MONTHLY INVESTMENT OVERVIEW

EMIRATES INVESTMENT BANK

Asset Class	View	Current Allocation*	Benchmark Allocation*
Equities	Cautious	22.5%	40.0%
Fixed Income	Neutral	45.0%	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	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

MAR 2019

- Investor sentiment remained jittery in March on mixed macro-economic data, despite tangible progress in US-China trade talks, the Fed's reiteration of its dovish stance and accommodative commentary from the PBoC.
- The European and Japanese economies are still struggling after years of accomodative policy. The US is on a solid footing but recent economic data has been mixed and points to slightly softer economic growth ahead. Emerging market economies, backed by their Central banks, are faring relatively better.
- Taking cues from a weaker global growth outlook as well as subdued inflationary pressure, the Fed reiterated its dovish stance while ruling out any interest rate hikes for 2019.
- In an effort to revive the economy, the ECB announced a fresh round of stimulus, offering cheap longer-term loans to banks. In order to attain the target of close to but below 2% inflation, the ECB suggested prospects of further delays in hiking interest rates.
- Record low unemployment and steady wage growth have kept the UK's economic growth in positive territory despite a contraction in investment and weakening consumer confidence.
- The Japanese economy continued to reel under the pressure of both weak export demand and soft domestic demand. Japanese retail sales failed to recover from the decline of 1.8% in January and grew only 0.2% MoM in February.
- Global oil demand growth concerns could overshadow supply-side worries, as slowing manufacturing activity across the developed world as well as China, could weigh on oil prices, especially after Brent's stellar 27% performance in Q1.

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Investor sentiment remained jittery in March on deteriorating macro-economic data, despite tangible progress in US-China trade talks, the Fed's reiteration of its dovish stance and accommodative commentary from the PBoC. Chinese investors remained upbeat on domestic demand growth driven by State stimulus and possibilities of finding a solution to the US-China trade dispute in the foreseeable future, reviving export demand. The Shanghai Composite Index increased 5.1% in March, taking its year-to-date gains to 23.9%.

On the month, global equities lost some of the momentum of the first two months of the year with the MSCI All Country World Index returning only 1.0%, after gaining nearly 10.5% in the first two months. We slightly reduced our equity exposure over the month to lock-in first quarter gains while marginally increasing our fixed-income exposure.

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Macro-economic data releases in the US reiterated a softer economic growth trend with weaker Industrial Production (IP) and lower than expected job additions. IP rose only 0.1% in February compared to a decline of 0.1% in January, aided by gains in mining and utilities. Manufacturing production (excluding mining and utilities) declined 0.4% in February as producers confronted uncertainties from waning global demand.

The labour market reversed a weak February jobs report as wages continued to rise. Employers added 196,000 jobs in March, bucking the February figure of only 33,000 job additions and thus bringing the three-month average job additions to 180,000. Average hourly wages continued to rise and improved 0.1% MoM in March after an increase of 0.4% in February.

Mirroring the slower but steady growth trend, the core PCE Index, which remains the Fed's preferred inflation gauge, grew only 1.4% YoY in January, against 1.8% in December. The S&P500 ended March higher by 1.8%, taking its year-to-date gains to 13.1%.

Taking cues from a weaker global growth outlook as well as subdued inflationary pressures, the Fed reiterated its dovish stance while ruling out any interest rate hikes for 2019. Acknowledging the downward pressures from the US-China trade dispute, an ongoing slowdown in Europe and Japan as well as fading stimulus from tax cuts, the Fed lowered its economic growth forecast for the US. The Fed denoted that it will remain patient while closely monitoring key economic indicators and asserted that it will be some time before the job market and inflation outlook calls for a change in its policy. Providing September as a clear end-date to a programmatic reduction of its balance sheet, the Fed reiterated its inclination to maintain a relatively large balance sheet. Overall, weaker economic data weighed on yields with the 10-year US treasury yield losing 31 basis points in March to end at 2.41%.

