MONTHLY INVESTMENT OVERVIEW

بنك الامارات للاستثمار
EMIRATES INVESTMENT BANK

Asset Class	View	Current Allocation*	Benchmark Allocation*
Equities	Cautious	30.0%	40.0%
Fixed Income	Neutral	40.0%	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

OCT 2018

- Global equities came under severe pressure in October as investors searched for any rationale to sell their positions. Growing concerns of a global slowdown due to worsening trade war fears, muted forward earnings guidance, heightened geopolitical tensions in the MENA, uncertainty surrounding Brexit and Italy's budget confrontations with the EU can all be reasons to justify the sell-off.
- While economic fundamentals may point towards a temporary rebound, we believe that the elevated volatility across the various asset classes has hurt investor sentiment and points towards a steady downward trend in global equities.
- Although US Q3 earnings were mostly healthy, albeit with cautious forward guidance from several S&P500 companies, strong economic data lent further belief that the Fed will continue to raise interest rates regardless of the turmoil in global financial markets. Overall, muted forward guidance has raised investor concerns about peak earnings.
- Italy's budgetary politics continued to weigh on investor sentiment as EU officials rejected Italy's draft budget, calling the proposed 2.4% deficit as a percentage of GDP too risky, given its huge debt pile of around 130% of GDP. Italy has three weeks to revert with a fresh proposal.
- Trade war concerns and a government-induced slowdown to tackle excessive debt levels have weighed on the Shanghai Composite, which has lost 21.3% so far this year, while the CNY has depreciated over 10% since April. Despite recent data pointing to slowing macroeconomics, strong disposable income growth and robust retail sales continue to provide a cushion.
- We upgraded MENA equities to "Neutral" last month as we are beginning to see investors searching for pockets of value after a long spell of underperformance. Attractive dividend yields and single-digit earnings multiples on several large-cap banks and real estate companies call for a selective approach to MENA equities in our view.

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Global equities came under severe pressure in October as investors searched for any rationale to sell their positions. Developed equities, represented by the MSCI World Index lost 7.4% on the month while their Emerging Market (EM) counterparts, represented by the MSCI EM Index, fell by 8.9%. Growing concerns of a global slowdown due to worsening trade war fears, muted forward earnings guidance, heightened geopolitical tensions in the MENA, uncertainty surrounding Brexit and Italy's budget confrontations with the EU can all be reasons to justify the sell-off.

Overall, we believe that investors are simply not comfortable with the risk-return payoff that various market scenarios are currently displaying. The positive factors that propelled the equity, fixed-income and real estate markets to new highs over the past ten years are no longer completely in place. US Fed policy is turning less accommodative, corporate tax cuts are naturally expected to have diminishing returns in future years, while international trade and supply chains are being disrupted by the current US administration.

> "The positive factors that propelled the equity, fixed-income and real estate markets to new highs over the past ten years are no longer completely in place."

On a year-to-date basis, global equities, fixed-income, real estate, commodities and alternatives are each down anywhere between 4% to 5% on average. While economic fundamentals may point towards a temporary rebound, we believe that the elevated volatility across the various asset classes has hurt investor sentiment and points towards a steady downward trend in global equities.

The minutes of the last FOMC meeting showed that the Fed intends to continue hiking rates gradually for the foreseeable future with officials debating the prospect of raising rates past the neutral zone in an effort to slow the economy and reduce the risk of rising inflation. While US Q3 earnings were mostly healthy, albeit with cautious forward guidance from several S&P500 companies, strong economic data lent further belief that the Fed will continue to raise interest rates regardless of the turmoil in global financial markets. The US 10-year Treasury yield reached a multi-year high in mid-October on upbeat Fed comments before closing the month at 3.14%, higher by 8bps on the month while the S&P500 lost ground and ended with a monthly loss of 6.9%. On the earnings front, with 377 of S&P500 companies reporting, the Q3 earnings season looks reasonably strong with revenues growing at 8.8% year-over-year (YoY) while EPS growth is running at 26.6%. Overall, muted forward guidance has raised investor concerns about peak earnings.

