MONTHLY INVESTMENT OVERVIEW

بنك الامارات للاستثمار
EMIRATES INVESTMENT BANK

Asset Class	View	Current Allocation*	Benchmark Allocation*
Equities	Underweight	22.5%	40.0%
Fixed Income	Neutral	40.0%	40.0%
Real Estate	Neutral	5.0%	5.0%
Commodities	Neutral	5.0%	5.0%
Low Vol / Alternatives	Overweight	15.0%	5.0%
Cash	Overweight	12.5%	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

APR 2020

- Equity markets rebounded sharply in April after the severe shock of March. While the spread of COVID-19 continues across the globe, volatility declined from extreme levels as some countries saw their daily infection rates plateau. Record fiscal and monetary stimulus measures also helped contain the damage materially.
- In our view, markets were too optimistic in April, as equity valuations continue to ignore the slew of poor economic data and growing signs that a return to economic and behavioural normalcy is vaccine-dependant.
- While USD5 trillion worth of central bank backstops have spurred equities, causing the S&P500 to trade at a hefty 22x forward earnings, fixed-income spreads continue to price in elevated default risk. The dichotomy between equity and fixed-income valuations is very telling and time will tell which market is pricing-in the full effect of the virus.
- The ECB expanded its QE programme, increasing emphasis on purchases of government bonds of more vulnerable countries like Italy and Spain. The Bank also eased collateral requirements to include high yield bonds in order to support lending to small and medium enterprises.
- While Chinese society is learning to live with the virus and the economy is recovering, the pressure on China's exports has been extensive given the nosedive in overseas demand. Meanwhile, the PBoC continues to strike a balance between economic stabilization and risk prevention.
- At the time of this writing, Saudi announced a slew of austerity measures to cope with the impact of the coronavirus pandemic and an oil-price rout, tripling its value-added tax and cutting a cost-of-living allowance for government workers.

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Equity markets rebounded sharply in April after the severe shock of March. While the spread of COVID-19 continues across the globe, volatility declined from extreme levels as some countries saw their daily infection rates plateau. Record fiscal and monetary stimulus measures also helped contain the damage materially. The S&P500 rose 12.7% in April, its strongest month since 1987, led by a tech sector that is benefiting from an expedited transition to an online world.

With 87% of the constituents of the S&P500 having reported their Q1 results, several companies have suspended or cut their dividends while many others have withdrawn guidance due to very little earnings visibility across most industries. In our view, markets were too optimistic in April, as equity valuations continue to ignore the slew of poor economic data and growing signs that a return to economic and behavioural normalcy is vaccine-dependant.

> "The Fed's balance sheet has ballooned by over 50% to more than USD6 trillion, with some expectations stating that the figure could potentially ultimately soar to USD10 trillion"

Meanwhile, the gap between strong equity performance and the dire global economy is becoming wider. At the time of this writing, April's US jobs report showed the extent of the damage caused by the pandemic. US employers cut an unprecedented 20.5 million jobs in April, taking the unemployment rate to 14.7%, the highest since the Great Depression era of the 1930s. While USD5 trillion worth of central bank backstops have spurred equities, causing the S&P500 to trade at a hefty 22x forward earnings, fixed-income spreads continue to price in elevated default risk.

The dichotomy between equity and fixed-income valuations is very telling and time will tell which market is pricing-in the full effect of the virus. Even as the chances to return to some sort of normalcy appear to be improving with several promising drugs being investigated for treatment, the toll that the crisis has already taken on the global economy can potentially have lasting ramifications for months to come. Despite the sharp equity rebound from the lows in March, considerable uncertainty remains and a lot hinges on the extent to which economies can successfully reopen.

On the month, fixed income rallied, supported by the massive amount of monetary accommodation introduced globally, and credit outperformed government bonds. Not only did the Fed slash its key benchmark rate to near zero in March, it also massively expanded its purchases of Treasury and other agency securities. Extremely aggressive monetary and fiscal measures by US policymakers not only averted a free fall but also aided the sharp April rebound in the credit and equity markets. As a result, the Fed's balance sheet has ballooned by over 50% to more than USD6 trillion, with some expectations stating that the figure could potentially ultimately soar to USD10 trillion. This prompt and much effective backstopping of the corporate credit market, in part by buying ETFs that invest in junk bonds, resulted in a record new issuance of bonds by corporates looking to shore up their balances sheets.

The stringent lockdowns implemented to slow the spread of the coronavirus took a heavy toll on the Eurozone with the Bloc's Q1 GDP declining 3.8% compared to the previous quarter. Q2 readings are expected to be worse as most lockdowns started sometime in March. Meanwhile, the ECB expanded its QE programme, increasing emphasis on purchases of government bonds of more vulnerable countries like Italy and Spain. The Bank also eased collateral requirements to include high yield bonds in order to support lending to small and medium enterprises. The EuroStoxx50 returned 5.1% while the EUR fell 0.7% against the USD in April.

