MONTHLY INVESTMENT OVERVIEW

EMIRATES INVESTMENT BANK

Asset Class	View	Current Allocation*	Benchmark Allocation*
Equities	Favour	40.0%	35.0%
Fixed Income	Neutral	45.5%	52.5%
Real Estate	Neutral	2.5%	5.0%
Commodities	Neutral	2.0%	2.5%
Cash	Favour	10.0%	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

FEB 2021

- February saw a continuation of the ongoing reflation trade led by commodities even as government bond yields rose amid inflation concerns.
- Against the persistent backdrop of unprecedented monetary and fiscal stimulus, government yields witnessed a tumultuous February heightened by concerns about inflation and a market repricing of central-bank expectations.
- While the UK is banking on a rapid vaccine rollout, the EU's vaccination campaign has been plagued by manufacturing delays, supply disruptions and distribution challenges, making it difficult for policymakers to chalk out a clear pandemic-exit strategy.
- With some of the strictest lockdowns in place, retail sales continued to disappoint, prompting the UK's Treasury to extend its current furlough scheme until June. The extension will further add to the GBP300 bn the UK has spent fighting the pandemic.
- China's top banking regulator expressed concerns about risks emerging from bubbles in global financial markets and the country's real estate sector, raising fears about further monetary tightening.
- While higher Treasury yields are a threat for EM, they are better equipped this time around as fiscal stimulus is driving demand for commodities, the USD is expected to continue to weaken and economic fundamentals of the larger EM economies remain relatively solid.
- Despite pressure to ease some of the supply curbs, OPEC+ decided to keep a tight limit on oil production, sending oil prices higher in a market that had been expecting additional supply. The containment of supply, weather disruptions and economic rebound expectations have led to rally in oil and commodities in general.

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February saw a continuation of the ongoing reflation trade led by commodities even as government bond yields rose amid inflation concerns. Bonds had a negative month across the board with the steepening of the yield curve while global equities ended positive as expectations for a strong economic rebound grew on rapid rollout of vaccines.

Economic data was broadly positive and manufacturing surveys continued their solid momentum even as Biden's large USD1.9 trillion fiscal boost moved closer to becoming a reality. In our view, easing mobility restrictions and rising vaccinations will allow consumer spending to regain its footing later this year even as the imminent fresh round of stimulus is set to create a growth spurt. Meanwhile, G-7 households are sitting on an unusually large pile of savings that could fuel spending once the Covid-related uncertainty abates. Excess savings - the surplus in cash and deposits shot up last year, as consumers pared expenditure and pocketed most of the doles from the government.

> "G-7 households are sitting on an unusually large pile of savings that could fuel spending once the Covid-related uncertainty abates"

Despite the rapid rise in yields towards the end of the month and ensuing correction in risk assets, the S&P500 ended with a gain of 2.6% with value sectors (energy, financial services) outperforming technology, healthcare and other growth sectors.

Against the persistent backdrop of unprecedented monetary and fiscal stimulus, government yields witnessed a tumultuous February heightened by concerns about inflation and a market repricing of central-bank expectations. Even though global bonds stabilized by the end of the month, investor nervousness remains amid higher volatility. In our view, the yield appreciation is not a major concern as it is coming from a very depressed base and the steeping of the yield curve is consistent with expectations for a rosier economic outlook.

For now, any uptick in inflation in Q2 will likely be transitory as labor markets remain weak and full economic recovery hinges on successfully controlling the virus and delivering vaccines. Meanwhile, Fed Chair Powell offered reassurance that monetary policy would continue to be supportive and look beyond a temporary pick-up in inflation and the Fed stands ready to take steps to prevent any sharp rise in yields, including by shifting its bond purchases to longer-maturity securities. The US 10-year Treasury yield jumped 34bps through the month to reach 1.4% while global Investment Grade Index lost 1.7%, underperforming its High-Yield counterpart, which ended flat.

