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	45.0%	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 2019

- Grappling with incrementally weaker economic data, uncertainty surrounding the US-China trade deal, and declining inflation expectations, Central Banks took centre stage in June. A coordinated 'readiness to act' by major central banks provides a sturdy floor to risk assets.
- Investors heaved a sigh of relief after Trump and Xi agreed to a temporary truce and while neither side offered a timeline for negotiations, global equities as well as safe-haven assets rallied in June on monetary easing expectations and positive developments on the US-China trade front.
- The ECB also renewed its dovish stance with the Bank's President Draghi explicitly stating that monetary policy would be loosened as early as July unless the economy improves. The EUR rebounded from a multi-month low, rising 1.8% against the USD on the month.
- Uncertainty over Brexit and the possibility of a general election remains front and centre on the minds of investors. UK equities have underperformed their European peers in the first half of the year with the FTSE100 gaining 10.4% while the EuroStoxx50 rose 15.7% in H1 2019.
- EM equities and currencies gained in June on rising optimism ahead of the G20 meeting between Trump and Xi. As the two leaders met and reached a temporary trade truce at the end of the month, the MSCI EM Currency Index rallied 2.0% in June.
- Russia and OPEC agreed to extend oil production cuts by 1.2mio bbl/day for another six to nine months, signalling that the oil market is still oversupplied and that demand growth looks weaker through the end of 2019.

MONTHLY INVESTMENT OVERVIEW

Grappling with incrementally weaker economic data, uncertainty surrounding the US-China trade deal, and declining inflation expectations, Central Banks took centre stage in June. While China announced plans to boost infra spending through the issuance of local government debt, the ECB and the BoJ declared their readiness to ease policy further, if required. Meanwhile, the Fed left its key interest rate unchanged but dropped the 'patient' narrative, signalling it would also reduce rates if required. A coordinated 'readiness to act' by major central banks provides a sturdy floor to risk assets.

> " A coordinated 'readiness to act' by major central banks provides a sturdy floor to risk assets "

Towards the end of the month, and after his meeting with Chinese President Xi on the sidelines of the G20 summit, Trump said he would hold off on tariffs on an additional USD300 bn worth of Chinese imports for the time being after both sides agreed to resume negotiations. Investors heaved a sigh of relief after Trump and Xi agreed to a temporary truce and while neither side offered a timeline for negotiations, global equities as well as safe-haven assets rallied in June on monetary easing expectations and positive developments on the US-China trade front. Developed equities, as represented by the MSCI World Index, gained 6.5% while their Emerging Market (EM) peers, as represented by the MSCI EM Index, rallied 5.7%.

Amid slowing economic data and declining inflation expectations, the Fed said it stands ready to cut interest rates later this year, if required. Renewed and concerted accommodative commentary from major Central banks pushed global interest rates lower with the US 10-year Treasury yield falling 12bps to 2.0%. This is a significant move downwards given that the yield was above 3% late last year. Meanwhile, protectionist measures have weighed on Germany's export-driven industrial sector and the overall weak sentiment has adversely affected its services sector and consumer confidence. Recent geopolitical worries and structurally low inflation have buoyed the safe-haven trade, as also reflected by the German 10-year government yield which is now deep into negative territory, yielding -0.33%.

Eurozone manufacturing shrank for a fifth month in June with the challenging economic environment leading to another drop in orders. Amid growing concerns about downside risks to the economic outlook, the ECB also renewed its dovish stance with the Bank's President Draghi explicitly stating that monetary policy would be loosened as early as July unless the economy improves. The stance tries to convince markets that the ECB is not short of ammunition in its effort to revive slowing growth and inflation. The EUR rebounded from a multi-month low, rising 1.8% against the USD on the month.

The GBP edged higher by 0.5% against the USD in June, as the Bank of England (BoE) bucked the dovish trend globally and decided to hold short-term rates steady at 0.75%. Despite worsening PMI figures and factory inflation cooling to a 3-year low in May, the BoE surprisingly remains inflation-focussed but sees no urgency to pursue its stated policy of gradually raising interest rates. The Central Bank lowered its Q2 GDP forecast for the UK to 0.0%, from its earlier 0.2%, and still sees an orderly UK withdrawal from the EU as the more likely outcome. Meanwhile, uncertainty over Brexit and the possibility of a general election remains front and centre on the minds of investors. UK equities have underperformed their European peers in the first half of the year with the FTSE100 gaining 10.4% while the EuroStoxx50 rose 15.7% in H1 2019.

MONTHLY INVESTMENT OVERVIEW

While Japanese exports to the US rose in May, overall exports declined for a sixth straight month led by a larger-than-expected decline in exports to China. Meanwhile and amid a deteriorating trade and inflation outlook, the Bank of Japan (BoJ) kept its monetary policy unchanged while suggesting it may allow the 10-year Japanese government bond yield to fall below the -0.2% target. Inflation expectations in Japan have stagnated and keep the BoJ under pressure even after years of ultra-accommodative monetary policy. The Nikkei225 gained 3.3% while the uncertainty surrounding the G20 meeting and heightened tensions in the Middle East bid the safe-haven JPY higher by 0.4% against the USD.

