MONTHLY INVESTMENT OVERVIEW

بنك الامارات للاستثمار

EMIRATES INVESTMENT BANK

Asset Class	View	Current Allocation*	Benchmark Allocation*
Equities	Underweight	30.0%	40.0%
Fixed Income	Neutral	40.0%	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	12.5%	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

AUG 2020

- Investor enthusiasm remains intact partly lifted by a better than expected earnings where S&P500 Q2 EPS declined 32% versus expectations of a 44% decline year-over-year. Investors are also betting on a consistently favourable and predictable liquidity environment for the foreseeable future.
- The Fed announced a shift to average inflation targeting at the Jackson Hole virtual conference, confirming that monetary policy will remain supportive. The change helped solidify forecasts that the Fed will not be raising rates anytime soon, further weakening the case for the USD.
- While the jury is still out on whether the US economy will continue to recover from here or whether it will have to endure another leg down if social-distancing relaxations lead to a resurgence of the virus, we believe better medical preparedness in addition to continued strong policy support and gradually improving economic data point to a higher likelihood of a slow, broad-based recovery.
- BoE Governor Bailey highlighted that while household spending in the UK has surged back to its pre-pandemic levels and retail sales are now effectively back to their pre-Covid figures, a broader recovery is being held back by fears that Covid will strike again and are creating a "natural caution" among consumers and businesses.
- China's economic rebound gathered pace in August with the services sector growing at its fastest pace in two years. While manufacturing still suffers from a lack of demand as overseas economies still deal with weak aggregate demand, the service industry has picked up as the government relaxed its lockdown measures with businesses such as cinemas allowed to reopen.
- Most MENA equity gauges posted their best monthly performance since April amid growing optimism regarding a coronavirus vaccine and a rebound in oil prices. Business conditions in August witnessed moderation in Saudi and the UAE after having stabilized in July, highlighting the uneven path to recovery from the aftershocks of the oil market rout and the global pandemic.

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August saw the number of new daily Covid-19 cases decline in the US, while risks of a major second wave in some regions including Europe remained under control by better preparedness, testing and tracing capacity. Overall and while the tech and healthcare sectors have performed well through the crisis, we are seeing signs that the recovery is expanding to other sectors. That said, a vaccine still remains the clear catalyst for a broad-based global economic recovery.

Meanwhile, investor enthusiasm remains intact partly lifted by a better than expected earnings where S&P500 Q2 EPS declined 32% versus expectations of a 44% decline year-over-year. Investors are also betting on a consistently favourable and predictable liquidity environment for the foreseeable future. On the economic front, the bounce in US consumption is moderating while the recovery in mobility, retail traffic and other high-frequency indicators showed signs of easing. Developed Market equities, as measured by the MSCI World Index, rose 6.5% while its Emerging Market (EM) counterpart, the MSCI EM Index, gained 2.1% on the month.

> " While the tech and healthcare sectors have performed well through the crisis, we are seeing signs that the recovery is expanding to other sectors "

The Fed announced a shift to average inflation targeting at the Jackson Hole virtual conference, confirming that monetary policy will remain supportive. The change helped solidify forecasts that the Fed will not be raising rates for the foreseeable future, further weakening the case for the USD. The Dollar Index slipped 1.3% in August, extending its losses to more than 10% since its March high while the US 10-year Treasury yield surged to its highest level in three months at 0.7% as expectations of future inflation rose.

At the time of this writing, the US economy added 1.4 million jobs in August. The unemployment rate fell to 8.4% from 10.32% in July boosted by the hiring of temporary workers to conduct the decennial US census. Although the unemployment rate is still uncomfortably high compared to pre-Covid levels of 3.5%, the recent gains in employment signal that the worst for the US economy may likely be over. While the jury is still out on whether the US economy will continue to recover from here or whether it will have to endure another leg down if social-distancing relaxations lead to a resurgence of the virus, we believe better medical preparedness in addition to continued strong policy support and gradually improving economic data point to a higher likelihood of a slow, broad-based recovery. In light of this and as recent price appreciation in beaten-down cyclicals like financials, industrials and materials already suggests, we could see a period where quality cyclicals gain some lost ground.