While the UK is banking on a rapid vaccine rollout, the EU's vaccination campaign has been plagued by manufacturing delays, supply disruptions and distribution challenges, making it difficult for policymakers to chalk out a clear pandemic-exit strategy. Following a sharp rebound in Q3, the European economy contracted again in Q4 as governments had to reimpose lockdowns to curb the spike in cases. Meanwhile, ECB policymakers see no need for drastic action to combat rising bond yields, believing the risk to the economy is manageable with verbal interventions and the flexibility of their bond-buying program. The EuroStoxx50 gained 4.5% in February while the EUR fell 0.4% against the USD.

The UK leads most of the developed world in vaccinations and the government recently announced plans to gradually reopen after months of strict restrictions on mobility. With some of the strictest lockdowns in place, retail sales continued to disappoint, prompting the UK's Treasury to extend its current furlough scheme until June. The extension will further add to the GBP300 bn the UK has spent fighting the pandemic. Meanwhile, UK service industries reported the quickest acceleration in inflation in a year, with rises in the cost of fuel

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and shipping. The FTSE100 gained 1.2% despite a stronger GBP, which gained 1.6% against the USD.

Japanese PM Suga announced extension of the state of emergency in the Tokyo region for another two weeks, as he seeks to further rein in the pace of infections. The economy shrank 4.8% in 2020, its first contraction since 2009 as the global pandemic hit domestic consumption and exports. With lockdown extensions likely, there is a high possibility of a negative GDP growth reading in Q1. Meanwhile, BoJ officials are said to be looking at ways to enable yields to fluctuate more freely as long as that didn't impair the effect of monetary easing. The 10-year JGB yields rose to 0.12%, their highest level since November 2018 and in line with the rise in global government bond yields. The Nikkei225 which has enjoyed a sharp bull run since the lows of March last year, gained another 4.7% in February.

> "The uptick in US government bond yields, accompanied by the gains in the Dollar Index, slowed the ongoing EM rally to some extent"

While China's economic recovery slowed in February as factories shut down during the Lunar New Year holidays and virus surges prompted renewed restrictions, China's economy has almost normalised. A combination of government-led investment and global demand for Chinese goods helped to power a rapid recovery. Meanwhile, China's top banking regulator expressed concerns about risks emerging from bubbles in global financial markets and the country's real estate sector, raising fears about further monetary tightening. That, alongside the rise in the US 10-year yield weighed heavily on Chinese equities in the last week of February. The Shanghai Composite still eked out a marginal gain of 0.8% for February while the CNY continued its appreciation, underpinned by solid global interest in Chinese assets.

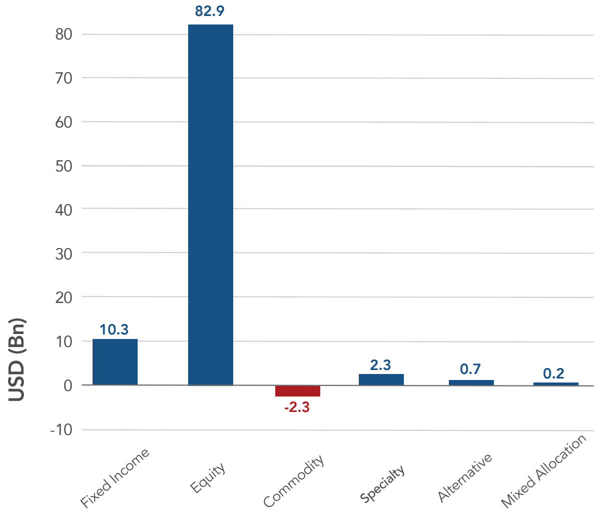
Higher Treasury yields are a threat for EM, especially for countries that rely on external funding, where historically they sparked currency volatility and led to capital outflows. In our view, EM assets are better equipped this time around as fiscal stimulus is driving demand for commodities, the USD is expected to continue to weaken and economic fundamentals of the larger EM economies remain relatively solid. Within EM, Turkish inflation accelerated for a fifth month in February triggered by the sharp oil price rally. Turkish Central Bank Governor Agbal has lifted the policy rate by 675 basis points to 17% since taking over in November but inflation's upward trend is increasing the likelihood that interest rates will be hiked again. The uptick in US government bond yields, accompanied by the gains in the Dollar Index, slowed the ongoing EM rally to some extent. The MSCI EM Index edged higher by 0.7% on the month.