The economic crisis triggered by the Covid-19 pandemic has pushed up the number of profit

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warnings significantly in the UK, with travel and leisure companies being the most affected. Many industries are hit hard by company closures, weak global demand, lockdowns and social distancing measures in response to the pandemic. While the government is due to review the lockdown soon, reports suggest that there are no grounds for a relaxation yet, as the official death toll nears 30,000. The FTSE100 was up 4.0% while the GBP gained 1.4% against the USD in April.

At its April monetary policy meeting, the BoJ announced that it would remove the JPY80 trillion annual quota for government bond purchases. The Central Bank also said it would triple its purchases of corporate bonds and commercial paper to approximately JPY20 trillion annually. Social distancing measures have taken a heavy toll on the economy with industrial production and retail sales sliding. In response, Japan's parliament approved an extra USD240 bn in budgetary expenses earmarked for measures to help individuals and businesses weather the crisis. The Nikkei225 gained 6.8% while the JPY appreciated 0.3% against the USD on the month.

While Chinese society is learning to live with the virus and the economy is recovering, the pressure on China's exports has been extensive given the nosedive in overseas demand. To make matters worse, President Trump appeared to unsettle already fragile sentiment by stating he was considering to impose new trade sanctions on China in retaliation for what he claims to be a lack of cooperation early in the pandemic. While Trump cast doubt on the future of his "phase one" trade deal with China, negotiators from both sides agreed to strengthen cooperation on the economy and public health. Meanwhile, the PBoC continues to strike a balance between economic stabilization and risk prevention. The Bank cut the one-year targeted medium-term lending facility (TMLF) rate by 20bps to below 3%, to further ease financial conditions and accelerate loan issuance. On the month, the Shanghai Composite gained 4.0%.

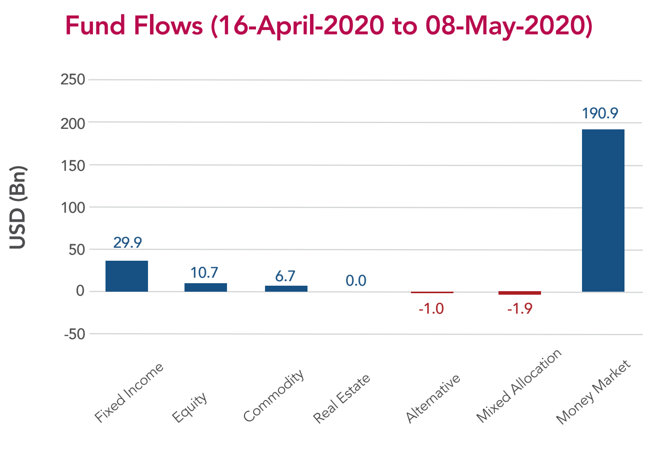
The uncertainty over reported Covid-19 numbers, the risk of a second wave of infections, a resurgence in US-China tension and the collapse in corporate earnings makes it a very difficult environment for Emerging Markets (EM) in general. Room for fiscal stimulus is limited in the developing world and concerns over how efforts to shore up their economies may impact debt sustainability are beginning to rise. EM economies were already facing global slowdown pressures going into the crisis and with the JP Morgan EM Currency Index down 13.7% year-to-date, dollar debt servicing and fiscal easing appear to be daunting tasks for several EM economies.

" Saudi's Finance Minister said "painful" measures, including deep spending cuts, were needed to respond to the crash in oil prices "

Saudi's Finance Minister said "painful" measures, including deep spending cuts, were needed to respond to the crash in oil prices. The collapse in crude prices and the government's drawdown of FX reserves is putting immense pressure on the SAR. At the time of this writing, Saudi announced a slew of austerity measures to cope with the impact of the coronavirus pandemic and an oil-price rout, tripling its value-added tax and cutting a cost-of-living allowance for government workers. Meanwhile, an almost 10 mio bbl/day production cut by OPEC+ may not be enough to offset the demand destruction caused by the pandemic as estimates suggest that oil demand has fallen by somewhere between 25 -30 mio bbl/day. Brent recovered some lost ground in April, gaining 11.1%, while the S&P Pan Arab Composite rallied on the back of global cues, gaining 8.2% on the month.

Fund Flows

- Flows into funds and ETFs were mixed in the week ending May 6th. Global equity funds experienced net outflows after receiving net inflows over the previous two weeks. The divergence between inflows into developed markets funds and outflows from emerging markets funds extended to the fifth week. Inflows were mostly concentrated in defensive sectors like healthcare. Meanwhile, government, investment grade and high yield bond funds all saw moderate additions.
- Short term, we believe we've seen a top in stocks. While we are due for some volatility and range bound trading, the tailwind of the global liquidity pump is still a thing. Markets are engaged in a tug of war between the worst economic decline seen in generations and the largest liquidity injection in history.