Although overall Eurozone retail sales have recovered back to pre-pandemic levels, consumer confidence is still subdued, causing spending on services and restaurants to remain weak and fears of a resurgence of coronavirus cases across Europe is leading to fresh restrictions that could weaken the nascent recovery. Meanwhile, the Fed's aggressive monetary policy stance and a strong response from the EU with the creation of the EUR750 bn recovery fund have boosted the EUR against the USD. The positive sentiment towards the EUR, which has gained almost 11% against the USD since its March low, is underpinned by the perception that Europe continues to significantly control the pandemic better than the US. On the month, the EuroStoxx50 gained 3.1%.

PM Johnson insisted on ending the UK's furlough program at the end of October, citing unsustainability of the programme and the perverse incentives it creates for people to not actively seek work. Meanwhile, the BoE made a dour assessment

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of the UK's economy and forecast a sharp rise in unemployment once the furlough scheme ends. Governor Bailey highlighted that while household spending has surged back to its pre-pandemic levels and retail sales are now effectively back to their pre-Covid size, a broader recovery is being held back by fears that Covid will strike again and are creating a "natural caution" among consumers and businesses. Meanwhile, unfavourable Brexit headlines continue to hit the newswires, adding to the uncertain economic environment as the December 31 deadline fast approaches. The FTSE100 edged higher by 1.1% while the GBP rose 2.2% against the USD in August.

Japan's longstanding PM Abe resigned in August, citing health reasons and ending an era of political stability in the country. His Chief Cabinet Secretary Suga is expected to replace him and has pledged to maintain outgoing Abe's ultra-easy monetary policies. Meanwhile, Japan's recovery from an annualized 27.8% GDP contraction in the April-June quarter remains fragile. Although the government's unprecedented support measures have kept unemployment and bankruptcies at remarkably low levels, consumption is sputtering, exports are still falling and business spending continues to slide. The JPY was flat against the USD on the month while the Nikkei225 still rallied 6.6%.

China's economic rebound gathered pace in August with the services sector growing at its fastest pace in two years. While manufacturing still suffers from a lack of demand as overseas economies still deal with weak aggregate demand, the service industry has picked up as the government relaxed its lockdown measures with businesses such as cinemas allowed to reopen. On the data front, while industrial production and fixed investment picked up by 4.8% and 8.3% year-over-year in July, retail sales came in weaker than expected as consumers still remain wary. The Shanghai Composite gained 2.6% in August while the CNY appreciated 1.8% against the USD.

> "Weakness in the TRY is taking a toll on Turkey's economy as authorities adopt a loose monetary and fiscal policy at a time when inflation remains stubbornly high at 12%"

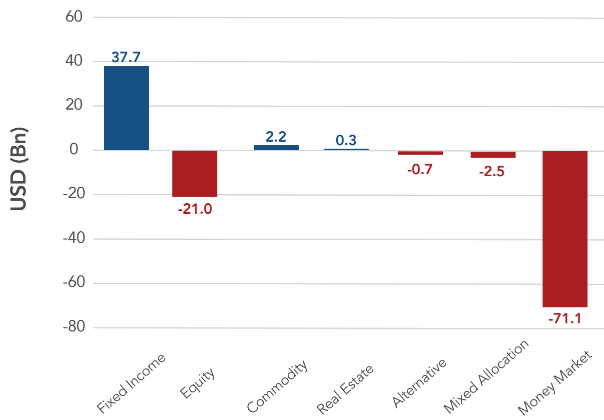
The Indian economy contracted by 23.9% in the April-June quarter, as the government imposed severe lockdowns to contain the spread of the virus. While the country's vast "informal" workforce means that the ground reality could be worse, the surging coronavirus cases are pushing the recovery further away and increasing pressure on the authorities to infuse additional stimulus at a time when government tax collections plummet and inflation is beginning to climb. Elsewhere, renewed weakness in the TRY is taking a toll on Turkey's economy as authorities adopt a loose monetary and fiscal policy although inflation remains stubbornly high at 12%. The TRY reached fresh lows and depreciated over 5.0% against the USD in August.

