MONTHLY INVESTMENT OVERVIEW

EMIRATES INVESTMENT BANK

Asset Class	View	Current Allocation*	Benchmark Allocation*
Equities	Cautious	25.0%	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	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

JAN 2019

- After a poor December, both developed and emerging market equities rebounded 7.7% and 8.7%, respectively last month on improved risk appetite despite continued Brexit uncertainty and an Italy in recession. After de-risking our portfolios in late-October, we decided to use the December equity sell-off to selectively enter into several new positions in January and lock in profits in other positions that have rebounded.
- Amid fears of a slowdown in global growth and still subdued US inflationary pressures, Powell reiterated the Fed's willingness to be patient while also indicating the Bank's ability to maintain a much larger balance sheet than it had earlier envisaged. A dovish Fed and semblance of progress on the trade front aided risk assets.
- The sharp fall in oil prices in Q4 has created a stark problem for the ECB in terms of achieving its 2.0% inflation target, especially now that the Bank has stopped buying new QE bonds starting this year.
- Mindful of the ongoing slowdown, the People's Bank of China (PBoC) cut the reserve requirement ratio (RRR) for banks by 100bps in January, a fifth RRR cut since Jan 2018. Although the economy finds some support from tax cuts and PBoC monetary stimulus as evidenced by December's positive retail sales data, growth is expected to decelerate further in 2019.
- In India and in a surprising move, new RBI Governor Das cut the benchmark rate by 25bps to 6.25%, citing a sharp slowdown in inflation and providing PM Modi the kind of stimulus he needs to spur economic growth just ahead of Federal elections in May.

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Despite the partial US government shutdown for the most of January and a more-than-expected decline in the US ISM service sector gauge earlier in the month, global equities had a solid start to the new year on progressing US-China trade talks and signs that the Fed will take a "patient" approach on further rate hikes. After a poor December, both developed and emerging market equities rebounded 7.7% and 8.7%, respectively last month on improved risk appetite despite continued Brexit uncertainty and an Italy in recession. After de-risking our portfolios in late-October, we decided to use the December equity sell-off to selectively enter into several new positions in January and lock in profits in other positions that have rebounded.

> "The GBP lost some ground after EU officials said they would not be open to negotiations completed in November"

On the earnings front, with around 70% of S&P500 companies having reported their Q4 earnings, EPS growth stands at a healthy 14.2% on a year-on-year basis so far. The S&P500 was sensitive to the ongoing Q4 earnings season and ended January with a gain of 7.9%.

Amid fears of a slowdown in global growth and still subdued US inflationary pressures, Powell reiterated the Fed's willingness to be patient while also indicating the Bank's ability to maintain a much larger balance sheet than it had earlier envisaged. Meanwhile, January US jobs data posted strong gains despite the partial government shutdown with average hourly earnings growing at 3.2% year-on-year (YoY), unchanged from December. The uptick in the unemployment rate to 3.9% can largely be explained by an improvement in the participation rate. Overall, a dovish Fed, citing muted inflationary pressures and semblance of progress on the trade front, aided risk assets as the Dollar Index cooled off further in January, losing 0.6% while the 10-year US Treasury yield fell 5bps to close at 2.63%.

The Eurozone's composite PMI fell to 50.7 in January from 51.1 in December, indicating a poor start to Q1 while Italy officially slipped into recession, its economy shrinking by 0.2% in Q4, after declining by 0.1% in Q3 2018. Meanwhile, Eurozone headline CPI for January slowed to 1.4% YoY, below December's 1.6%. The sharp fall in oil prices in Q4 remained the main reason for the reversal in headline CPI numbers as the core CPI (ex. food and energy) figure actually increased to 1.1% versus 1.0% in December. This has created a stark problem for the ECB in terms of achieving its 2.0% inflation target, especially now that the Bank has stopped buying new QE bonds starting this year. Meanwhile, Draghi acknowledged that the economic outlook had deteriorated since his last review in December and indicated that the ECB might have to keep its monetary policy loose for longer. Despite clear evidence pointing to a slowdown in the Eurozone, domestic demand has remained fairly resilient. Lower oil prices and a gradually tightening labor market are providing support to consumption. For the month, the EuroStoxx50 gained 5.3% while the EUR ended with a mild loss of 0.2% against the USD.

After losing the Parliamentary vote on her draft Brexit deal with the EU, PM May managed to win support of the Lower House to renegotiate key contentious issues. The GBP lost some ground after EU officials said they would not be open to negotiations completed in November. Despite time running out to strike a deal with the EU, news that certain UK cabinet ministers would seek to delay the Brexit deadline aided risk appetite for the GBP, which rose 2.8% against the USD in January while the FTSE100 gained 3.6%.

Japanese industrial output edged lower by 0.1% in December from a month earlier, fueling concerns

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that the economy is facing strong headwinds amid weakness in China and uncertainty surrounding ongoing US-China trade negotiations. Meanwhile, December headline inflation fell to 0.3% year-over-year, compared to 0.8% in November, its lowest level since October 2017. In response, the BoJ left its yield curve-control program and asset purchases unchanged while lowering its inflation forecast yet again, citing lower oil prices as the primary reason. The BoJ also flagged concerns about the potential for external risks to weigh on household and corporate confidence. For the month, the Nikkei225 gained 3.8% while the JPY also edged higher by 0.7% against the USD.

