MONTHLY INVESTMENT OVERVIEW

EMIRATES INVESTMENT BANK

Asset Class	View	Current Allocation*	Benchmark Allocation*
Equities	Underweight	25.0%	40.0%
Fixed Income	Neutral	42.5%	40.0%
Real Estate	Neutral	2.5%	5.0%
Commodities	Neutral	5.0%	5.0%
Low Vol / Alternatives	Overweight	10.0%	5.0%
Cash	Overweight	15.0%	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

JUN 2020

- Even as broad optimism over a gradual re-opening of major economies helped the MSCI All Country World gain 18.7% in the quarter gone by, setbacks in controlling virus outbreaks in many countries, including the US, have curbed sentiment and helped traditional portfolio hedges with gold being one of the best performers, up 17.4% year-to-date.
- The unprecedented monetary support led by the Fed and the ECB and followed through meaningfully by the majority of global central banks has helped global yields fall to newer lows across the maturity and risk spectrum. In response, the US corporate HY Index has rallied 10.0% in Q2 while global IG credit has gained around 9.0% over the same period.
- After the lifting of lockdown measures, the European economy is at a critical juncture. While the initial rebound has been swift, policy makers have cautioned against reading too much into those early indications because progress toward reaching pre-crisis levels is going to be slow.
- China's steady path back to normalcy continued in June with both manufacturing and non-manufacturing PMIs steadying above the 50 mark. The recovery is being led by strong infrastructure spending even as external weakness persists. While China has broadly refrained from spending its way out of the pandemic-caused economic slowdown, the country has resorted to other means of freeing capital besides cutting interest rates.
- Emerging Markets (EM) endured a tumultuous year so far as the Covid-19 outbreak made 2020 one of the most unpredictable years in decades. Faced with unprecedented lockdowns to contain the virus, EM central banks joined their developed market peers in cutting rates to all-time lows, while some introduced unconventional policies.
- After collapsing 65.6% in Q1, Brent surged 81.0% in Q2 with supply cuts from the OPEC+ alliance being the main driver of the rebound. As the coronavirus disrupted the global economy and sapped energy demand, Saudi led a push among major oil producers to cut supplies.

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While the enormous amounts of liquidity and stimulus by central banks and governments respectively drove a strong rebound for both equities and credit, traditional safe-havens like government paper and gold continued to hold up well. Even as broad optimism over a gradual re-opening of major economies helped the MSCI All Country World gain 18.7% in the quarter gone by, setbacks in controlling virus outbreaks in many countries, including the US, have curbed sentiment and helped traditional portfolio hedges with gold being one of the best performers, up 17.4% year-to-date.

Overall, uncertainty surrounding a swift earnings recovery, political risks with US elections fast approaching, and tensions between China and the US/India have kept investors from fully taking a risk-on stance. Congress will likely be forced to act at the end of this month by extending many unemployment benefits that are set to expire at the end of July, as the June rebound in non-farm payrolls may not be sustainable in the coming months.

" Going by price action and hard data, a worst-case scenario of the Covid disaster morphing into a broad-based liquidity crisis has been averted for now "

The June FOMC minutes showed that Fed officials view the US economy as needing support "for some time" and while the bounceback in economic activity is welcome, a lot hinges on controlling the virus sustainably. Going by price action and hard data, a worst-case scenario of the Covid disaster morphing into a broad-based liquidity crisis has been averted for now. However, we continue to see many companies refinancing debt obligations while others have filed for bankruptcy. The unprecedented monetary support led by the Fed and the ECB and followed through meaningfully by the majority of global central banks has helped global yields fall to newer lows across the maturity and risk spectrum. In response, the US corporate HY Index has rallied 10.0% in Q2 while global IG credit has gained around 9.0% over the same period.

