MONTHLY INVESTMENT OVERVIEW

بنك الامارات للاستثمار

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

MAY 2020

- After a strong show in April, investors found further cause for optimism as their focus shifted towards how successful countries will be in exiting out of lockdown. Although volatility declined, the more moderate price appreciation in May compared to April suggests investor caution continued as significant uncertainty remains over the magnitude of the lingering effects caused by the sudden halt to economic activity.
- Global equity and fixed-income markets have rebounded strongly since their March-lows and many investors have missed out on the rebound. The rebound was liquidity-driven and current market valuations are excessive, in our view.
- The Eurozone composite PMI continues to signal a sharp contraction in both manufacturing and services. While the planned lifting of lockdowns will inevitably help boost business activity and sentiment further, the outlook is scarred by the prospect of demand remaining weak due to high unemployment levels and subdued corporate spending.
- PM Abe doubled down on Japan's stimulus with another USD1.1 trillion worth of measures as he looked to deliver on his promise to keep businesses and households afloat. Meanwhile, GDP is expected to shrink by more than 20% in Q2 and the recovery could be slow as exports, tourism and business investment struggle to rebound.
- The Chinese government unveiled its stimulus package for the year at the National People's Congress meeting, pledging targeted monetary easing and increased infrastructure spending while scrapping a hard growth target in light of the uncertain global economy.
- In more evidence that the oil market is rebalancing, reports showed that stockpiles at the storage hub at Cushing, Oklahoma fell for the fourth straight week. Brent has almost doubled from its low in mid-April on signs that OPEC+ producers are close to agreeing on a short extension of their historic deal to cut output. At the time of this writing, OPEC+ agreed to a one-month extension of its record oil-production cuts.

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After a strong show in April, investors found further cause for optimism as their focus shifted towards how successful countries will be in exiting out of lockdown. Global containment measures have seen infection rates come down in many countries and we are witnessing tentative signs that several countries are seeing increased economic activity including higher transportation numbers and electricity consumption. While economic activity suggests that Q2 will be worse than Q1, investors are looking ahead to a return to normalcy. Meanwhile, US corporate earnings for Q1 drew to a close and confirmed that EPS figures for the S&P500 contracted by around 8% year-over-year. On the month, the rebound in equity markets continued with the S&P500 gaining 4.5%.

"Central banks and governments have so far helped cushion the blow to the global economy but success will be measured by the extent to which companies can avoid solvency problems"

Although volatility declined, the more moderate price appreciation in May compared to April suggests investor caution continued as significant uncertainty remains over the magnitude of the lingering effects caused by the sudden halt to economic activity. Central banks and governments have so far helped cushion the blow to the global economy but success will be measured by the extent to which companies can avoid solvency problems. On the data front, while the US unemployment rate for April reached 14.7%, the highest level in post-war history, manufacturing rose in May for the first time in four months, rebounding from an 11-year low and suggesting that industry is beginning to stabilize albeit at a depressed level. On the month, the 10-year US treasury yield ended flat at 0.65%.

Global equity and fixed-income markets have rebounded strongly since their March-lows and many investors have missed out on the rebound. The rebound was liquidity-driven and current market valuations are excessive, in our view.

We continue to favour a "quality bias" both within equities and fixed income with a focus on companies with strong balance sheets that can take advantage of the downturn by either gaining more market share and/or through inorganic growth (i.e. acquisitions). Selectively, some high-yield names can provide an attractive yield in this low-rate environment and where such corporates may be able to refinance their debt obligations at appealing rates.

The Eurozone composite PMI also rebounded in May to a three-month high after an easing of lockdown restrictions allowed companies and shops to resume business. The index continues to signal a sharp contraction in both manufacturing and services. While the planned lifting of lockdowns will inevitably help boost business activity and sentiment further, the outlook is scarred by the prospect of demand remaining weak due to high unemployment levels and subdued corporate spending. At the time of this writing, Germany paved the way for a global travel warning to be lifted for European countries from June 15, a significant move toward a return to normalcy. To counter the imminent slowdown, governments across the bloc are working on fiscal-stimulus plans to restart growth, complementing the ECB's unprecedented monetary support. The EuroStoxx50 gained 4.2% while the EUR rose 1.3% against the USD in May.

The UK's Q1 GDP fell by 2.0% QoQ, the worst reading since 2008, as the government announced further plans to gradually reopen more sectors of the economy. The UK government and the BoE have flooded the economy with stimulus to keep it afloat as restrictions on socializing and travel kept it at a standstill. Economic pain in the UK may be receding as more government employees return to work. Meanwhile and with Brexit negotiations deadlocked, the EU is pinning its hopes on a

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dramatic intervention by PM Johnson to intervene and resolve the impasse. The EU's demands for any deal remain broadly unacceptable by the UK. On the month, the FTSE100 gained 3.0% while the GBP fell 2.0% against the USD.

