

# MONTHLY INVESTMENT OVERVIEW

بنك الإمارات  
للاستثمار

EMIRATES INVESTMENT BANK

Asset Class	View	Current Allocation*	Benchmark Allocation*
 Equities		40.0%	35.0%
 Fixed Income		45.5%	52.5%
 Real Estate		5.0%	5.0%
 Commodities		2.5%	2.5%
 Cash		7.0%	5.0%

 Overweight, 
  Favour, 
  Neutral, 
  Cautious, 
  Underweight

\* Allocations are based on a Balanced 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



- Despite concerns stretching from China's economy, the delta variant and the intended tapering plans of the Fed, growth-oriented sectors benefitted from continued low US yields, inherent growth potential and still strong economic data, helping the Nasdaq gain 4.0% and the S&P 500 deliver 2.9% in August.
- The much-anticipated Fed Chair Powell's Jackson Hole speech where he mentioned the Fed is content with the progress made on inflation and employment went well and didn't overly perturb the markets.
- With 70% of the bloc's population now vaccinated and hospitalization rates staying low despite the surge in cases, the Euro-area economic recovery is well under way and should continue at a decent pace.
- The successful rollout of vaccines and the gradual reopening of the UK economy have allowed for a sharp rebound between March and June.
- China's economic recovery had already entered a more advanced stage with growth gearing down toward longer-term trends even before the latest wave which forced authorities to impose containment measures.
- EM central banks are expected to tighten very gradually, with timing of hikes dependent on decisions by the Fed and the ECB as they can ill-afford a repeat of the 2013 taper tantrum even as they are better prepared this time around.
- Saudi's business activity in August grew at the weakest pace in ten months as lower export demand weighed on the Kingdom's non-oil economy even as domestic demand in the UAE is starting to gain traction after a very difficult 2020.

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Despite concerns stretching from China's economy, the delta variant and the intended tapering plans of the Fed, growth-oriented sectors benefitted from continued low US yields, inherent growth potential and still strong economic data, helping the Nasdaq gain 4.0% and the S&P 500 deliver 2.9% in August. Economic data in the month indicated that while global reopening and demand uptick continues, the easiest part of the reopening may be behind us and the global economy is now entering a more normal economic cycle with inflationary pressures set to abate as temporary factors begin to resolve. As a result, **large caps outperformed small caps with large-cap growth outpacing its value peer group**. Global equities, represented by the MSCI All Country World Index, delivered 2.4% in August while global investment-grade bonds dropped 0.5% as IG credit spreads widened amid the month over month rise in sovereign yields. Global high-yield bonds continued their strong performance and returned 0.6%.

The much-anticipated Fed Chair Powell's Jackson Hole speech where he mentioned the Fed is content with the progress made on inflation and employment went well and didn't overly perturb the markets. Like the Fed, most of the world's major central banks remain tolerant about the ongoing surge in inflation predicated on its temporary nature. Commodities have stalled since topping out in late July and the labor-supply problem would likely ease as pandemic support programs expire and reopening of schools allow homebound parents to take up work. As a consequence, **the probability of the Fed and other central banks being forced into sudden policy U-turns doesn't appear high for now as inflation expectations**, as measured by

!! The easiest part of the reopening may be behind us and the global economy is now entering a more normal economic cycle with inflationary pressures set to abate as temporary factors begin to resolve !!

breakevens, have fallen far from their peak across the maturity spectrum. Treasury yields rose from depressed levels in August, the yield curve saw a slight steepening and the US 10-year yield ended 8bps higher at 1.31%.

Europe is slightly behind both the US and the UK on the path to normalisation having started its reopening later. **While economic data continued its strength with August's PMIs climbing further, the spread of the delta variant has caused a spike in cases, denting consumer confidence to some extent**. However, with 70% of the bloc's population now vaccinated and hospitalization rates staying low despite the surge in cases, the Euro-area economic recovery is well under way and should continue at a decent pace, boosted by a rebound in consumer services and buoyant global demand for the bloc's industrial products. Eurozone inflation accelerated to 3.0% in August, up from 2.2% in July. The EuroStoxx50 gained 1.2% in August while the EUR lost 0.5% versus the USD.

