

For inquiries related to this article, please contact:

Alain.Marckus@bankfab.com

Christofer.Langner@bankfab.com

9 June, 2020

## As rates drop, investors pay a higher premium for growth

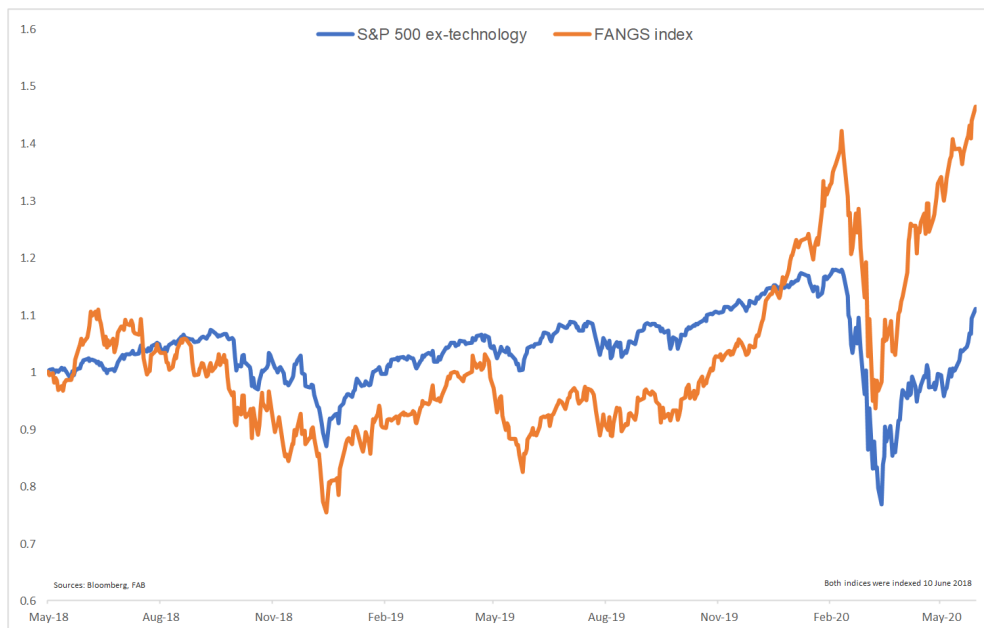
◆ Low rates are boosting technology stocks as investors pay a higher premium for growth.

◆ Low rates impact was already being seen since May 2019, when Federal Reserve began to cut rates.

◆ Work-from-home and lockdowns have accelerated the growth of technology stocks too.

◆ While some of the valuations are reaching extremes, there is potentially room for technology to continue to outperform the broader market.

◆ FAB AAC remains overweight high quality investment grade bonds.



Low-rate environments tend to push investors toward higher growth companies as bond returns and dividend yields drop. This was true throughout the last period when the Federal Reserve cut rates to zero, between December 2008 and November 2015. In that period, the information technology subindex of the S&P 500 rose 234%, while the S&P 500 ex-technology index rose 129%.

The same thing seems to be happening now again. Since June last year, when the Federal Reserve signaled clearly that it could cut rates. The FANGS+ index has risen 78% in that period while the S&P 500 ex-technology has gained only 10.7%. The outperformance has been so extreme that some investors seem to be moving the other way, with the rest of the market outperforming technology over the past 10 days or so. That makes some sense given the relative valuation. The FANGS+ index is trading at 38 times its expected earnings, near its highest in history.

Yet, while the broader market could catch up, any correction is likely to see investors jump back into technology stocks. The reason is quite simply math. Earnings for the companies in the FANGS+ index are forecast to rise by 25% in the coming 12 months while the average expectation for the broader S&P 500 index is for a 10.4% drop in profits. For 2021, the broader index looks a bit better, with analysts expecting 25.5% growth but still seeing the FANGS+ companies growing at a 27.2% rate.

Furthermore, the behavioral change that the lockdowns because of the Covid-19 pandemic have caused have only increased the earnings growth prospects for these companies. They have also raised questions about the future of many of the largest companies in the US in sectors such as traditional retail, hospitality and travel. Hence, any correction in the market — and one is likely coming — is likely to push investors back into technology stocks.

### High growth stocks have outperformed the market since rates began to fall

That thought process may also apply more broadly to other asset classes, though, beyond US stocks or different sectors. Any asset class that offers higher growth and better returns will see stronger demand in this new world order. For one, the dividend yield on the S&P 500 is now 1.88%, and the broader earnings yield is at 4.45%. Compare that to the 6.1% yield to worst in the Bloomberg Barclays US Corporate High-Yield index and some investors may choose to buy junk bonds instead.

To be sure, each asset class carries its own risks. Defaults are a problem for high-yield now and valuations are stretched for stocks. Still, judging from history, higher yielding and faster growing assets will continue to command a premium.

## Investment Strategy Update

**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 unauthorised 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 investment 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 risks, 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.