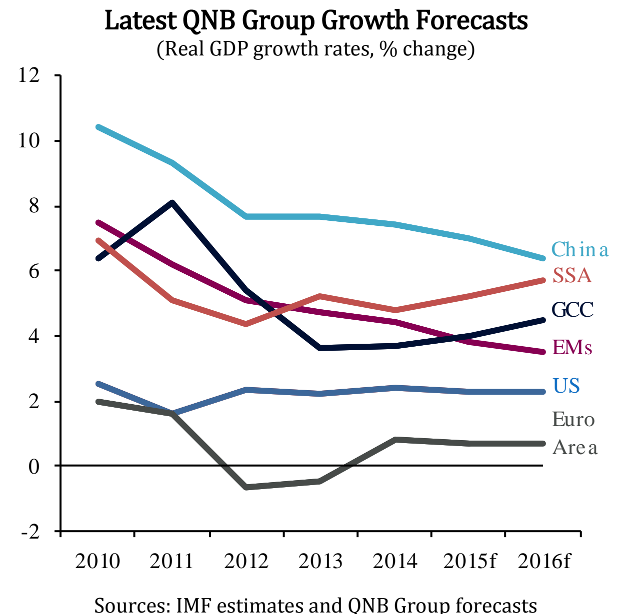
The US economy is slowing down, partially due to the appreciation of the US dollar. Economic activity in the Euro Area is firming, but there are question marks over its sustainability. The continued slowdown of the Chinese economy, together with lower commodity prices, is negatively impacting the rest of Emerging Markets (EMs), with the exception of India. Growth in the GCC and Sub-Sahara Africa (SSA) is expected to remain strong despite lower commodity prices.

- **United States (neutral)**: The data flow continues to point to a slowdown in US activity. March retail sales and industrial production were both soft while the employment data were much weaker than expected. US growth is expected to have slowed to 1.0% in Q1- 2015. Part of the slowdown is due to temporary factors (cold weather and strikes) but there is also evidence that a stronger US dollar is hurting exports. This may continue to be a drag on the economy given the Fed's expected tightening later this year. Overall, we remain neutral on the US outlook, with growth projected to average 2.0%-2.5% in 2015-16.
- **Euro Area (negative)**: Recent data suggest a firming of economic activity, with consumer confidence near a post-crisis high and survey data indicating expansion. The economy is boosted by lower oil prices and the depreciation of the euro, but the sustainability of the recovery relies on strong global growth and escaping deflation. As a result, we expect the Euro Area to grow 0.5%-1.0% in 2015-16.

Latest QNB Group Growth Forecasts
(Real GDP growth rates, % change)



Sources: IMF estimates and QNB Group forecasts

- **China (neutral):** Annual GDP growth slowed to 7.0% in Q1-2015 from 7.3% in the previous quarter. The April HSBC flash manufacturing PMI (49.2) indicates a continuation of the slowdown into Q2. The authorities responded with a larger-than-expected monetary stimulus and are expected to deliver further fiscal and monetary easing to achieve their growth target of around 7.0% in 2015. We therefore remain neutral with growth projected to slow to 6.5-7.0% for 2015 and 6.0%-6.5% in 2016.
- **Emerging Markets (negative)**: The rest of EMs are expected to slow in 2015. In its recently-published World Economic Outlook, the IMF expects the Brazilian economy to contract by 1.0% and the Russian economy by 3.8% this year on the back of lower commodity prices. On the other hand, the IMF expects real GDP growth in India to accelerate to 7.5% in 2015, reflecting the positive impact of Modi's reform agenda announced in the recent budget. Overall, we maintain our negative outlook for EMs with a growth forecast of 3.5%-4.0% for 2015-16, with the exception of India.
- **GCC Countries (positive)**: Saudi Arabia's PMI climbed to 60.1 in February as a result of strong domestic demand and one-off public sector wage increases. At the same time, the UAE's March PMI (56.3) inched further down on slower expansion in output and new orders. Overall, we maintain our positive outlook for the GCC region, with a growth forecast of 4.0-4.5% for 2015-16.
- **SSA (positive)**: Growth in SSA is expected to remain strong despite the headwinds from lower commodity prices and the regional impact of the Ebola epidemic. The successful conclusion of the Nigerian presidential elections has reduced political uncertainty. Therefore, our growth projections for the subcontinent of 5.0-5.5% in 2015 and 5.5-6.0% in 2016.