The successful rollout of vaccines and the gradual reopening of the UK economy have allowed for a sharp rebound between March and June. A resulting surge in inflation and a rapid recovery have left the BoE mulling the appropriate time to begin removing stimulus. The BoE sees inflation to hit a high of 4.0% later this year and then slow in 2022. Meanwhile, rising coronavirus cases due to the fast-spreading delta variant haven't translated into increased hospitalizations allowing for above-trend growth in consumer spending. The strength of the domestic reopening helped the FTSE100 gain 1.2% while the GBP lost 1.1% against the USD.

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In a surprise announcement, Japanese PM Suga announced plans to resign after failing to control the coronavirus surge, bringing an element of political uncertainty in the country. Activity in Japan was already slowing, as virus containment measures were applied to more regions amid a surge in infections.

**Resilient external demand is supporting capex and exports, while on-again-off-again emergency measures to control the virus are weighing on household spending.** While a gradual recovery

is likely in Q4 as vaccination coverage increases, risks remain to the downside as virus curbs can be extended should outbreaks continue. The Nikkei225 gained 3.0% in August while the JPY fell 0.3% against the USD.

China's economic recovery had already entered a more advanced stage with growth gearing down toward longer-term trends even before the latest wave which forced authorities to impose containment measures. China's Caixin PMI for August indicated weakness in manufacturing for the first time since April 2020. Broadly, the wide crackdowns on industries from technology to education mean policy support will be forthcoming to offset the drag on economic growth. China's tech stocks rebounded as value-buying emerged on bets that the worst of the regulatory clampdown may be over. The Shanghai Composite rallied 4.3% in August after two straight months of negative performance while the CNY was flat at 6.46/USD.

**EM equities were under pressure for the better part of August over China's widening crackdown on its tech/internet/ sectors and increased virus concerns.** They later rebounded to deliver 2.4% over the month. While cases in India, besides

China, remain low, the slow pace of vaccinations in many EM countries leaves them vulnerable to the delta variant. In our view, it is a delicate balancing act for EM policymakers, who have to battle higher inflation without stifling growth as the Fed tapers and the threat of Covid-19 variants continue to loom over the global economy. However, EM central banks are expected to tighten very gradually, with timing of hikes dependent on decisions by the Fed and the ECB as they can ill-afford a repeat of the 2013 taper tantrum even as they are better prepared this time around.

In spite of calls from the US for a larger increase in production, OPEC+ persisted with the plan it laid out in July to boost production by 400k bbl/day each month through late 2022.

**OPEC+ is wary of restoring supply too quickly given the continued uncertainties created by the virus.**

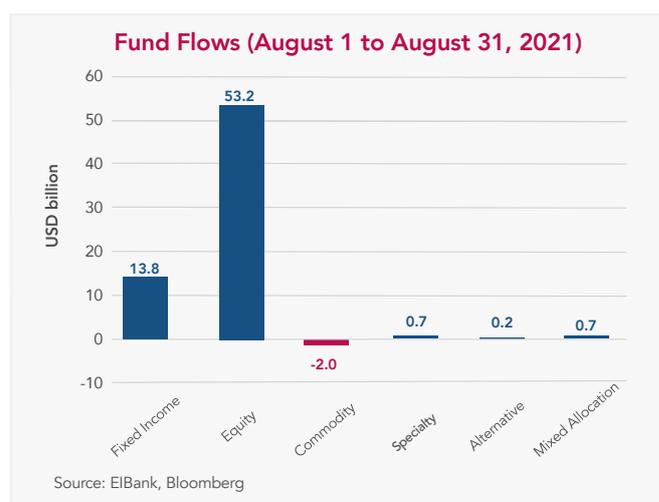
Crude has rallied about 40% this year as consumption bounced back from

the impact of the coronavirus pandemic, although the bulk of the gains came in the first half of the year. Regionally, Saudi's business activity in August grew at the weakest pace in ten months as lower export demand weighed on the Kingdom's non-oil economy even as domestic demand in the UAE is starting to gain traction after a very difficult 2020. On the month, the S&P Pan Arab Composite returned 3.5% while Brent was down by 4.4%.