In Europe, Italy's budgetary politics continued to weigh on investor sentiment even as the ECB expressed confidence on Euro-area growth and a gradual uptick in inflation. While Draghi acknowledged "somewhat weaker" economic data, he still maintained risks to growth remain balanced and consistent with inflation gradually rising. Meanwhile, EU officials rejected Italy's draft budget, calling the proposed 2.4% deficit as a percentage of GDP too risky, given its huge debt pile of around 130% of GDP. Italy has three weeks to revert with a fresh proposal. In response, investors reacted negatively to the fiscal program, pushing Italian bond yields higher while Moody's responded by downgrading Italy's sovereign debt rating to one notch above junk status (from two) while keeping the outlook stable. Trade war fears and stagnation in Italy amid an ongoing battle with the EU over its proposed 2019 budget weighed on the bloc's growth. Eurozone GDP has slowed to its lowest level in over four years, rising only 0.2% in Q3, down from 0.4% in Q2. On the month, the EuroStoxx50 lost 5.9% while the EUR edged lower by 2.5% against the USD.

Brexit negotiations remained on the boil with a no-Brexit deal scenario looking more likely as the UK and the EU failed to reach a final agreement on exit terms. The breakdown in talks in October led both sides to consider extending the transitional period to 2021 with negotiations to continue till mid-November. Meanwhile, the UK's October manufacturing PMI hit a 27-month low at 51.1, dragged down by trade war fears and the uncertainty

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surrounding Brexit. The GBP remained volatile and ended the month lower by 2.0% against the USD while the FTSE100 lost 5.1%.

Japan's exports fell 1.3% in September year-over-year (YoY), the first YoY decline since November 2016. Natural disasters disrupted economic activity and reduced export shipments, which is expected to adversely affect the Q3 GDP growth numbers. The BoJ noted concerns expressed by Japanese companies that the US-China trade war may also lead to an inflow of competing Chinese products into Japan, eroding profits of local producers. Meanwhile, Japan's core CPI (ex. food) rose 1% YoY in September, well short of the BoJ's 2% target, highlighting the BoJ's difficulty in achieving its inflation goal. Despite the undershooting inflation data, Governor Kuroda said he was more upbeat on inflation than three months ago, citing rising energy costs. The Nikkei225 tracked the global equity sell-off and lost 9.1% while the safe-haven JPY gained 0.7% against the USD.

> "The IMF lifted its projections for Saudi's economic growth to 2.2% in 2018 and 2.4% in 2019, 0.5% higher than forecast previously for each year."

China's Q3 GDP growth slowed to a 6.5% annual pace, compared with a 6.7% rate in Q2. Trade war concerns and a government-induced slowdown to tackle excessive debt levels have weighed on the Shanghai Composite, which has lost 21.3% so far this year, while the CNY has depreciated over 10% since April. Last month, in yet another move to support its slowing domestic economy amid a worsening trade war with the US, China decreased the amount of money that commercial banks must put aside with the Central bank. Overall, slowing growth prospects and the trade impasse with the US have taken a toll on Chinese assets with the USD/CNY exchange rate now within touching distance of the psychological 7 mark, stoking fears of some capital outflows. Meanwhile and despite recent data pointing to slowing macroeconomics, strong disposable income growth and robust retail sales continue to provide a cushion.

Elsewhere in EM, India's RBI kept its benchmark interest rate unchanged after two back-to-back rate hikes, while changing its stance to "calibrated tightening". With inflation now within the Central Bank's comfort range and monetary conditions tightening, the RBI decided to pause. The benchmark NIFTY has lost 11.5% from its August peak while the INR has reached an all-time low amid rising oil prices and deteriorating macroeconomic data. Meanwhile in Turkey, despite broad-based USD strength, the TRY had its biggest monthly gain against the USD since 2002, rising by 7.8% as Turkey's trade deficit shrank sharply. Overall, EM assets had a rough month with the MSCI EM Index dropping 8.9%.

In its latest report, the International Energy Agency (IEA) expressed concerns about rising oil prices, stating that it poses a threat to economic growth. The agency revised its demand outlook for oil downward over the next two years. OPEC also expects global oil demand to slow down next year due to weakening economic growth and higher output from mainly US shale producers. After rallying to USD86/bbl at the beginning of October on supply concerns, Brent corrected 12.5% to USD75.5/bbl by month-end on global demand worries and also due to Saudi standing ready to meet any shortfall arising from the upcoming US sanctions on Iran. Earlier in the month, the IMF lifted its projections for Saudi's economic growth to 2.2% in 2018 and 2.4% in 2019, 0.5% higher than forecast previously for each year. The agency cited a pickup in non-oil economic activity and an increase in crude oil production as factors for the revision. We upgraded MENA equities to "Neutral" last month as we are beginning to see investors searching for pockets of value within regional equities after a long spell of underperformance. Attractive dividend yields and single-digit earnings multiples on several large-cap banks and real estate companies call for a selective approach to MENA equities in our view. The S&P Pan Arab edged lower by 0.5% in October.