After two down months, Chinese equities trended higher in June, buoyed by positive developments on the trade front. After threatening to impose additional tariffs, Trump pulled back in the wake of talks with China's Xi at the G20 summit. Although the meeting offers no clear path to rolling back existing tariffs, it buys time for both sides to restart negotiations and work toward some sort of a mutually agreeable trade deal. As the outcome of the meeting was in line with overall market expectations through the month, the Shanghai Composite ended June higher by 2.8%.

Meanwhile and amid weak economic data and a decline in business and consumer confidence owing to the global slowdown, Brazil's Central Bank cut its 2019 economic growth forecast to 0.8% from 2.0%, and said growth is likely to be lower than expected through 2021. While the Central Bank expects the economy to recover later in the year, the recovery is contingent on the approval of pension reforms and an improvement in the global economy. Earlier in the month, tensions between NATO allies, Turkey and the US, escalated and the threat of US sanctions loomed large over Turkey's decision to go ahead with its purchase of Russian military equipment. Overall, EM equities and currencies gained in June on rising optimism ahead of the G20 meeting between Trump and Xi. As the two leaders met and reached a temporary trade truce at the end of the month, the MSCI EM Currency Index rallied 2.0% in June.

> "Hostility between the US and Iran worsened after the Trump administration imposed sanctions on Iran's top leadership"

Geopolitical tensions ratcheted higher in the Middle East amid reports that Iran shot down an unmanned US military drone while Trump apparently ordered and then cancelled airstrikes against Iranian targets. By the end of the month, hostility between the two sides worsened after the Trump administration imposed sanctions on Iran's top leadership. These sanctions mark a new level of confrontation and make it harder for the EU and other signatories to salvage the 2015 nuclear deal with Iran.

The volatile situation heightened oil supply concerns even as US stockpiles increased, causing Brent to rise 3.2% on the month while the S&P Pan Arab Composite gained 2.6% on strong global cues. Meanwhile, Russia and OPEC agreed to extend oil production cuts by 1.2mio bbl/day for another six to nine months, signalling that the oil market is still oversupplied and that demand growth looks weaker through the end of 2019. OPEC is clearly trying to maintain higher oil prices amid increasing US shale supply even if it comes at the expense of a falling market share for the cartel.

Asset Class Views

Asset Class	May	June	View / Rationale
Equities	↘	↘	
US	↘	↘	With a temporary trade truce in place, Q2 earnings to decide further direction.
Europe	↘	↘	Amid disappointing manufacturing data, the consumer and ECB come to the rescue for risk assets.
UK	↘	↘	Investors overlook cheap valuations and await clarity on Brexit.
Japan	↔	↔	Weak EPS revisions and trade protectionism keep equities range-bound.
China	↔	↔	Liquidity infusion to aid demand recovery and select equities with a domestic focus.
India	↘	↘	Economy stuck in a cyclical slowdown.
Brazil	↔	↔	Central Bank cut its growth forecast from 2.0% to 0.8% citing global growth slowdown as a headwind.
Russia	↔	↔	After a strong finish to 2018, economic expansion stalled in Q1.
MENA	↘	↘	Geopolitical risks to supress budding risk appetite towards the region.

Asset Class	May	June	View / Rationale
Fixed Income	↔	↔	
US	↔	↔	Better-than-expected jobs data tempers aggressive rate cut expectations.
Europe	↘	↘	German and French 10-year yields highlight the extent of the slowdown.
UK	↔	↔	Rates on hold as inflation data cools.
Japan	↘	↘	Rates to remain zero-bound for much longer as BoJ re-iterates dovish stance.
China	↔	↔	Monetary conditions to remain accommodative amid trade uncertainty.
India	↔	↔	Despite RBI's accommodative stance, high fiscal deficit puts a floor on rates.
Brazil	↔	↔	Stubbornly disappointing growth to keep Central Bank accommodative.
Russia	↔	↔	Slowing inflation allows for some monetary easing.
MENA	↔	↔	MENA rates to track the Fed's stance.

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

Asset Class Views

Asset Class	May	June	View / Rationale
Currencies			
USD / EUR	Neutral	Neutral	ECB dovishness poses some downside risk to the EUR.
USD / CHF	Favour	Favour	A strong employment report makes the case for a stronger USD.
USD / GBP	Favour	Favour	GBP depressed as Brexit uncertainty remains an overhang.
USD / JPY	Favour	Favour	USD has room to strengthen against the JPY fundamentally.
EUR / CHF	Neutral	Neutral	Neutral EUR versus the CHF at the current levels.
EUR / GBP	Neutral	Neutral	GBP depressed as Brexit uncertainty remains an overhang.
EUR / JPY	Neutral	Neutral	Upside capped for the EUR against the JPY by dovish ECB.
CHF / GBP	Neutral	Neutral	GBP direction contingent on Brexit clarity.
CHF / JPY	Neutral	Neutral	Continue to be Neutral as both currencies can act as a safe-haven hedge this year.
GBP / JPY	Neutral	Neutral	GBP direction contingent on Brexit clarity.

Overweight, Favour, Neutral, Cautious, Underweight

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