Oil markets saw another strong month as Brent gained 18.3% in February alone. Oil has rallied to above pre-virus levels led by sustained OPEC+ production cuts and more recently with US production taking a hit from the freezing storms. Despite pressure to ease some of the supply curbs, OPEC+ decided to keep a tight limit on oil production, sending oil prices higher in a market that had been expecting additional supply. The S&P Pan Arab Composite gained 2.7% led by Saudi equities, attributed to strong macro fundamentals on the back of a sharp rise in oil prices, strong liquidity and region's efforts in inoculation and containment of the virus GCC region outperformed broader EM as liquidity continues to chase assets, especially in Sukuk segment with scarcity of supply. The containment of supply, weather disruptions and economic rebound expectations have led to rally in oil and commodities in general.

Fund Flows

- Net inflows into global equity funds remained elevated through February. Investor demand for US-focused funds cooled somewhat amid the sell-off in technology names; Inflows continued to remain robust into global- and EM-funds.
- Flows into global fixed-income funds remained positive, albeit at a lower pace compared to previous months. Investor demand favored Agg-type fixed income products and high-yield. Investors net sold government bond funds, municipal bond funds as they sold longer-duration fixed-income assets on the back of rising growth and inflation expectations gathered momentum.
- Money market fund assets benefitted from the heightened volatility and the sell-off in bonds.
- Cross-border FX flows remained elevated and favored EM, especially China.

Fund Flows (01-Feb-2021 to 28-Feb-2021)



Source: EIBank, Bloomberg

The ongoing rotation within equities to continue albeit with higher volatility

The sector and style rotation from growth/momentum to cyclicals, began at the end of the 3rd quarter when positive vaccine test results raised the visibility for a gradual return of life to normal. As economic data began pointing towards a more broad-based recovery, investors began positioning their portfolios in beaten-down sectors that were trading at depressed valuations, such as financials energy and transportation.

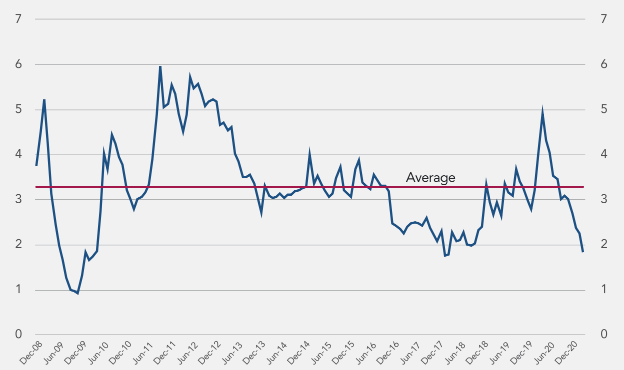
Forecasts for US growth in 2021 have risen sharply thanks to the success of its vaccine program and unprecedented generous fiscal policies. With the extraordinary USD1.9 trillion stimulus package nearly approved and the rapid rollout of vaccines, bond markets are pricing in a higher trajectory for global economic growth and a resulting uptick in inflation.

So, the recent sharp jump in long-term Treasury yields is in anticipation of rapid economic growth, credit demand and much faster inflation that the Fed, by its own admission, will be slow to confront. The rotation is clearly underway and the relative underperformance of stay-at-home beneficiaries (Netflix, Amazon, Zoom) compared to reopening candidates (oil explorers, Walt Disney) is clear evidence of this shift. That said, it is not surprising to see companies with weaker fundamentals and elevated valuations bearing the brunt of this rotational trade. While some of these companies will disrupt traditional industries, their current valuations have gotten far too ahead of their future prospects, in our view.