With the Eurozone composite PMI surging to 47.5 in June from 31.9 in May, its highest level since February, data indicated that the coronavirus-induced slump in the Eurozone may be bottoming out. Germany's Ifo business climate index rose to 86.2 in June from 79.7 in May with companies citing they are starting to see light at the end of the tunnel. But despite countries easing restrictions and life slowly returning to normal, output continued to contract and demand fell, especially among exporters, as almost all Euro-area countries recorded a decline in manufacturing jobs. Overall, production and sentiment remain well below pre-pandemic levels, and persistent weak demand combined with ongoing social distancing measures are likely to act as a drag on the recovery. After the lifting of lockdown measures, the European economy is at a critical juncture. While the initial rebound has been swift, policy makers have cautioned against reading too much into those early indications because progress toward reaching pre-crisis levels is going to be slow. The EUR gained 1.8% against the USD on broad Dollar weakness while the EuroStoxx50 gained 16.0% in Q2.

The UK's retail sales and spending appear to be recovering from their April lows, with expectations that Q2 will not be quite as negative as earlier expected. In a sign that the pandemic may be easing, coronavirus deaths fell to the lowest in nine weeks allowing PM Johnson to reopen pubs, restaurants, and hairdressers from July 4, provided they adhere to coronavirus-related guidelines. Meanwhile, BoE Governor Bailey noted that while significant asset purchases to support gilt markets may have been essential in March, such support "must not become a permanent feature" of the UK economy. Despite a marked improvement in manufacturing and construction readings, and a rebound in retail sales, Gilt yields have fallen close to those on Japanese government bonds,

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highlighting investor concerns about several economic and political uncertainties including Brexit. The GBP was flat against the USD while the FTSE100 gained 8.8% in Q2.

BoJ Governor Kuroda said Japan's economy has been in "an extremely severe situation" but expressed cautious optimism that a second-half recovery will allow the BoJ to scale back its pandemic response measures. The country's economy is facing its worst recession since WW2, hurt by coronavirus lockdown measures both at home and overseas that have upended supply chains, kept businesses shut and depressed consumer spending. While domestic demand has started to claw back somewhat, exports remain weak, putting a drag on the overall economic recovery. At the time of this writing, coronavirus cases surged in Tokyo even as authorities stressed that there was no need to re-impose restrictions. The Nikkei225 joined the global rally and gained 17.8% in Q2.

> "Despite a recent rebound in consumption, resurgent waves of the virus show the recovery remains fragile and has tempered the oil price rally recently"

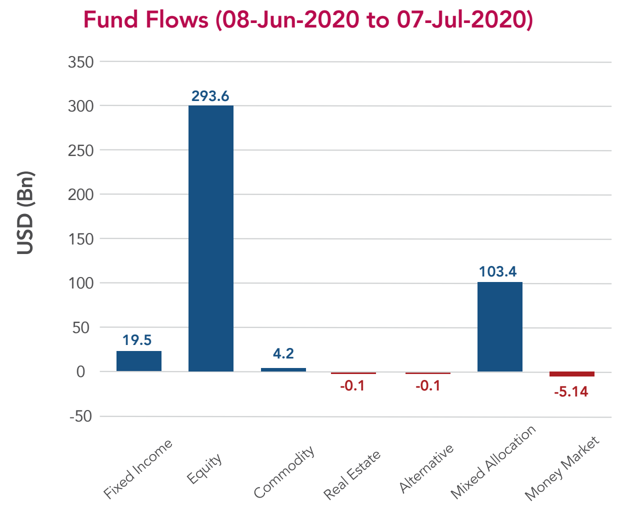
China's steady path back to normalcy continued in June with both manufacturing and non-manufacturing PMIs steadying above the 50 mark. The recovery is being led by strong infrastructure spending even as external weakness persists. While China has broadly refrained from spending its way out of the pandemic-caused economic slowdown, the country has resorted to other means of freeing capital besides cutting interest rates. Authorities have urged commercial banks to help smaller businesses and mortgage holders weather the coronavirus downturn, even if they have to sacrifice some profits this year. Banks have also been asked to offer lower lending rates, defer loan repayments, and cut fees. Meanwhile, Chinese equities have gained favor among investors as the pandemic seems to be effectively contained in the country and the recovery gains traction. The Shanghai Composite ended higher by 8.5% in Q2.

