MONTHLY INVESTMENT OVERVIEW

بنك الامارات للاستثمار

EMIRATES INVESTMENT BANK

Asset Class	View	Current Allocation*	Benchmark Allocation*
Equities	Cautious	30.0%	40.0%
Fixed Income	Neutral	40.0%	40.0%
Real Estate	Neutral	5.0%	5.0%
Commodities	Cautious	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

FEB 2018

- Concerns about rising US inflation and interest rates, fueled by a stronger-than-expected 2.9% rise in January's wages, triggered a global market sell-off in the first week of February, erasing all of the year-to-date gains across most major asset classes.
- The Trump administration moved to impose tariffs of 25% on steel and 10% on aluminum imports, stoking fears of a global trade war, which could potentially disrupt the on-going global growth momentum.
- The European Commission raised its Eurozone 2018-2019 growth projections, supported by rising business confidence and evidenced in the Eurozone Composite PMI, which realized its strongest monthly gain since June 2006, coming in at 58.8 for January.
- In the UK, while manufacturing continues to hold up well with strong productivity growth, GBP-induced inflation has hurt household spending, while Brexit worries continue to hamper the business environment.
- In India, after more than two quarters of major supply-side disruptions caused by demonetization and the introduction of the nationwide Goods & Services Tax (GST), India's economy seems to have turned the corner as it grew 7.2% in the last quarter of 2017, its fastest pace in five quarters.
- Weakness in global markets, a larger-than-expected increase in US oil inventories and concerns of a sustained pick-up in US shale production took a toll on oil markets.

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Concerns about rising US inflation and interest rates, fueled by a stronger-than-expected 2.9% rise in January's wages, triggered a global market sell-off in the first week of February, erasing all of the year-to-date gains across most major asset classes. Bond yields jumped with the US 10-year Treasury yield hitting a fresh four-year high of 2.95%, while the S&P500 ended February lower by 3.9%. Volatility spiked as fear of higher inflation and a potentially more aggressive Fed kept risk assets under pressure even as the JP Morgan Global Composite PMI came in at 54.6 for January, a 40-month high. On the earnings front, solid Q4 results continue to underpin equity valuations as US firms benefit from tax relief as well as the announced fiscal spending package, while leading economic indicators suggest robust manufacturing activity ahead.

> " Volatility spiked as fear of higher inflation and a potentially more aggressive Fed kept risk assets under pressure. "

At the time of this writing, the Trump administration moved to impose tariffs of 25% on steel and 10% on aluminum imports, stoking fears of a global trade war, which could potentially disrupt the on-going global growth momentum. We continue to take selective equity exposure given fair-to-rich market valuations and downside risks from knee-jerk policy initiatives. Meanwhile, January FOMC minutes reaffirmed market sentiment that increased economic growth and an uptick in inflation warrant a gradual rate hike path. Fed officials concluded that "upside risks" to economic growth had increased thanks to tax cuts, increased consumer spending and overall confidence. Despite a more dovish tone by new Fed Chair Powell at the Senate Banking Committee, market sentiment took a blow in the beginning of March on New York Fed's Dudley's statement that four rate hikes by the Fed this year would constitute a "gradual" tightening.

The European Commission raised its Eurozone 2018-2019 growth projections, supported by rising business confidence and evidenced in the Eurozone Composite PMI, which realized its strongest monthly gain since June 2006, coming in at 58.8 for January. Despite an uptick in inflation expectations and some members expressing a preference for dropping the easing bias, the ECB kept its monetary stance unchanged at its January meeting, citing concerns over the strength and volatility of the EUR. ECB meeting minutes showed inflation is picking up at a faster pace than previously forecast and that the ECB could revisit its monetary policy "early this year". However, the Eurozone headline CPI rate dipped from 1.3% to 1.2% in February, its weakest level since December 2016, while core CPI remained steady at 1.0%. Meanwhile, Italians went to the presidential polls on March 4 with the final results yet to be announced. At the time of this writing, exit polls suggest a hung parliament with the eurosceptic 'Five Star Movement' set to emerge as the single largest party. The EuroStoxx50 tracked the global sell-off and ended February lower by 4.7%, while the EUR depreciated by 1.8% against the USD.

In the UK, Q4 GDP growth was revised downwards to 0.4%, from an earlier 0.5% reading, taking the full year growth figure to 1.7%, its slowest in five years. Unemployment rose slightly in Q4, inching up to 4.4% accompanied by a marginal rise in wages. While manufacturing continues to hold up well with strong productivity growth, GBP-induced inflation has hurt household spending, while Brexit worries continue to hamper the business

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environment. Earlier in the month, the Bank of England (BoE) kept its benchmark rate unchanged at 0.5%, while warning that it may need to accelerate interest rate hikes to bring inflation down toward its 2% target. Meanwhile, in a speech that lacked specifics, PM May struck a conciliatory tone on Brexit, recognized the need for compromise and called for a trade deal that is more comprehensive than with any other non-member state. The GBP lost 3.0% against the USD, while the FTSE100 edged lower by 4.0% in February.

