MONTHLY INVESTMENT OVERVIEW

EMIRATES INVESTMENT BANK

Asset Class	View	Current Allocation*	Benchmark Allocation*
Equities	Cautious	25.0%	40.0%
Fixed Income	Neutral	42.5%	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	10.0%	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

SEP 2019

- While rhetoric somewhat cooled on the US-China trade front in September, we believe that a limited, short-term deal between the US and China will not solve their long-term strategic differences. On the month, global equities, as represented by the MSCI All Country World Index, gained 1.9%.
- Interestingly, there has been a synchronized rise in safety assets such as Treasuries, Gold and the Dollar Index, as well as riskier assets such as global equities. The contradictory movements indicate a certain level of uncertainty that we see in the markets today as they search for direction.
- In yet another blow to the UK's embattled PM Johnson, the country's Supreme Court ruled that his suspension of Parliament was illegal, further weakening his position to negotiate a deal with the EU by the October 31 deadline, and leaving him little choice but to ask the EU for an extension.
- While Chinese authorities have undertaken several easing measures over the past few months to support the economy, the dampening impact on sentiment and a steep decline in exports due to the ongoing trade war continues to hurt the economy.
- In a major move to stem the ongoing demand slowdown, India's Finance Minister Sitharaman announced a reduction in corporate income taxes. The move aims to revive the private capex cycle and also intends to induce foreign companies to set up shop in India.
- The UAE's largest commercial bank, Emirates National Bank of Dubai, announced it is immediately increasing its Foreign Ownership Limit to 20% from 5% with plans to further increase the limit to 40%, subject to shareholder and regulatory approval. The move has the potential to attract meaningful foreign flows into the company's shares and bodes well for the UAE markets overall.

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Q3 2019 saw an extension of the continued global economic slowdown with manufacturing still struggling from the onslaught of US-China trade related headlines. While rhetoric somewhat cooled on the US-China trade front in September, we believe that a limited, short-term deal between the US and China will not solve their long-term strategic differences. Meanwhile and by the end of month, Trump's sharp criticism of China at the UNGA and US House Speaker Pelosi's formal impeachment inquiry of Trump created additional uncertainty. On the month, global equities, as represented by the MSCI All Country World Index, gained 1.9%.

Toward the end of last month, deteriorating manufacturing data point to mounting concerns over whether central banks have the resources alone to boost their respective economies, especially if a weak manufacturing environment adversely affects the services sector and consumer sentiment. Fixed-income, as measured by the Bloomberg Barclays Global Aggregate Bond Index, has returned 9.8% on a year-to-date basis and we believe that the upside is relatively capped from here, given where yields are today. Although the risk-return payoff is not attractive in our view, fixed-income exposure will continue to cushion us against a sell-off in equities. On the month, the US 10-year Treasury yield bounced back from its multi-year lows and gained 17bps to end September at 1.66%.

> "In the Eurozone, inflationary pressures from reasonably strong domestic demand and an improving labor market are being offset by slowing manufacturing"

Interestingly, there has been a synchronized rise in safety assets such as Treasuries, Gold and the Dollar Index, as well as riskier assets such as global equities. The positioning into riskier assets is likely to simply be a liquidity play on more accommodative central bank policy, while other investors are opting to de-risk their portfolios, protecting them against drawdown risk. The contradictory movements indicate a certain level of uncertainty that we see in the markets today as they search for direction.

While our proprietary six-factor "Risk-On/Risk-Off" econometric model still warrants a neutral stance, aggressive investor positioning in treasuries reflects concerns that political uncertainty and manufacturing contraction could push the global economy into a recession sooner than expected. In our view, the US economy remains on a strong footing compared to the rest of the world, but the rising amount of negative yielding debt globally is distorting asset prices and has the potential to unsettle investors. In such an environment, we continue to have an overall defensive stance, strongly emphasizing balance-sheet strength in selecting equities, taking on the right credit exposures in our fixed-income allocation, and building a larger-than-usual cash buffer.

At this point in time, certain futures markets are indicating a continued easing bias by the Fed as we head into the last quarter of 2019 and into 2020. Should additional easing be warranted next year, then we would expect 2020 to be a difficult year in terms of investment returns as earnings are revised downwards and asset prices correct. Under such a scenario, a defensive portfolio positioning would allow our investment portfolios to capitalize on an eventual rebound, possibly in 2021, as we would have the capacity to increase our risk exposures at that time.

Euro-area inflation slowed further in September, somewhat justifying the ECB's move to cut interest rates further into negative territory and restart QE. CPI rose an annual 0.9%, much below the ECB's 2% goal. Meanwhile, the bloc's manufacturing slumped further with new orders seeing their sharpest contraction in almost seven years, hurt by trade tensions and geopolitical uncertainty. Overall, inflationary pressures from reasonably strong domestic demand and an improving labor market are being offset by slowing manufacturing. The EUR lost 0.8% in September and has fallen 4.2% against the USD this quarter.

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In yet another blow to the UK's embattled PM Johnson, the country's Supreme Court ruled that his suspension of Parliament was illegal, further weakening his position to negotiate a deal with the EU by the October 31 deadline, and leaving him little choice but to ask the EU for an extension. In light of his lack of Parliamentary majority and the Supreme Court ruling, a Brexit extension looks a likely scenario, and allows the UK more time to either come up with a renewed draft bill to propose to the EU, or call for fresh elections to resolve the UK's political impasse. The GBP remains a speculative bet on Brexit, gaining 1.1% against the USD, while the FTSE100 gained 2.8% in September.