QNB

Investment Outlook

QNB Investment &
Funds Management
29 April 2015

*Equities performed best this year to date across asset classes, driven by a combination of positive growth momentum and easier policy (mainly in Europe and Japan). We think the return potential for equities remains strongest across asset classes and we remain **Overweight on a 3 and 12 month basis.***

- **Equities:**

Indices performances (%) as of 27/04/2015					
	1 M	6 M	YTD	CAGR 3Y	CAGR 5Y
S&P 500	2.32	6.24	2.43	22.59	15.35
STOXX Europe 600	4.27	25.64	20.40	26.16	12.42
MSCI BRIC	17.66	13.91	18.00	2.27	-1.43
S&P Pan Arab	7.53	-8.14	7.25	9.88	4.04
GS S&P Commodities	7.77	-19.71	3.80	-20.37	-5.27

United States (negative): We moved from neutral to negative. S&P 500 options already seem to price an elevated risk of drawdowns. This indicates that there has been more demand for puts relative to calls. While this may indicate demand for hedging, it could also mean that investors are happy to sell calls as they see limited upside. Either way, it indicates that the market is also concerned about drawdown risk. Recent economics date are supporting our idea.

Europe (positive): We continue to think long-dated options offer an attractive way to gain exposure to continued outperformance of European equities relative to the US while limited risk of near-term setbacks. European fundamentals continue to strengthen relative to the US, with both PMI and earnings momentum being stronger, also driven by positive equity flows from US investors.

Emerging markets (neutral): China is slowing down with no drama, prioritizing reforms over growth but no hard landing in sight. Monetary policy is used to fine tune growth, and market is positive about this. India is capitalizing on reforms after elections and sentiment is positive despite serious rally, but stock market is very expensive. Brazil remains under pressure as the much needed macro adjustments are not easy to implement, while Russia rally seems to have found a resistance after incorporating positive news from the oil price and calming down of the Ukraine situation. The key factor now in EM is the dollar strength, and here the expectations vary. We expect the advance in EM assets to cool down until we have more visibility of FED hikes timing and growth expectation around the world.

GCC (neutral): Positive correlation with oil price and political tensions in Yemen were the main reasons behind the weakness for the past few months. However, we are not underweight mainly driven by a strong positive sentiments from investors and strong inflow in the markets due to positive economic data, despite lower oil price, and the Saudi's market opening to foreign investors. We remain neutral.

- **Bonds (negative):** Global bond yields remain very low due to the ECB's QE and a more dovish Fed. Global bond term premia remain low and negative short and intermediate rates in high-rate European sovereigns have become widespread. We maintain our strategic view that bond yields will rise progressively over the course of this year, outpacing the forwards, which are now very flat. We downgrade our year-end forecasts for the 10-year benchmark bonds in the major regions. Specifically, we now expect 10-year Treasuries to end 2015 at 2.5% (previously 3.0%), German Bunds at 0.5% (previously 0.75%), UK Gilts at 2.00% (previously 2.50%) and JGBs at 60bp (previously 80bp). We also expect US rate volatility to pick up, which is likely to result in lower risk-adjusted returns for bonds. We remain Underweight.

- **Commodities (neutral):** We remain neutral commodities as we expect well-supplied markets and continued inventory build in most markets. Historically, large drawdowns in commodities are not immediately followed by a recovery in total returns, as inventories take longer to normalize and hence keep future curves in contango and roll yields negative. For oil, we believe fundamental adjustments still have some way to go. Over the near-term, we expect US inventories to continue to build at a rapid pace and OECD inventories to also start to build over the coming months. For copper, we are more bearish and expect that visible inventories will continue to grow, weighing on prices over 2015-16. Lower oil prices and the strong dollar are still driving cost deflation across the broader commodity complex, as energy is a significant share of operating costs. In addition, lower China growth (particularly in the property sector) is likely to weigh on copper.

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