PM Abe doubled down on Japan's stimulus with another USD1.1 trillion worth of measures as he looked to deliver on his promise to keep businesses and households afloat. The spending will be financed by a second supplementary budget. While the government ended its lockdown measures by the end of May as new virus cases recede, the economic outlook remains grim. Export markets are also struggling to reopen, casting a further shadow on the outlook for the economy. GDP is expected to shrink by more than 20% in Q2 and the recovery could be slow as exports, tourism and business investment struggle to rebound. The Nikkei 225 climbed 8.3% while the JPY edged lower by 0.6% against the USD on the month.

> "Optimism over the reopening of economies in Europe and the US outweighed rising US-China tension and aided flows into the EM space"

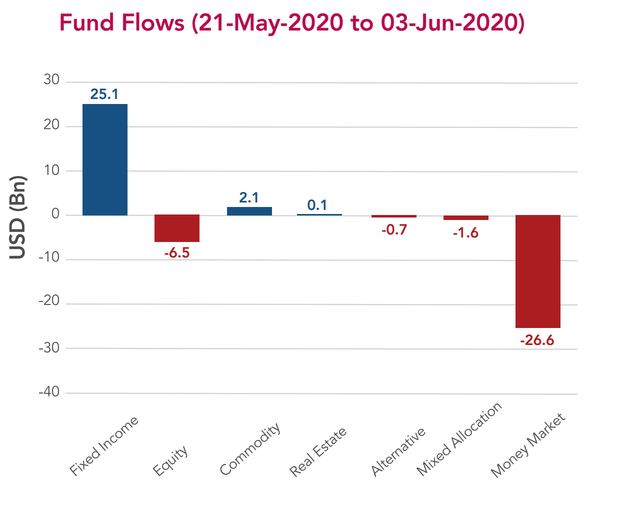
After an initial rebound supported by pent-up demand, data indicate that China's recovery from the pandemic shutdowns is faltering as overseas demand remains weak. While industrial firms are mostly back at work and output is rising again, data showed the official manufacturing PMI declined to a worse-than-expected 50.6. In response, the government unveiled its stimulus package for the year at the National People's Congress meeting, pledging targeted monetary easing and increased infrastructure spending while scrapping a hard growth target in light of the uncertain global economy. Meanwhile, increasing US-China tensions over Hong Kong and accusations of China's alleged mishandling of the virus give rise to concerns that their trade deal could unravel. Despite the stresses, the CNY remained steady through May just above the 7.0/USD mark.

Emerging Market (EM) currencies were broadly steady while the MSCI EM Index ended flat with a positive bias in May as investors gained comfort from government and central-bank stimulus efforts and improved risk-appetite in the developed world. Overall, optimism over the reopening of economies in Europe and the US outweighed rising US-China tension and aided flows into the EM space. While manufacturing gauges signal some relief with governments now beginning to ease lockdowns and allow for more mobility of consumers, Trump's increasingly aggressive stance towards China and the ensuing Chinese response to the provocation could weigh on gradually improving sentiment towards EM.

In more evidence that the oil market is rebalancing, reports showed that stockpiles at the storage hub at Cushing, Oklahoma fell for the fourth straight week. Brent has almost doubled from its low in mid-April on signs that OPEC+ producers are close to agreeing on a short extension of their historic deal to cut output. At the time of this writing, OPEC+ agreed to a one-month extension of its record oil-production cuts and adopted a stricter approach to ensuring members don't pump more than they pledged. The easing of lockdown restrictions in some parts of the world ahead of infection rates peaking means the demand recovery could be faster than previously anticipated, allowing Brent to gain 40.0% on the month to close at USD35.3/bbl.

Fund Flows

- The month of May saw investor focus shift to the global economic recovery theme as flows saw meaningful rotation from safer money-market instruments / govies to higher-yielding corporate bond funds.
- Bond funds continue to benefit and have recovered their losses from the March selloff, as the asset class re-rates following the Fed's ultra-accommodative monetary policy. High-yield and investment-grade bond fund inflows continued to be much stronger than the inflows into government bonds as investors shift focus from the recession to a gradual global economic revival from the pandemic.
- Within equities, we witnessed strong interest towards US and global funds sustain. However, the worsening relationship between the US and China drove capital out of Asia. Some of that capital was re-directed into Latin American nations such as Brazil and Mexico, as some investors found depressed valuations there as an opportunistic rotation.

