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	Neutral	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

JUN 2018

- Global markets were under pressure for most of last month as tensions between the US and its trading partners intensified.
- At the end of the month, trade war fears abated somewhat as the Trump administration softened its aggressive trade rhetoric and plans to block Chinese access to US technology were scrapped in favour of a more rigorous review of all inbound foreign investments into the US.
- A strong US economy prompted the Fed to raise rates by 25bps at its June 13 meeting while projecting two further rate hikes this year. Powell expressed confidence in the economy while downplaying the international effect of tighter US monetary policy.
- Trade tensions were also at the forefront between the EU and the US as Trump threatened a 20% tariff on auto imports if the EU did not lower its trade barriers. In response, German automakers tried to defuse an escalation by proposing that the US and the EU scrap all tariffs on auto trade.
- In the UK, a bounce back in retail sales, the lowest unemployment rate since 1975 and surveys pointing to firming wage pressures suggest that rates would need to be raised later this year.
- Amid slowing growth due to the on-going deleveraging drive and dampened sentiment amid trade war fears, Chinese stocks have faced relentless selling pressure in recent weeks.
- In the MENA, MSCI confirmed that Saudi will be added to its EM index from June 2019, in a move expected to help the Kingdom attract greater investment. The 2.6% allocation to Saudi could translate to up to USD40 bn in equity flows.

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Global markets were under pressure for most of last month as tensions between the US and its trading partners intensified. Trump threatened to impose tariffs on almost all Chinese imports into the US and warned the EU of steep tariffs on auto imports if they retaliated on his initial protectionist measures on steel and aluminum. At the end of the month, trade war fears abated somewhat as the Trump administration softened its aggressive trade rhetoric and plans to block Chinese access to US technology were scrapped in favour of a more rigorous review of all inbound foreign investments into the US. As a result, US equities recovered some lost ground with the S&P500 ending the month almost flat. Global equities, as measured by the MSCI All Country World Index dropped 0.7%, dragged down by Emerging Market (EM) equities which lost 4.6% in June.

Meanwhile, economic data confirmed that weakness in US consumption in Q1 was temporary as retail sales grew by 5.9% year-over-year (YoY) in May and unemployment fell to 3.8%, the lowest level since 1969. A strong US economy prompted the Fed to raise rates by 25bps at its June 13 meeting while projecting two further rate hikes this year. Powell expressed confidence in the economy while downplaying the international effect of tighter US monetary policy. The 10-year US Treasury yield ended flat at 2.86% as unresolved trade tensions overshadowed the Fed's upbeat assessment of the US economy. The Dollar Index continued to climb higher as trade worries drove investors into safe-haven assets. Overall, the US 2-10 year spread continued to tighten and stood at 33bps at the end of the month.

In Europe, after weeks of political logjam in Italy, the two leading populist parties finally formed a coalition government, naming an academic Conte as PM. While outlining his government's plan for growth with populist rhetoric, Conte said that leaving the currency bloc is not on the agenda and that the government does not intend to renegotiate fiscal policy with the EU. Despite the conciliatory tone, the prospect of fiscal slippages and a confrontational approach with the EU establishment kept Italian equities under pressure with the FTSE MIB ending Q2 lower by 3.5%. Trade tensions were also at the forefront between the EU and the US as Trump threatened a 20% tariff on auto imports if the EU did not lower its trade barriers. In response, German automakers tried to defuse an escalation by proposing that the US and the EU scrap all tariffs on auto trade.

> "The ECB said it will reduce QE to EUR15 bn a month in October and cease it at the year-end, keeping interest rates steady at least through the summer of 2019."

Later in the month, while EU leaders failed to make any substantial progress on Brexit, they managed to negotiate a tentative immigration deal, agreeing to ramp up border security controls and expedite the process to decide on asylum seekers by voluntarily opening centers to process applications. The deal reduces some pressure on Merkel from her smaller coalition partner which has been threatening to turn away migrants at Germany's border. Meanwhile and despite cutting its growth forecast, the ECB said it will reduce QE to EUR15 bn a month in October and cease it at the year-end, keeping interest rates steady "at least through the summer of 2019". Both the EuroStoxx50 and the EUR whipsawed through the month, ending almost flat.

Meanwhile in the UK, the BoE held its benchmark rate at 0.5% amid falling inflation and lackluster growth data. The vote was closer than expected as the Bank's chief economist Haldane unexpectedly voted for a 25bps rate hike. A bounce back in retail sales, the lowest unemployment rate since 1975 and surveys pointing to firming wage pressures suggest that rates would need to be raised later this year. The GBP edged lower by 0.7% against the USD while the FTSE100 ended 0.5% lower for the month.

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Japan's unemployment rate fell to 2.2% in May, a 26-year low and below expectations of 2.5%. Core CPI, which excludes food and energy, remains subdued at below 0.5% as individuals and companies continue to hoard cash despite sustained government efforts to induce both consumer and business spending. The Nikkei225 gained 0.5% in June while the JPY edged lower by 1.8% against the USD.

China's Central Bank, which had already injected liquidity through its medium-term lending facility, announced a 50bps cut in the Reserve Ratio Requirement (RRR) for most banks in an attempt to relax the government's deleveraging stance, at least for the interim period. Amid slowing growth due to the on-going deleveraging drive and dampened sentiment amid trade war fears, Chinese stocks have faced relentless selling pressure in recent weeks. The Shanghai Composite lost 8.0% in June alone and is down 13.9% year-to-date (YTD) while the CNY ended June at a 6-month low of 6.621 against the USD.