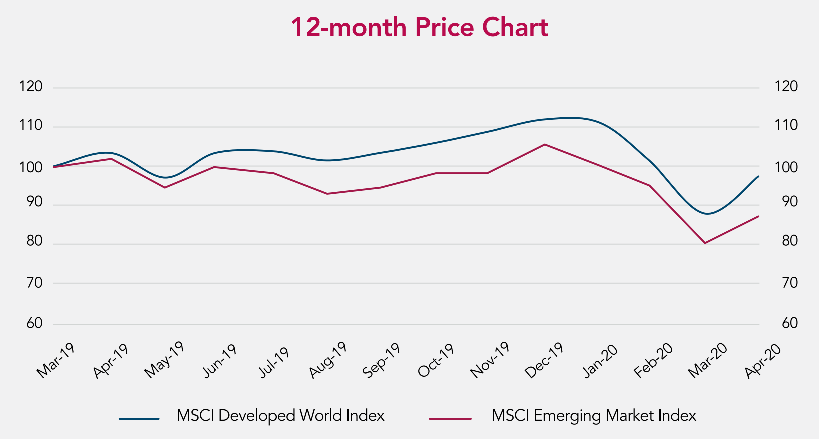
Source: EIBank, Bloomberg

Investment Theme: Prudent to lower equity exposure

After the sharp run-up from their lows in March, equities witnessed a stellar rally in April. While the rapid and aggressive measures taken by central banks and governments have been successful in providing liquidity to the severely stressed areas of the global economy, we believe the worst of the economic and earnings data is still to come and equity markets have ignored a slew of poor economic data for the time being.

Although the rally was mainly led by the dominant tech sector that is clearly benefiting from an expedited transition to a more online world, the suspension of dividends by several S&P500 companies and their withdrawal of earnings guidance has created a blurry forecasting environment and earnings visibility is poor.

As the impact of COVID-19 increasingly appears in high-frequency data like employment and PMIs, it is becoming clear that the slowdown in business conditions and consumer spending could well be worse in Q2 as compared to Q1. In light of the forthcoming economic data, we continue to believe that it would be prudent to lower equity exposure and mitigate potential market drawdown risks from here.



Source: EIBank, Bloomberg

Asset Class Views

Asset Class	March	April	View / Rationale
Equities	↓	↓	
US	↘	↘	With 22.5 million jobs losses in April and unemployment soaring to 14.7%, data is painting a bleak picture for Q2.
Europe	↘	↘	Several European economies are taking tentative steps to reopen even as the threat of a second wave looms.
UK	↘	↘	The size of the shock to the economy will depend on the duration and severity of the ongoing containment measures.
Japan	↓	↓	Global supply-chain disruption and sudden stop in activity poses challenges.
China	↔	↔	The government has shifted from crisis fighting into demand-stimulus mode.
India	↘	↘	A delay in adequate fiscal support is already posing downside risks to a quick recovery.
Brazil	↔	↔	The pandemic threatens to turn already-tepid growth into a recession.
Russia	↘	↘	As the outbreaks worsen, strict containment measures are set to extend well into May.
MENA	↘	↘	The oil-reliant economies are staring at deep spending cuts even as the pandemic brings demand to a near halt.
Asset Class	**March**	**April**	**View / Rationale**
Fixed Income	↔	↔	
US	↔	↔	IG credit spreads have narrowed as investors flock to quality.
Europe	↘	↘	ECB further relaxes its bond-purchase rules to accommodate the struggling periphery.
UK	↔	↔	Lingering demand weakness is likely to prompt further easing from the BoE.
Japan	↘	↘	BoJ raises its asset purchases to fund the record fiscal stimulus.
China	↔	↔	Slowing inflation signals the need for authorities to take further steps to stabilize demand.
India	↔	↔	Monetary policy has been supportive and there remains additional room for easing.
Brazil	↔	↔	According to the Central Bank, the liquidity measures so far represent a much bolder move than the liquidity injection at the 2008 crisis.
Russia	↔	↔	Staring at a severe recession, the Central Bank is prepared to look through the temporary inflationary effects and sees scope for another 100bps of easing.
MENA	↔	↔	Dollar peg and worries about capital flight allows little room for GCC economies on the monetary side.

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

Asset Class Views

Asset Class	March	April	View / Rationale
Currencies			
EUR / USD	↔	↗	EUR to weaken as Fed dismisses speculation about negative interest rates.
CHF / USD	↘	↔	Neutral CHF/USD at current levels.
GBP / USD	↔	↔	GBP is vulnerable in the short term as the lockdown measures are set to be extended in the UK.
USD / JPY	↗	↗	More room for JPY to weaken as industrial production and retail sales slide.

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

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