Manufacturing within the Eurozone continued to contract as the manufacturing PMI softened to 49.3 in February from 50.5 in January. German manufacturing slumped to a six year low, bogged down by weak exports and sluggish auto demand. German manufacturers, struggling with a six-month low new order intake have hinted at cost-cutting measures and layoffs, which is expected to adversely affect employment data. Taking cognizance of gloomy economic data releases, the ECB lowered its Eurozone 2019 growth forecast to 1.1% from its earlier prediction of 1.7%. In an effort to revive the economy, the ECB announced a fresh round of stimulus, offering cheap longer-term loans to banks. In order to attain the target of close to but below 2% inflation, the ECB suggested prospects of further delays in hiking interest rates. The EuroStoxx50 gained 1.6% on the month while the EUR lost 1.3% against the USD.

Despite PM May offering to step down in the event of a favourable Brexit vote, the UK parliament rejected her Brexit proposal for a third time. The UK had until March 29 to decide its Brexit fate and failure to do so added another layer of uncertainty to an already unclear Brexit path forward. The UK now has until April 12 to convince other EU members of finding a Brexit solution. Failure to do so will lead to a no-deal Brexit, which clearly no side wants. Meanwhile, record low unemployment and steady wage growth have kept the UK's economic growth in positive territory despite a contraction in investment and weakening consumer confidence. The GBP fell 1.7% against the USD while the FTSE100 gained 2.9% in March.

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The Japanese economy continued to reel under the pressure of both weak export demand and soft domestic demand. Japanese retail sales failed to recover from the decline of 1.8% in January and grew only 0.2% MoM in February. As a result of weak export demand, affected by US-China trade disputes, Brexit uncertainties and a global economic slowdown, Japanese Industrial Production failed to recover recently lost ground and posted MoM growth of only 1.4% in February. With a forecast production increase of only 1.3% in March, Q1 production is likely to undershoot the previous quarter's production, causing the Japanese authorities to downgrade the country's economic outlook for the first time in three years. The Nikkei225 corrected 0.8% on the month while the JPY fell 0.5% against the USD.

In a bid to support domestic growth, Premier Keqiang indicated that China has the capacity to reduce its reserve requirement ratios and maintain interest rates at their current, low levels. China also agreed to expand market access for foreign banks and security insurance companies as the first round of US-China trade talks concluded in Beijing. Both parties will now focus on key issues including intellectual property rights, technology transfers as well as further opening up of the Chinese economy to foreign participants as discussions move to Washington for the second leg.

With a favourable PBoC stance and drawing confidence of attaining a resolution to the trade talks, the Chinese manufacturing PMI rose to 50.5 in March from February's three-year low of 49.2. The improvement in the manufacturing PMI in the midst of waning global demand suggests that the stimulus offered by the PBOC are bearing fruit. With favourable tailwinds likely to aid the economy, the Shanghai Composite Index rose 5.1% on the month, taking its year-to-date gains to 23.9%.

After touching a fresh all-time high in mid-March, the Ibovespa came under pressure following news that former President Temer was arrested on corruption charges related to construction contracts while in office. Earlier in the month, the Ibovespa continued its upward move on renewed hopes that President Bolsonaro will be able to pass his pension reform bill as early as the first half of 2019, which is said to save more than USD300 bn over the next 10 years.

"Unfazed by a slowdown in global growth, crude oil prices continued to rise during Q1"

Brazilian equities have gained 8.6% so far this year on optimism surrounding the reform agenda of the still new Bolsonaro government as well as improved risk appetite toward emerging markets in general.

Elsewhere, the S&P downgraded the stand-alone credit rating of state oil firm Pemex to B- from BB- while also changing the Mexican government's credit outlook from stable to negative. The agency cited Pemex's financial difficulties which include a debt load of around USD100 bn, while also highlighting the challenges faced by the AMLO's government which relies on Pemex for a substantial percentage of its fiscal revenue.