> "Saudi will be added to the MSCI EM Index from June 2019, potentially attracting up to USD40 bn in equity flows."

In other major Emerging Markets, Turkey was in focus in June as Erdogan secured a new 5-year term as president, giving him near sweeping powers won in a controversial referendum held last year. Meanwhile, the IMF approved a USD50 bn credit line to Argentina in exchange for faster fiscal cuts, more central bank independence, changes to its inflation targets and free-floating the currency. Both the TRY and the ARS have lost 21% and 55% respectively so far this year on problematic politics, high deficits and spiralling inflation. Overall, EM equities and currencies posted their worst quarter since 2015 amid escalating trade war fears and growth concerns in China.

In Brazil, the Central Bank reduced its 2018 GDP growth forecast to 1.6% from 2.6%, blaming a weak Q1 and subdued business and consumer confidence indicators. Amid an increasingly bearish view on the economy exacerbated by the recent 10-day truckers strike, policymakers tried to support the BRL through additional swap agreements to reduce pressure on the currency. Political uncertainty ahead of general elections in October, fiscal concerns and rising global yields are putting pressure on the BRL which has lost 17.2% versus the USD YTD.

Overall, the MSCI EM Index lost 8.7% in Q2 and underperformed its developed counterpart, as measured by the MSCI World Index, by 9.8%. Trade war concerns, US interest rate increases accompanied by USD strength could put additional pressure on vulnerable EM economies with large current account deficits.

In the MENA, MSCI confirmed that Saudi will be added to its EM index from June 2019, in a move expected to help the Kingdom attract greater investment. The 2.6% allocation to Saudi could translate to up to USD40 bn in equity flows. Meanwhile, the UAE Central Bank announced new caps on the banking fees that lenders can charge customers in the country. The move is an attempt to protect consumers from anti-competitive practices and increase confidence among retail borrowers.

Meanwhile and amid pressure from Trump and other major oil consuming countries over rising oil prices, OPEC agreed to boost production by a lesser-than-expected 600k bbl/day in order to make up for production shortfalls in Venezuela and Iran. Falling US crude oil inventories and reports that the Trump administration aims to stop all Iranian crude exports by November 4 pushed oil prices higher. For the month, Brent gained 2.4% while the S&P Pan Arab Composite edged higher by 0.7%.

Asset Class Views

Asset Class	May	June	View / Rationale
Equities	↘	↘	
US	↘	↘	Despite solid fundamentals, trade war concerns to weigh on equities.
Europe	↔	↔	Internal political risks resurfacing while trade talks with the US to continue to evolve.
UK	↘	↘	Recent positive economic data tempered by Brexit politics.
Japan	↔	↔	Record low unemployment and supportive BoJ to support risk assets.
China	↔	↔	Trade war fears and deleveraging drive weigh on risk sentiment.
India	↘	↘	High oil prices and election heavy calendar add some uncertainty.
Brazil	↘	↘	Central Bank reduced its 2018 GDP growth forecast to 1.6% from 2.6%.
Russia	↘	↘	Higher oil prices provide support amid sanctions.
MENA	↘	↘	Selectivity is key as higher oil prices need to be buttressed with structural economic reforms.

Asset Class	May	June	View / Rationale
Fixed Income	↔	↔	
US	↔	↔	Trade disruptions keep a lid on yields despite robust fundamentals.
Europe	↘	↘	Uptick in inflation and ECB taper plans to push yields upwards.
UK	↔	↔	BoE meeting and economic data suggest rates need to be raised later this year.
Japan	↘	↘	Open-ended BoJ to keep yields zero-bound.
China	↔	↔	Supportive monetary backdrop in light of slowing growth to push yields lower.
India	↔	↔	Inflation worries on oil and recent INR depreciation to keep yields elevated.
Brazil	↔	↔	Monetary policy to remain accommodative to support slowing growth.
Russia	↔	↔	Low inflation allows Central Bank to remain accommodative.
MENA	↔	↔	A normalizing Fed to put upward pressure on yields as two more rate hikes projected this year.

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

Asset Class Views

Asset Class	May	June	View / Rationale *
Currencies	NA**	NA**	
USD / EUR	↔	↔	ECB QE unwind by end of year should provide some support to the EUR.
USD / CHF	↔	↔	Twin deficit issues to weigh on the USD versus the CHF.
USD / GBP	↗	↔	BoE meeting and economic data suggest rates need to be raised later this year.
USD / JPY	↗	↗	Favour the USD versus the JPY as BoJ struggles to revive inflation.
EUR / CHF	↔	↔	ECB QE unwind by end of year should provide some support to the EUR.
EUR / GBP	↔	↔	Continue to maintain a Neutral stance between the EUR and GBP at current levels.
EUR / JPY	↗	↗	Favour the EUR versus the JPY as BoJ struggles with lack of inflation.
CHF / GBP	↔	↔	GBP on watch for potential upgrade against the CHF as recent economic data supportive.
CHF / JPY	↗	↗	Favour the CHF given BoJ's ultra-accommodative stance.
GBP / JPY	↗	↗	BoE meeting and economic data suggest rates need to be raised later this year.

* Reference currency is the USD

**NA - Not applicable

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

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