MONTHLY INVESTMENT OVERVIEW

EMIRATES INVESTMENT BANK

Asset Class	View	Current Allocation*	Benchmark Allocation*
Equities	Cautious	27.5%	40.0%
Fixed Income	Neutral	40.0%	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	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 2020

- January started on a dismal note as tensions between Iran and the US rose after the US killed Iran's most powerful military commander in a drone attack. Risk appetite took another blow in the second half of January on concerns that the China-originated coronavirus may disrupt world trade and tourism and meaningfully slow an already sluggish global economy.
- With about 64% of the S&P500 companies having reported so far, blended EPS growth is running flat year-over-year while revenues are seen rising only 3.1%. However, some of the largest US companies have positively surprised on the earnings front.
- ECB President Lagarde pointed to easing global trade tensions for the improving outlook and said downside risks to the bloc are now less pronounced. While data remains weak overall, the uptick in services and inflation helped boost sagging business confidence.
- The EU ratified the UK's Brexit bill, setting the stage for eleven months of intense parleys to determine whether the two sides can avoid a disorderly separation. Overall, the uncertainty for businesses is expected to continue as the possibility of a no-deal Brexit still remains and the outcome depends on how negotiations play out through the rest of the year.
- India's annual budget for 2020 focused on reviving anaemic rural demand, a substantial infrastructure push while offering income tax doles to taxpayers in an attempt to boost their purchasing power.
- Abundant supplies and demand destruction concerns weighed heavily on oil prices last month. With travel bans and China extending the Lunar New Year holiday, demand worries worsened and got incrementally reflected in oil prices.

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January started on a dismal note as tensions between Iran and the US rose after the US killed Iran's most powerful military commander in a drone attack. While the situation was quickly brought under control as Trump offered a de-escalatory response to Iran's 'retaliatory' missile strikes on a US base in Iraq, risk appetite took another blow in the second half of January on concerns that the China-originated coronavirus may disrupt world trade and tourism and meaningfully slow an already sluggish global economy. Investors sidestepped Q4 earnings-related news flow and enthusiasm over the phase one US-China trade deal faded as investors chose to focus on the potential impact of the outbreak. Global equities ended mixed with Emerging Market (EM) assets selling off while safe-haven assets such as Treasuries, gold and the JPY benefitted.

Even as it praised China's efforts to contain the spread of the virus, the World Health Organization (WHO) declared the coronavirus outbreak a global public health emergency. Several major countries advised their citizens to avoid traveling to China while facilitating the exit of those who are already there. Overall, business closures in China and supply chain disruptions are expected to weigh on China's Q1 GDP and impede already sluggish global growth. The effect of the virus outbreak on global GDP is hard to predict at this point and will depend on how well the virus is contained.

On the earnings front, Q4 earnings season has somewhat been overshadowed by the volatile news flow surrounding the coronavirus. With about 64% of the S&P500 companies having reported so far, blended EPS growth is running flat year-over-year while revenues are seen rising only 3.1%. However, some of the largest US companies have positively surprised on the earnings front. While Apple's EPS got a boost from strong iPhone sales, Microsoft continued to post solid growth in its cloud business. Amazon jumped 7.4% after beating EPS expectations on the back of a solid growth in its Prime membership program.

> "Powell said that the Fed will continue repurchase operations through April and said it was too early to assess the economic impact of the coronavirus"

At its January rate-setting meeting, the Fed decided to keep its benchmark interest rate unchanged at 1.75%. Chair Powell signalled that the Fed would do all that is necessary and is intent on evading the downward spiral in inflation expectations globally. While the overall monetary policy stance remained broadly unchanged and data-dependent, Fed officials did note that the pace of household spending has dropped to a more moderate pace recently. Powell said that the Fed will continue repurchase operations through April and said it was too early to assess the economic impact of the coronavirus. US-Iran tensions initially and then concerns over the impact that the novel coronavirus could have on already sluggish growth benefitted safety assets. Aggressive safe-haven buying continued through the month with the 10-year US Treasury yield losing 41bps to end at 1.51%.

