MONTHLY INVESTMENT OVERVIEW

بنك الامارات للاستثمار

EMIRATES INVESTMENT BANK

Asset Class	View	Current Allocation*	Benchmark Allocation*
Equities	Underweight	22.5%	40.0%
Fixed Income	Neutral	40.0%	40.0%
Real Estate	Neutral	5.0%	5.0%
Commodities	Neutral	5.0%	5.0%
Low Vol / Alternatives	Overweight	15.0%	5.0%
Cash	Overweight	12.5%	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 2020

- Global risk assets had their worst quarter since the 2008 financial crisis as many countries went into lockdown to stem the outbreak of the coronavirus pandemic, which has shattered investor visibility. As life-saving containment measures sharply reduced economic output, global equities, as represented by the MSCI All Country World Index, ended Q1 down 21.8%.
- After almost six weeks of relentless downward pressure across most financial assets, marked with extreme volatility, a measure of support arrived at the end of March as governments and central banks announced unprecedented policy responses to offset some of the worst economic effects of the virus.
- Spain and Italy suffered huge casualties with many European governments doubling down on efforts to maintain rigid lockdowns. Germany's government committed to pay a significant portion of workers' wages during the shutdown to enable companies to retain their employees despite the dramatic hit to business.
- After avoiding a widespread lockdown so far, Japan's PM Abe finally declared a state of emergency in major cities, including Tokyo, to fight new coronavirus infections and unveiled a nearly USD1 trillion stimulus package.
- In a bid to kick-start consumption that all but disappeared during the last several weeks, Chinese authorities are distributing vouchers in certain jurisdictions, asking companies to give employees paid leave and offering subsidies on big-ticket discretionary spends.
- With limited financial firepower and medical infrastructure to tackle the epidemic as compared to some of their developed peers, the medical as well economic challenges appear daunting in some of the densely populated South East Asian countries.
- Oil tumbled to an 18-year low as coronavirus lockdowns adversely affected the world's largest economies, leaving the market overwhelmed by collapsed demand.

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While it is very difficult to gauge how deep and long-lasting the coming recession will be, given how the pandemic has choked travel, shut businesses, cancelled mega sports events, we believe that the recent rebound in the S&P500 from its March-lows is not sustainable fundamentally and that equity markets are likely to continue correcting lower from here. On the flip side, decisive action by the Fed and the unlimited amount of support they have pledged has also placed a floor on equity prices. This tug of war between poor economic fundamentals and the Fed's ability to prevent this health crisis from morphing into a debt crisis will play out in the equity, fixed-income, and mortgage markets over the coming months.

"Following news of the government's rescue package, 49 companies issued USD107 bn worth of IG bonds to shore up their balance sheets, the largest weekly issuance on record"

After almost six weeks of relentless downward pressure across most financial assets, marked with extreme volatility, a measure of support arrived at the end of March as governments and central banks announced unprecedented policy responses to offset some of the worst economic effects of the virus. The Fed slashed interest rates to zero while the ECB announced a USD750 bn Euro pandemic bond buying program. On the fiscal side, US President Trump signed the largest stimulus package in history, a USD2 trillion bill intended to boost and support the battered US economy. Following news of the government's rescue package, 49 companies issued USD107 bn worth of IG bonds to shore up their balance sheets, the largest weekly issuance on record. Meanwhile, excessive caution pushed Treasury yields to fresh all-time lows with the US 10-year Treasury yield ending at 0.67%, a drop of 125bps in the quarter gone by.

Spain and Italy suffered huge casualties with many European governments doubling down on efforts to maintain rigid lockdowns. Germany's government committed to pay a significant portion of workers' wages during the shutdown to enable companies to retain their employees despite the dramatic hit to business. The government would raise EUR150 bn in fresh debt to save the economy from the brutal effects of the pandemic. Economic sentiment across Europe suffered its worst monthly fall in March since 1985 as widespread lockdowns paralyzed economic activity. For the quarter, the EuroStoxx50 lost 25.6% while the EUR edged lower by 1.6% against the USD.

