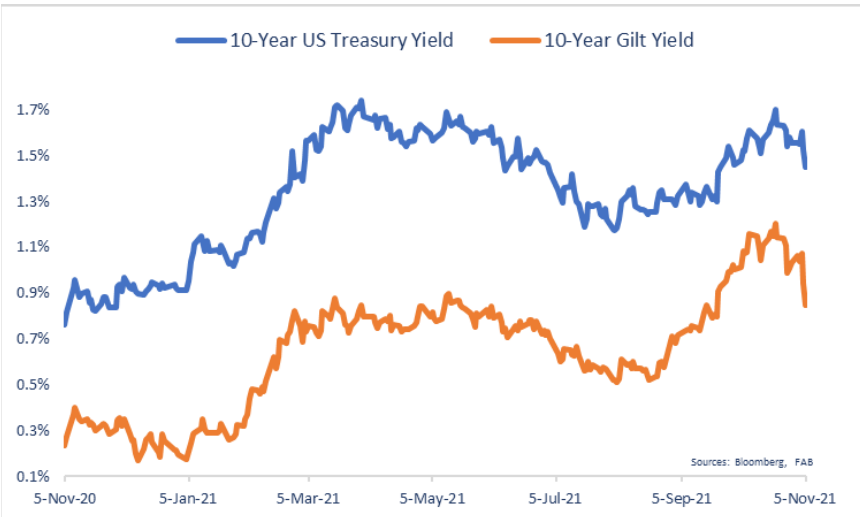
ECONOMISTS FORECAST THAT US CPI HAS ACCELERATED TO A MONTHLY PACE OF 0.6%



- US inflation numbers due this week are expected to show a month-on-month pace of increase of 0.6% month-on-month in October from 0.4% in September.
- A steep rise in gasoline prices in the US could contribute to the faster rise.
- The main contribution to accelerating price increases, however, remain factors related to supply chain bottlenecks and high energy prices.
- Excluding those factors, inflation looks a lot tamer and justifies the Fed's reluctance to fight it.

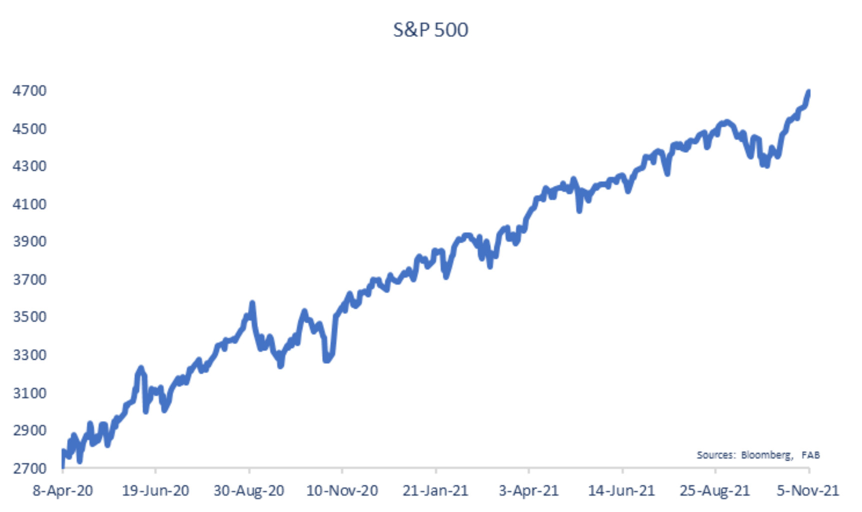
THE YIELD ON 10-YEAR US TREASURIES FELL 10 BASIS POINTS LAST WEEK

- The measure rose 5.5 basis points on Wednesday, when the Fed said it was tapering its asset purchases.
- However, it fell 15 basis points in the next two days, after the Bank of England failed to deliver on rate-hike expectations, and triggered a global government bond rally.
- The move was more pronounced in the long end of the curve, a sign investors fear future growth could be slower if the Fed hikes too early.
- Futures have also shifted from pricing a hike in June to one in August.