In the Eurozone, hopes rose that the German economy may have seen its worst as the manufacturing PMI rose to 45.2 in January from 43.7 in December. While manufacturing is still in contractionary territory, the pace of contraction was less severe than expected, helping the composite PMI rise to a 5-month high of 51.2 in January. Order books in the bloc continued to stabilize in January and inventories fell the most in more than three years. Meanwhile, ECB President Lagarde pointed to easing global trade tensions for the improving outlook and said downside risks to the bloc are now less pronounced. While data remains weak overall, the uptick in services and inflation helped boost sagging business confidence. On the month, the EuroStoxx50 lost 2.8% while the EUR fell 1.1% against the USD.

At Carney's final meeting as BoE Governor, the BoE kept the benchmark interest rate on hold at 0.75%, waiting for more evidence of an economic rebound before supporting it with a cut while noting surveys of business activity have picked up "quite markedly in some cases" since PM Johnson's election victory. In some evidence of that, the UK's manufacturing PMI avoided a contraction in January for the first time since April last year, providing further evidence

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that ebbing political uncertainty is supporting the economy for now. Meanwhile, the EU ratified the UK's Brexit bill, setting the stage for eleven months of intense parleys to determine whether the two sides can avoid a disorderly separation. While PM Johnson managed to deliver on his promise to get the UK out of the EU, he must now negotiate a comprehensive trade deal with the bloc by year-end. Overall, the uncertainty for businesses is expected to continue as the possibility of a no-deal Brexit still remains and the outcome depends on how negotiations play out through the rest of the year. The FTSE100 lost 3.4% while the GBP edged lower by 0.4% against the USD in January.

In Japan and amid an improving trade outlook and the recent fiscal stimulus announcement by the Japanese government, the BoJ kept its monetary policy unchanged. However, Governor Kuroda walked a cautious line on the economy and downplayed speculation that he was looking to normalize monetary policy anytime soon as inflation continued to undershoot expectations by a wide margin. Earlier, data showed inflation-adjusted wages in Japan fell at their fastest clip since August even as core inflation, at 0.5%, remains well below the BoJ's 2.0% target. Authorities are looking at ways to boost spending and have repeatedly prodded businesses to increase wages to help lift inflation. On the month, rising tensions in the Middle East and the coronavirus scare aided the safe-haven JPY which gained 0.3% against the USD while the Nikkei225 lost 1.9%

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China, being the epicentre of the coronavirus, had to contend with the outbreak and news flow surrounding it dominated sentiment. The tourism, airline and gaming sectors bore the maximum brunt of investor concerns as the Chinese government locked down cities and shut down transportation networks in an effort to contain the virus. Meanwhile and despite the limited number of casualties so far, comparisons with the SARS outbreak in 2003 weighed heavily on risk appetite.

The Shanghai Composite slumped 7.7% on February 3 as China's financial markets reopened after the extended Lunar New Year holidays. While it is still early days and policymakers attempt to ease the sell-off through injections of liquidity into the system, volatility is expected to persist until clear signs emerge that the spread of the virus is contained.

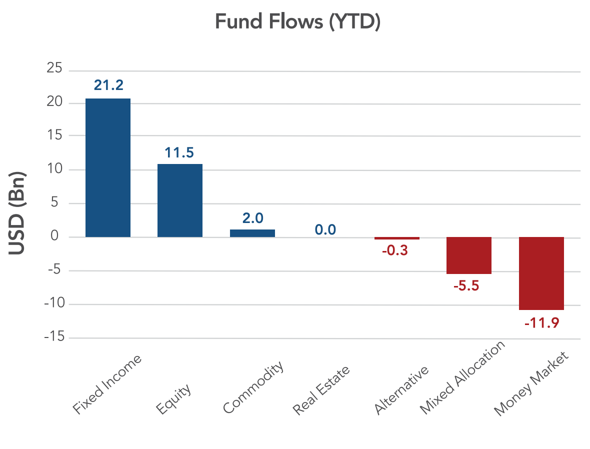
As part of the constitutional overhaul, Russia's Putin proposed giving the State Council a broad new authority to set the direction of foreign, domestic and economic policy. While the changes are widely seen as an effort to lay the groundwork for him to extend his rule beyond the end of his current term in 2024, the proposal will be subject to a national vote once and if it is passed by the Russian Parliament.

