MONTHLY INVESTMENT OVERVIEW

بنك الامارات للاستثمار

EMIRATES INVESTMENT BANK

Asset Class	View	Current Allocation*	Benchmark Allocation*
Equities	Cautious	25.0%	40.0%
Fixed Income	Neutral	42.5%	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	10.0%	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

AUG 2019

- In August, the VIX trended higher compared to July as trade war rhetoric rattled markets. It was only at the end of the month that a somewhat conciliatory tone was struck between the US & China as trade talks remain scheduled for early October.
- Overall, the positive effects of low inflation, accommodative monetary policy and a relatively strong US consumer are being offset by lower earnings growth, fair to rich asset valuations, shaky investor sentiment, and a struggling manufacturing sector that is being adversely affected by a US-China trade-war.
- The UK's PM Johnson lost his government's ruling majority ahead of the Parliament shutdown, pushing the UK closer toward a snap election. The GBP came under renewed pressure but ended August flat against the USD.
- Amid mounting evidence of the trade war's toll on the Chinese economy, the government pledged to roll out consumer income-boosting measures to offset the ongoing economic slowdown.
- The Argentine Peso (ARS) went into a free-fall in August after a shock primary election result, where populist Fernandez defeated market-friendly incumbent President Macri. The country's equity market, as represented by the MERVAL Index, lost 41.5% on the month, while the ARS plummeted 35.6% against the USD.
- The UAE's largest commercial bank Emirates NBD raised the cap on foreign ownership from 5% to 20% and said it will seek shareholders' approval to double the new limit to 40%. The news bodes well not only for Emirates NBD but also for the UAE markets as a whole as speculation mounts that other companies may seek to raise their own foreign ownership limits.

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In August, the VIX trended higher compared to July as trade war rhetoric rattled markets. Expressing frustration at the slow pace of trade talks, Trump announced 10% tariffs on USD300 bn worth of Chinese goods not already subject to tariffs. China hit back with retaliatory tariffs, vitiating an already uncertain trade outlook. It was only at the end of the month that a somewhat conciliatory tone was struck between the two sides as trade talks remain scheduled for early October. China vowing not to impose retaliatory tariffs immediately against the latest US tariff hike further helped dial down trade tensions.

> "Concerns over the health of the global economy appeared to be the biggest factor weighing on risk sentiment as global yields continued to fall in August"

Meanwhile, China's move to allow the CNY to significantly weaken to cushion some of the impact of fresh US tariffs, prospects of a full-blown currency crisis in Argentina and US yield curve inversion fears put pressure on Emerging Market (EM) currencies as well. Developed Market (DM) equities, as represented by the MXWO Index, lost 2.2% but outperformed their Emerging Market (EM) peers, as represented by the MXEF Index, which lost 5.1%.

An increasingly accommodative monetary policy environment globally, general policy uncertainty in the US, marred by protectionism, and in the UK due to Brexit, have all contributed to gold's enhanced appeal as a safe-haven asset. Gold prices continued to climb in August, rallying 7.5%, taking their year-to-date gains to 18.6%. Overall, the positive effects of low inflation, accommodative monetary policy and a relatively strong US consumer are being offset by lower earnings growth, fair to rich asset valuations, shaky investor sentiment, and a struggling manufacturing sector that is being adversely affected by a US-China trade-war.

While Fed Chair Powell pledged to "act as appropriate" at the symposium in Jackson Hole, investors remained hopeful for further monetary and fiscal stimulus. While, the ECB is expected to announce some sort of QE later this month, Germany could turn to deficit spending to revive its struggling economy. Overall, concerns over the health of the global economy appeared to be the biggest factor weighing on risk sentiment as global yields continued to fall in August. The US yield curve temporarily inverted amid conflicting economic signals and increased uncertainty on the US-China trade front. The US 10-year Treasury yield lost 52bps to end the month at multi-year low of 1.5%.

Amid a gloomy outlook for the Euro-area, the ECB signalled its intention to provide a substantial new monetary stimulus at its next policy meeting on September 12, pushing yields even lower across the bloc with the German 10-year Bund yield falling to a near all-time low of -0.7%. Overall, political uncertainty in the bloc's largest countries including the UK, Italy and Spain is slowing fiscal and monetary policy responses. By the end of month and as some respite, Italy's centre-left Democratic Party and the populist Five Star Movement agreed to form a coalition government after the League Party decided to pull out of the previous government earlier in the month. While the two parties are poles apart in ideology, the new partnership is expected to be a bit more market-friendly with the entry of the more centrist Democratic Party.

Brexit drama appears to be going down to the wire as the UK's PM Johnson arranged to suspend Parliament for five weeks starting September 14 to allow lawmakers very little time to prevent a disorderly Brexit. Although his "do or die" pledge to exit the EU by October 31 has increased the likelihood of a no-deal Brexit, his plan will be tested in a decisive parliamentary battle with a cross-party group of politicians later this month. While the aggressive move increases the chance that Johnson

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could face a no-confidence motion, he seems to believe it will give him greater leverage and boost his credibility at the EU negotiating table. At the time of this writing, Johnson lost his government's ruling majority ahead of the Parliament shutdown, pushing the UK closer toward a snap election. The GBP came under renewed pressure but ended August flat against the USD.