While still less affected compared to its European peers, the effects of the pandemic were felt across most of the UK, with manufacturing output falling sharply in all major sectors except food production and pharmaceuticals. Restrictions on travel had a noticeable impact on supply chains with new orders falling sharply. The manufacturing PMI fell from 51.7 to 47.8 in March, the most since 2012, while employment declined the most since 2009. Earlier in the month, the BoE cut its interest rate to 0.1% in an emergency move and promised GBP200 bn of additional bond purchases in a desperate attempt to shield the UK economy from the onslaught of the virus. At the time of this writing and to make matters worse, PM Johnson had to be hospitalized for further coronavirus treatment, adversely affecting sentiment in the Kingdom even further. The FTSE100 tracked the global equity sell-off with losses of 24.8% while the GBP plummeted 6.3% against the USD in Q1 alone.

After avoiding a widespread lockdown so far, Japan's PM Abe finally declared a state of emergency in major cities, including Tokyo, to fight new coronavirus infections and unveiled a nearly

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USD1 trillion stimulus package. While Japan had managed to avoid an economy-wide lockdown so far, doubts had started to emerge if that can last. Japan's economy was already struggling as a result of slowing demand from overseas and the recent consumption tax hike. While the Tokyo Olympics was expected to support inbound tourism and domestic consumption, its postponement also removed a potential boost to the struggling economy. The package, equivalent to 20% of Japan's GDP, will include cash handouts to households and small businesses hit by the virus. The Nikkei225 lost 20.0% while the JPY's safe-haven status pushed it higher by 1.0% against the USD in Q1.

> " The package, equivalent to 20% of Japan's GDP, will include cash handouts to households and small businesses hit by the virus "

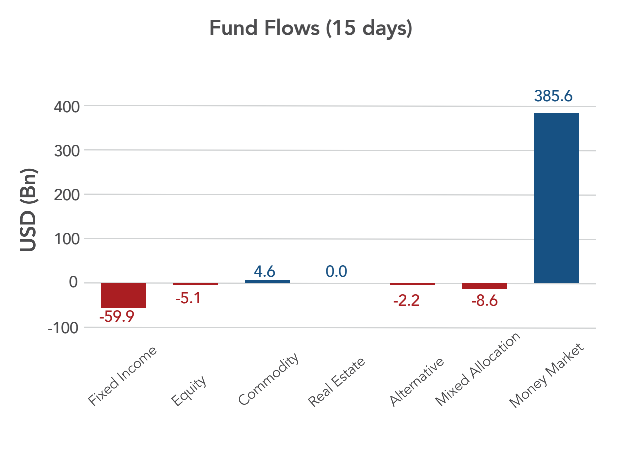
After months of warning its citizens to stay indoors to contain the coronavirus, the Chinese government tried to get people out of their homes towards the end of March. In a bid to kick-start consumption that all but disappeared during the last several weeks, authorities are distributing vouchers in certain jurisdictions, asking companies to give employees paid leave and offering subsidies on big-ticket discretionary spends. China, being the first epicentre of the outbreak, and being the first country to more or less flatten the curve for now, will give an indication of how other economies respond once the outbreak eventually peaks and recedes. On the data front, manufacturing sentiment improved slightly in March compared to the previous month as authorities try to re-open the economy for business in a phased manner. The Shanghai Composite outperformed most global equity benchmarks and was down by a reasonable 9.8% in Q1.

The sell-off in Emerging Market (EM) assets triggered by Covid-19 has been dramatic to say the least.The MSCI EM Index lost 24.0% in Q1, capping one of the worst quarters in history as the coronavirus gripped risky assets. With limited financial firepower and medical infrastructure to tackle the epidemic as compared to some of their developed peers, the medical as well economic challenges appear daunting in some of the densely populated South East Asian countries. In response, India has been pre-emptive and pro-active with the government announcing a country-wide 21-day lockdown to contain the spread of the virus. Meanwhile and despite a sharp jump in cases, Turkey's Erdogan has stopped short of ordering a complete lockdown to avoid endangering the tepid economic recovery. The TRY lost 11.2% against the USD on the quarter.