Asset Class Views

Asset Class	September	October	View / Rationale
Equities	Cautious	Cautious	
US	Cautious	Cautious	Peak earnings and muted forward guidance to keep equities under pressure.
Europe	Neutral	Neutral	Italy's budgetary politics and slowing Eurozone GDP growth pose downside risks.
UK	Cautious	Cautious	UK investors await clarity on Brexit as a final agreement is still not in place.
Japan	Neutral	Neutral	Fair valuations and earnings growth has been steady.
China	Neutral	Neutral	Attractive valuations and government support augur well for selective equities.
India	Cautious	Cautious	Recent sharp correction in oil eases some macro pressures.
Brazil	Cautious	Cautious	New government optimism to now make way for realism.
Russia	Cautious	Cautious	Falling oil prices and upcoming US sanctions to weigh on risk sentiment.
MENA	Neutral	Neutral	We continue to see value buyers in some of the larger cap names in the UAE.
Asset Class	**September**	**October**	**View / Rationale**
Fixed Income	Neutral	Neutral	
US	Neutral	Neutral	Data-dependent Fed to continue pushing rates higher.
Europe	Cautious	Cautious	Slowing growth and Italian worries to keep Eurozone rates in check for now.
UK	Neutral	Neutral	BoE conditionally hawkish, awaiting clarity on Brexit.
Japan	Cautious	Cautious	BoJ allowing QE flexibility to put upward pressure on long-term rates.
China	Neutral	Neutral	Monetary and fiscal stimulus to keep rates lower-bound.
India	Neutral	Neutral	Recent fall in oil prices eases upward pressure on rates.
Brazil	Neutral	Neutral	Central Bank remains accommodative on contained inflation.
Russia	Neutral	Neutral	Central Bank delicately balancing growth and inflation concerns.
MENA	Neutral	Neutral	USD-pegged MENA rates to rise with US rates.

Overweight, Favour, Neutral, Cautious, Underweight

Asset Class Views

Asset Class	September	October	View / Rationale *
Currencies	NA**	NA**	
USD / EUR	↔	↔	We remain Neutral with some EUR exposure warranted at current levels.
USD / CHF	↗	↗	A more hawkish Fed relative to a more accommodative SNB leaves room for additional USD strengthening.
USD / GBP	↗	↗	GBP continues to track Brexit news flow, which remains uncertain.
USD / JPY	↗	↗	A potentially weaker Q3 GDP reading to weigh on the JPY.
EUR / CHF	↗	↗	Continue to Favour the EUR as ECB on course to stop QE by year-end.
EUR / GBP	↗	↗	GBP tracking Brexit news flow, which remains uncertain.
EUR / JPY	↗	↗	Continue to Favour the EUR as ECB normalization on track.
CHF / GBP	↔	↔	We remain Neutral as a depressed GBP remains Brexit-dependant.
CHF / JPY	↔	↔	We remain Neutral CHF/JPY at current levels.
GBP / JPY	↔	↔	We remain Neutral as a depressed GBP remains Brexit-dependant.

* Reference currency is the USD

**NA - Not applicable

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

FOR MORE INFORMATION, PLEASE CONTACT:

Emirates Investment Bank pjsc
PO Box 5503, Dubai
Dubai Festival City, UAE

+971 4 231 7777

+971 4 231 7788

www.eibank.com

ASSET MANAGEMENT TEAM:

Nadi Bargouti, CFA
Managing Director – Head of Asset Management
nadi.bargouti@eibank.com

Yaser Al-Nimr
Director – Asset Management
yaser.alnimr@eibank.com

Hamad Al Majidi
Senior Associate – Asset Management
hamad.almajidi@eibank.com

Joyson D'Souza, CFA
Associate – Asset Management
joyson.dsouza@eibank.com

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