MONTHLY INVESTMENT OVERVIEW

بنك الامارات للاستثمار
EMIRATES INVESTMENT BANK

Asset Class	View
Equities	Neutral
Fixed Income	Cautious
Real Estate	Neutral
Commodities	Neutral
Low Vol / Alternatives	Overweight
Cash	Favour

Overweight, Favour, Neutral, Cautious, Underweight

About Emirates Investment Bank

EIBank is a Dubai-based boutique dedicated to the service of an exclusive group of private and institutional clients. Private banking and investment banking needs are approached holistically.

In private banking, the bank prides itself on offering highly personalised investment solutions and one-on-one servicing by a professional team of wealth management specialists. EIBank's open platform provides clients with access to markets globally.

In investment banking, the bank provides clients with advice on mergers & acquisitions, access to capital markets and other corporate finance matters.

MONTH IN BRIEF

APR 2017

- The "Trumpflation" trade came under some scrutiny as risk assets started April on a bearish note weighed down by escalating geopolitical tensions and election concerns in France. However, global markets regained more than lost ground in the second half of April.
- While the equity markets continue to buy into weakness on higher growth expectations, the fixed-income markets are indicating lower future growth than their equity peers, as yields on the US 10-year treasury fell 10 bps in April.
- Macron's win comes as a sigh of relief for markets in general and other European capitals in particular, as it weakens the anti-Euro movement for the foreseeable future.
- In an attempt to increase her majority in Parliament and to strengthen her position in the Brexit negotiations, PM May called a snap general election to be held on June 8th. Following the announcement, the GBP rallied and finished the month 3.2% higher, which in turn weighed down the FTSE100 by 1.3% in April.
- Turkey's Central Bank surprisingly turned hawkish and raised its liquidity lending rate by 50 bps to 12.25%, while keeping the more widely tracked benchmark rates unchanged. The TRY gained 2.3% versus the USD in April after falling to record lows this year.
- Crude oil continued to remain trapped in a price war between OPEC and US shale producers. While OPEC is nearly certain to extend output cuts when its members meet on May 25, data showed US oil rigs climbed to the highest level in two years.

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The "Trumpflation" trade came under some scrutiny as risk assets started April on a bearish note weighed down by escalating geopolitical tensions, election concerns in France, a batch of soft economic data, alongside continued frustration over lack of US policy details and a snap election announcement by UK Prime Minister May. However, global markets regained more than lost ground in the second half of April on an unexpectedly dovish ECB and a win for centrist candidate Macron in the first round of the French presidential elections.

Overall, developed market equities rose 1.5% over the month, outperformed by their emerging market peers which rallied by 2.2%. The Eurostoxx50 was the best performer in the developed world gaining 2.0% in April. Q1 earnings growth has underpinned the rise in global equities so far this year. With more than 70% of the companies having reported so far, S&P500 earnings have grown by 15% while STOXX Europe earnings have grown by 40% in Q1 year-over-year, albeit from a low base for Europe.

> " With US equities fairly priced, it leaves limited room for disappointment when it comes to earnings or policy implementation "

The US equity markets attributed the slow pace of 0.7% US GDP growth rate in Q1 to seasonal factors, as has been the trend in the last several years, and continued their upward momentum with the S&P500 gaining 1.0% in April, helped by solid on-going Q1 earnings' results. While the equity markets continue to buy into weakness on higher growth expectations, the fixed-income markets are indicating lower future growth than their equity peers, as yields on the US 10-year treasury fell 10 bps in April. With US equities fairly priced, it leaves limited room for disappointment when it comes to earnings or policy implementation.

The strong rally in the European markets was led by France's CAC40 as investors speculated that centrist Macron will win the race for presidency after the first round results. On the macro-economic front, despite the overarching focus on politics, the Eurozone economy continued to beat expectations with unemployment falling to 9.5%, from a high of 12.0% in mid-2013. Despite some calls for a rollback of the QE stimulus as inflation shows signs of revival, the ECB surprised markets with a dovish tone as it kept interest rates and its QE program unchanged at its April monetary policy meeting. ECB President Draghi recognized that downside economic risks had diminished, but offered no timeline over when the Bank will begin to taper its asset purchases. He asserted that even though the economy is performing better, inflation risks remain skewed to the downside. We believe that markets will begin to price a tightening in monetary policy sooner than later as a negative interest rate on EUR deposits has the potential to cause more harm than good to the European banking sector should it continue indefinitely.