Oil tumbled to an 18-year low as coronavirus lockdowns adversely affected the world's largest economies, leaving the market overwhelmed by collapsed demand. As a ballooning oil surplus continues to grow, Saudi Arabia and Russia's failure to agree on a production cut further hurt prices. Meanwhile and to mitigate the impact of the epidemic on businesses and individuals, the UAE Central Bank announced a USD34 bn stimulus plan while Saudi rolled out a US32 bn stimulus package. The S&P Pan Arab Composite fell 24.8% while Brent tanked by 65.6% in the first quarter of the year. At the time of this writing, Saudi, Russia and other oil producers are racing to negotiate a deal to stem the recent price crash. Reports suggest that progress is being made, although the US has shown little willingness to join any output cuts.

Fund Flows

- Over the past two weeks global money market funds continued to record significant inflows. Global equity fund flows turned marginally negative. Both the US and Japan saw very passive flows while China received the most inflows.
- Global bond funds continued to report outflows with a rotation out of government bonds (treasuries) and into high yield (HY) and investment grade (IG) corporate bonds as volatility subsided from extreme levels and risk appetite improved marginally on the back of extreme stimulus measures.
- Overall, equity markets seem to be following a broadly similar crisis playbook to 2008. The magnitude of the sell-off remains remarkably similar in price action, volatility and volume. Stocks can rally in the short term, but investors need to caution against falling back in love with equities just based on the recent rally.
- Meanwhile, fixed income markets remain challenging to trade, credit spreads have widened even further, reflecting increased default risk.



Source: EIBank, Bloomberg

FX, Interest Rates & Commodities

- With EUR/USD at 1.0950 two weeks ago, we forecasted the flight to USD would continue. Today we are indeed lower at 1.0850, courtesy of the pandemic's exponential growth, US record unemployment data, the Eurozone Finance Ministers stimulus disagreements. Short-term downward pressures towards 1.0780 persist, while medium-term EUR/USD could revert higher towards 1.1000.
- Despite the epidemic spreading in the UK, GBP/USD has been resilient at around 1.2300 -1.2400. For the next fortnight, the market expects range-bound trading at these levels, favouring a little more upside, a balancing act between a possible epidemic peak in the UK versus deteriorating UK business indicators.
- As predicted, USD/CHF and EUR/CHF have been among the most stable pairs, hovering around 0.9725 and 1.0560 respectively, a trend expected to continue with minor fluctuations.
- USD/JPY dropped 3.7% from 111.20 to 107.05 when US unemployment numbers made news. USD/JPY reversed 2% to 109.00 the following week, a risk-on move, on news of Covid-19 possibly plateauing in the US. Currently 109.50 poses serious resistance topside, with 108.70 and 108.00 supports on the downside, while market consensus is directionless short term.
- Gold, currently at $1,650/oz, had a wild $100 ride spanning from $ 1,570/oz to $ 1,670/oz over the past 15 days—as we forecasted. While some pullbacks lower are expected, these will probably be corrections prior to resuming rallies towards our established target of $1,700/oz.
- Meanwhile, markets hope for oil production cuts this week. While KSA and Russia may unrealistically hope the US shares the burden, US producers are already slashing capex and output, as shale oil is currently unprofitable with WTI at $26/barrel and Brent at $33/barrel. Still, short-term oil may drop lower, closer to $20/barrel, as inventories for April and May exceed the proposed production cuts.
- US interest rates saw a jump in 3ML to 1.43% before correcting lower to 1.31%, while longer tenor rates remain subdued with US 2Y at 0.51%, 5Y at 0.60%, 10Y at 0.82%. The behaviour of these interest rates indicate persisting short-term liquidity pressures and recessionary expectations for the longer run.

