

## Q2 2022 Outlook: Watchful, not worried

**There is a war ongoing, the virus is still lingering, inflation is soaring, growth is slowing, and central banks are tightening. Financial market participants are left to wonder if a recession is looming. While we think it is too early to be worried about a recession, it is prudent to be watchful of a growth slowdown over the remainder of the year. How should portfolio positioning evolve?**

At the macro level our base case is a mid-cycle global growth slowdown; recession is our downside risk scenario. Of course, recession probability (as measured by our Recession Probability Indicator (RPI)) has risen recently but from the lowest level in its 42-year history. Even after the recent rise, the RPI is still close to some of the lowest points of previous cycles. Worth noting that recession probabilities tend to rise during the mid-cycle slowdown of an economic cycle which we did expect the global economy to experience this year (see [2022 Outlook: Catch'22, January 2022](#)). Such mid-cycle slowdowns in the past were usually associated with higher uncertainty and financial market volatility. However, as the cycle progresses further, uncertainties should start to diminish and provide a reasonably clear path for financial markets. For now, we are 'watchful, not worried'. For our investment strategy see [pages 2-3](#). In terms of the asset allocation, we increase our exposure to US treasuries further by deploying some cash (which remains overweight). Elsewhere, we remain neutral equities and alternatives, and underweight fixed income. For our detailed portfolio positioning see [pages 4-5](#).

**Fixed income** ([pages 6-7](#)): Fixed income assets, which we have been underweight, had a difficult start to 2022 with global central banks tightening monetary policy to combat multi-decade high inflation levels. UST yields have risen sharply in response to this hawkish rhetoric. We now see limited upside to the UST yields and moreover, USTs (alongside other DM sovereigns) should outperform during periods of weak global growth. We add to our overweight on USTs through a broad allocation across duration segments. Elsewhere, we close our preference for India short-dated bonds. Our other allocations remain unchanged (neutral EM USD sov., US and EU IG; underweight EM LCY, US and EU HY; overweight EM Asia credit).

**Equities** ([pages 8-9](#)): We remain neutral equities. We put the themes of 'earnings growth' and 'slowing macro' at the core of our equity strategy. Accordingly, we make a couple of changes to our sector recommendations – making our sector portfolio defensive at the margin. We upgrade global health care to an overweight (from neutral). Within healthcare we prefer non-cyclical/defensive segments. We downgrade financials to a small underweight (from neutral) and move Information technology to a neutral (from an overweight). Our country, style and factor preferences remain unchanged. In this note we highlight our thematic ideas – including clean energy, deglobalisation plays, and re-opening plays.

**Alternatives** ([pages 10-11](#)): We stay neutral alternatives which offer a range of opportunities to diversify and hedge against slowing macro. Gold (overweight) provides a good hedge against the global growth slowdown over the next couple of quarters. Our analysis also suggests that Macro and Market defensive strategies within the hedge fund space are likely to do well too. In this note, we discuss how the peculiarities of commodities have helped them outperform so far this year and yet why they might not be suitable for all portfolios. We also discuss why REITs may now be facing a double whammy from rising interest rates and slowing growth and why the industrial real estate has been outperforming.

**Currencies** ([pages 12-13](#)): We expect the differences in central bank policy action to continue to drive currency markets over the remainder of 2022. USD has benefitted from its safe haven status and the hawkish Fed, but persistent twin deficits and moderating growth outlook in the US could cause some weakness in the greenback over the medium term. We expect GBP to weaken against USD and stay flat versus the EUR. Cable could weaken as BoE is likely to be less aggressive than expected. Elsewhere, we remain negative on EUR (relatively less hawkish ECB, and weaker EU growth) and JPY (widening yield differentials). EM FX remains largely an idiosyncratic story.

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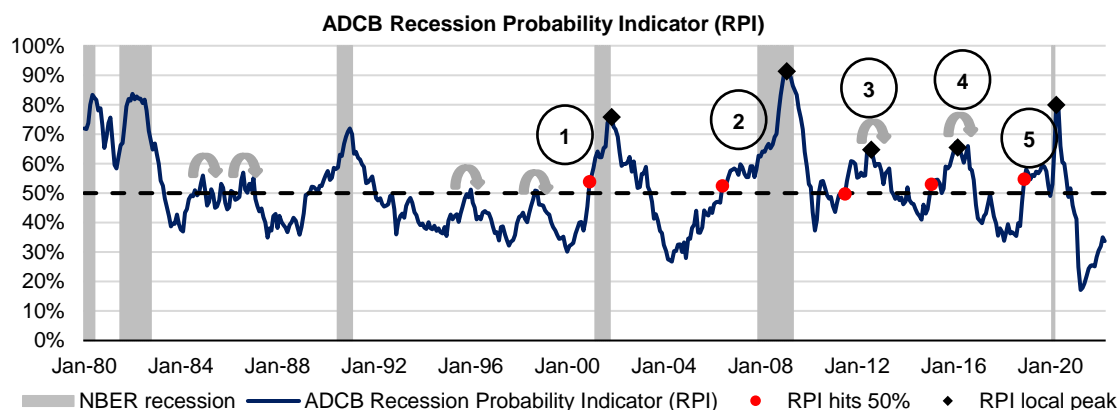
## Investment strategy

From the ongoing pandemic to a war to a sharp rise in inflation, a range of headwinds to global growth persist. This situation has caused bond yield curves to invert – which in the past have signalled rising recession risks. Against this backdrop financial markets faced volatility but the price performance has not been very weak – after all, we should have expected much weaker performances given the range of crosscurrents. Although the headline price falls have not been substantial, investors have had to face volatility with significantly wider price swings across a range of assets. In Q1 2022, equities posted their weakest quarter since the pandemic began in 2020. Given the broad range of uncertainties and risks, there were few places for the investors to hide. A model portfolio of 60/40 that invests 60% in equities and 40% in bonds fell for the first time in two years. In the US, S&P 500 and Nasdaq composite indices posted losses of 5% and 9% respectively for the quarter. US Treasury bonds have also suffered dramatic losses: the two-year yield has risen by 158 basis points, the most since the second quarter of 1984. The benchmark 10-year Treasury yield has increased by 82 basis points, the most since the first quarter of 2021. Just as a reminder, yields and prices move in opposite direction – i.e., rising yields mean falling bond prices. A Bloomberg index of total returns from Treasuries fell 5.6% in Q1, making it the weakest quarterly performance since the inception of the index in 1973. In credit markets, US high-yield index fell by c5% in Q1, its worst performance since the first quarter of 2020. Investment grade index is down c8% in Q1, also the worst in two years. Commodities, however, was the only major asset class to have posted gains through the quarter. From oil to copper to wheat, the prices of basic materials have surged as a supply crunch was exacerbated by Russia's invasion of Ukraine. For the context, Bloomberg Commodity Index jumped 25% marking its best quarter since 1990. Brent crude prices rose c40% during the first three months of the year. Aluminium prices increased 24% and gold prices rose c7%. Food prices rose sharply and hit a multi-decade high.

## Recession looming?

Looking ahead, we think near-term financial market performances are likely to be driven by concerns about slower global growth and rising risks of a recession. We make this central to our investment strategy. To assess the probability of a recession in the US (which is key to global economy and financial markets), we turn to our data-driven model of the Recession Probability Indicator (RPI). Our RPI is based on 29 select variables with good predictive power across seven different segments of macro, consumer, housing, business, corporate, financial market, and commodity market (see [appendix A](#) for the list). After cleaning the data and putting it through a series of transformations, we calculate a master indicator that is our RPI (exhibit 1) and seven sector-wise indicators of recession probabilities ([appendix C](#)). We also regroup the 29 variables into three sub-groups of “leading”, “coincident”, and “lagging” indicators based on how and when they signal the possibility and progress of a recession ([appendix B](#)).

Exhibit 1: Recession probabilities have risen, but a recession is not a given



Source: National Bureau of Economic Research (NBER), Refinitiv, and ADCB Asset Management

Our master RPI now indicates a recession probability of c34% after having risen over the past few months from the lowest level in its 42-year history. Even after the recent rise, the RPI is still close to some of the lowest points of the previous cycles. Key levels to watch on this indicator are 50-60-70-and 80%. A 50% level indicates an equal chance of a recession. A 60% level in the past coincided with the start of a recession. However, there were two exceptions – both in the previous cycle i.e., the one between 2009 and 2020 – where the recession did not materialize despite the indicator moving above the 60% level. This perhaps indicates how the previous cycle endured an extended slow-growth environment with a couple of marked growth slowdowns. However, a 70% level on our RPI confirms a recession without any exception. A peak

level of above 80% for the RPI indicates a deeper recession. Only the recessions of 1980s and the Global Financial Crisis of 2008-2009 had seen our RPI move above an 80% level before falling. Also, worth noting that the RPI tends to rise during the mid-cycle slowdown of an economic cycle but falls rather quickly. Looking at some of the sub-indices, the leading component of the indicator is currently a little more advanced than the master RPI and indicates a recession probability of 44% and continues to rise. The coincident indicator is slightly more muted and indicates a 28% probability but is still rising. The lagging indicator, however, is higher at 33% but is still falling from its post-pandemic highs. It is rather an unusual situation that the leading and coincident indicators are rising when the lagging indicator is still falling from its previous recession peak. This confirms our thesis of a faster moving cycle which our regular readers should be familiar with (for context see [2022 Outlook: Catch'22, January 2022](#)).