Government bonds across the Eurozone rallied following the ECB's meeting but corrected by the end of the month as Euro-area core inflation jumped to 1.2% in March from 0.7% in February, its highest level since 2013. At the time of this writing, centrist pro-business Macron secured a resounding victory to become the new French President after he defeated far-right candidate Le pen on May 7. Markets cheered the win as the EUR hit a 6-month high against the USD. Macron's win comes as a sigh of relief for markets in general and other European capitals in particular, as it weakens the anti-Euro movement for the foreseeable future.

The IMF upgraded its forecast for UK growth, lifting it to 2.0% for 2017, from the 1.5% forecast at the start of the year. While the UK economy has weathered the Brexit vote storm with much resilience so far, it is now showing signs of fatigue with growth slowing to 0.3% in Q1, from 0.7% in Q4 2016, as rising inflation continued to squeeze household consumption. The combination of a weak GBP squeezing household incomes and Brexit-negotiation uncertainty reining in corporate spending has the potential to adversely affect the UK economy in the next few quarters. Meanwhile, German Chancellor Merkel took a particularly hard line at the Brexit Summit held in April, stating that

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Brexit officials in London are harbouring "illusions" if they expect preferential treatment during the negotiations. Earlier in the month, in an attempt to increase her majority in Parliament and to strengthen her position in the Brexit negotiations, PM May called a snap general election to be held on June 8th. Following the announcement, the GBP rallied and finished the month 3.2% higher, which in turn weighed down the FTSE100 by 1.3% in April.

In Japan, the BoJ too kept its monetary policy steady, as widely expected, while making a small increase to its growth forecasts for the 2017-18 fiscal year to 1.6%, from the 1.5% projected at the start of the year. However, it lowered its core CPI growth forecast to 1.4%, from 1.5% in the same period. Governor Kuroda stated that the ultra-loose policy will continue for some time as core inflation, which fell 0.2% in March to -0.1% year-over-year, remains "quite sluggish" even as unemployment hovers at more than 2-decade lows.

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After growing at a solid clip of 6.9% in Q1, China's economy is showing signs of softening. Both manufacturing and services PMIs marginally slowed in April from multi-year highs as the economy adjusts to the de-leveraging effort by the Chinese government to balance the twin objectives of growth and stability. Economic figures still show momentum and remain in expansionary territory, but indicate growth could be decelerating as steps by the authorities to curb excessive leverage begin to take effect.

As widely expected, Brazil's Central Bank cut its benchmark rate by 100 bps to 11.25% as rapidly falling inflation gives it room to ease monetary policy to support a budding economic recovery after a severe downturn. A weak pick-up in economic activity should allow the Bank to continue easing over the course of the year as it expects inflation to average below its 4% target in 2017. Meanwhile, the Central bank of Russia (CBR) also cut its benchmark rate by a more than expected 50 bps to 9.25%, citing easing inflation which, at 4.3%, also hovers around the Bank's official 4% target for 2017. Authorities are trying to navigate an oil-reliant economy towards growth and fiscal stability via the exchange rate after more than two years of recession due to sanctions and low oil prices.

Meanwhile, Turkey's Central Bank surprisingly turned hawkish and raised its liquidity lending rate by 50 bps to 12.25%, while keeping the more widely tracked benchmark rates unchanged. The TRY gained 2.3% versus the USD in April after falling to record lows this year in the wake of investor concerns over a slowing economy after the country narrowly voted to approve handing sweeping powers to President Erdogan.