Meanwhile, India's annual budget for 2020 focused on reviving anaemic rural demand, a substantial infrastructure push while offering income tax doles to taxpayers in an attempt to boost their purchasing power. In other EM, assets suffered as investors weighed the risks and economic fallout from the deadly coronavirus. The MSCI EM Index fell to its lowest level in seven weeks and lost 4.7% on the month while most EM currencies weakened against the USD.

Abundant supplies and demand destruction concerns weighed heavily on oil prices last month. With travel bans and China extending the Lunar New Year holiday, demand worries worsened and got incrementally reflected in oil prices. Estimates of the epidemic's impact on oil demand vary widely and are adding to some worries among oil investors. Brent lost 10.3% in the last two weeks of January and fell by 11.9% on the month. Although elevated tensions in Libya have disrupted production, the International Energy Agency noted that global markets have a "solid base" of inventories, worsening the outlook for oil prices. Meanwhile, the S&P Pan Arab Composite was volatile but managed to hold up well and closed lower by just 0.7% on the month.

Fund Flows

- In terms of fund flows on a year-to-date basis, fixed-income has seen the largest inflows across our fund universe. While fixed-income is expense in our view, investors are turning to it as a safe-haven, risk-off trade in light of coronavirus, contagion fears.
- Equity funds have also seen a significant amount of inflows as central banks are likely to continue their easy monetary policies for the foreseeable future. On a relative value basis, equities are more attractive than fixed-income but investors are exposed to significant drawdown risk given fair-to-rich valuations across the equity universe.
- Money market funds have seen the most outflows so far as investors shift to fixed-income and equities in an accommodative world.



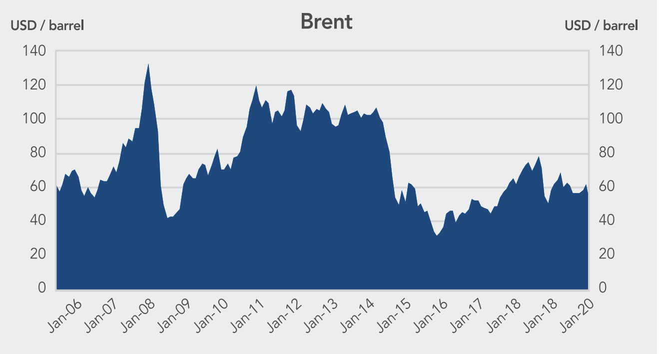
Source: EIBank, Bloomberg

FX, Rates & Commodities

- The Euro fell to its lowest since October 2019 at 1.0948. A recent barrage of strong employment data in the US encouraged investors to buy more USD. In the short term, USD-strengthening may be curbed if the positive news of a potential vaccine being tested against the coronavirus materialises.
- The GBP also recorded its worst couple of weeks since the December election in the UK, trading just below 1.2900 to the USD and 0.8500 to the EUR . The reason for this is nothing else but the on-going brewing worries on the path of the negotiations between UK and the EU for a post-Brexit trade agreement. Expect to see some volatility rising in both GBP/USD and EUR/GBP pairs.
- Meanwhile, the CHF has been trading sideways at around 0.9700 to the USD while it has continued strengthening against the EUR, currently at 1.0700. While in general CHF has a reputation of being a safe haven asset and it has strengthened over the last few months, it has fallen victim to the wider risk-averse sentiment in the markets re the coronavirus and has lost some ground to the USD recently.
- Gold, over the past 12 months has performed amazingly at +20%, with a clear linkage to falling interest rates. It also has a tendency to spike in the short term when bad news get released, most recent examples are US-Iran tensions and the coronavirus outbreak. It should also exhibit the tendency to recover lower just as quickly, should any confirmation of containment of the outbreak be absorbed in its price, so again expect some range bound trading
- The price of oil has taken the brunt of the virus outbreak: At present China, being the factory of the world, is consuming approximately 20% less oil than usual, with both WTI and Brent recording a $10/barrel drop last month, currently trading at $50.30/barrel and $54.50/barrel respectively. It is very likely we may be close to the bottom for oil, particularly if the expectations for a vaccine materialize.