Investment Theme: Euro Plus – Principal Protected Short Term Euro Investment

The ECB continues to pursue easy monetary policy to revive Eurozone growth. The current Covid-19 pandemic has hampered this effort, causing the ECB to ease policy even further with Euro interest rates expected to stay negative for the foreseeable future. Meanwhile, the current excessive volatility in the market is most evident in currencies, and expected to reduce once the pandemic starts showing signs of abating. This rare combination of subdued interest rates and elevated currency volatility makes it possible for us to price an investment in EUR for tenors of 3, 6 or 12 months, which is 100% Principal Guaranteed (if held to maturity), with no currency conversion, paying a guaranteed coupon in addition to a top-up, conditional coupon.

Source: Bloomberg

Asset Class Views

Asset Class	February	March	View / Rationale
Equities	↓	↓	
US	↘	↘	US equities still to price in the prospect of meaningful EPS downgrades.
Europe	↘	↘	Being the focal point of the crisis for now, the extent of the damage still to play out.
UK	↘	↘	BoE stimulus and support package of up to 3% of GDP to provide some support to the economy in the second half.
Japan	↓	↓	With the Tokyo Olympics delayed and possible lockdown in major cities, it is a perfect storm for the already-struggling economy.
China	↔	↔	High frequency data suggest that the economy is operating below normal capacity in March, even though the situation has improved notably.
India	↘	↘	With the lockdown being possibly extended beyond April 15, the economy faces a serious risk of recession in the quarters ahead.
Brazil	↔	↔	The coronavirus spread nips a budding and painful recovery process in the bud.
Russia	↘	↘	Shocks from the global pandemic and oil-price collapse are weighing heavily on Russia›s economy.
MENA	↘	↘	Oil price collapse and lockdown measures are taking a toll on the regional heavyweights.

Asset Class	February	March	View / Rationale
Fixed Income	↔	↔	
US	↔	↔	Upward pressure on rates from the USD2 trillion fiscal stimulus to be offset by Fed's massive liquidity measures.
Europe	↘	↘	Yields likely to remain persistently low as the ECB backstops the economy.
UK	↔	↔	Recession worries to keep rates 'zero' bound.
Japan	↘	↘	US1 trillion fiscal support to place further pressure on the country's debt levels.
China	↔	↔	The PBoC should continue its moderate pace of easing, supporting the economy's recovery from the virus shock.
India	↔	↔	The recent collapse in oil prices should pull down headline inflation sharply, allowing the RBI to sustain its monetary easing.
Brazil	↔	↔	Central Bank to cut further in light of increasing downside risks to economy.
Russia	↔	↔	Inflation is starting off low, and the central bank has plenty of policy space to stave off a crisis.
MENA	↔	↔	GCC economies face a double whammy of low oil prices and demand destruction.

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

Asset Class Views

Asset Class	February	March	View / Rationale
Currencies			
USD / EUR	↔	↔	Improved dollar funding by the Fed should reduce upward pressure on the USD.
USD / CHF	↗	↗	The pair to remain range-bound in the near term.
USD / GBP	↔	↔	The GBP has been resilient although UK business indicators are deteriorating.
USD / JPY	↔	↗	The prospect of a widespread lockdown in Japan to weigh on the JPY.
EUR / CHF	↗	↗	SNB to follow the ECB on easing measures to mitigate upside risks for the CHF.
EUR / GBP	↔	↔	Both currencies face similar headwinds for now.
EUR / JPY	↔	↔	A weak external environment hurts both economies meaningfully.
CHF / GBP	↔	↔	SNB easing measures to mitigate upside risks for the CHF.
CHF / JPY	↔	↗	Japanese economy is being hampered by internal and external factors simultaneously.
GBP / JPY	↗	↗	The GBP has been resilient although UK business indicators are deteriorating.

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

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