MONTHLY INVESTMENT OVERVIEW

EMIRATES INVESTMENT BANK

Asset Class	View	Current Allocation*	Benchmark Allocation*
Equities	Cautious	25.0%	40.0%
Fixed Income	Neutral	45.0%	40.0%
Real Estate	Neutral	5.0%	5.0%
Commodities	Neutral	2.5%	5.0%
Low Vol / Alternatives	Overweight	15.0%	5.0%
Cash	Favour	7.5%	5.0%

Overweight, Favour, Neutral,
Cautious, Underweight

* Allocations are based on a Moderate Risk Profile

About Emirates Investment Bank

EIBank is an independent private bank based in Dubai. It offers a wide-range of investment and banking services to an exclusive, but diverse, client base of high-net-worth individuals from across the region and around the world.

Emirates Investment Bank seeks to build long-term partnerships based on a foundation of trust, stability and integrity, which allows it to appreciate the unique circumstances and objectives of each of its clients. This personalised approach guides the Bank when providing its clients with bespoke banking solutions in connection with their wealth, business, and every day affairs.

MONTH IN BRIEF

JUL 2019

- After a strong rebound in June, global equities paused for breath in July as investors calibrated incoming news flow surrounding the Fed, progress on the US-China trade war and Q2 earnings.
- At the end of the month, the Fed disappointed markets by downplaying expectations that its 25bps cut is a start of an extended easing cycle.
- At the time of this writing, wider market sentiment turned cautious after Trump expressed frustration at the slow pace of trade talks and announced 10% tariffs, effective September 1, on USD300 bn worth of Chinese goods not already subject to levies.
- In the UK, uncertainty rose amid rising concerns about a no-deal Brexit and weighed on the GBP after new PM Johnson's office hinted that another round of Brexit talks might not happen at all, and warned he won't meet EU leaders for negotiations unless they agree to renegotiate certain terms of the deal struck with ex-PM May.
- Amid pressure to cut rates and meaningful declines in recent inflationary pressures, the Turkish Central Bank slashed its key interest rate by 425bps to 19.75%. Overall, the Fed's recent move to a more accommodative stance allows EM Central Banks to bolster their economies against slowing growth, subdued inflation and simmering trade tensions that are hurting manufacturing and investment.
- While optimism that major Central Banks turned dovish is brightening the demand outlook for oil, patchy progress on trade talks between the US and China keeps sentiment in check. Brent was volatile and ended with a loss of 2.1% on the month.

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After a strong rebound in June, global equities paused for breath in July as investors calibrated incoming news flow surrounding the Fed, progress on the US-China trade war and Q2 earnings. While little changed on the US-China trade front through July, the Fed disappointed markets by sounding less dovish than widely expected. Meanwhile, Q2 results so far show S&P500 companies are beating roughly flat earnings growth expectations. With 85% of the S&P500 companies having reported so far, blended EPS growth is seen at a modest 1.5%. In particular, tech heavyweight Alphabet surged on better-than-expected earnings, lifting the S&P500 to a new record high. Global equities, as represented by the MSCI World Index, edged higher by 0.4%, outperforming their Emerging Market (EM) peers, as represented by the MSCI EM Index, by 2.1% in July.

> "A tug of war between recession fears and faith in Central Banks' keeps risk assets aloft"

At its July FOMC meeting, the Fed lowered its benchmark rate by 25bps citing uncertainties around trade tensions and muted inflation pressures. While the move was widely expected, the Central Bank disappointed markets by downplaying expectations that the move is a start of an extended easing cycle. Healthy jobs data and a better-than-expected CPI reading for June provided little evidence that the Fed needed to cut rates but aggressive rate cut expectations may have forced the Fed's hand to deliver a cut, albeit with a more neutral than expected forward guidance. The US 10-year Treasury yield reacted to incoming data and commentary from Fed officials through the month but ended the flat at 2.0%.