Investment Theme: Oil

Oil prices have corrected by approximately 20% over the past month due to demand destruction, mainly from China, as a result of the corona virus. Prices could have dropped even further if Libya's oil output wasn't cut as a result of the warring factions there, which actually may now be nearing a resolution. Meanwhile, OPEC & Russia have not been able to agree on a production cut to stabilize prices. Prices could continue dropping from here but they seem to have slightly more upside than downside. Containment of the corona virus would be a clear positive for demand while OPEC & Russia may finally agree to a deal.



Source: EIBank, Bloomberg

In light of the drop in oil prices, and especially if prices drop by another 10% to 20% from the current levels, a one-year investment note that provides further downside protection of approximately 30% and pays a guaranteed coupon would be attractive in our view. We would be able to develop such a note that accounts for the current supply-demand market fundamentals of the oil market.

Asset Class Views

Asset Class	December	January	View / Rationale
Equities	Cautious	Cautious	
US	Cautious	Cautious	A little over 60% of S&P500 companies have reported their Q4 earnings, averaging 0.5% growth rate y-o-y so far.
Europe	Cautious	Cautious	Economic data still weak but some signs of a modest recovery appear.
UK	Neutral	Neutral	Political uncertainty to continue as both sides look to hash out a trade deal by year-end.
Japan	Cautious	Cautious	Domestic weakness partially being countered by fiscal measures.
China	Neutral	Neutral	Coronavirus to impact Q1 growth and is hurting investor sentiment.
India	Cautious	Cautious	A budget focused on reviving rural demand should lead to a gradual recovery.
Brazil	Neutral	Neutral	Commodities under pressure from coronavirus impact.
Russia	Neutral	Neutral	Economy more resilient today to lower oil prices.
MENA	Cautious	Cautious	A sharp downward correction in oil prices doesn't augur well for oil-dependent MENA economies.
Asset Class	**December**	**January**	**View / Rationale**
Fixed Income	Neutral	Neutral	
US	Neutral	Neutral	Safe-haven trade into US Treasuries due to coronavirus threat could well be played out.
Europe	Cautious	Cautious	Green shoots of an economic recovery render but rates to remain anchored for now.
UK	Neutral	Neutral	Political uncertainty and dovish BoE to keep rates lower for longer.
Japan	Cautious	Cautious	An inflation downgrade by the BoJ to ease any upward pressure on rates.
China	Neutral	Neutral	A setback by the virus outbreak to put downward pressure on yields.
India	Neutral	Neutral	Fiscal slippage worries to put upward pressure on rates.
Brazil	Neutral	Neutral	A sliding BRL creates a dilemma for the Central Bank even as inflation remains low.
Russia	Neutral	Neutral	Further room for the Central Bank to cut rates as both inflation and growth lag.
MENA	Neutral	Neutral	A sharp reversal in oil prices downwards doesn't augur well for credit quality.

Overweight, Favour, Neutral, Cautious, Underweight

Asset Class Views

Asset Class	December	January	View / Rationale
Currencies			
USD / EUR	↔	↔	Any uptick in Euro-area activity should provide some support to the EUR.
USD / CHF	↗	↗	SNB held its policy rate at -0.75% at its latest meeting given the benign inflationary environment.
USD / GBP	↔	↔	Signs of ebbing political uncertainty is providing some support to the UK economy.
USD / JPY	↗	↗	A slight upgrade in growth forecasts is not likely to be enough to turn us positive on the JPY.
EUR / CHF	↔	↔	CHF has some room to correct against the EUR after a slight rally late last year.
EUR / GBP	↔	↔	Both currencies have a lot to lose if negotiations take a turn toward a disorderly Brexit.
EUR / JPY	↔	↔	Both currencies are seen as funding sources to play a carry trade.
CHF / GBP	↔	↔	Signs of ebbing political uncertainty is providing some support to the UK economy.
CHF / JPY	↔	↔	Continued risk-off sentiment to benefit both the currencies.
GBP / JPY	↗	↗	Signs of ebbing political uncertainty is providing some support to the UK economy.

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

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IMPORTANT INFORMATION