Emerging Markets (EM) endured a tumultuous year so far as the Covid-19 outbreak made 2020 one of the most unpredictable years in decades. Faced with unprecedented lockdowns to contain the virus, EM central banks joined their developed market peers in cutting rates to all-time lows, while some introduced unconventional policies. The extreme accommodation provided by policymakers saw EM dollar bonds post their biggest quarterly gain since 2009 in Q2. Meanwhile, Turkey's BIST-100 gained 10.4% in June despite MSCI's announcement that it may downgrade Turkey to a frontier market from an EM. The agency could move the country into the frontier category as a result of Turkey's bans on short selling and stock lending.

After collapsing 65.6% in Q1, Brent surged 81.0% in Q2 with supply cuts from the OPEC+ alliance being the main driver of the rebound. As the coronavirus disrupted the global economy and sapped energy demand, Saudi led a push among major oil producers to cut supplies. Oil companies' earnings took a beating in Q1 and companies warned that things would only get worse as the full impact of the pandemic started to be felt in March. Despite a recent rebound in consumption in some of the worst-hit countries, resurgent waves of the virus show the recovery remains fragile and has tempered the oil price rally recently. Meanwhile, business conditions in Saudi are likely to remain depressed as the Kingdom pushes ahead with its fiscal normalization policies, including the tripling of the VAT to 15% starting July 1st and reigning in spending related to Vision 2030. The sharp rally in oil prices and stabilizing global backdrop aided the S&P Pan Arab Composite to gain 11.2% in Q2.

Fund Flows

- After seeking refuge in money-market funds and govies in April at the peak of economic uncertainty and volatility, hopes of a swifter-than-expected recovery buoyed investor sentiment in June.
- Improving economic data in the US and a gradual re-opening of major economies fuelled fresh investor optimism as equities witnessed sizeable inflows. Overall, June saw a surge in inflows into global equities, led by strong flows into developed equities.
- Meanwhile, global fixed income flows cooled but remained positive and were again concentrated in corporate credit. Investors shifted monies from both government paper and money market products as risk-appetite improved. Flows into hard-currency EM bond funds also picked up while inflation-protected bond funds saw meaningful flows on expectations of higher inflation in the future.



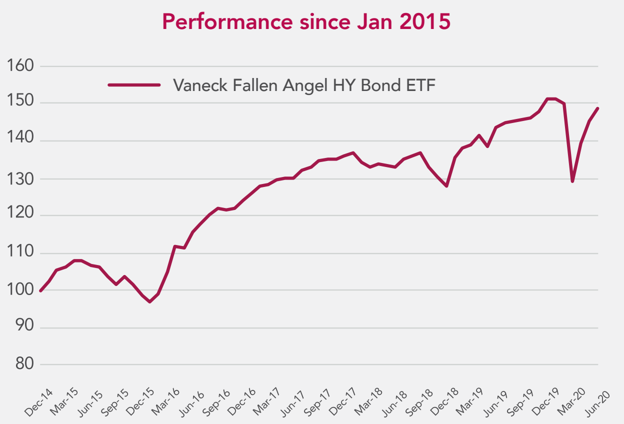
Source: EIBank, Bloomberg

Investment Theme: Fallen Angels

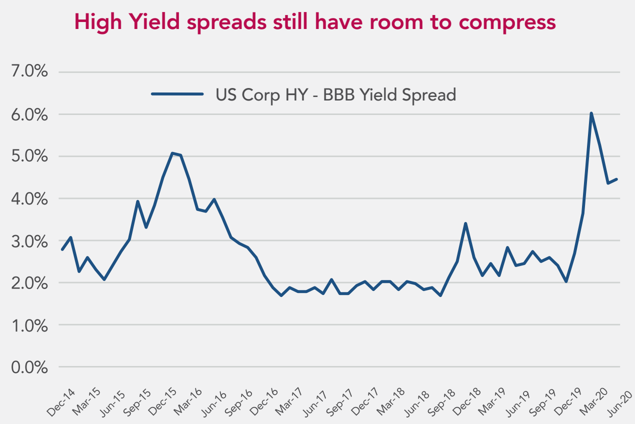
Asset valuations continue to be elevated across the fixed-income, equity and real estate space as a result of all of the easy money that was provided to support the global macro economy. In such an environment, where the flood of liquidity boosted asset prices across the board, relative value trades become the norm to identify investment opportunities. While some investors may chase yield, others will opt to be more conservative and focus on quality to mitigate drawdown risks.