At the time of this writing, wider market sentiment turned cautious after Trump expressed frustration at the slow pace of trade talks and announced 10% tariffs, effective September 1, on USD300 bn worth of Chinese goods not already subject to levies. The move took markets by surprise and rattled risk assets. China's swift but measured response to retaliate further worsened risk appetite globally with investors ignoring broadly positive US jobs data and flocking to the safety of Treasuries.

The negative effect from policy uncertainty and trade protectionism is likely to remain an overhang and interest rate cuts will only partially offset the contractionary impact on trade and investment. Meanwhile, with interest rates sub-zero in the Eurozone, Japan and with the Fed left with much less room to cut rates this time around to stimulate the economy in the face of a recession, monetary policy may have run its course. In our view, global slowdown pressures are rising but a more accommodative Fed has reduced the risk of an outright recession over the next 12 months. Meanwhile, the handoff from monetary to fiscal policy has been patchy globally and a co-ordinated, timely fiscal response would be required should a sharp downturn occur. For now, a tug of war between recession fears and faith in Central Banks' keeps risk assets aloft.

While the economy's labor market, household spending and services sector continue to remain strong, Germany's manufacturing woes deepened in July as the manufacturing PMI fell to 43.2 from 45.0 in June. Earlier in the month and in a move that worsens an already stressed trade environment, the French Senate approved a digital tax on foreign technology companies. The move evoked a sharp response from the US with Trump ordering an immediate investigation into it. Overall, Euro-area economic growth slowed dramatically in Q2, yet another signal highlighting deteriorating economic prospects. Meanwhile and mindful of the ongoing weakness in the Eurozone owing to global trade tensions and heightened Brexit uncertainty, the ECB decided to keep rates steady but signalled that it may cut its short-term interest rate in September and

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possibly revamp its QE program. The EUR fell 2.6% against the USD while the EuroStoxx50 closed flat on the month.

Brexit hardliner Boris Johnson became the UK's new PM, further intensifying the political and economic uncertainty for the country. While Johnson has pledged to take the UK out of the EU by the October 31 deadline with or without a deal, the EU rejected his bid to reopen Brexit negotiations. At the time of this writing, Johnson's office hinted that another round of Brexit talks might not happen at all, and has warned he won't meet EU leaders for negotiations unless they agree to renegotiate certain terms of the deal struck with ex-PM May. Meanwhile, several UK ministers resigned opposing Johnson's aggressive stance, increasing the likelihood of a fresh general election. Uncertainty rose amid rising concerns about a no-deal Brexit and weighed on the GBP which lost 4.2% against the USD in July.

> "While the risk of supply disruptions is rising due to the ongoing US-Iran standoff, global slowdown pressures are keeping a lid on oil prices"

The latest data confirmed the sluggish state of Japan's economy. Industrial Production (IP) fell 3.6% in June from the previous month while the unemployment data suggested that the labor market is no longer tightening as fast as it was. Meanwhile and despite years of aggressive monetary stimulus, the BoJ remains far below its 2% inflation objective, but the Central bank is reluctant to cut interest rates or expand its asset purchases any more as the benefits of further monetary easing start to outweigh the costs. The Nikkei225 gained 1.2% in July while the JPY fell 0.9% versus the USD.

In a sign that the economy continues to face headwinds as the trade war with the US drags on, China's GDP growth slowed to 6.2% in Q2 from a year ago. The figure still remains well within the government's 6-6.5% growth target and improvement in June's retail sales and fixed-asset investment point to a stabilization in economic activity as the targeted stimulus measures begin to support slowing consumption and business activity. On the trade front, the US and China concluded a new round of trade talks with little evidence of progress toward ending their year-long dispute. At the time of this writing, Trump's unexpected decision to escalate the trade war weighed on Chinese assets as well. While the latest announcement may well be a negotiating tactic from Trump, the move does little to help bridge deep differences between the two sides. The Shanghai Composite lost 1.6% in July but is up 17.6% year-to-date.