Most MENA equity gauges posted their best monthly performance since April amid growing optimism regarding a coronavirus vaccine and a rebound in oil prices. The advance marks a catch-up for equities in the region after lagging behind other EM equities in the previous two months. The S&P Pan Arab Composite gained 5.9% in August while Brent traded near its highest level since early March, gaining 4.6% on the month. Overall, business conditions in August witnessed moderation in Saudi and the UAE after having stabilized in July, highlighting the uneven path to recovery from the aftershocks of the oil market rout and the global pandemic.

Fund Flows

- Rich valuations in the US, tensions with China running high and election uncertainty are encouraging investors to look for alternatives to US equities. Within equities, Europe is now the most favoured region and investors are holding the largest overweight in Euro-area equities since 2018.
- Overall and despite US equities hitting new record highs, August witnessed outflows from global equity funds, while fixed income funds saw meaningful inflows.
- Within fixed-income, IG ETFs and high-yield credit continued to attract monies as equity volatility rose.
- Money market funds saw significant outflows as worries about future inflation got reinforced by the Fed's new assertion that it will no longer pre-emptively hike interest rates and look to target average inflation. In response, investors switched monies to inflation-protected bond schemes.

Fund Flows (01-Aug-2020 to 31-Aug-2020)



Source: EIBank, Bloomberg

Investment Theme: Broad-based Recovery

While the tech and healthcare sectors have been clear beneficiaries of evolving business models in the midst of the crisis, we are starting to see early signs of the recovery expanding to other sectors, as investors look forward to gradual opening up economies. Mobility data and retail traffic initially rebounded strongly towards the end of Q2 and into Q3 due to pent-up demand and have recently levelled off.

Although the most recent data point towards some moderation, the depressed valuations of sectors like energy, financials and materials, which have been the worst performing sectors on a year-to-date basis, are drawing the attention of some investors that are searching for value.

Traditional pharma companies are also trading at attractive valuations, providing high free-cash-flow and dividend yields in a new era of low interest rates. The reallocation into such sectors should help portfolio diversification and is expected to help alpha generation in 2021 and 2022, in our view.

Comparable Analysis

Name	Mcap (USD bn)	P/E		P/Book		P/Sales		EV/EBITDA		Dvd Yield	
		2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Johnson & Johnson	394	17.9x	16.5x	6.3x	5.7x	4.7x	4.5x	11.8x	12.7x	2.7%	2.8%
Roche Holding Ag-Genusschein	310	21.5x	15.1x	8.8x	5.7x	4.1x	4.4x	10.3x	11.1x	2.8%	2.9%
Novartis Ag-Reg	221	15.2x	14.1x	3.8x	3.4x	4.3x	4.1x	13.7x	13.9x	3.6%	3.7%
Merck & Co. Inc.	215	15.2x	13.6x	7.8x	5.6x	4.3x	4.2x	12.2x	10.7x	3.1%	3.0%
Pfizer Inc	201	13.1x	12.0x	3.1x	2.7x	4.0x	4.0x	10.2x	10.5x	4.1%	4.4%
Abbvie Inc	162	8.0x	7.6x	11.0x	15.6x	3.1x	3.0x	9.7x	8.5x	5.0%	5.7%
Bristol-Myers Squibb Co	133	9.2x	7.9x	2.7x	2.2x	3.1x	2.9x	15.4x	6.5x	3.1%	3.2%
Bayer Ag-Reg	64	8.4x	7.5x	1.5x	1.2x	1.3x	1.2x	8.3x	7.4x	5.1%	5.4%