Sector-wise RPIs are rising across the board, but we see a wide range of implied recession probabilities. For instance, financial market variables indicate a 50% probability of a recession while the business sector implied probability is 16%. Also, even within a sector, we see different data pointing to different recession probabilities and different trends. For example, looking at the New York Fed's recession probability indicator which is based on the 10Y-3M US treasury yield curve slope, the recession probability remains low and is still falling from its previous peak. But the recession probability indicated by the yield curve slope of 10Y-2Y segment has risen above 90% recently indicating a higher chance of a recession. Turning to the consumer sector, we see huge discrepancies in the soft data there. Weaker readings on the University of Michigan consumer sentiment expectations indicate a rather higher probability of recession while strong conference board consumer confidence indicates a lower probability. This is because the former survey focuses on inflation and its impact on consumer, while the latter focuses on employment, wages, and consumer behaviour. All this indicates heightened uncertainty about the outlook which is reflected in many measures including the recent projections by the US Federal Open Market Committee.

In summary, recession probabilities have risen recently but from the lowest level in their 42-year history. Even after the recent rise, the RPI is still close to some of the lowest points of previous cycles. Recession probabilities tend to rise during the mid-cycle slowdown of an economic cycle which we did expect the global economy to experience this year. The divergence between leading, coincident, and lagging indicators point to the pace of this economic cycle which we expect to be faster. Further, the disagreement between sectors and even between variables within sectors, speaks volumes about the uncertainty. All this confirms our view that the global economy is currently experiencing an asynchronous mid-cycle slowdown (rather than a recession) of this faster moving cycle. Such mid-cycle slowdowns in the past were usually associated with higher uncertainty and financial market volatility. However, as the cycle progresses further, uncertainties should start to diminish and provide a reasonably clear path for financial markets.

## **'Watchful, not worried' positioning**

While a full-blown recession (as defined by NBER) is not our base-case, we do expect growth deceleration over the remainder of the year. Accordingly, while we are not positioning for a recessionary environment, we think it is prudent to position for a growth slowdown. At the same time, we remain watchful of rising recessionary risks. For quantitative guidance, we look at how various assets have performed during periods of rising recession risks. [Appendices D, E, and F](#) provide a detailed analysis based on our RPI. We look at both episodes – those where rising RPI ended in a recession and those where rising RPI ended in a growth slowdown and not a recession. We think the best opportunities are in segments that work well during a period of weaker growth (which is our base case) but also provide protection in case of a recession (our downside risk scenario). We see US treasuries, gold, and cash – which we are overweight – doing well in this scenario ([appendices D and F](#)). Our analysis also suggests that Macro and Market defensive strategies within the hedge fund space are likely to do well too. Within equities, defensive sectors tend to outperform during growth slowdowns ([appendix E](#)).

In line with this strategy, we make the following changes to our portfolios:

- ▷ At the asset allocation level, we increase our exposure to US treasuries further by deploying some cash (which remains at an overweight). Our incremental allocation to USTs is through a broad allocation across duration segments. Broadly, we remain neutral equities and alternatives, and underweight fixed income.
- ▷ Within equities, we upgrade healthcare to an overweight (from neutral) and fund this by downgrading financials to a small underweight (from neutral) and moving Information technology to a neutral (from an overweight). Worth noting that our downgrade of IT is centred on our more cautious view on technology hardware and semiconductors segments.

## Portfolio positioning

**Exhibit 2: Recommended portfolio positioning**

Asset Allocation	Underweight	Neutral	Overweight	Comments
Equities				A more diversified exposure warranted
Fixed income				Prefer USTs and DM sov. that act as hedges
Alternatives				Prefer gold; macro/market-defensive strategies
Cash and liquidity			↓	Trim overweight to increase exposure to USTs
Equities*	Underweight	Neutral	Overweight	Comments
<b>Regions</b>				
US				Prefer equal weighted indices; focus on quality
Canada				Stick with the benchmark
Europe ex UK				Light on structural drivers of growth
UK				Prefer global large caps with quality-tilt
Japan				Near-term tailwinds from improving macro
Asia Pacific ex Japan				Prefer ASEAN (Singapore) and EM Asia
EM LatAm				Constrained by commodity-dependence, debt vulnerabilities, outflows and weak currencies
EM EMEA				
GCC				Stick with the benchmark
<b>Global sectors</b>				
Comm. Services				Diversified telecoms and Media
Consumer Discr.				Hotels, Rest. & Leisure
Consumer Staples				Food, Beverage & Tobacco
Energy				Capital discipline and makeover plays
Financials				Focus on growth opportunities in Asia; fintech
Health Care				Prefer defensively-oriented inexpensive segments
Industrials				Industrial automation and IoT; likely GICS change
IT				Cautious on tech hardware and semiconductors
Materials				Structural weakness on a shift to 'new economy'
Real Estate				Real estate management & development
Utilities				Gas utilities and Renewable Electricity Prod.
<b>Factors/styles/sizes</b>				
Large cap				Strong balance sheet, earnings visibility
Mid cap				Likely to be market-performers
Small cap				Strained by leverage and peak-growth
Growth				Strong preference for non-cyclical growth
Value				Avoid value in sectors facing disruption
Dividend yield				Prefer quality dividends and dividend growth
Quality				Quality in the environment of low risk-tolerance
Momentum				Benefits from 'new economy' orientation
<b>Legend</b>				
	New	Old	No change	

Source: MSCI, Barclays, HFRI, Bloomberg, and ADCB Asset Management | Notes: \*Positions recommended based on MSCI ACWI Standard/IMI benchmarks.

# Investment Strategy

Quarterly Investment View | April 2022

**Exhibit 2: Recommended portfolio positioning (continued)**

Fixed income**	Underweight	Neutral	Overweight	Comments
Duration				Short duration vs benchmark
US Treasuries			↑	Prefer US Treasuries acting as a hedge
<b>US Credit</b>				Preference for HQ corporates over HY corporates
- Investment Grade				AA and A; Energy, financials and capital goods
- HY (off benchmark)				Short-dated, BB; financials and communications
European Bunds				ECB to be less aggressive
<b>European Credit</b>				Preference for HQ corporates over HY corporates
- Investment Grade				Recession risks could rise
- HY (off benchmark)				Moderate growth outlook to weigh
<b>EM USD Sovereign</b>				Hawkish Fed, higher commodity prices to weigh on EM HY and EM importers, selectivity is key
- Brazil				
- High quality GCC				
<b>EM LC Sovereign</b>				EM policy normalization
<b>EM Corporate</b>				High leverage is concern, but opportunities in Asia
- EM Asia				Preference for Asia IG with spreads attractive
Alternatives	Underweight	Neutral	Overweight	Comments
Gold				Hedge against political and inflationary risks
Oil				Looking for a balanced market
Other commodities				Commodity super-cycle is difficult to realize
Hedge funds				Prefer macro and market defensive strategies
Currencies	Negative	Neutral	Positive	Comments
USD				Fed's aggressiveness versus DM central banks
EUR				Path of short-term rates over long-term
JPY				Rising UST yields and opposite BoJ policy
GBP				BoE likely to be less aggressive
EM currencies				Driven by idiosyncratic developments
<b>Legend</b>	<i>New</i>	<i>Old</i>	<i>No change</i>	

Source: MSCI, Barclays, HFRI, Bloomberg, and ADCB Asset Management | Notes: \*\*Positions recommended based on Bloomberg Barclays Global Aggregate (USD unhedged) Index benchmarks

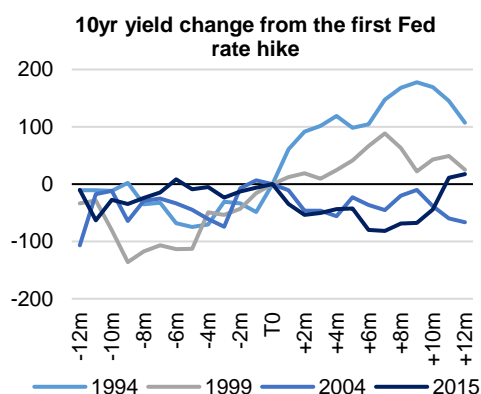
## Fixed income

### Fed up

Fixed income assets had a difficult start to 2022 with global central banks tightening monetary policy to combat record high inflation levels since 1980s. Bloomberg Global Aggregate Bond Index has declined by almost 11% from the highs in January 2021, registering the worst decline since 1990s, and even surpassing the drawdown seen during the Global Financial crisis. With the rising inflation pressures and continued supply chain shocks amidst the escalating Russia-Ukraine tensions, it looks difficult for the fixed income assets to stage a strong recovery any time soon. The biggest support in the form of the global central bank monetary stimulus which fuelled appetite for fixed income assets is waning as central banks globally fight to rein in rising inflation pressures. The Fed is leading the exit from the loose monetary policy measures, having raised rates by 25bp at the latest March meeting and planning to raise rates six more times in 2022 with every meeting likely to be a live meeting. The central bank plans to reduce balance sheet by USD95bn every month from May and projects another three rate hikes in 2023. The Bank of England has raised rates three times, planning to raise interest rates above 2% by end- 2022. The ECB is also planning a faster-than-expected wind-down of its asset purchase programme.