In the MENA, consolidation in the banking sector continues to take place with Emirates NBD's acquisition of Turkey's Denizbank. Emirates NBD was able to renegotiate a lower acquisition price after the drop in the value of the Lira since the deal was initially announced last year and should allow the bank to diversify its loan book away from the UAE. This acquisition follows the merger between National Bank of Abu Dhabi (NBAD) and First Gulf Bank (FGB) in 2018. It also follows the recent announcement by Abu Dhabi Commercial Bank (ADCB) and Union National Bank (UNB) to merge and for the merged entity to acquire Al Hilal Bank. The consolidation across the banking sector aims to improve efficiency, diversification and competitiveness and seems set to continue with unconfirmed news of Dubai Islamic Bank (DIB) considering an acquisition of Noor Bank. The S&P Pan Arab Composite Index rose 2.3% on the month.

Unfazed by a slowdown in global growth, crude oil prices continued to rise during Q1. Production cuts by OPEC and its allies, along with US sanctions on Venezuela and Iran, offset rising US inventories and aided a recovery in oil prices. Although US oil inventories maintained their upward trend, domestic oil output registered a decline in January as US producers reduced the number of operational rigs to the lowest level in three years. Going forward, global demand growth concerns could overshadow supply-side worries, as slowing manufacturing activity across the developed world as well as China, could weigh on oil prices, especially after Brent's stellar 27% performance in Q1.

Asset Class Views

Asset Class	February	March	View / Rationale
Equities	↘	↘	
US	↘	↘	Strong YTD rally lost some steam in March as investors digest softer economic signals.
Europe	↘	↘	Economic weakness calls for continued ECB support.
UK	↘	↘	Brexit uncertainty continues to cast darker clouds as recent economic strength is simply a result of front-loading.
Japan	↔	↔	Weaker economic prospects suppress valuations.
China	↔	↔	Positive sentiment around trade talks and State support is reviving investor confidence.
India	↘	↘	Rich valuations, although rally continues on speculated election outcome.
Brazil	↔	↔	Hurdles to pension reform plans dent some investor confidence.
Russia	↔	↔	Lack of material catalysts continue to suppress valuations.
MENA	↘	↘	Lacklustre earnings outlook as banking sector continues to consolidate to diversify and grow.

Asset Class	February	March	View / Rationale
Fixed Income	↔	↔	
US	↔	↔	Fed's dovish stance on tepid economic releases offers a support level.
Europe	↘	↘	ECB forced to resort to stimulus to revive dormant economic growth.
UK	↔	↔	Investor apprehension continues to prevail with no visible Brexit solution.
Japan	↘	↘	BoJ maintains interest rates near zero levels as economy continues to search for growth.
China	↔	↔	PBoC accommodative policies bear fruit as economy gradually recovers lost ground.
India	↔	↔	RBI maintains neutral stance reflecting domestic as well as global growth concerns.
Brazil	↔	↔	CBB leaves interest rates unchanged pushing any prospects of rate cuts to second half.
Russia	↔	↔	Sanctions continue to depress investor sentiment.
MENA	↔	↔	Surge in oil prices might aid in reducing credit concerns.

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

Asset Class Views

Asset Class	February	March	View / Rationale
Currencies			
USD / EUR	↔	↔	ECB becoming more accommodative offers less support to the EUR.
USD / CHF	↗	↗	Favour USD compared to CHF on more accommodative SNB.
USD / GBP	↗	↗	While the chances of a no-deal Brexit have increased (a negative outcome) the probability of the UK staying in the EU cannot be completely disregarded (a positive outcome).
USD / JPY	↗	↗	Weak fundamentals undermine the JPY.
EUR / CHF	↔	↔	Weakening growth outlook forces both ECB and SNB to be more accommodative.
EUR / GBP	↔	↔	Precarious Brexit situation and a weak Europe mars outlook for both currencies against the USD.
EUR / JPY	↔	↔	Both currencies expected to remain weak against the the USD.
CHF / GBP	↔	↔	Brexit dilemma clouds GBP while economic slowdown keeps CHF in check.
CHF / JPY	↔	↔	We continue to remain neutral CHF/JPY at current levels.
GBP / JPY	↔	↔	Brexit uncertainty to keep the GBP speculative while a struggling Japanese economy to pressurize the JPY.

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

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IMPORTANT INFORMATION