Following rate cuts by the Fed and the ECB, the BoJ reluctantly stood pat on policy while hinting at some easing action in October, from an already ultra-accommodative stance. The BoJ wants to see the impact of the sales tax hike, that came into effect from October 1, before deciding on its policy going forward. Meanwhile, the JPY's safe-haven demand, falling exports and inflation at a 2-year low have all put pressure on the BoJ to ease monetary policy further. The JPY fell 1.7% against the USD while the Nikkei225 gained 5.1% in September.

> "Markets continued to calibrate incoming data following drone attacks on Saudi's oil facilities, affecting almost half the Kingdom's production capacity"

In a strong indication that China's economy is still not out of the woods, growth in industrial output and in retail sales both missed expectations in August. Fixed-asset investment also slowed to a below-par 5.5% year-to-date. While authorities have undertaken several easing measures over the past few months to support the economy, the dampening impact on sentiment and a steep decline in exports due to the ongoing trade war continues to hurt the economy. Mindful of the downside pressures facing the economy, China's cabinet signalled that fresh stimulus measures would be announced soon and promised to act quickly on the faster implementation of measures to reduce real borrowing costs. Meanwhile, the PBoC announced a cut of 50bps in the required reserve ratio for banks and said it would cut the ratio by as much as 100bps for some commercial lenders. The Shanghai Composite ended with a monthly gain of 0.7%.

In a major move to stem the ongoing demand slowdown, India's Finance Minister Sitharaman announced a reduction in corporate income taxes. The base corporate tax will drop to 22% from 30% while new manufacturing entities will be taxed at a globally competitive 17%. The move aims to revive the private capex cycle and also intends to induce foreign companies to set up shop in India. The NIFTY gained 4.1% in September. Elsewhere, the BIST-100 gained 8.6% on the month after the Turkish Central bank cut the benchmark repo rate by an aggressive 325bps to 16.5%. The Central Bank cited its move as being largely "consistent with the projected disinflation path." Inflation has fallen to about 15% in August from its record high of over 25% in Q4 last year.

Markets continued to calibrate incoming data following drone attacks on Saudi's oil facilities, affecting almost half the Kingdom's production capacity. Assurances from Saudi officials that the country would be able to restore lost production by late October, in addition to the US allowing the drawdown of its strategic reserves, kept the oil markets well supplied and helped calm investor fears. Meanwhile, the UAE's largest commercial bank, Emirates National Bank of Dubai, announced it is immediately increasing its Foreign Ownership Limit to 20% from 5% with plans to further increase the limit to 40%, subject to shareholder and regulatory approval. The move aims to diversify ENBD's investor base and has the potential to attract meaningful foreign flows into the company's shares and bodes well for the UAE markets overall. On the month, the S&P Pan Arab Composite closed lower by 0.9% while Brent gained 0.6%.

Asset Class Views

Asset Class	August	September	View / Rationale
Equities	↘	↘	
US	↘	↘	Lack of catalysts and volatile hard data to keep US equities in check for now.
Europe	↘	↘	Risk of contagion from the industrial sector to the much larger services sector increasing.
UK	↘	↘	Brexit deadline extension likely but no-deal Brexit risks still remain.
Japan	↔	↔	Weaker exports and a sales-tax hike put downward pressure on the economy.
China	↔	↔	China remains a bottom-up market for equity investors.
India	↘	↘	Corporate tax cuts provide support to an economy in a cyclical slump.
Brazil	↔	↔	Low inflation and government's ongoing reform agenda keep equity investors interested.
Russia	↔	↔	Weak domestic demand and sanctions priced into a fairly-valued market.
MENA	↘	↘	Geopolitics and lower oil prices continue to weigh on the region.
Asset Class	**August**	**September**	**View / Rationale**
Fixed Income	↔	↔	
US	↔	↔	Additional easing expectations places a floor on fixed-income prices.
Europe	↘	↘	Still falling macro data to prevent rates from normalizing.
UK	↔	↔	BoE finally turns dovish against Brexit risks.
Japan	↘	↘	BoJ looks to tweak bond-buying but rates to remain zero-bound.
China	↔	↔	Slowdown concerns to keep rates low led by monetary support.
India	↔	↔	Corporate tax cuts to help improve credit quality.
Brazil	↔	↔	Central Bank cuts rates for second straight meeting, reinforcing its accommodative stance.
Russia	↔	↔	Sluggish economic growth keeps Central Bank relatively dovish.
MENA	↔	↔	MENA rates to track the Fed stance.

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

Asset Class Views

Asset Class	August	September	View / Rationale
Currencies			
USD / EUR	↔	↔	Fed turns to an easier monetary stance as ECB turns even more dovish.
USD / CHF	↗	↗	Maintain a favourable stance for the USD as easier monetary conditions by the SNB to offset rate cuts by the Fed.
USD / GBP	↗	↗	GBP to remain weak against most G10 currencies on Brexit uncertainty.
USD / JPY	↗	↗	Fundamentals favor the USD against the JPY.
EUR / CHF	↔	↔	Euro-area weakness and Brexit to keep pressure on both the EUR and CHF.
EUR / GBP	↗	↗	Both currencies face macro headwinds but a hard Brexit to hurt GBP more than the EUR.
EUR / JPY	↔	↔	Maintain Neutral stance at this time as ECB turns more dovish against an already ultra-dovish BoJ.
CHF / GBP	↗	↗	GBP to remain weak and a speculative bet on Brexit direction.
CHF / JPY	↔	↔	Safe-haven status of both currencies to keep them range-bound.
GBP / JPY	↔	↔	GBP to remain weak and a speculative bet on Brexit direction.

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

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IMPORTANT INFORMATION