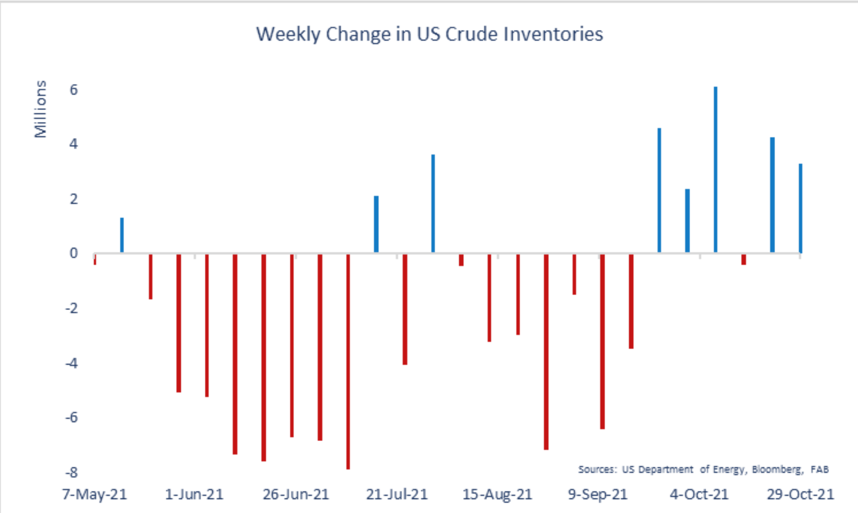


THE S&P 500 HAS RECORDED ITS 64th RECORD THIS YEAR AMID STRONG EARNINGS

- The S&P 500 rose 2% last week and recorded its fifth straight weekly gain.
- The move came as earnings season drew to a conclusion with 81.4% of the S&P 500 companies beating expectations by an average of 9.5%.
- Analysts have also revised their earnings forecasts amid more-upbeat -than-expected guidance.
- Financials and energy staged the best performances, beating analyst estimates by 15.85% and 14.38% respectively, though all cyclical sectors performed well.