Amid pressure to cut rates and meaningful declines in recent inflationary pressures, the Turkish Central Bank slashed its key interest rate by 425bps to 19.75%. Although the decision remains somewhat controversial after Erdogan's recent firing of the previous Central Bank Governor, markets were relatively composed with the Central Bank's reference to "the continuation of a cautious monetary stance". Elsewhere, Brazil's Central Bank also cut its benchmark interest rate to a record low of 6.0%, citing rising risks associated with a slowdown in global growth. The Fed's recent move to a more accommodative stance allows EM Central Banks to bolster their economies against slowing growth, subdued inflation and simmering trade tensions that are hurting manufacturing and investment.

In the MENA, while optimism that major Central Banks turned dovish is brightening the demand outlook for oil, patchy progress on trade talks between the US and China keeps sentiment in check. Overall, while the risk of supply disruptions due to the ongoing US-Iran standoff puts a floor on oil prices, global economic slowdown pressures are keeping a lid on them. Brent was volatile and ended with a loss of 2.1% on the month. Meanwhile, the S&P Pan Arab Composite edged higher by 0.9% in July.

Asset Class Views

Asset Class	June	July	View / Rationale
Equities	↘	↘	
US	↘	↘	Limited upside due to prolonged trade dispute and subdued EPS growth.
Europe	↘	↘	EPS growth constrained by a weak macro environment.
UK	↘	↘	High dividend yield marred by Brexit risks.
Japan	↔	↔	EPS revisions weak amid a lackluster external environment.
China	↔	↔	Continue to find value in sectors with a domestic-focus.
India	↘	↘	NIFTY finally relenting amid slowdown pressures.
Brazil	↔	↔	Central Bank cuts benchmark rate by an aggressive 50bps to inject life into moribund economy.
Russia	↔	↔	Weak economic activity and falling inflation allows Central Bank to turn accommodative.
MENA	↘	↘	Easing monetary conditions offset by rising geopolitical risks in the region.

Asset Class	June	July	View / Rationale
Fixed Income	↔	↔	
US	↔	↔	Markets second-guessing the Fed on rising trade tensions.
Europe	↘	↘	ECB to push rates lower amid prolonged weakness in the Euro-area economy.
UK	↔	↔	Rising no-deal Brexit scenario to push rates lower.
Japan	↘	↘	BoJ continues to count on yield-curve control to lift near-zero inflation.
China	↔	↔	Monetary conditions to ease further amid escalation in trade war.
India	↔	↔	RBI is expected to cut rates aggressively to turn the struggling economy around.
Brazil	↔	↔	Central Bank cuts benchmark rate by an aggressive 50bps to inject life into moribund economy
Russia	↔	↔	Weak economic activity and falling inflation allows Central Bank to turn accommodative.
MENA	↔	↔	Easing monetary conditions offset by rising geopolitical risks in the region.

↑ Overweight, ↗ Favour, ↔ Neutral, ↘ Cautious, ↓ Underweight

Asset Class Views

Asset Class	June	July	View / Rationale
Currencies			
USD / EUR	↔	↔	Growth differential between the US and the rest of the world limits USD downside.
USD / CHF	↗	↗	A relatively resilient US economy keeps Fed from being outright dovish.
USD / GBP	↗	↗	GBP remains vulnerable to no-deal Brexit outcome.
USD / JPY	↗	↗	Growth differential to support the USD against the JPY.
EUR / CHF	↔	↔	Upside for EUR capped by dovish ECB; but a lot of bad news already in the price.
EUR / GBP	↔	↔	A no-deal Brexit could further weaken the GBP against the EUR.
EUR / JPY	↔	↔	Both currencies face headwinds; but safe-haven JPY can strengthen further if trade scenario deteriorates.
CHF / GBP	↔	↔	GBP remains vulnerable to no-deal Brexit outcome.
CHF / JPY	↔	↔	Continue to be Neutral as both currencies enjoy a safe-haven appeal.
GBP / JPY	↔	↔	GBP remains vulnerable to no-deal Brexit outcome.

↑ Overweight, ↗ Favour, ↔ Neutral, ↘ Cautious, ↓ Underweight

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IMPORTANT INFORMATION