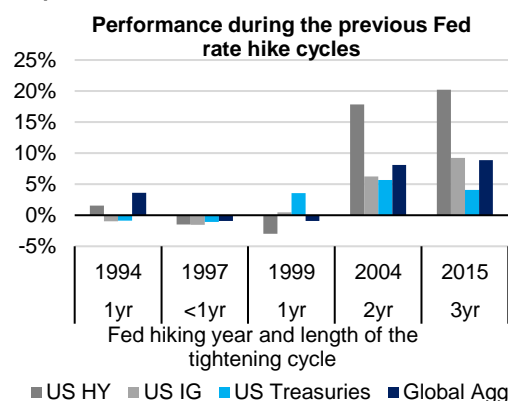
Markets have become more aggressive with the Fed's aggressiveness. Short-dated bond yields have jumped, resulting in brief inversion of certain parts of the yield curve. The yield curve inversion has historically been a credible indicator of economic downturns. There are various segments of the curve to monitor the signs of possible economic downturn- most used is the 10-2yr UST yield inversion. The Fed, however is looking at the extreme short-end of the yield curve. While the 10-2yr UST yield curve has flattened/inverted, the 10yr-3month yield curve has been steepening. Typically, in previous downturns, the 10yr-3month yield curve lagged the 10-2yr UST yield curve, but followed the flattening/steepening trend. However, this time looks different with opposite trends seen between the two. Blame it on the long-term bond yields which were depressed compared to the inflation/growth narrative. Long-terms yields, a function of expected short-term rates and inflation risk premium, have lagged the trend in the economic activity and inflation. The culprit is the third component- the term premium- which captures the safe-haven demand for USTs and the Fed's bond purchases. The 10yr term premium has remained suppressed, unlike the previous Fed tightening cycles but with the Fed's incoming quantitative tightening, this could change. Further rise in term premium levels mean that the peak in long-term UST yields is still yet to come. Looking at the previous four Fed tightening cycles, the 10yr UST typically rose during the 12 months after the first Fed rate hike, 9 months after in case of 1994 tightening, 7 months after in case of 1998 tightening and 12 months after in case of 2015 tightening. The only exception was the 2004 tightening where 10yr yields declined post the first rate hike (exhibit 3). If 10yr UST yields continue to rise in the near-term with short-term rates fully pricing in the Fed's rate projections, the 10-2yr yield curve could steepen. However, for long-term yields to sustain at levels above 3%, growth dynamics have to be extremely positive. But given the evidence of rising recession risks and probability of inflation softening in 2Q, we believe there will be limited upside for the 10yr yields. As a result, we recommend increasing our allocation to US Treasuries. But with yields likely to rise across the curve, we maintain a short-duration stance as we enter the early stages of the Fed tightening cycle. We continue to monitor the yield curve movements to assess when it could be appropriate to increase duration. But given the current bond market volatility, we remain underweight on fixed income and retain a short-duration stance.

Exhibit 3: 10yr yield peak yet to come



Source: Bloomberg, and ADCB Asset Management

Exhibit 4: Length of tightening cycle matters for corporate credit



Source: Bloomberg Indices, and ADCB Asset Management

## **Neutral on US and EU IG, Underweight on US and EU HY, Preference for high-quality bonds**

Hawkish DM central banks and higher DM sovereign bond yields could mean more volatility for the risk assets in fixed income space. Bloomberg US IG index posted losses of more than 7% in the first quarter of the year, marking the worst quarterly loss since 2008. US HY Index, being short-duration in nature, declined by 5%, thus outperforming US IG. Despite the recent sell-off, we do not recommend to add to corporate credit yet. The main driver will be the uncertainty over the Fed's policy. Looking at the previous five Fed tightening cycles, there are two factors which drove the performance of the US corporate credit- the length of the cycle and the aggressiveness of the Fed. Overall, US HY outperformed US IG on an average during the past five tightening cycles. The outperformance was larger in magnitude particularly during the 2004-2006 and 2015-2018 tightening cycle which lasted for 2 to 3 years. However, in case of a shorter rate hike cycle- US HY failed to outperform. In fact, during the 1999-2000 tightening, US HY underperformed US IG. During the 1994-1995 tightening which resembles the current Fed rate projections trajectory- US HY recorded larger losses six months post the first rate hike. US HY index bottomed out after four rate hikes of 25bp while US IG bottomed out post six consecutive rate hikes. Shorter rate hike cycle also tends to add pressure on the low-rated corporate spreads. In the event of the Fed turning aggressive in order to control inflation, US HY could particularly face more volatility. Overall, we remain neutral on US IG and underweight on US HY (off-benchmark). In sector performance, in US IG, communication was the best performer during the first six months post the 1st Fed rate hike while energy and basic industries were the best performer twelve months after the 1st Fed rate hike. In US HY, basic industries and energy were the best performers in the three, six and twelve months post the Fed rate hike. However, given our short-duration stance, we continue to prefer low duration sectors of energy, capital goods and financials in US IG. In US HY, we prefer short-dated bonds, focusing on BB segment while sector-wise preference is on financials, communications and energy.

## **Stay Neutral on EM USD sovereigns, Underweight on EM LCY bonds; Overweight on EM Asia credit**

EM USD bonds have been the worst performer in 1Q 22, recording losses of c9.4%. The escalating tensions between Russia-Ukraine has been one of the key drivers for the underperformance. However, given the marginal weight of Russia bonds (pre-exclusion) in the EM bond index, it has not been the only driver. In fact, EM USD bonds were already under pressure due to the China debt default concerns. China has the largest weight in the EM USD bond index (sovereign + corporates) and the drawdown in the market value of the China bond index corresponds to the similar drawdown seen in the EM USD bond index. In case of EM USD sovereigns, surprisingly, better quality GCC sovereigns (Saudi, Qatar and the UAE) ranked amongst the top underperformers in the 1Q 2022. On the other hand, countries which were most vulnerable to the Russia-Ukraine war (Egypt, Turkey) have reversed their previous declines. EM USD HY sovereigns have, in fact, recorded positive returns in March. This is despite the stress in the global bond markets and tightening of US financial conditions. The recent quarterly sell-off has raised the attractiveness of the EM USD sovereign bonds, particularly versus the US HY and the EM LCY peers. However, it may be still early to increase allocation to EM USD sovereign bonds. EM USD sovereign bonds are vulnerable to the tightening of the US financial conditions and any further tightening could mean funding stress for EM sovereigns, particularly the EM HY sovereigns. EM USD sovereign bonds also likely to remain susceptible to the increased UST volatility. We maintain our neutral stance on EM USD sovereign bonds with a selective preference for oil exporting countries including high-quality GCC sovereigns and Brazil. In EM LCY bonds, we remain underweight on EM LCY. We close our preference for India short-dated bonds on the back of hawkish RBI bias and increasing prospects of rate hikes in the second half of this year.

In EM corporate, we retain our preference for Asia credit through our overweight stance on Asia IG bonds. Asia IG bonds outperformed US IG and EUR IG bonds- despite the China default concerns. While Asia IG spreads have returned to 2019 levels- they continue to trade attractive versus the US IG and EUR IG. China's credit impulse is expected to start rolling over in 2022- which should prove supportive for Asia IG. Asia HY - though trading at attractive levels - continues to remain vulnerable amidst the defaults of key Chinese real estate companies.

## Equities

### Yearning for earnings

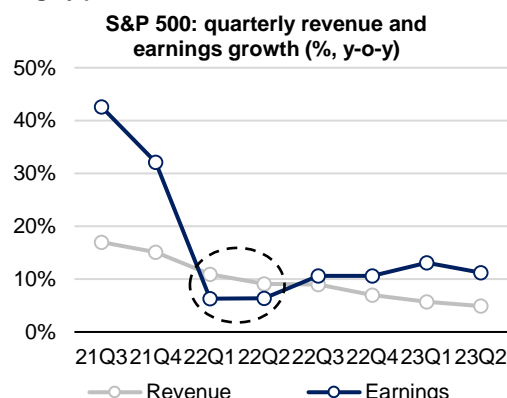
Equity market returns can be broken down into two drivers – changes in valuations, and earnings growth. Valuation changes are more prominent drivers of equity returns in the near-term while earnings growth tends to be slow but strong driver of returns over medium to long-term. Just as an example, let us look at the performance of global equity benchmarks over the past three years. 2021 marked the third consecutive year of double-digit return for global equities. However, drivers of returns were different across these three years. Whilst both 2019 and 2020 saw huge valuation expansion, earnings were stable in the former and fell in the latter. 2021 was, however, driven by remarkably high earnings growth while valuation multiples contracted.

Looking ahead, the bar for reported earnings to beat is much lower, in our view. Sticking with the US, which constitutes c60% of our global equity benchmarks, we see a clear chance for companies to report better-than-expected earnings. Based on I/B/E/S consensus estimates, S&P 500 aggregate earnings are expected to grow 6.3% year-over-year in Q1 and 6.4% in Q2 (exhibit 5). c11% year-over-year growth is currently pencilled in for both Q3 and Q4 taking the annual growth rate for the year to c9% in 2022. This compares with a realized earnings growth of 52% during 2021 (exhibit 6). Earnings growth dropping below the revenue growth during H1 this year reflects the concerns about margin pressures. However, this situation is expected to improve in H2 when revenue growth falls while earnings growth recovers.

