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

MAY 2019

- A relatively calm market environment was meaningfully disturbed with politics taking centre stage in May. Trump's decision to ban Huawei from doing business with the US and China's threat to weaponize its supply of rare earth minerals to the US worsened investment sentiment considerably last month.
- Political pressure on the Fed is mounting to cut rates, and should they succumb to such pressures, then we may well see a continued run-up in risk assets, namely longer duration bonds, REITs and equities. We will continue to be cautious on risk assets and focus on corporate fundamentals to make our investment decisions.
- Despite a slight uptick for the first time in nine months, the Eurozone manufacturing PMI remained stuck in contractionary territory and near its 6-year low. For now, a worse-than-expected result for Eurosceptic parties in the recently concluded European Parliamentary elections, a dovish ECB, a truce with the US on trade should provide relief to sputtering growth.
- The renewed uncertainty surrounding the trade war with the US weighed heavily on investor sentiment in China, leading to a sell-off in one of the best performing stock markets this year. The heightened trade tensions and the risk of a more drawn-out dispute is likely to weigh down investor sentiment.
- Brent whipsawed with a downward bias as supply disruption concerns were only partially offset after the IEA cut its global oil-demand forecast on disappointing fuel consumption in China, Japan and Brazil so far this year. MENA equities too suffered amid rising global and regional tensions as the S&P Pan Arab Composite lost 5.4% on the month.

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A relatively calm market environment was meaningfully disturbed with politics taking centre stage in May. Accusing China of last minute backpedalling on promises it made earlier, Trump followed through on his tariff threat by increasing levies from 10% to 25% on USD200 bn worth of goods imported from China. While China vowed to retaliate, conciliatory messages from both sides that negotiations will go on helped de-escalate tensions somewhat. Overall, Trump's decision to ban Huawei from doing business with the US and China's threat to weaponize its supply of rare earth minerals to the US worsened investment sentiment considerably last month. Global equities performed poorly over the month, with the MSCI World Index losing 6.1% while its Emerging Market (EM) counterpart, the MSCI EM Index, dropped 7.5%.

> "Haphazard political announcements (or tweets) continue to make the macro environment somewhat speculative"

Aside from the breakdown in the US-China trade negotiations, a host of lingering geopolitical concerns came to the fore in May. While Iran threatened to end some of its commitments to limit the country's nuclear program if the other signatories to the 2015 accord don't facilitate its oil sales, North Korea fired multiple short-range missiles increasing tensions in the South China Sea. Meanwhile and under pressure from Erdogan, Turkey's Supreme Election Council nullified the recent Istanbul mayoral election and ordered a re-run. Risk sentiment was hit and weighed on global yields with the 10-year US Treasury yield dropping 38bps to 2.1%. Markets are now pricing in more than two 25bps rate cuts by the end of this year, which seems exaggerated in our view.

Although global growth is slowing, the unemployment rate in the US is at a multi-decade low and a wage growth rate above 3% bodes well for US consumers. Political pressure on the Fed is mounting to cut rates, and should they succumb to such pressures, then we may well see a continued run-up in risk assets, namely longer duration bonds, REITs and equities. This is not our base case scenario at this time as haphazard political announcements (or tweets) continue to make the macro environment somewhat speculative. We will continue to be cautious on risk assets and focus on corporate fundamentals to make our investment decisions.

Despite a slight uptick for the first time in nine months, the Eurozone manufacturing PMI remained stuck in contractionary territory and near its 6-year low. The weakness was again led by a marked drop in export orders amid widespread concerns over weak global demand and Brexit-related uncertainty. While the services PMI continues to hold up and partially offset the downtrend in manufacturing, concerns remain that the US-China trade dispute filters through a solid labour market and starts to hurt the services sector as well. For now, a worse-than-expected result for Eurosceptic parties in the recently concluded European Parliamentary elections, a dovish ECB, a truce with the US on trade should provide relief to sputtering growth. A stimulative China also bodes well for the Euro-area which relies significantly on Chinese consumption for their exports. The EUR edged lower by 0.4% against the USD while the EuroStoxx50 tracked the global sell-off to end sharply lower by 6.7%.

After months of unsuccessful negotiations within her party and with the opposition, the UK's PM May stepped down. While this was broadly expected, the Conservative Party is now expected to choose a new leader. Meanwhile and regardless of who replaces her, the likelihood of a no-deal Brexit hasn't increased given there still isn't a majority in favour of

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it in Parliament. The GBP tracked the Brexit drama and fell 3.1% against the USD over the month while the FTSE100 also dropped 3.5%.

Japan's household spending rose less than expected in April while real wages declined, adding to worries about consumption as global trade disputes weigh on overall domestic economic activity. The softer-than-expected household spending and wage declines exacerbate problems for an economy already hurt by a slowdown in exports. On the month, escalating trade and geopolitical tensions sent the safe-haven JPY higher by 2.8% against the USD while the Nikkei225 lost 7.5%.