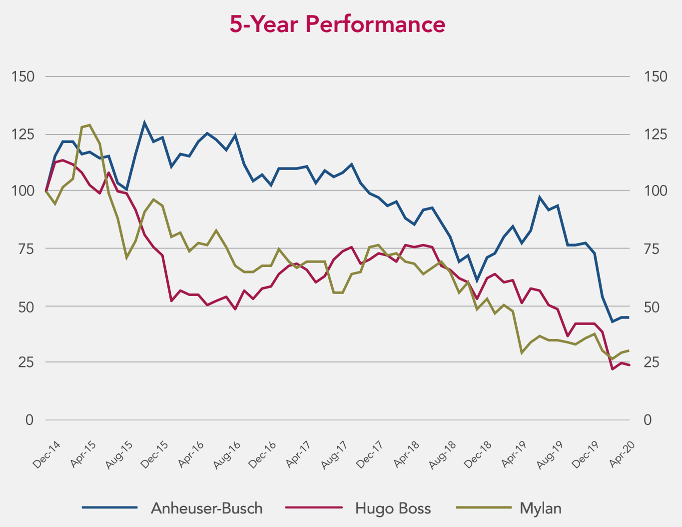


Source: EIBank, Bloomberg

Investment Theme: Candidates for re-rating

The S&P500 has rebounded by over 40% from its March lows while the Bloomberg Barclays Global Agg Index has rebounded by over 14% over the same period. Although some securities were undervalued compared to their underlying fundamentals in March – the spreads on investment-grade bonds comes to mind – the strong rebound in prices was mainly driven by the massive amount of liquidity that the Fed injected in the market. Broadly speaking, valuations are fair to rich in our view at their current levels, especially as earnings growth is expected to be weak for various industries.

Many investors have missed out on this rebound and are either looking to reduce their exposure to equities in general or are looking for laggards that are still in the red on a year-to-date basis. Anheuser-Busch, Mylan and Hugo Boss are still down approximately 36%, 16% and 34% respectively year-to-date compared to the S&P500 which is trading flat for the year.



Source: EIBank, Bloomberg

On average, these companies are trading at approximately 15x 2021 earnings while the S&P500 is trading at approximately 21x 2021 earnings. Part of the reason these companies have trailed the market is due to their high leverage (i.e. debt) ratios. However, as the Fed has indicated that rates will continue to be depressed well through 2022, such companies will have significantly lower debt burdens going forward. Interest payments will be significantly lower while their ability to refinance their existing loans at attractive rates has gone up. In short, they are trading near their 5 year lows and should be able to steadily re-rate as the risk of their debt burden has significantly decreased.

Asset Class Views

Asset Class	April	May	View / Rationale
Equities	↓	↓	
US	↘	↘	At 25x 2020 consensus earnings and negative earnings growth, the S&P500 is fully priced in.
Europe	↘	↘	Although the Stoxx600 is trading at a 17% discount to the S&P500, earnings growth in the S&P500 has been much more resilient.
UK	↘	↘	Despite some recovery expected in May and June, GDP is expected to drop 17% in Q2.
Japan	↓	↓	A deep recession is underway, deflation fears are re-emerging even as fiscal and monetary policies are pushed to extremes.
China	↔	↔	While the domestic economy continues to recover, downward pressures are rising, especially given rising tensions with the US. Selectivity remains key.
India	↘	↘	Corona cases surging while lockdown restrictions ease place a ceiling on demand recovery.
Brazil	↔	↔	Given Bolsonaro's reluctance in funding income support measures and his opposition to lockdowns, how policy and politics evolve will decide the speed of recovery.
Russia	↘	↘	Government's balance sheet is healthy with ample buffers and low debt to smooth spending.
MENA	↘	↘	While oil production cuts may widen GCC budget deficits, gradual oil price increase will soften the blow.

Asset Class	April	May	View / Rationale
Fixed Income	↔	↔	
US	↔	↔	We maintain a 'quality bias' in IG corporates while selectively targeting HY corporates that have 24 months of liquidity.
Europe	↘	↘	ECB expanded its Pandemic Emergency Purchase Programme by EUR600 billion to EUR1.35 trillion in June.
UK	↔	↔	Warning of downside risks to the outlook, the BoE has signaled it's likely to do more to support the recovery.
Japan	↘	↘	Public debt could soar to 262% of GDP this year, making it harder for the BoJ to control the yield curve.
China	↔	↔	PBoC continues to improve the flow of credit to the most needy sectors to lower borrowing costs and to increase access to funding.
India	↔	↔	With headline inflation to trend down sharply on receding food inflation, weak demand and low oil prices, RBI has room to lower rates.
Brazil	↔	↔	Absent clear growth drivers for demand and an uncertain policy environment, Brazil's Central Bank has to do the heavy lifting.
Russia	↔	↔	With inflation at record lows and the economy facing a deep recession, monetary and fiscal policy to provide support.
MENA	↔	↔	Q2 balance sheets will provide a good indication of the extent of credit quality deterioration.

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

Asset Class Views

Asset Class	April	May	View / Rationale
Currencies *			
EUR	↔	↔	Fed balance sheet has jumped from approximately 20% of GDP to 32% as a result of all the stimulus measures.
CHF	↗	↔	SNB battling a stronger CHF as the country is in deflation.
GBP	↔	↗	Despite the sharp recent rally, the GBP has further room to strengthen especially if Brexit negotiations turn more positive.
JPY	↗	↗	Japan's poor economic fundamentals warrant weakness against the USD but the JPY's status as a hedge against uncertainty has allowed it to hold up well.

* All currency views expressed relative to the USD

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

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