Japan's economy continues to face challenges from US-China trade dispute and a looming sales-tax hike. While fiscal and monetary stimulus have allowed a slow pace of growth, financial imbalances as a result of years of ultra-accommodative easing by the BoJ are raising the long-term costs for the economy. With the Fed poised to cut rates and the BoJ not having much room to ease further, the JPY may not decline much further from its current price levels. On the month, the Nikkei225 gained 3.8% in August while the safe-haven JPY appreciated 2.3% against the USD.

> " While face-to-face talks between the US & Chinese negotiators scheduled for October are still on, there remains very little chance of a near-term breakthrough given the deep structural differences "

The outlook for Chinese manufacturing deteriorated further in August, signalling additional evidence that the U.S.-China trade conflict is taking a toll on the country's economy. While face-to-face talks between the US and Chinese negotiators scheduled for October are still on, there remains very little chance of a near-term breakthrough given the deep structural differences. Earlier in the month and amid mounting evidence of the trade war's toll on the Chinese economy, the government pledged to roll out consumer income-boosting measures to offset the ongoing economic slowdown. The CNY lost 4.0% against the USD while the Shanghai Composite edged lower by 1.6% in August.

The Argentine Peso (ARS) went into a free-fall in August after a shock primary election result, where populist Fernandez defeated market-friendly incumbent President Macri. While the final round of elections will be held in October, the upset raises the prospect of a protectionist government and casts a doubt on the sustainability of the ongoing IMF bailout programme. The country's equity market, as represented by the MERVAL Index, lost 41.5% on the month, while the ARS plummeted 35.6% against the USD.

Meanwhile, India's GDP grew at its slowest pace in over six years in the April-June quarter on account of a sharp fall in investment and subdued consumer demand. Slowdown in the auto sector, which accounts for a large chunk of manufacturing activity was a drag on growth. The slump reflects the structural nature of the slowdown and raises calls for a coordinated fiscal and monetary response.

Despite their currencies facing downward pressures from a strong USD and the prospect of a simmering global currency war, EM Central Banks are prioritizing growth through looser monetary policies. Central Banks of Egypt, Turkey, Indonesia and New Zealand have recently cut their respective benchmark rates while those of Thailand and Malaysia have cut their 2019 growth forecasts. The MSCI EM Currency Index has lost 3.3% in August alone on global slowdown worries.

Brent lost 7.3% in August as a deepening trade war further stoked fears that fading global economic growth will hurt demand. Meanwhile, the UAE's largest commercial bank Emirates NBD raised the cap on foreign ownership from 5% to 20% and said it will seek shareholders' approval to double the new limit to 40%. The news bodes well not only for Emirates NBD but also for the UAE markets as a whole as speculation mounts that other companies may seek to raise their own foreign ownership limits. The S&P Pan Arab Composite ended August with a gain of 0.9%.

Asset Class Views

Asset Class	July	August	View / Rationale
Equities	↘	↘	
US	↘	↘	Limited upside due to prolonged trade dispute and subdued EPS growth.
Europe	↘	↘	Macro environment remains depressed.
UK	↘	↘	No-deal Brexit risks rise with PM Johnson's aggressive stance.
Japan	↔	↔	A slowdown in the external environment derails a fragile recovery.
China	↔	↔	Targeted stimulus measures generate opportunities in the domestic consumption themes.
India	↘	↘	Expectations of a fiscal boost rise after a 6-year low GDP print.
Brazil	↔	↔	GDP growth at 1% in Q2, above consensus expectations of 0.7% and growth of 0.5% in Q1.
Russia	↔	↔	Cheap valuations put a floor on equities but a re-rating remains elusive.
MENA	↘	↘	The MENA region continues to seek a catalyst as investors start to bottom fish.
Asset Class	**July**	**August**	**View / Rationale**
Fixed Income	↔	↔	
US	↔	↔	Relatively attractive US rates put downward pressure on yields.
Europe	↘	↘	Yields across the bloc factoring in a meaningful stimulus from the ECB.
UK	↔	↔	Safe-haven trade pushes yields lower.
Japan	↘	↘	Yield-curve control keeps rates zero bound and unattractive.
China	↔	↔	Authorities look to targeted stimulus amid protracted trade war.
India	↔	↔	Monetary easing cycle is expected to be front-loaded to kick-start a slowing economy.
Brazil	↔	↔	Central Bank to balance currency depreciation risks against rate cut expectations.
Russia	↔	↔	Weak inflation allows Central Bank to remain accommodative.
MENA	↔	↔	An expected rate-cut of 25bps by the Fed in September should bode well for MENA paper.

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

Asset Class Views

Asset Class	July	August	View / Rationale
Currencies			
USD / EUR	Neutral	Neutral	Prospects of less aggresive ECB easing provides some support to the EUR.
USD / CHF	Favour	Favour	US economic fundamentals continue to underpin the USD.
USD / GBP	Favour	Favour	An increased risk of a no-deal Brexit exposes the GBP to further weakness.
USD / JPY	Favour	Favour	USD has room to strengthen against the JPY from current levels.
EUR / CHF	Neutral	Neutral	Prospects of less aggresive ECB easing provides some support to the EUR.
EUR / GBP	Neutral	Favour	Depressed GBP remains speculative against the EUR.
EUR / JPY	Neutral	Neutral	Both currencies face downward economic pressures.
CHF / GBP	Neutral	Favour	An increased risk of a no-deal Brexit exposes the GBP to further weakness.
CHF / JPY	Neutral	Neutral	Continue to be Neutral as both currencies attract the safety bid.
GBP / JPY	Neutral	Neutral	Depressed GBP remains vulnerable to a disorderly Brexit.

Overweight, Favour, Neutral, Cautious, Underweight

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