During the Q1 2022 earnings season we would also watch closely for companies' guidance on inflation impacting corporate profit margins, and for any hints from the corporate management on slowing demand indicating a potential recession over the next 12-18 months. After all, one cannot ignore the fact that preannouncements for Q1 2022 did have a negative tone with 70% of the 103 S&P 500 companies that issued preannouncements ahead of their earnings releases, have issued negative guidance. This compares with 48% of companies issuing negative preannouncements in Q1 2021.

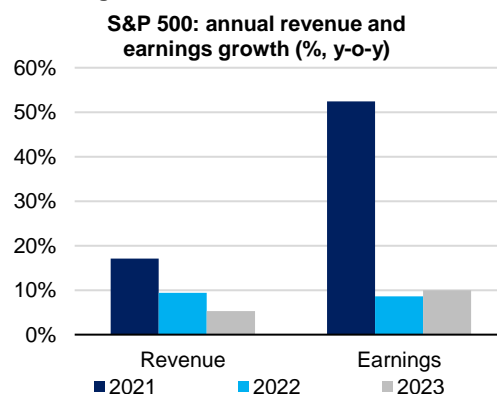
Yet, we believe earnings growth is likely to be strong through 2022, and off-setting the drag from compressing valuations. In fact, we believe that earnings growth projections still have upside. For the context, I/B/E/S consensus estimates for 2022 earnings growth for MSCI All Country World Index were upgraded to c9% currently from c7% at the start of the year. We believe there is upside for earnings growth estimates for this year. However, as indicated previously, valuation changes are likely to induce volatility and influence the returns during the year. The key drivers of equity valuations are the rising chances of a recession over the next 12 months and the conduct of monetary policy in the US. On equity valuations, it is worth noting that while on an absolute basis they remain elevated, in relation to bonds, they still look cheaper even after the recent back-up in bond yields.

**Exhibit 5: Margin compression is a 2022 story and largely pertains to H1 2022**



Source: S&P, I/B/E/S, Refinitiv, and ADCB Asset Management

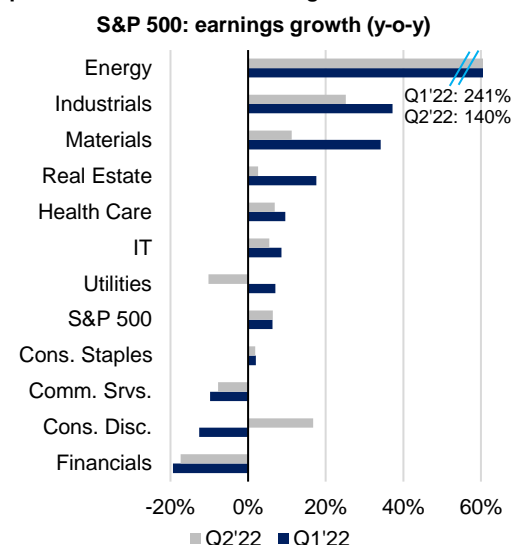
**Exhibit 6: Earnings growth is expected to outpace revenue growth in 2023**



Source: S&P, I/B/E/S, Refinitiv, and ADCB Asset Management

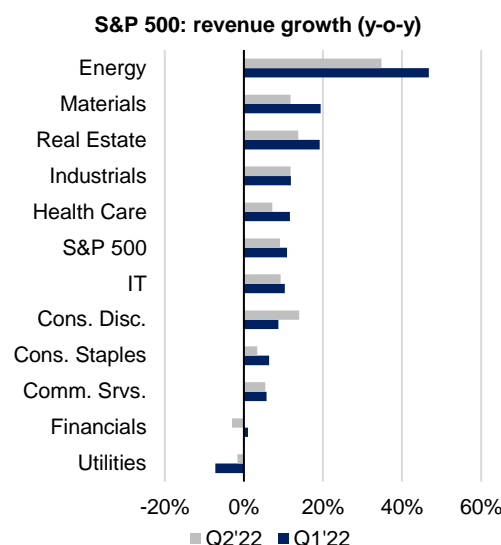
By sector, earnings growth (exhibit 7) is expected to be the strongest in cyclical sectors including energy, industrials and materials. However, financials, and consumer discretionary are expected to show weaker growth momentum. Energy sector continues to screen well on revenue growth too (exhibit 8). Revenue growth trends are relatively weak in utilities and financials sectors.

**Exhibit 7: Some cyclical sectors are still showing positive momentum in earnings...**



Source: S&P, I/B/E/S, Refinitiv, and ADCB Asset Management

**Exhibit 8: ...and revenue growth**



Source: S&P, I/B/E/S, Refinitiv, and ADCB Asset Management

## Playing slowing macro

Slowing global growth and the increasing talk of a potential recession are likely to impact equity market performance over the near to medium term. In line with our broader investment strategy view ([pages 2-3](#)), we do think that while positioning for a recession whole-heartedly is not a necessity, we think investors need to position for a growth deceleration. Our analysis ([appendix E](#)) looks at recession probability indicator (RPI) – which we also use as a measure of economic activity – and how various regions/sectors/factors perform when RPI rises above 50% (a level we believe makes recession risks more tangible).

Key points worth highlighting are:

- ▷ A recessionary scenario sees negative returns across the board of equities.
- ▷ US equities outperform global equities during slowdowns and recessions. US equities post absolute gains during growth slowdowns which do not end in recessions.
- ▷ Cyclical markets – including EMs in EMEA and LatAm, and Europe ex UK – underperform the most in a weak growth environment.
- ▷ Within sectors, consumer staples, healthcare, and utilities outperform on an average during growth slowdowns and recessions. IT sector outperforms during slower growth environments but underperforms during recessionary times.
- ▷ By factor, quality outperforms broadly. Growth factor outperforms when macro growth slows.

## Our allocation and trade ideas

We put the themes of 'earnings growth' and 'slowing macro' at the core of our equity strategy. Accordingly, we make a couple of changes to our sector recommendations – making our sector portfolio defensive at the margin. Our country, style, and factor preferences remain unchanged (see portfolio positioning table on [pages 4-5](#)).

- ▷ We upgrade global health care to an overweight (from neutral). Within healthcare we prefer non-cyclical/defensive segments.
- ▷ We downgrade financials to a small underweight (from neutral) and move Information technology to a neutral (from an overweight). Worth noting that our downgrade on IT is centred on our more cautious view on technology hardware and semiconductors segments where we expect the supply-demand dynamic to turn unfavourable to equity prices looking ahead.

Our other high conviction ideas include:

- ▷ Clean energy themes over fossil fuels (medium to long-term, near-term remains in favour of fossil fuels).
- ▷ Aerospace & Defence, food security, energy security, and cybersecurity as plays on rising geopolitical tensions and deglobalisation.
- ▷ Consumer services, airlines, and hotels, restaurants & leisure as plays on re-opening.

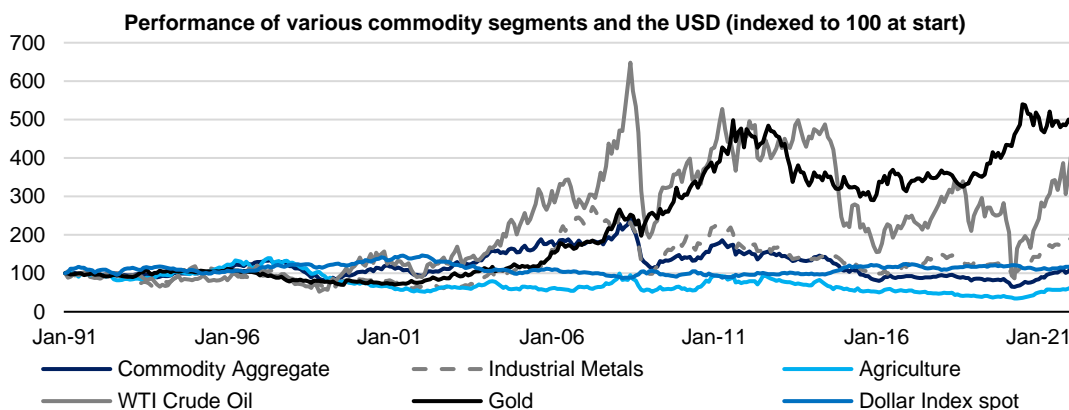
## Alternatives

### Commodities

Commodities have outperformed equities only for the second time this decade in 2021. Even on a year-to-date basis this outperformance remained quite pronounced (exhibit 9). Behind this recent outperformance of commodities relative to financial asset classes are the so called “oddities” or one can say “peculiarities” of this real asset group.

Purely from an investment perspective, there are primarily three reasons to have portfolio exposure to commodities. First is inflation. Given the ability of commodities to maintain their value in real terms, they tend to be attractive at times when inflation is rising. When broader inflation is rising, cost of producing commodities rises too and this directly feeds into higher commodity prices. Rising inflation of recent months has certainly benefitted commodities from this angle. So, any moderation in inflation from the current levels, is likely to put some downward pressure on commodity prices. Second is rising interest rates. Unlike financial assets, commodities are not valued based on discounted future cash-flows and therefore rising real rates do not materially influence the present values of commodities. Especially when the supply, demand, and inventory dynamics are supportive, prices of commodities can continue to go up even in a rising real rate environment. This dynamic might remain supportive of commodities in the near-term, but we think much of this has played out already. Third reason to consider portfolio exposure to commodities is their ability to provide diversification. Here, while commodities are considered a distinct group of assets, they tend to be very volatile and display higher beta to risk at times (exhibit 9). This makes them slightly higher risk proposition and may not be suitable for all portfolios. Especially after a massive rise in prices in recent months, should some of the supply-demand imbalances start to normalize, prices could experience sharp reversals.