**!! The wide crackdowns on industries from technology to education mean policy support will be forthcoming to offset the drag on China's economic growth !!**

## Fund Flows

- Flows into ETFs showed higher demand for US- and China-dedicated equity funds, fixed income inflows were steady.
- Net flows into global equity funds accelerated post Jackson Hole and the Fed's still patient stance. Both DM and EM equity funds attracted large inflows while Europe-dedicated funds witnessed outflows on profit-booking and record high inflation data. Value- buying for beaten down Chinese assets helped flows into EM-dedicated funds.
- Flows into fixed-income ETFs fell month on month but were steady with some evidence of pro-risk rotation; investors net sold government-only funds, while net flows into HY corporate bond funds and EM fixed income products were positive.
- Money market fund assets declined by about USD10 bn reflecting persistent buying into both equity and fixed income.



## Rising correlations call for diversification into uncorrelated asset classes

- Over the long-term, cross-asset class correlations have shown an uptrend post the 2007-2008 Global Financial Crisis (GFC). The introduction of open-ended quantitative easing and yield curve control to stave off deflation post the GFC have reduced the opportunity cost of capital and increased correlations among asset classes (Refer to table below).
- Typically, in a bear market, correlations rise significantly amid heightened risk aversion and investors flock to safety assets like the Dollar, gold, and treasuries, thereby undermining some of the benefits of traditional asset class diversification.
- As shown in the table below, real estate, commodities, quality bonds do provide a degree of diversification, but they still remain sensitive to credit conditions and contagion risks that affect public markets indiscriminately.
- In the current environment where interest rates are extremely low and risk assets trade at relatively high valuations, traditional public market risk assets would both disappoint if inflation meaningfully and sustainably picked up. Moreover, considering the extended valuations in public markets, if interest rates rise and / or profit margins "normalize", the possibility of low to negative returns from public equities cannot be ruled out.
- In light of this, qualified investors should consider allocating some exposure to private market strategies which offer diversification and superior risk adjusted returns albeit with much lower correlation to traditional asset allocation. The one obstacle that keeps away some qualified investors is the apparent long-term and illiquid nature of such funds. This actually may work in favour of long-term investors as it mitigates asset price volatility from indiscriminate, panic selling and positively contribute to the investment objectives.
- EIBank is expanding its open architecture product suite offering by creating access to best-in-class selective private market strategies. Kindly get in touch with your Relationship Manager to discuss in detail.

	2001 - 2008										
	Developed Equities	Emerging Equities	S&P 500	S&P 500 Growth	S&P 500 Value	Commodities	Gold	REIT	Global HY	Global IG	Long-term Treasuries
Developed Equities		0.80	0.95	0.93	0.93	0.34	0.07	0.90	0.70	0.14	-0.27
Emerging Equities	0.81		0.67	0.65	0.67	0.44	0.22	0.83	0.71	0.23	-0.21
S&P 500	0.96	0.72		0.98	0.98	0.21	-0.06	0.84	0.63	-0.01	-0.30
S&P 500 Growth	0.93	0.70	0.98		0.92	0.21	-0.06	0.82	0.59	-0.01	-0.32
S&P 500 Value	0.95	0.71	0.97	0.90		0.19	-0.07	0.84	0.63	0.00	-0.28
Commodities	0.57	0.58	0.51	0.47	0.52		0.48	0.39	0.46	0.33	-0.10
Gold	0.16	0.23	0.11	0.12	0.09	0.36		0.13	0.16	0.37	0.11
REIT	0.84	0.75	0.80	0.75	0.82	0.51	0.23		0.85	0.36	-0.16
Global HY	0.71	0.66	0.65	0.61	0.66	0.50	0.28	0.74		0.52	-0.06
Global IG	0.38	0.38	0.27	0.27	0.27	0.30	0.43	0.52	0.72		0.57
Long-term Treasuries	-0.36	-0.29	-0.38	-0.33	-0.41	-0.27	0.20	-0.15	-0.16	0.42	

