

Tactical Asset Allocation: Neutral for longer

- ▶ **Macro backdrop remains benign.**
- ▶ **Financial assets are not pricing risks fairly.**
- ▶ **We retain our neutral TAA positioning.**

Growth: Economic data has been mixed globally. While the US economic growth continues to stay strong, and the UK continues to recover, the bounce in Eurozone economic activity seems to be fading and Chinese growth is weak by its own standards. Looking at the economic surprise indices (which measure the extent to which the data comes above or below expectations), with the exception of UK, all other major global regions are reporting below consensus numbers. Looking ahead, we expect the growth to weaken over the remainder of the year. Led by weakness in the US consumer, headline growth in the US is likely to fall below trend, resulting in a weaker growth environment globally. However, we do not see a recession in the US over the next 12 months as a base-case.

Inflation: We expect the disinflation in the US to resume after a brief pause in H1'24. Elsewhere too, we expect inflation to edge down towards their central bank targets. Slowing growth (without slipping into a recession) and a further moderation in inflation should put the balance of risks in a better place for central banks to cut interest rates. Of course, a sharp rise in tariffs as proposed by the Republican Presidential nominee Donald Trump remains a key risk to our disinflation view.

Asset classes: While our base-case sees a more benign macro backdrop of falling inflation and moderating growth without a recession, we think there are a range of risks financial markets have not priced in appropriately. Political risks given the US elections later in the year, simmering geopolitical risks, and potential earnings slowdown given weakening consumer, to mention a few. Given the strong performance of equity markets already this year, the risks are more tilted towards the downside. Moreover, sentiment appears positive, positioning into risk assets is far from being light, valuations are top of the range, and earnings expectations are too high. This calls for a more neutral TAA (exhibit 1) positioning relative to SAA (exhibit 2). We instead highlight our tactical trade ideas (exhibit 3).

Risks to our positioning: Sharper slowdown (downside) or a reacceleration of growth (upside), and stickier inflation leading to interest rates staying elevated for longer are key risks to our positioning.

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Exhibit 1: Tactical Asset Allocation with a 3-month view

Asset Class	Positioning*					Balanced**		
	SUW	UW	N	OW	SOW	SAA	TAA	Active
Equities						41.2	41.2	0.0
North America						25.8	22.8	-3.0
Equal-wt. US						0.0	2.0	2.0
Europe						7.0	8.0	1.0
Japan						2.3	2.3	0.0
APac ex Japan						5.0	5.0	0.0
EM ex Asia						1.0	1.0	0.0
Fixed Income						58.8	58.8	0.0
DM Treasuries IG						32.8	32.8	0.0
DM Corporate IG						12.5	12.5	0.0
EM USD Sov. IG						0.8	0.8	0.0
EM LCY IG						5.1	5.1	0.0
EM Corporate IG						0.6	0.3	-0.3
Global HY						5.0	3.5	-1.5
FRNs (off BM)						0.0	1.8	1.8
Cash						2.0	2.0	0.0
Alternatives						0.0	0.0	0.0

Colour legend Current Previous

Source: Bloomberg, Bloomberg BGN, Bloomberg Indices, Hedge Fund Research, MSCI, Standard & Poor's, DataStream, Refinitiv, and ADCB Asset Management | Notes: *Positioning recommendations: SUW = Significant Underweight; UW = Underweight; N = Neutral; OW = Overweight; SOW = Significant Overweight. **Based on balanced risk profile. SAA = Strategic Asset Allocation; TAA = Tactical Asset Allocation; Active weight = TAA weight – SAA weight. Weights may not sum to 100% due to rounding.

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Exhibit 2: Strategic Asset Allocation

	Cautious	Balanced	Aggressive
Investment objective	Capital Preservation & Moderate growth	Growth & Income	Growth & Moderate Income
Investor Suitability	Moderately Conservative	Moderate	Moderately Aggressive
Asset Allocation			
Equity	20%	35%	65%
Fixed Income	65%	50%	20%
Alternatives	15%	15%	15%

Source: ADCB Asset Management

Exhibit 3: Our high conviction tactical investment themes/trade ideas

Open positions	Asset class	RV?	Date opened	Current date	Performance	Target	Stop
SPW relative to SPX	Equities	Yes	6-Mar-24	26-Jul-24	-3.3%	15%	-10%
US Small Caps (Russel 2000)	Equities		6-Mar-24	26-Jul-24	9.3%	20%	-10%
High dividend yielders index	Equities		6-Mar-24	26-Jul-24	5.3%	15%	-10%
Prefer UST (7Y-10Y) over other DM Sov.	Fixed income	Yes	5-Jul-22	26-Jul-24	-0.7%		
EU IG Corp over US IG Corp	Fixed income	Yes	9-Jan-23	26-Jul-24	4.6%		
HK equities	Equities		14-Nov-22	26-Jul-24	-3.0%		
Chinese hotels & leisure	Equities		14-Nov-22	26-Jul-24	-34.2%		
Chinese semiconductors	Equities		22-Mar-23	26-Jul-24	-25.0%		
Copper	Commodities		15-Jun-23	26-Jul-24	6.6%		
Average					-4.5%		

Source: Bloomberg, and ADCB Asset Management

Exhibit 4: Our high conviction tactical investment themes/trade ideas

Closed positions	Asset class	RV?	Date opened	Date closed	Performance	Target	Stop
USDJPY lower	Currency		6-Mar-24	26-Apr-24	-6.0%	135	160
Dow Jones World Consumer Goods	Equities		25-Aug-23	6-Mar-24	1.5%		
Indian equities	Equities		22-May-23	6-Mar-24	31.3%		
Cybersecurity	Equities		22-Mar-23	6-Mar-24	26.9%		
GBPUSD higher	FX		15-Jun-23	20-Sep-23	-3.4%		
US Diversified banks over US Regional banks	Equities	Yes	13-Mar-23	13-Jun-23	24.8%		
Asia investment grade credit	Fixed income		9-Jan-23	14-Jun-23	1.8%		
USDJPY lower	FX		9-Jan-23	14-Jun-23	-6.1%		
GBPEUR lower	FX		9-Jan-23	14-Jun-23	-2.9%		
Gold	Commodities		14-Nov-22	14-Jun-23	9.7%		
Gold miner equities	Equities		14-Nov-22	14-Jun-23	13.1%		
Average					8.2%		

Source: Bloomberg, and ADCB Asset Management

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