Name	Mcap (USD bn)	P/E		P/Book		Tier-1 Capital	Loan-to-Deposit	ROE	ROA	Dvd Yield	
		2020	2021	2020	2021	2020	2020	2020	2020	2020	2021
JPMorgan Chase & Co	307	13.3x	11.5x	1.3x	1.2x	14.3%	50.7%	9.4%	0.7%	3.6%	3.6%
Bank Of America Corp	221	14.4x	11.9x	0.9x	0.9x	13.2%	58.6%	6.1%	0.6%	2.9%	3.0%
Citigroup Inc	107	11.9x	8.4x	0.6x	0.6x	13.3%	59.7%	4.8%	0.3%	4.0%	4.1%
Financial Select Sector Spdr	18	15.5x	NA	1.2x	NA	NA	NA	NA	NA	2.4%	NA

Source: EIBank, Bloomberg

Asset Class Views

Asset Class	July	August	View / Rationale
Equities	↓	↓	
US	↘	↘	With unemployment rate falling to 8.4% in August, the sustainability of the recovery will depend on the vigor of job growth in the months ahead.
Europe	↘	↔	Consumer caution will prevail until a vaccine is found. Upgrade to Neutral on valuations and a likely trough in earnings in Q2.
UK	↘	↘	The government's furlough scheme is being phased out over the next three months, which will likely result in a rising unemployment rate.
Japan	↓	↓	Consumption is sputtering, exports are still falling and business spending continues to slide.
China	↔	↔	Although the country is returning to normal, tensions with the US are rising as both US presidential candidates are targeting China in their election campaign.
India	↘	↘	With Q2 GDP down 23.9% QoQ and virus cases still surging, the government faces immense pressure to provide additional fiscal stimulus.
Brazil	↘	↘	Bolsonaro's generous, temporary income-transfer program helped cushion the blow even as Q2 GDP fell 9.7% QoQ.
Russia	↘	↘	High frequency data show a gradual revival continues, though activity still remains well below pre-virus levels.
MENA	↘	↘	Oil prices have partially recovered from a precipitous plunge earlier this year, and data including Saudi Arabia's July PMI indicate a moderate uptick in business conditions.
Asset Class	**July**	**August**	**View / Rationale**
Fixed Income	↔	↔	
US	↔	↔	Fed's average inflation targeting means rates to remain lower and supportive for longer.
Europe	↘	↘	Valuations remain elevated leaving little room for upside, especially in core countries.
UK	↘	↘	With 4 million jobs still furloughed in August, BoE to make a case for more stimulus to support the recovery.
Japan	↘	↘	The BoJ is clear that it will counter any rise in yields — essentially keeping its bond purchases tied to the market's response to the government's fiscal policy.
China	↗	↗	PBOC's rate cuts are translating into lower funding cost for corporates.
India	↔	↔	With inflation expected to remain elevated on supply side disruptions, RBI to remain watchful.
Brazil	↔	↔	Brazil's central bank suggested that an additional rate cut is possible, but not imminent.
Russia	↔	↔	With recent data fueling optimism about the speed of the recovery, further monetary easing looks unlikely for now.
MENA	↔	↔	Credit selection remains key as governments and corporates grapple with an uneven and fragile recovery.

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

Asset Class Views

Asset Class	July	August	View / Rationale
Currencies *			
EUR	↔	↔	Sharp recent EUR appreciation calls for a Neutral stance.
CHF	↔	↔	SNB is relying on negative interest rates plus currency interventions to control the level of the haven CHF and fight off deflationary forces.
GBP	↗	↔	After a swift rally, the GBP faces headwinds as investor focus shifts to stalled Brexit negotiations.
JPY	↔	↔	JPY remains supported amid weakness in USD and rising US-China tensions.

* All currency views expressed relative to the USD

↑ 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

CONTACTS:

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

Ravindra Deshpande
Associate – Asset Management
ravindra.deshpande@eibank.com

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

Talal Elass
Director - Investment Advisory, Private Banking
talal.elass@eibank.com

Amir Tabch
Director - Head of Trading & Brokerage Relationships
amir.tabch@eibank.com

IMPORTANT INFORMATION