Investment Strategy Update

First Abu Dhabi Bank

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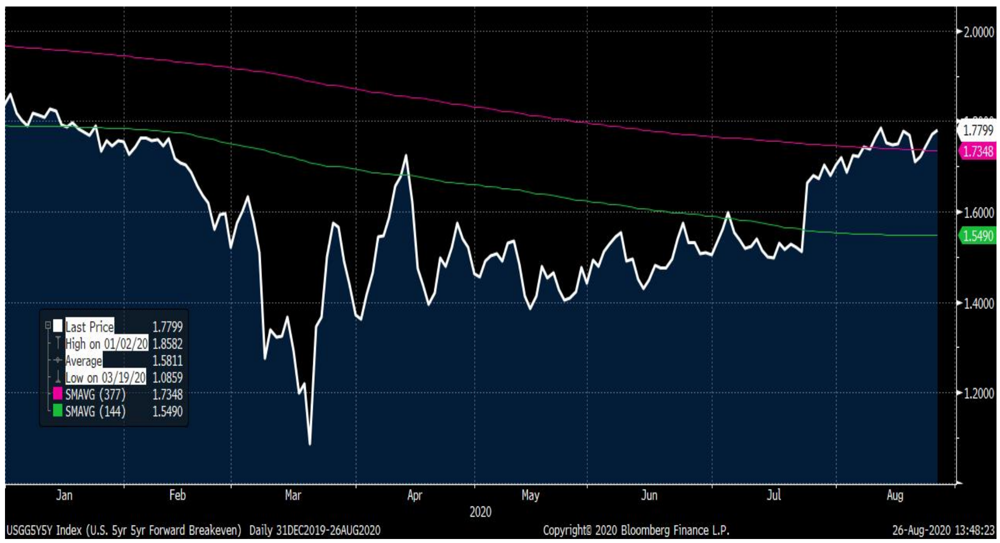
It's all about Jackson Hole this week – and it will be next week

- ♦ **The S&P500 closed at yet another all-time high last night, with the NASDAQ following suit**
- ♦ **Both the US and China have confirmed they are committed to their 'phase one' trade deal**
- ♦ **In survey data, the German Ifo Institute's index of business expectations continued to recover**
- ♦ **Abu Dhabi sovereign issued a historic 50 year bond**
- ♦ **The FAB AAC is for the time being remaining slightly underweight in global equities, and overweight in IG bonds and gold**

Chart: US 5-Year Inflation Expectations



The S&P 500 index closed at yet another all-time closing high (at 3,443.62) yesterday, up just under 0.4% % on the day, with the largest positive movers in that index including Amgen and Starbucks. The NASDAQ Composite also closed at a new all-time high, of 11,466.47. Further driving positive sentiment was the news that both the US and China said they were committed to their 'phase one' trade deal, helping a carry-over from the indications coming out of those meetings in recent days, which had come as rather a surprise to many investors and commentators, given the often unhelpful rhetoric of recent months regarding trade and intellectual property rights. **There was good economic survey data out of Germany in the form of its closely-followed Ifo Institute index of Business Expectations, which came in at 97.5 in for August, up slightly from 96.7 last month, and versus a recent low of 69.7 low in April.**

Interestingly, this latest reading from the export-dependent nation has come in spite of a rally in the euro from a closing low of .0688 against the US dollar on March 20, to 1.1815 currently. If this dollar weakness/ euro strength goes much further we would expect to see an adverse effect on expectations for European exports, and indeed Euro Area growth. This Eurozone data was in stark contrast to the latest read on US consumer confidence from the Conference Board's index, which posted a new recent year low of 84.8. US economic growth is typically 70-75% driven by consumers.

We have in recent days mentioned the importance being attached to Fed Chair Jerome Powell's speech tomorrow at Jackson Hole. Investors want to know how the Fed intends to manage the extra QE largesse created in recent months, and what the implications might be for the path of interest rates, and many other matters. Today's chart is Bloomberg-sourced data showing how market expectations of inflation in five years time have recently moved. The current take on this is for US inflation to be 1.78% by then. The Fed's own published data on this broadly shows the same directional movement, as one would expect, although it may not be as up-to-date. The Fed's Five-year Breakeven Inflation Rate index currently stands at 1.60% (up from a low of 0.82% in mid-March). We reiterate that Mr. Powell's messaging will be very important. The 10-year US Treasury yield rose four basis points last night, and has since risen a further two, to 0.7050%. **Above all, perhaps, what would do irreparable damage to the Fed's reputation would be if a year or so down the line it emerged that - despite saving the world - they had created an asset price bubble.**

Here in Abu Dhabi the government successfully raised USD 5 billion in three tranches (3, 10, and 50 years) yesterday as it took advantage of the current low interest rate environment to lock-in some funding, some of this with the longest tenor ever seen in GCC bond markets. The 3-year portion was for USD 2 billion, priced at 65 basis points over US Treasuries at 0.75%. The ten year portion was for USD 1.5 billion priced at 105 basis points over US Treasuries with a coupon of 1.70%, and USD 1.5 billion was placed at a coupon of 130.6 basis points over US Treasuries with a coupon of 2.70%. The Abu Dhabi sovereign raised USD 10 billion earlier this year. **Abu Dhabi has been building out its yield curve, and is now continuing to do so after Abu Dhabi CDS rates have fallen back towards historically low levels of 47.985 for five years.**

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