← 2009 - 2021 →

Source: EIBank, Bloomberg

## Multi Asset Strategies

Asset Class	Conservative		Balanced		Aggressive		Views
	Current Weight	Strategic Weight	Current Weight	Strategic Weight	Current Weight	Strategic Weight	
<b>Fixed-Income</b>	<b>67.5%</b>	<b>75.0%</b>	<b>45.5%</b>	<b>52.5%</b>	<b>17.5%</b>	<b>25.0%</b>	↔
Developed Markets	60.8%	71.3%	36.0%	44.6%	12.1%	18.8%	↓
<i>US Sovereigns</i>	3.3%	7.5%	1.1%	2.6%	0.2%	0.6%	↓
<i>Developed Market Sovereigns</i>	3.4%	7.5%	1.1%	2.6%	0.1%	0.6%	↓
<i>Developed Market Aggregate (IG)</i>	47.3%	56.3%	20.6%	28.9%	6.0%	10.0%	↔
<i>Developed Market High Yield</i>	6.8%	0.0%	13.2%	10.5%	5.8%	7.5%	↑
Emerging Markets Fixed Income	6.7%	3.8%	9.5%	7.9%	5.4%	6.3%	↑
<b>Equities</b>	<b>20.0%</b>	<b>17.5%</b>	<b>40.0%</b>	<b>35.0%</b>	<b>65.0%</b>	<b>60.0%</b>	↑
Developed Markets	15.0%	13.6%	30.0%	27.1%	48.8%	46.5%	↔
<i>US Equities</i>	10.5%	8.8%	21.0%	17.5%	34.1%	30.0%	↔
<i>European Equities</i>	4.0%	3.5%	8.0%	7.0%	13.0%	12.0%	↔
<i>Japanese Equities</i>	0.5%	1.3%	1.0%	2.6%	1.7%	4.5%	↓
Emerging Markets Equities	5.0%	3.9%	10.0%	7.9%	16.2%	13.5%	↑
<b>Real Estate</b>	<b>2.5%</b>	<b>2.5%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>	↔
<b>Commodities</b>	<b>0.0%</b>	<b>0.0%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>5.0%</b>	<b>5.0%</b>	↔
<i>Gold</i>	0.0%	0.0%	1.5%	1.9%	3.0%	3.8%	↔
<i>Silver</i>	0.0%	0.0%	1.0%	0.6%	2.0%	1.3%	↔
<b>Cash &amp; Equivalents</b>	<b>10.0%</b>	<b>5.0%</b>	<b>7.0%</b>	<b>5.0%</b>	<b>7.5%</b>	<b>5.0%</b>	↑

↓ Underweight   ↓ Cautious   ↔ Neutral   ↑ Favour   ↑ Overweight

## Asset Allocation Views

- Our preference for equities over bonds remains unchanged as the equity risk premium compensates relatively better than bonds even at these levels. We observe that the leading indicators in the US and Europe show signs of peaking for the time being and recommend to increase the quality element in the portfolio across all asset classes while maintaining a "risk-on" bias.
- At the asset allocation level, we continue our moderately overweight stance on risk assets given the positive macroeconomic environment with increased focus on companies with decent sales growth, stable margins and reasonable valuations. We may move towards a more neutral stance in the coming months given where overall valuations stand.
- With capex strong and household balance sheets in good health, we expect above-trend global growth to moderate but persist well into 2022. We stay overweight equities with modest cyclical exposure where we find valuations provide a favourable risk-reward ratio. We remain mindful of risks: persistent inflation, new virus strains, corporate earnings failing to come through and aggressive policy tightening.
- As the global economy enters a more stable mid-cycle stage, sector and security selection remain crucial. We continue to assess the potential impact of longer-term disruptions caused by technology and digitization and choose to play the theme via select large tech companies in the US with pricing power, structural tailwinds, and strong balance sheets.
- Although the Fed could start tapering before the end of this year, a first rate hike is not expected at least until Q4 2022. The dovish tilt of the Fed remains as reiterated by the Fed's patient stance in face of rising corona risks. While this guarantees a continued positive liquidity environment, investment opportunities remain limited in the current low rate environment and we expect the 10-year US government bond yield to trend toward the 2.0% mark gradually. We are underweight on government bonds and duration. We are cautious on US investment grade due to expensive valuations while the growth uptick continues to underpin HY and select EM credit.
- We favour EM countries with strong export franchises to capitalize on the cyclical growth in the developed world. Regionally, we continue to like Sukuk despite the recent run-up amid favourable risk-reward dynamics, improving macro and scarcity of supply.
- Above all, we seek diversification across a range of markets and asset classes, in keeping with the broadening of global growth and the business cycle. We seek to diversify portfolio risks across equities, fixed income, income-generating assets and cash. We prefer to use cash as a buffer against risks and protect portfolios against sharp drawdowns.

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