> "A more dovish Fed clearly willing to adjust not only its rate path but also the size of its balance sheet augured well for emerging markets"

After China grew 6.6% in 2018, the country's manufacturing PMI contracted for a second-straight month in January, printing at 49.5 and slightly above December's 49.4 figure. Mindful of the ongoing slowdown, the PBoC cut the reserve requirement ratio (RRR) for banks by 100bps in January, a fifth RRR cut since Jan 2018. Although the economy finds some support from tax cuts and PBoC monetary stimulus as evidenced by December's positive retail sales data, growth is expected to decelerate further in 2019. At the time of this writing, Chinese officials and their US counterparts met in the US with both sides signalling some progress on key sticking points beyond the trade imbalance while agreeing to continue negotiations in February.

A more dovish Fed clearly willing to adjust not only its rate path but also the size of its balance sheet augured well for Emerging Markets (EM). Turkey's BIST100 Index rallied 14.0% in January on improved sentiment, aided by the Turkish Central Bank's decision to hold its key interest rate at 24.0% amid steady but still high inflation. The TRY gained 2.4% against the USD in January as policymakers assured markets that "if needed, further monetary tightening will be delivered."

Meanwhile in Brazil and immediately after being sworn into office, newly elected President Bolsonaro hit the ground running by vowing to fight endemic corruption and usher in much-needed structural reforms. Investor optimism continued into the new year with the Ibovespa gaining 10.8% in January even as the BRL gained 5.9% against the USD. A decline in the political risk premium, a steady BRL and subdued inflationary pressures have all helped improve sentiment towards Brazilian assets.

In India and in a surprising move, new RBI Governor Das cut the benchmark rate by 25bps to 6.25%, citing a sharp slowdown in inflation and providing PM Modi the kind of stimulus he needs to spur economic growth just ahead of Federal elections in May. The rate cut comes on the back of Modi's expansionary interim budget before elections, raising concerns that additional government spending may create a larger than expected deficit.

After suffering its worst quarter since Q4 2014, oil rallied last month on reports of Saudi production cuts and enhanced risk sentiment on hopes that an all-out trade war between the US and China might be averted. Despite Brent's stellar gain of 15.0% in January, oil prices remain vulnerable to global economic slowdown fears and the outcome of ongoing US-China trade negotiations. Meanwhile, Saudi's headline PMI climbed from 54.5 in December to 56.2 in January on an uptick in new orders and a modest rise in private sector jobs and wages. For the month, the MENA markets gained on a sharp rally in oil and positive sentiment towards EM in general. The S&P Pan Arab Composite rebounded 6.4% in January.

Asset Class Views

Asset Class	December	January	View / Rationale
Equities	↘	↘	
US	↘	↘	Fair valuations may entice some investors to lock in some profits after a strong start to the year.
Europe	↔	↔	A 20% discount to US equities is representative of the Bloc's slowing economic growth.
UK	↘	↘	Brexit uncertainty continues to mar attractive valuations.
Japan	↔	↔	Slowing global growth remains a headwind.
China	↔	↔	Domestic consumption holding up well amid PBoC stimulus.
India	↘	↘	Election uncertainty to keep upside capped for now.
Brazil	↔	↔	Further direction depends on real progress on structural reforms.
Russia	↔	↔	Valuations are attractive but political uncertainty to remain a headwind.
MENA	↘	↘	Q4 earnings growth at only 3.9% with almost 30% of companies having reported so far.

Asset Class	December	January	View / Rationale
Fixed Income	↔	↔	
US	↔	↔	A risk-off rotational shift from equities to fixed-income is warranted after a strong equity return so far this year.
Europe	↘	↘	ECB's 'loose for longer' monetary stance to act as a price floor but relative yields are still low.
UK	↔	↔	BOE to remain supportive with Brexit outcome still unclear.
Japan	↘	↘	Yields still anchored to zero levels and expected to remain so with inflationary pressures no where in sight.
China	↔	↔	PBoC stance to remain accommodative as it is clearly focused on slowing growth.
India	↔	↔	Another lower inflation reading allowed the new RBI governor to surprisingly cut the benchmark rate.
Brazil	↔	↔	CBB to remain very accommodative as price pressures remain well-contained.
Russia	↔	↔	Central Bank to keep neutral stance as inflation hovers around target.
MENA	↔	↔	Credit metrics will be tested in 2019 as balance sheets weaken.

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

Asset Class Views

Asset Class	December	January	View / Rationale
Currencies			
USD / EUR	↔	↔	A neutral Fed opens room for modest USD weakness but EUR has its own downside risks.
USD / CHF	↗	↗	Favor USD versus CHF at current levels.
USD / GBP	↗	↗	Brexit uncertainty still looming heavy on the GBP.
USD / JPY	↗	↗	Slowing global outlook to weigh on the JPY.
EUR / CHF	↗	↔	SNB and ECB to remain dovish as growth comes in below expectations for both jurisdictions.
EUR / GBP	↗	↔	While the EUR poses some downside risks, the outlook for the GBP continues to be uncertain.
EUR / JPY	↗	↔	Downgrade EUR/JPY on the JPY's safe-haven status.
CHF / GBP	↔	↔	GBP continues to be Brexit-news dependant.
CHF / JPY	↔	↔	We remain Neutral CHF/JPY at current levels.
GBP / JPY	↔	↔	Brexit uncertainty keeping GBP pressured against the JPY.

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

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