**Exhibit 9: Commodity prices have risen quite rapidly this year, but over longer time frames they exhibit high levels of volatility**



Source: Bloomberg, and ADCB Asset Management

One should never forget the fact that commodity block is really a diversified set of things – ranging from livestock, to iron ore, to gold, to crude oil. Here, we focus on two specific commodities.

**Gold:** We hold an overweight position in gold which in our view remains a classic hedge against potential inflation and geopolitical risks. Historically, gold prices exhibited a strong negative correlation with US real bond yields. Yet, over the past 18 months or so, despite the real bond yields remaining near record lows, gold prices slumped. This deviation from historical trend can be explained by the rise of cryptocurrencies as a potential alternative to gold. Jury is still out on whether cryptocurrencies can eventually replace gold in portfolios. In the near term though, we continue to see gold retaining its attraction as a strong hedge against risks that are negative for risk assets. While we are no experts in modelling cryptocurrencies, we would simply note that rapid rise in the number of cryptocurrencies itself makes them not so ‘precious’. Granted, coins of a cryptocurrency are finite, but the number of cryptocurrencies itself has been increasing quite dramatically over the recent years. For gold, higher demand for coin, bar, and jewellery may be the offset for weakness in demand for ETFs. Central bank demand has revived in 2021. After record-high buying in 2019, central banks slowed down their purchases of gold in 2020. 2021 saw central bank gold buying pick up quite strongly. Higher gold prices could in turn help the global gold miner equities which have underperformed broader global equity benchmarks in 2021.

**Energy (oil):** Prices of oil and other energy commodities are likely to stay elevated as the market begins to balance into a new supply-demand regime. Recent weeks also saw some significant geo-political risk-premia get embedded into higher energy prices. Given oil prices of more than 100 USD/bbl at the time of writing, should political risks start to abate, we think there is potential for some downside in the near-term. Of course, some upside beyond that for the following 12 months. For the longer-term, demand outlook remains uncertain given the energy transition. Also, mitigation as a climate strategy implies change in global energy mix entailing not only faster phasing out of fossil fuels but also accelerated deployment of renewables. Whilst this development means greater opportunities in the renewables space over the long-term, it also counter-intuitively means higher fossil fuel prices in the near-term. On the fossil fuels, the prices are likely to stay elevated in the near-term as the renewables are not yet widely available to meet the energy demand at the time when additional fossil fuel supplies are likely to remain constrained. However, higher fossil fuel prices in the near-term should in turn accelerate the migration to renewables over the medium to long-term. Against this backdrop, the outperformance of oil & gas equities relative to clean energy segments during 2021 was already noteworthy. Further, the gold to oil ratio, which is a widely tracked metric, is now close to the 50-year mean indicating a neutral position of oil against gold.

In a nutshell, commodities have outperformed strongly in recent months. While there are reasons for investors to consider some exposure, commodities may not be suitable for all portfolios. Within the commodity block, which is really a diversified set of things, we stay overweight gold and maintain a constructive view on oil prices over the next 12 months. We would however stay away from cyclical commodities – especially as they are most vulnerable in a slowing growth environment or recessions (appendix D).

## REITs and Real Estate

Prior to the Global Financial Crisis (GFC) of 2008/09, REITs experienced strong growth and therefore remained insensitive to rising yields (exhibit 10). However, in the post-GFC era, sensitivity of REITs to both nominal and real yields increased as growth remained in low gear (exhibit 11). As a result, REITs have tended to underperform most other sectors in a rising real yield environment. REITs may now be facing a double whammy from rising interest rates and slowing growth. At the time when global growth projections are being marked down quite rapidly (and talk of a recession intensifying) REITs may be all the more sensitive to rates. Here too, there appears little cheer with real rates in the US inching higher to turn positive.

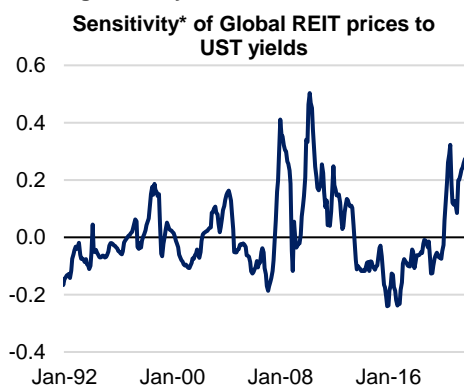
Within the actual real estate segments, industrial sector continues to outperform most other sectors in terms of demand, income growth, and price appreciation. As such, returns over the past 12 months have been strong across markets. Secular demand drivers like technology, and growth in e-commerce continue to help the outlook for segments including data centres and cold storage. Healthy consumer spending, robust economic activity, and supply chain challenges helped the cyclical outlook. Investors/lenders in private equity and private debt segments continue to view industrial real estate as their preferred sector. Also, industrial REITs outperformed their other sector peers during H2 2021 as rent growth and cap rate compression were much higher than expected. As capital remains plentiful and returns remain high, development has picked up pace and this perhaps needs monitoring over the medium-term.

**Exhibit 10: Global REITs above their pre-GFC peak**



Source: S&P, Bloomberg, and ADCB Asset Management

**Exhibit 11: Sensitivity of REITs to UST yields varied significantly over time**



Source: S&P, Bloomberg, and ADCB Asset Management |  
Notes: \*calculated as rolling 12M slope of '12M price change of REITs' relative to '12M change in 10Y UST yields'

## Currencies

### US Dollar

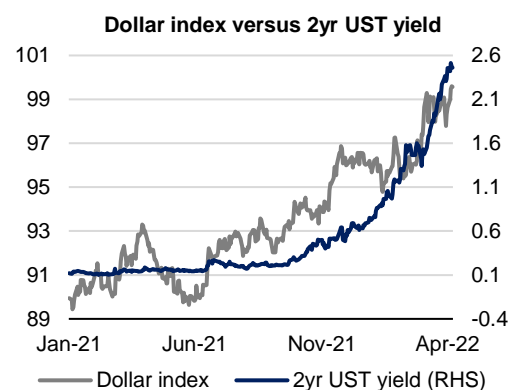
The US dollar rally continued to strengthen in the first three months of the year. The year kick-started with evidence of more persistent inflation boosting expectation of a hawkish Fed response. This only aggravated later as markets assessed the inflationary impact due to continuing supply-chain shocks brought in by the Russia-Ukraine war. However, it was not only the Fed's hawkish confirmation which drove the dollar rally but also safe-haven characteristics of the currency which proved supportive. In fact, there were times when the hawkish Fed bias proved less effective in driving the dollar movement. In the second quarter, differences between central bank actions will remain the key driver for the currency trends. However, we believe the Fed's hawkish bias as a key driver for the dollar rally could start to ebb. This could be offset with any increase in risk-off sentiment and concerns over global growth slowdown. Overall, in the near term, the greenback will continue to remain strong.

In our [2022 Outlook](#), we expected the dollar to remain strong but the momentum in dollar strength to slow with Fed projections ultimately matching the market's rate hike projections. In fact, there were periods during the 1Q22 when the US dollar failed to strengthen matching the rise in 2yr bond yields in reaction to the Fed's hawkish statements. However, the dollar slowly caught up with the market pricing of a hawkish Fed, especially after the Fed revealed the details of the quantitative tightening plans. Rising risk-off sentiment spurred appetite for US assets, supporting the dollar rally. We believe there will be limited impact of the Fed's hawkishness playing into the performance of the US dollar, especially given the overnight market pricing. Looking at the previous Fed tightening cycles, the US dollar has on an average weakened over the course of 12 months post the Fed rate hike cycle. As a result, we expect that the momentum of dollar rally could slow. However, amidst the continued supply chain concerns and unyielding geopolitical tensions, the US dollar could still benefit being a counter-cyclical currency. Increased risks of global growth slowdown amidst the inversion of certain portions of the UST yield curve could anchor the appetite for the US dollar. Historical data shows that the US dollar tends to appreciate during periods of inversion in the 10-2yr UST yield curve. Finally, the recent Russia-Ukraine war and bilateral agreements between Russia and China have raised the concern of a de-dollarization. We believe these concerns had and will have less to do with the performance of the US dollar in coming months on the back of the USD's continued hegemony in the global financial markets.