The renewed uncertainty surrounding the trade war with the US weighed heavily on investor sentiment in China, leading to a sell-off in one of the best performing stock markets this year. Both sides seem to have dug in their heels on the trade dispute. While China's President Xi asked his citizens to prepare for a new long march and remain resilient, Trump announced USD16 bn in subsidies to US farmers to offset the impact of Chinese tariffs on some US agricultural imports. Overall, both sides look to negotiate from a position of strength while paving the way for a Trump-Xi meeting on the sidelines of the G20 summit in late June. The heightened trade tensions and the risk of a more drawn-out dispute is likely to weigh down investor sentiment. A slightly, weaker macro outlook remains a worry for policymakers and raises expectations of a further monetary and fiscal boost. The CNY fell 2.5% against the USD in May while the Shanghai Composite lost 5.8%.

" Both sides look to negotiate from a position of strength while paving the way for a Trump-Xi meeting on the sidelines of the G20 summit in late June "

Political uncertainty heightened further and Turkish assets remained on edge after Turkey's top election watchdog accepted Erdogan's appeal to re-conduct Istanbul's mayoral vote which was won by an opposition candidate. Meanwhile and in a desperate attempt to stem the TRY's slide, the Central Bank announced several policy adjustments including the temporary suspension of its one-week repo auctions. The TRY, which has lost 10.4% against the USD so far this year, has brought consumer confidence to an all-time low, stoking inflation, still stuck at around 20%, and preventing the Central Bank from cutting rates.

Meanwhile, the combination of a strongman image, economic populism and right-wing nationalism swept India's incumbent PM Modi to a landslide second term. Investors cheered the verdict but the global sell-off tempered gains with the benchmark NIFTY ending the month higher by 1.5%. Attention will now turn to policy priorities as the economy faces growing distress among the farming community and whether Modi will be able to deliver on the stalled land and labor reforms in his second term.

Tensions flared up in the region last month after sabotage attacks on two oil tankers in the Gulf and drone attacks on some Saudi energy facilities were reported. While both the US and Iran called for restraint, risks of miscalculation remain, causing elevated volatility in oil prices. Brent whipsawed with a downward bias as supply disruption concerns were only partially offset after the IEA cut its global oil-demand forecast on disappointing fuel consumption in China, Japan and Brazil so far this year. On the month, Brent fell 11.4% but is still up by 20% year-to-date. MENA equities too suffered amid rising global and regional tensions as the S&P Pan Arab Composite lost 5.4% on the month.

Asset Class Views

Asset Class	April	May	View / Rationale
Equities	↘	↘	
US	↘	↘	Risks are balanced as Fed-speak turns neutral-to-dovish while EPS growth normalizes.
Europe	↘	↘	Weakened Eurosceptic parties, a dovish ECB, and a US truce on trade provides some relief to sputtering growth.
UK	↘	↘	Political uncertainty overshadows attractive valuations.
Japan	↔	↔	Valuation discount reflects a deteriorating domestic and external environment.
China	↔	↔	Mindful authorities to counter any evidence of a slowdown resulting from an escalation in the trade war.
India	↘	↘	Post election optimism, market focus back on slowing economy.
Brazil	↔	↔	Bolsonaro-rally now tracking real progress on reforms.
Russia	↔	↔	Some investor-interest returning amid macro stability and the absence of new sanctions.
MENA	↘	↘	Heightened geopolitical concerns weigh on cautiously improving sentiment.

Asset Class	April	May	View / Rationale
Fixed Income	↔	↔	
US	↔	↔	As Fed-speak turns neutral-to-dovish, longer duration bond exposure is warranted.
Europe	↘	↘	Negative German 10-year yield confirms lower for longer rates.
UK	↔	↔	Fresh political uncertainty to keep rates lower on safe haven buying.
Japan	↘	↘	Trade war uncertainty and lacklustre inflation to keep rates zero-bound.
China	↔	↔	Authorities to further ease monetary conditions amid trade war escalation.
India	↔	↔	RBI turns accommodative as GDP growth slumps to 5-year low.
Brazil	↔	↔	CBB remains accommodative as economic recovery stalls on a slowdown in household consumption and fixed investment.
Russia	↔	↔	Inflation expectations fall in May, easing pressure on the inflation-focussed Central Bank.
MENA	↔	↔	Lower rates in the US pushing MENA rates lower accordingly.

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

Asset Class Views

Asset Class	April	May	View / Rationale
Currencies			
USD / EUR	Neutral	Neutral	Remain Neutral EUR versus USD at the current levels.
USD / CHF	Favour	Favour	Market is pricing-in too many Fed rate cuts in our view.
USD / GBP	Favour	Favour	GBP remains a volatile Brexit-tracker.
USD / JPY	Favour	Favour	Fundamentals continue to Favour the USD against the JPY.
EUR / CHF	Neutral	Neutral	ECB's renewed dovish stance needs to spur sputtering economic growth for us to turn positive on the EUR.
EUR / GBP	Neutral	Neutral	GBP remains a volatile Brexit-tracker while the ECB turns more dovish.
EUR / JPY	Neutral	Neutral	JPY remains a flight-to-safety trade amid increasing trade tensions.
CHF / GBP	Neutral	Neutral	GBP direction depends on Brexit progress.
CHF / JPY	Neutral	Neutral	Both currencies can get a safe-haven bid as equity market volatility increases.
GBP / JPY	Neutral	Neutral	GBP direction depends on Brexit progress while the JPY's fundamentals are weak.

Overweight, Favour, Neutral, Cautious, Underweight

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