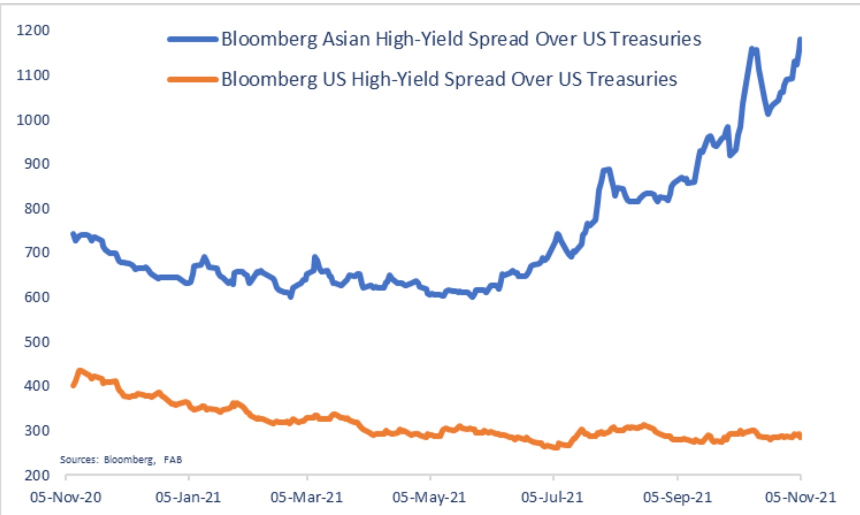
OIL PRICES DROPPED LAST WEEK IN SPITE OF OPEC+ KEEPING ITS OUTPUT SCHEDULE



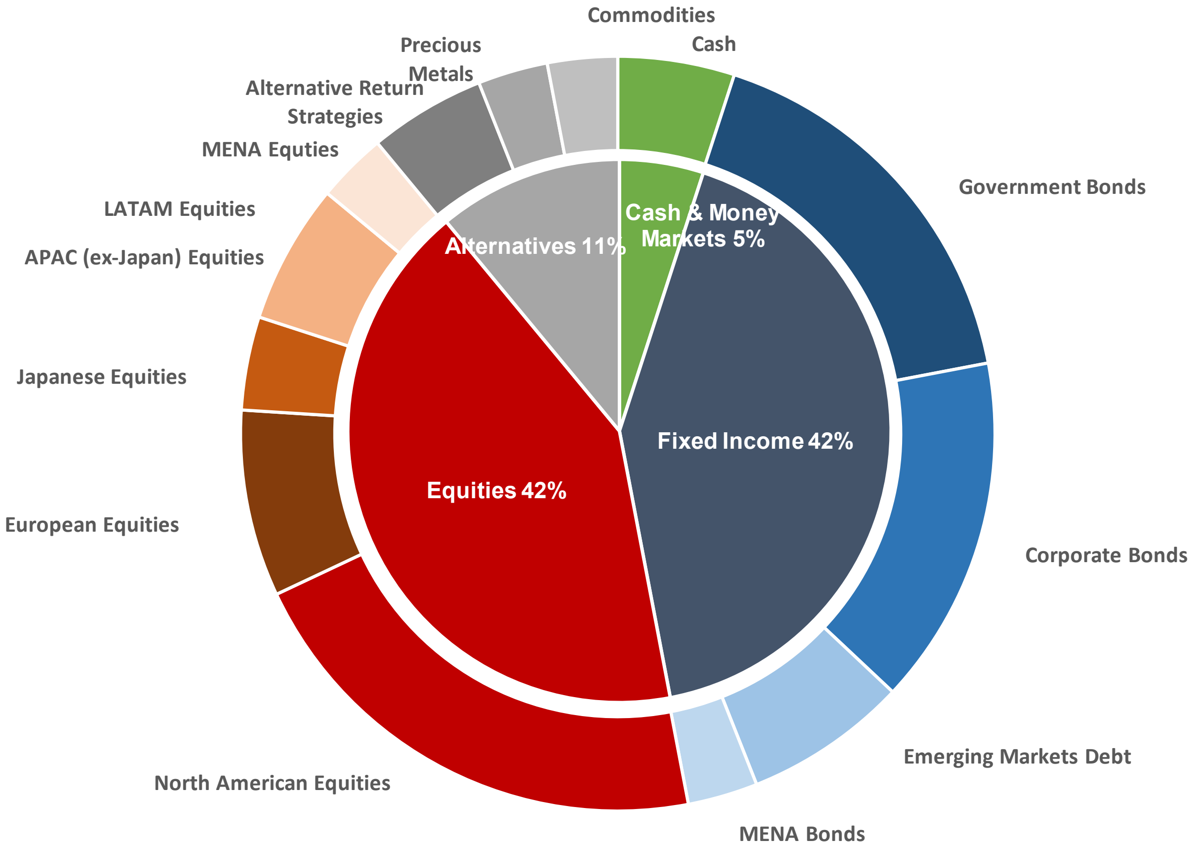
- An unexpected rise in US crude inventories prompted some selling and Brent crude prices ended down by 1.94% last week, their second consecutive weekly drop.
- The move lower was partly reversed after OPEC+ agreed to stick to its schedule of increasing output by only 400,000 barrels/day this month.
- Brent crude prices rallied 2.73% on Friday, following the OPEC+ decision.
- A slow restart of US shale output suggests a few more months of high oil prices could be ahead.

ASIAN JUNK BOND YIELDS CONTINUED TO RISE AMID MORE CHINESE PROPERTY WOES

- The average yield on the Bloomberg Asian High-Yield index hit 12.62% last week, its highest since March, 2020.
- Yields have risen 381 basis points since the end of August, as it became clear that Evergrande could default.
- Last week, a missed payment in China by Kaisa pushed average Asian junk bond yields higher by 83 basis points.
- The FAB Asset Allocation Committee has decided to move its overweight in US High-Yield to neutral as yields are near record lows and as the asset class has gained 5% year-to-date.



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.
Equities	Overweight	Slightly overweight in Asia ex-Japan and US markets.
Alternatives	Underweight	However, reducing the underweight in hedge funds.



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