Crude oil continued to remain trapped in a price war between OPEC and US shale producers. While OPEC is nearly certain to extend output cuts when its members meet on May 25, data showed US oil rigs climbed to the highest level in two years. Brent closed a volatile month 2% lower and remained range-bound between USD 50-55/bbl. As for the MENA markets, the S&P Pan Arab Composite Index closed marginally up by 0.4% in April, while Saudi equities recorded a 0.8% monthly drop, despite some positive developments. The Kingdom successfully issued a total of USD 9bn of sukuks across a 5 and a 10-year tranche. Additionally, the government recently announced it would reverse some austerity measures and reinstate benefits to civil servants and military personnel in an effort to boost consumer and business confidence.

Asset Class Views

Asset Class	March	April	View / Rationale
Equities	↔	↔	
US	↔	↔	Potential tax cuts provide room for further earnings growth but ratification process uncertain.
Europe	↔	↔	Eurozone growth poised to accelerate as PMI reaches 6-year high.
UK	↘	↘	UK economy showing signs of slowing down due to weak household and business spending.
Japan	↗	↗	Ultra-loose monetary policy to continue being supportive.
China	↔	↔	PMI figures still in expansionary territory as government balances the twin objectives of growth and stability.
India	↔	↔	Recent victory in state elections revives Modi's reform agenda while equity valuations still look fair.
Brazil	↘	↘	Lower than expected inflation allows the Central Bank to be more aggressive in its attempt to stimulate the economy.
Russia	↔	↔	Recent downside pressure in oil prices, if sustained, to adversely affect growth.
MENA	↘	↘	OPEC deal extension likely in May which would slowly improve the demand/supply dynamics for oil.
Asset Class	**March**	**April**	**View / Rationale**
Fixed Income	↘	↘	
US	↔	↔	Hawkish Fed makes a June rate hike a near-certainty while it prepares to reduce its USD 4.5trn balance sheet.
Europe	↘	↘	Strong batch of economic data and positive French election outcome add pressure on the ECB to eventually start rolling back its monetary stimulus.
UK	↘	↘	UK economy shows signs of slowing down as GDP drops to 0.3% in Q1, from 0.7% in Q4 2016.
Japan	↘	↘	BoJ to remain accommodative for the foreseeable future as core inflation drops into negative territory in March.
China	↔	↔	Efforts to limit leverage will increase borrowing costs for Chinese companies. Selectivity remains key for corporates.
India	↔	↔	6% appreciation in the INR allows for some monetary easing in the near-term. A good monsoon season will keep inflationary pressures low.
Brazil	↔	↔	Faster-than-expected drop in inflation allows the Central Bank to be more aggressive in its attempt to stimulate the economy.
Russia	↔	↔	The Central Bank cut its benchmark rate by 50bps as inflation stabilizes.
MENA	↔	↔	If persistent, recent drop in oil prices to weigh on MENA credit.

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

Asset Class Views

Asset Class	March	April	View / Rationale *
Currencies	NM	NM	
USD / EUR	Favour	Favour	Potential Fed balance sheet reduction and monetary policy tightening in the US to be positive for the USD.
USD / CHF	Favour	Favour	Potential Fed balance sheet reduction and monetary policy tightening in the US to be positive for the USD.
USD / GBP	Favour	Favour	UK economy shows signs of slowing down after months of resilience.
USD / JPY	Favour	Favour	Continue to favour the USD as BoJ is expected to remain accommodative for the foreseeable future.
EUR / CHF	Neutral	Neutral	Increased pressure on the ECB to start to taper amid strong batch of economic data and Macron victory.
EUR / GBP	Favour	Favour	Favour the EUR over the GBP as EU negotiates from a position of strength after show of unity and Macron victory.
EUR / JPY	Favour	Favour	Favour the EUR over the JPY amid improving growth outlook in the Eurozone and dovish BoJ.
CHF / GBP	Neutral	Favour	Upgrade the CHF vs the GBP as weak household and business spending to potentially weigh on the UK economy.
CHF / JPY	Favour	Favour	Favour the CHF as BoJ is expected to remain accommodative for the foreseeable future.
GBP / JPY	Favour	Favour	Ultra-loose monetary policy from the BoJ to continue weakening the JPY vs the GBP.

* Reference currency is the USD

Overweight, Favour, Neutral, Cautious, Underweight

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IMPORTANT INFORMATION