Refinancing risks have dropped significantly due to the ultra-low interest rate environment we are experiencing and both investment grade bonds and high yield bonds are providing a measured risk-return profile. Investment grade bonds are expensive but do provide a cushion against macroeconomic risks. Meanwhile, the credit spreads on high yield bonds still have room to compress and are currently providing an attractive risk-adjusted return, in our view.

The Vaneck Fallen Angel High Yield ETF (ANGL US Equity / US92189F4375) is a high-yield bond ETF that provides exposure to high yield bonds that were rated investment grade at the time of issuance. As such, the ETF can be considered as a higher quality, high yield bond ETF in simplistic terms. It currently provides a coupon yield of a little over 5% per annum (with coupon payments made on a monthly basis) which compares well to US Government paper which only pays 0.29% per annum for 5 years and 0.65% per annum for 10 years. Being a high-yield ETF, ANGL will exhibit relatively high volatility and will sell off during an equity market downturn but has been resilient for long-term investors. We believe including this exposure in suitable client portfolios is warranted at this time.



Source: EIBank, Bloomberg



Source: EIBank, Bloomberg

Asset Class Views

Asset Class	May	June	View / Rationale
Equities	↓	↓	
US	↘	↘	Sustainability of a durable recovery remains an open question as stimulus measures ebb and a possible spike in new infections clouds the outlook.
Europe	↘	↘	High frequency data like mobility and electricity consumption point to visible progress in many European economies.
UK	↘	↘	With a wide margin of spare capacity, unemployment is set to rise if demand fails to rebound materially once restrictions are lifted.
Japan	↓	↓	While a deep recession is underway, Japan's economic activity appears to have bottomed out supported by forceful fiscal and monetary measures.
China	↔	↔	Recovery on both the production and demand sides is robust with export orders getting a large lift from the re-opening of economies overseas. Selectivity remains key.
India	↘	↘	The economy has been battered by the pandemic - growth has collapsed, tax collections have taken a beating, and its IG credit rating is at risk of a downgrade to junk status.
Brazil	↔	↔	Botched handling of the pandemic could be the difference between a fast recovery and a deep and prolonged recession.
Russia	↘	↘	A continuing outbreak, lockdown trauma and extended cuts to oil output are likely to exert a drag on the economy.
MENA	↘	↘	Conditions in Saudi to remain depressed owing to the Kingdom's fiscal normalization policy.

Asset Class	May	June	View / Rationale
Fixed Income	↔	↔	
US	↔	↔	Deflationary pressures are building as a consequence of the lockdown which should keep the Fed accommodative.
Europe	↘	↘	While the ECB has largely assuaged fears of a demand shock from the pandemic, a lot more needs to be done to avoid a persistent undershoot of the inflation target.
UK	↔	↘	Gilt yields have fallen significantly leaving little room for upside potential.
Japan	↘	↘	BoJ Governor Kuroda has pledged to buy as much Japanese government bonds as needed to keep the 10-year yield around the 0% target.
China	↔	↗	Relative value trade against other sovereigns given a 10-year yield of almost 3%.
India	↔	↔	Projected normal monsoon, weak demand, low oil prices and lower housing inflation - point to a sharper downtrend in headline inflation.
Brazil	↔	↔	Inflation expectations have been sliding even amid BRL weakness.
Russia	↔	↔	The Central Bank's 100bps rate cut on June 19 came with a cautious signal of further near-term easing.
MENA	↔	↔	Selectivity remains key as investors should seek quality over chasing yield.

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

Asset Class Views

Asset Class	May	June	View / Rationale
Currencies *			
EUR	↔	↔	The EUR750 bn recovery fund will help support the Bloc and the EUR fundamentally.
CHF	↔	↔	A healthy current account surplus and safe-have status keeps the CHF strong.
GBP	↗	↗	Given a no-deal Brexit is in nobody's interest, it keeps the GBP supported.
JPY	↗	↗	Despite weak fundamentals, JPY is underpinned by rising geopolitical tensions in the Asia Pacific region.

* All currency views expressed relative to the USD

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

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