### Euro

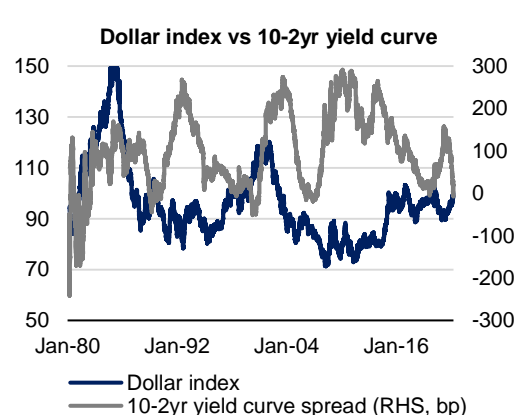
The sudden shift in monetary policy bias by the ECB has failed to derail the euro's weakness. While the euro witnessed a brief rally in the beginning of the year, Russia's invasion on Ukraine completely reversed its course. Inflation remains a problem for the ECB especially given the rise in commodity prices amidst heavy reliance of the region on the Russia oil imports. However, at the same time, owing to the region's close proximity to the war and strong trade linkages, the ECB faces a more challenging task of controlling inflation amidst possibility of growth slowdown. We believe the ECB could end up being less hawkish than market expectations, underscoring our expectation of a weak euro.

**Exhibit 12: Dollar index trend versus 2yr UST yield**



Source: Bloomberg, and ADCB Asset Management

**Exhibit 13: Dollar strong during yield curve inversions**

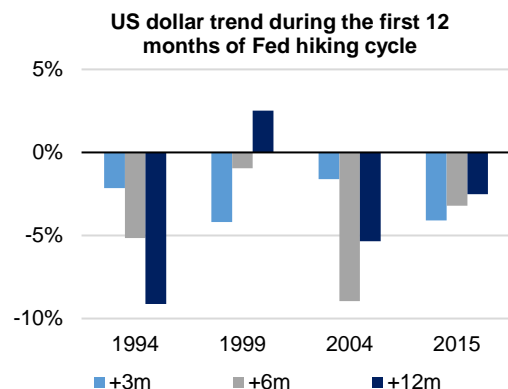


Source: Bloomberg, and ADCB Asset Management

## Pound sterling

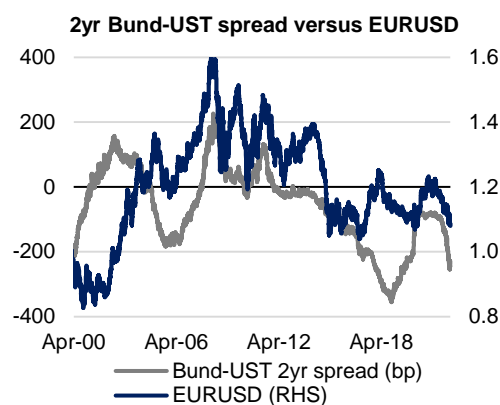
The Pound sterling has weakened versus the US dollar while strengthened versus the euro in the 1Q 22. Divergence in central bank policy was again at play here- with the BoE more hawkish versus the ECB but relatively less hawkish compared to the Fed. While inflation concerns remain dominant, signs of possible economic slowdown are growing evident. Rise in dovish expectations with emphasis on possible growth downside risks were visible in the BoE voting members' biases. Given the high uncertainty around the BoE's monetary policy outlook in 2022, the pound sterling will continue to experience bouts of volatility over the year. We expect that the pound sterling to remain weak versus the US dollar and flat versus the euro.

**Exhibit 14: US dollar has weakened during Fed hiking cycle**



Source: Bloomberg, and ADCB Asset Management

**Exhibit 15: Widening differential between UST and German bunds**

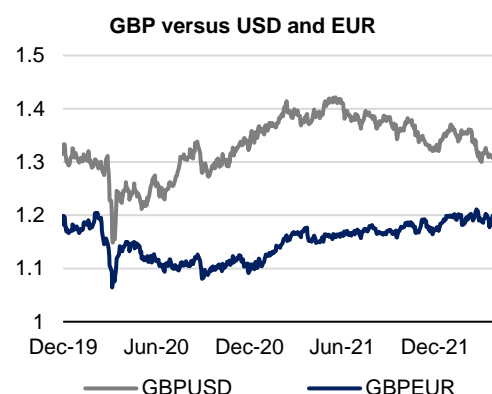


Source: Bloomberg, and ADCB Asset Management

## Japanese Yen

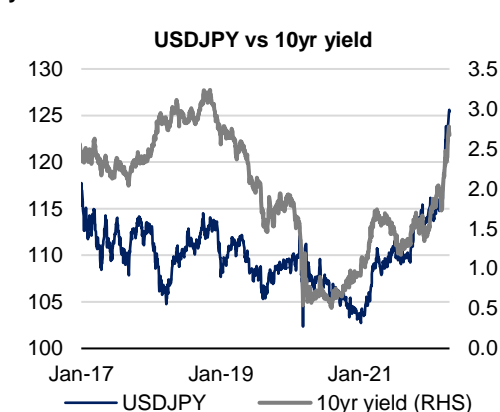
The Japanese yen significantly weakened versus the dollar in 1Q 2022 as the BoJ maintained its accommodative stance, thus widening the differential between monetary policies versus other DM central banks. We believe this divergence will be maintained as the BoJ focuses on the growth outlook. Going forward, even with markets fully pricing in the Fed rate hikes, the yen will remain under pressure. The widening gap between short-term yields in Japan versus US and volatility in UST rates will thus keep the yen vulnerable.

**Exhibit 16: Pound sterling weakened versus dollar**



Source :Bloomberg, and ADCB Asset Management

**Exhibit 17: Yen weakened with the rise in UST yields**



Source: Bloomberg, and ADCB Asset Management

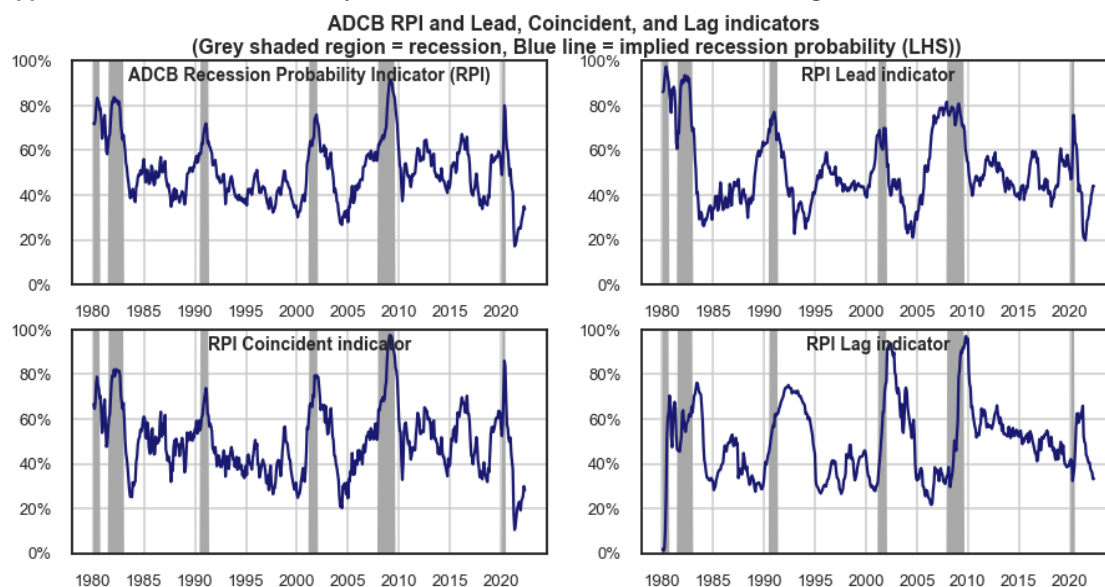
## Appendices

### Appendix A: 29 variables across 7 different sectors that feed into our Recession Probability Indicator (RPI)

1) Macro	1. Financial conditions index 2. Conference board lead indicator 3. Policy uncertainty 4. Bank credit 5. Job openings 6. Imports 7. GDP surprises 8. Inflation surprises
2) Consumer	9. Retail sales 10. Personal consumption expenditures 11. Univ. Michigan consumer sentiment 12. Conference Board consumer confidence
3) Housing	13. NAHB headline index 14. NAHB expected sales - next 6M 15. Single family house sales 16. Private consumption expenditures
4) Business	17. ISM Manufacturing 18. ISM Services 19. Industrial production
5) Corporate	20. 12M forward earnings growth 21. 12M trailing profit margins 22. Capex intentions - 6M ahead
6) Financial Market	23. NY Fed recession probability (10Y-3M slope) 24. Yield curve slope (10Y-2Y) 25. S&P 500 composite 26. Bond to Equity yield ratio
7) Commodity Market	27. Commodity aggregate 28. Copper/Gold ratio 29. Baltic dry index

Source: National Bureau of Economic Research (NBER), Refinitiv, and ADCB Asset Management