In a strong signal that ultra-accommodative monetary policy is here to stay for the foreseeable future, PM Abe nominated incumbent Kuroda for a second five-year term as Bank of Japan (BoJ) Governor. Earlier, and despite rising global yields, the BoJ reiterated its resolve to maintain its ultra-loose monetary policy, stating it would continue to buy an unlimited amount of Japanese government bonds (JGBs) at a yield of 0.1%. The Bank also raised its 2018 fiscal year growth forecast slightly higher, while maintaining its 1.4% inflation forecast. The Nikkei225 lost 4.5%, while the JPY continued to strengthen and closed the month at 106.68 versus the USD, up by 2.3%. The JPY has appreciated 5.3% versus the USD year-to-date, complicating matters for the BoJ as it struggles to revive inflation, despite a record low level of unemployment.

> "India's economy seems to have turned the corner as it grew 7.2% in the last quarter of 2017, its fastest pace in five quarters."

In China, the official manufacturing PMI hit a 19-month low of 50.3 in February, from 51.3 in January, with the Lunar New Year holidays contributing to a deceleration in business activity. The Chinese economy is expected to slow down after better-than-expected GDP growth in 2017 as the government cracks down on polluting industries and high debt levels. The non-manufacturing PMI figure also dropped from 55.3 in January to 54.4.

In India, after more than two quarters of major supply-side disruptions caused by demonetization and the introduction of the nationwide Goods & Services Tax (GST), India's economy seems to have turned the corner as it grew 7.2% in the last quarter of 2017, its fastest pace in five quarters. Meanwhile, higher food inflation and the government's fiscal deficit overshoot pushed the Reserve Bank of India (RBI) to shift to a hawkish tone, leading the 10-year government bond yield to a two-year high of 7.7%. Overall, higher oil prices and a spike in bond yields are likely to hit private investment and growth going forward. The benchmark NIFTY followed the global trend, dropping 4.9% in February.

In South Africa, the government increased its VAT to 15%, from 14%, as new President Ramaphosa seeks to stabilize debt, cut spending and prevent a junk rating by Moody's in March. The move is an unpopular but important political signal to re-establish fiscal discipline. The ZAR has gained 4.7% against the USD year-to-date.

Weakness in global markets, a larger-than-expected increase in US oil inventories and concerns of a sustained pick-up in US shale production took a toll on oil markets. Brent had a volatile February and ended with a monthly loss of 4.7%. In Saudi, inflation surged by 4.0% month-over-month in January on the back of fuel subsidy cuts and the introduction of a VAT. Overall, the S&P Pan Arab Composite Index ended February lower by 2.0%.

Asset Class Views

Asset Class	January	February	View / Rationale
Equities	↘	↘	
US	↘	↘	Trade war fears have the potential to disrupt synchronized growth momentum.
Europe	↔	↔	2018-2019 Eurozone growth expectations raised by the EC.
UK	↘	↘	Brexit worries continue to hamper demand environment.
Japan	↔	↔	JPY strengthening will allow the BoJ to maintain its accommodative stance.
China	↔	↔	Effects of deleveraging start to impact demand growth.
India	↘	↘	Higher oil prices and fiscal overshoot to affect private investment and growth.
Brazil	↘	↘	Overall macroeconomic indicators improving but unemployment still stubbornly high.
Russia	↔	↔	Strong earnings growth and recent S&P upgrade should bode well for equities.
MENA	↘	↘	Egypt currently providing the most attractive opportunities.
Asset Class	**January**	**February**	**View / Rationale**
Fixed Income	↔	↔	
US	↔	↔	Selectivity remains key as fiscal laxity via tax cuts and infrastructure spending to put upward pressure on yields.
Europe	↘	↘	Despite subdued inflation, strong growth momentum to push yields higher.
UK	↔	↔	Stubbornly high inflation forces the BoE to remain hawkish.
Japan	↘	↘	Globally rising yields put upward pressure on the zero-bound JGB yields.
China	↔	↔	An expected slowdown amid the deleveraging drive calls for credit selectivity.
India	↔	↔	Fiscal overshoot and high oil prices put upward pressure on yields.
Brazil	↔	↔	Accommodative Central Bank given below-target inflation and timid recovery.
Russia	↔	↔	Below target inflation to give room to the Central Bank for further rate cuts.
MENA	↔	↔	USD-pegged monetary policies to keep upward pressure on yields.

⬆ Overweight, ↗ Favour, ↔ Neutral, ↘ Cautious, ⬇ Underweight

Asset Class Views

Asset Class	January	February	View / Rationale *
Currencies	NA**	NA**	
USD / EUR	↔	↔	Various forces continue to play in favour of both currencies.
USD / CHF	↗	↗	Favour the USD as the Fed could raise rates at a quicker pace.
USD / GBP	↔	↔	Continue to be Neutral as the Fed and the BoE focus on inflationary pressures.
USD / JPY	↗	↗	Favour the USD versus the JPY given BoJ's resolve to revive moribund inflation.
EUR / CHF	↗	↗	Favour the EUR on rising economic growth in the Eurozone.
EUR / GBP	↔	↔	Continue to remain Neutral at this time.
EUR / JPY	↗	↗	Favour the EUR versus the JPY on growth differential.
CHF / GBP	↔	↔	Higher rate path expected by the BoE as inflation remains a concern.
CHF / JPY	↗	↗	Favour the CHF as the BoJ remains ultra-accommodative.
GBP / JPY	↔	↗	GBP has more room to strengthen against the JPY at the current levels.

* Reference currency is the USD

**NA - Not applicable

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

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