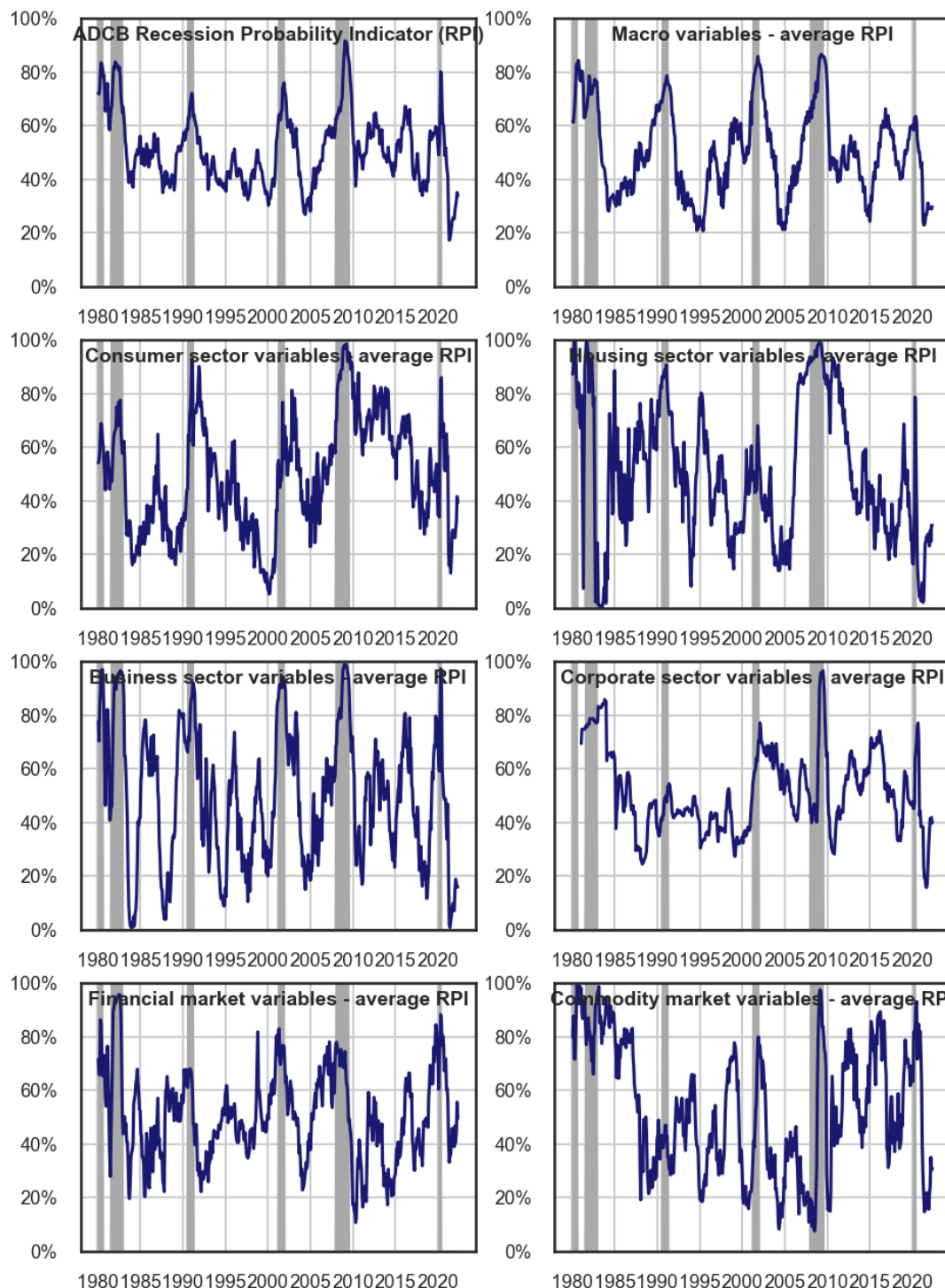
### Appendix B: Recession Probability Indicators: headline, lead, coincident, and lag



Source: National Bureau of Economic Research (NBER), Refinitiv, and ADCB Asset Management

## Appendix C: Sector-wise implied recession probabilities

**ADCB RPI and sector-wise implied recession probabilities**  
(Grey shaded region = recession, Blue line = implied recession probability (LHS))



Source: National Bureau of Economic Research (NBER), Refinitiv, and ADCB Asset Management

# Investment Strategy

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## Appendix D: Cross-asset: performance of various assets during periods following recession probabilities rising above 50%

RPI hits 50% level RPI hits subsequent peak RPI (ranges during that time)	Dec-00 Nov-01	Jun-06 Feb-09	Jul-11 Aug-12	Feb-15 Mar-16	Dec-18 Apr-20	Overall Avg*	Recession Avg**	Slowdown Avg***
Master RPI (% - %)	54 - 76	52 - 91	50 - 65	53 - 66	55 - 80			
RPI Lead indicator	62 - 70	70 - 79	49 - 59	43 - 57	57 - 76			
RPI Coincident indicator	56 - 79	48 - 97	46 - 64	51 - 68	53 - 86			
RPI Lag indicator	30 - 75	22 - 81	64 - 63	55 - 52	47 - 35			
<b>Cross-Asset Performance (%)</b>								
Global Equities	-18.0%	-42.4%	-4.1%	-7.9%	7.4%	-13.0%	-30.2%	-1.6%
DM Equities	-18.3%	-43.1%	-2.1%	-7.0%	9.0%	-12.3%	-30.7%	0.0%
EM Equities	-11.8%	-33.2%	-16.7%	-15.5%	-4.2%	-16.3%	-22.5%	-12.2%
Global Aggregate Bonds	3.7%	13.1%	2.7%	3.6%	8.6%	6.3%	8.4%	4.9%
Global Treasuries	1.1%	16.9%	2.1%	5.1%	8.5%	6.7%	9.0%	5.2%
Global IG Credit	6.1%	-2.2%	4.6%	1.0%	10.5%	4.0%	1.9%	5.4%
EM External Bonds	0.8%	-0.4%	12.3%	4.1%	5.0%	4.4%	0.2%	7.2%
EM Local Bonds			-0.8%	-2.3%	3.8%	0.2%		0.2%
Global HY Credit	2.4%	-15.7%	7.8%	-0.2%	-0.2%	-1.2%	-6.7%	2.5%
Commodity Aggregate	-20.6%	-38.8%	-10.3%	-23.8%	-20.6%	-22.8%	-29.7%	-18.2%
Industrial Metals	-15.9%	-53.3%	-29.4%	-21.9%	-12.9%	-26.7%	-34.6%	-21.4%
Energy	-38.8%	-67.2%	-19.4%	-45.2%	-48.5%	-43.8%	-53.0%	-37.7%
Agriculture	-16.7%	-10.4%	8.7%	-11.9%	-15.6%	-9.2%	-13.6%	-6.3%
Precious Metals	-5.9%	28.8%	-4.1%	-1.2%	19.6%	7.4%	11.5%	4.8%
WTI Crude Oil	-27.5%	-39.5%	0.8%	-23.0%	-58.5%	-29.5%	-33.5%	-26.9%
Gold	0.8%	53.0%	4.0%	1.6%	31.5%	18.2%	26.9%	12.4%
Dollar Index spot	6.0%	3.3%	9.9%	-0.7%	3.0%	4.3%	4.7%	4.0%
EUR-USD	-4.9%	-1.0%	-12.6%	1.6%	-4.5%	-4.3%	-2.9%	-5.2%
GBP-USD	-4.6%	-22.5%	-3.4%	-7.0%	-1.3%	-7.8%	-13.6%	-3.9%
USD-JPY	7.9%	-14.7%	2.1%	-5.9%	-2.3%	-2.6%	-3.4%	-2.0%
EM FX	-0.9%	1.9%	-6.4%	-2.8%	-2.5%	-2.1%	0.5%	-3.9%
US TBill 3-6 Months	4.8%	11.4%	0.2%	0.3%	3.2%	4.0%	8.1%	1.2%
HF Fund weighted Composite	2.9%	-6.4%	-2.9%	-3.5%	2.1%	-1.6%	-1.8%	-1.4%
HF Eqty Hedge Total	-1.6%	-16.8%	-5.8%	-4.3%	3.9%	-4.9%	-9.2%	-2.1%
HF Event-Driven Total	10.5%	-11.9%	-2.4%	-5.6%	-4.7%	-2.8%	-0.7%	-4.2%
HF Macro Total	5.3%	20.9%	-2.7%	-2.4%	5.8%	5.4%	13.1%	0.2%
HF RV Total	8.3%	-3.1%	3.6%	-2.1%	-1.6%	1.0%	2.6%	0.0%
HF FOF Composite	1.7%	-7.8%	-3.4%	-5.1%	2.2%	-2.5%	-3.1%	-2.1%
HF FOF Conservative	2.7%	-9.0%	-2.1%	-3.0%	0.4%	-2.2%	-3.2%	-1.6%
HF FOF Diversified	1.7%	-7.1%	-2.6%	-4.9%	2.9%	-2.0%	-2.7%	-1.6%
HF FOF Market Defensive	6.1%	22.6%	-3.3%	-1.4%	-0.4%	4.7%	14.3%	-1.7%
HF FOF Strategic	-0.4%	-9.9%	-4.8%	-6.6%	2.3%	-3.9%	-5.2%	-3.0%
Global REIT	3.9%	-62.2%	4.4%	-0.8%	-9.7%	-12.9%	-29.1%	-2.0%
Cryptocurrencies index					43.3%	43.3%		43.3%

Source: Bloomberg, Bloomberg BGN, Bloomberg Indices, Hedge Fund Research, MSCI, Standard & Poor's, DataStream, Refinitiv, and ADCB Asset Management. | Notes: \*Average of all five instances. \*\* Average of instances Dec'00-Nov'01 and Jun'06-Feb'09 – both periods that have experienced recessions. \*\*\*Average of instances Jul'11-Aug'12, Feb'15-Mar'16, and Dec'18-Apr'20 where the rise in recession probabilities ended in growth slowdowns and not recessions.

# Investment Strategy

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## Appendix E: Equities: performance of segments during periods following recession probabilities rising above 50%

RPI hits 50% level RPI hits subsequent peak	Dec-00 Nov-01	Jun-06 Feb-09	Jul-11 Aug-12	Feb-15 Mar-16	Dec-18 Apr-20	Overall Avg*	Recession Avg**	Slowdown Avg***
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RPI Coincident indicator	56 - 79	48 - 97	46 - 64	51 - 68	53 - 86			
RPI Lag indicator	30 - 75	22 - 81	64 - 63	55 - 52	47 - 35			
<b>Equities: Global regions</b>								
Global Equities	-18.0%	-42.4%	-4.1%	-7.9%	7.4%	-13.0%	-30.2%	-1.6%
DM Equities	-18.3%	-43.1%	-2.1%	-7.0%	9.0%	-12.3%	-30.7%	0.0%
EM Equities	-11.8%	-33.2%	-16.7%	-15.5%	-4.2%	-16.3%	-22.5%	-12.2%
US	-12.9%	-39.2%	10.4%	-1.3%	18.8%	-4.8%	-26.1%	9.3%
Canada	-21.7%	-32.7%	-9.1%	-13.1%	3.8%	-14.5%	-27.2%	-6.1%
Europe ex UK	-24.4%	-41.5%	-12.9%	-9.4%	2.4%	-17.2%	-32.9%	-6.6%
UK	-16.0%	-44.6%	-0.3%	-14.2%	-9.4%	-16.9%	-30.3%	-8.0%
Japan	-24.3%	-42.3%	-13.2%	-5.6%	4.9%	-16.1%	-33.3%	-4.6%
APac ex Japan	-8.3%	-30.0%	-10.0%	-11.8%	3.7%	-11.3%	-19.2%	-6.0%
EM LatAm	-10.6%	-11.7%	-14.8%	-15.9%	-32.1%	-17.0%	-11.2%	-21.0%
EM EMEA	-20.7%	-42.6%	-13.8%	-14.0%	-15.4%	-21.3%	-31.6%	-14.4%
GCC		-57.4%	5.8%	-23.7%	-7.6%	-20.7%	-57.4%	-8.5%
<b>Equities: Global Sectors</b>								
Comm. Services	-25.3%	-12.6%	2.7%	-1.1%	16.5%	-4.0%	-18.9%	6.0%
Cons. Discr.	-11.6%	-44.2%	2.0%	-2.4%	16.1%	-8.0%	-27.9%	5.2%
Cons. Staples	-9.3%	-11.8%	12.1%	4.7%	11.0%	1.3%	-10.6%	9.3%
Energy	-38.8%	-67.2%	-19.4%	-45.2%	-48.5%	-43.8%	-53.0%	-37.7%
Financials	-17.4%	-64.7%	-6.4%	-11.5%	-9.9%	-22.0%	-41.1%	-9.2%
Health Care	-11.3%	-24.4%	10.5%	-7.1%	21.3%	-2.2%	-17.8%	8.2%
Industrials	-18.0%	-44.2%	-5.1%	-3.7%	0.8%	-14.0%	-31.1%	-2.6%
IT	-27.4%	-34.5%	9.7%	0.0%	43.5%	-1.7%	-30.9%	17.7%
Materials	-3.1%	-33.6%	-22.1%	-17.0%	-0.3%	-15.2%	-18.4%	-13.1%
Real Estate	-14.0%	-54.9%	4.6%	-0.6%	1.7%	-12.6%	-34.5%	1.9%
Utilities	-22.0%	-13.1%	-4.2%	2.3%	6.8%	-6.0%	-17.5%	1.6%
<b>Equities: Global factors and themes</b>								
Large cap	-18.5%	-38.4%	-0.9%	-6.0%	11.5%	-10.4%	-28.4%	1.5%
Mid cap	-13.4%	-44.0%	-4.8%	-4.9%	3.6%	-12.7%	-28.7%	-2.1%
Small cap	-9.1%	-43.4%	-5.2%	-4.3%	-1.2%	-12.7%	-26.2%	-3.6%
Growth	-19.5%	-35.8%	-0.8%	-3.9%	25.7%	-6.9%	-27.7%	7.0%
Value	-15.1%	-42.9%	-2.3%	-7.8%	-4.4%	-14.5%	-29.0%	-4.8%
Dividend yield	-9.7%	-41.0%	2.6%	-3.5%	5.4%	-9.3%	-25.3%	1.5%
Quality	-13.3%	-25.7%	7.1%	-0.7%	27.1%	-1.1%	-19.5%	11.2%
Momentum	-18.5%	-34.2%	7.0%	-3.4%	19.6%	-5.9%	-26.3%	7.8%
NYSE FANG+				14.0%	59.7%	36.8%		36.8%
HK Tech				1.2%	44.4%	22.8%		22.8%
Nasdaq-100	-31.8%	-29.1%	17.3%	1.0%	42.2%	-0.1%	-30.5%	20.2%
US Large Cap Growth			13.0%	-1.0%	37.3%	16.5%		16.5%

Source: Bloomberg, Bloomberg BGN, Bloomberg Indices, Hedge Fund Research, MSCI, Standard & Poor's, DataStream, Refinitiv, and ADCB Asset Management. | Notes: \*Average of all five instances. \*\* Average of instances Dec'00-Nov'01 and Jun'06-Feb'09 – both periods that have experienced recessions. \*\*\*Average of instances Jul'11-Aug'12, Feb'15-Mar'16, and Dec'18-Apr'20 where the rise in recession probabilities ended in growth slowdowns and not recessions.

## Appendix F: Fixed income: performance of segments during periods following recession probabilities rising above 50%

RPI hits 50% level RPI hits subsequent peak	Dec-00 Nov-01	Jun-06 Feb-09	Jul-11 Aug-12	Feb-15 Mar-16	Dec-18 Apr-20	Overall Avg*	Recession Avg**	Slowdown Avg***
<b>RPI (ranges during that time)</b>								
Master RPI (% - %)	54 - 76	52 - 91	50 - 65	53 - 66	55 - 80			
RPI Lead indicator	62 - 70	70 - 79	49 - 59	43 - 57	57 - 76			
RPI Coincident indicator	56 - 79	48 - 97	46 - 64	51 - 68	53 - 86			
RPI Lag indicator	30 - 75	22 - 81	64 - 63	55 - 52	47 - 35			
<b>FI: Global</b>								
Global Aggregate Bonds	3.7%	13.1%	2.7%	3.6%	8.6%	6.3%	8.4%	4.9%
Global Treasuries	1.1%	16.9%	2.1%	5.1%	8.5%	6.7%	9.0%	5.2%
Global Government Related		14.7%	2.3%	1.8%	6.9%	6.4%	14.7%	3.7%
Global Securitized	7.7%	16.5%	3.1%	2.7%	8.0%	7.6%	12.1%	4.6%
Global IG Credit	6.1%	-2.2%	4.6%	1.0%	10.5%	4.0%	1.9%	5.4%
EM External Bonds	0.8%	-0.4%	12.3%	4.1%	5.0%	4.4%	0.2%	7.2%
EM Local Bonds			-0.8%	-2.3%	3.8%	0.2%		0.2%
Global HY Credit	2.4%	-15.7%	7.8%	-0.2%	-0.2%	-1.2%	-6.7%	2.5%
Global Inflation Linked	2.3%	2.0%	4.5%	-0.1%	8.9%	3.5%	2.2%	4.5%
<b>FI: Sovereigns</b>								
US Sov.	7.8%	25.0%	8.0%	3.0%	16.4%	12.1%	16.4%	9.1%
EU Sov.	2.2%	12.9%	-3.7%	3.7%	3.1%	3.6%	7.6%	1.0%
UK Sov.	0.7%	-9.2%	11.5%	-1.9%	17.0%	3.6%	-4.3%	8.9%
EM USD sov		3.7%	14.1%	4.7%	2.0%	6.1%	3.7%	6.9%
<b>FI: Investment grade credit</b>								
US IG credit	11.1%	3.7%	10.3%	1.2%	16.2%	8.5%	7.4%	9.2%
EU IG credit								
EM Corp IG credit		-4.0%	10.3%	1.4%	8.6%	4.1%	-4.0%	6.8%
<b>FI: HY credit</b>								
US HY credit	5.7%	-16.2%	9.3%	-4.2%	4.3%	-0.2%	-5.3%	3.1%
EU HY credit	-15.7%	-25.9%	-4.2%	1.5%	-3.5%	-9.6%	-20.8%	-2.1%
EM Corp HY credit		-32.6%	9.7%	9.6%	3.8%	-2.4%	-32.6%	7.7%

Source: Bloomberg, Bloomberg BGN, Bloomberg Indices, Hedge Fund Research, MSCI, Standard & Poor's, DataStream, Refinitiv, and ADCB Asset Management. | Notes: \*Average of all five instances. \*\* Average of instances Dec'00-Nov'01 and Jun'06-Feb'09 – both periods that have experienced recessions. \*\*\*Average of instances Jul'11-Aug'12, Feb'15-Mar'16, and Dec'18-Apr'20 where the rise in recession probabilities ended in growth slowdowns and not recessions.

## Sources

All information in this report has been obtained from the following sources except where indicated otherwise:

1. Bloomberg
2. Wall Street Journal
3. RTT News
4. Reuters
5. Gulfbase
6. Zawya

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