On the inflation front, structural disinflationary forces including global trade, still high unemployment in the US and innovative technology (ecommerce, telemedicine) are here to stay. Given the OPEC+ composition, oil prices too are artificially being propped up by supply curbs and face resistance at higher prices from shale oil and alternative energy. Therefore, run-away inflation fears are unwarranted in our view at this time. Now that the post-Covid recovery has begun, inflation expectations are justifiably rising with growth. In our view, the bear steepening of the yield curve is not a major concern as it is coming from a very depressed base, hence normalization is happening, the pace of which has been undoubtedly sharp. Any uptick in inflation in Q2 will likely be transitory before inflationary pressures start to normalize again.

From a valuation standpoint, bond yields are still low by historical standards, and the S&P500 earnings yield of 3.2% on the current earnings multiple and 4.4% on a forward basis compares well to the US 10-year Treasury yield (1.5%). Even if the US 10-year yield steepens by another 25-50bps, equities appear relatively attractive given the outlook on earnings.

S&P500 Earn Yld - US 10-Year Yield Spread



Source: Bloomberg

Multi Asset Strategies

Asset Class	Conservative		Balanced		Aggressive		Views
	Current Weight	Strategic Weight	Current Weight	Strategic Weight	Current Weight	Strategic Weight	
Fixed-Income	**70.0%**	**75.0%**	**45.5%**	**52.5%**	**17.5%**	**25.0%**	Neutral
Developed Markets	63.0%	71.3%	36.4%	44.6%	11.8%	18.8%	Cautious
US Sovereigns	*3.5%*	*7.5%*	*1.1%*	*2.6%*	*0.2%*	*0.6%*	Neutral
Developed Market Sovereigns	*3.5%*	*7.5%*	*1.1%*	*2.6%*	*0.2%*	*0.6%*	Underweight
Developed Market Aggregate (IG)	*49.0%*	*56.3%*	*20.5%*	*28.9%*	*5.3%*	*10.0%*	Underweight
Developed Market High Yield	*7.0%*	*0.0%*	*13.7%*	*10.5%*	*6.1%*	*7.5%*	Neutral
Emerging Markets Fixed Income	7.0%	3.8%	9.1%	7.9%	5.7%	6.3%	Favour
Equities	**20.0%**	**17.5%**	**40.0%**	**35.0%**	**67.5%**	**60.0%**	Favour
Developed Markets	14.5%	13.6%	29.0%	27.1%	48.9%	46.5%	Neutral
US Equities	*11.0%*	*8.8%*	*22.0%*	*17.5%*	*37.1%*	*30.0%*	Favour
European Equities	*3.0%*	*3.5%*	*6.0%*	*7.0%*	*10.1%*	*12.0%*	Neutral
Japanese Equities	*0.5%*	*1.3%*	*1.0%*	*2.6%*	*1.7%*	*4.5%*	Neutral
Emerging Markets Equities	5.5%	3.9%	11.0%	7.9%	18.6%	13.5%	Favour
Real Estate	**0.0%**	**2.5%**	**2.5%**	**5.0%**	**2.5%**	**5.0%**	Neutral
Commodities	**0.0%**	**0.0%**	**2.0%**	**2.5%**	**2.5%**	**5.0%**	Neutral
Gold	*0.0%*	*0.0%*	*1.5%*	*1.9%*	*1.9%*	*3.8%*	Neutral
Silver	*0.0%*	*0.0%*	*0.5%*	*0.6%*	*0.63%*	*1.3%*	Neutral
Cash & Equivalents	**10.0%**	**5.0%**	**10.0%**	**5.0%**	**10.0%**	**5.0%**	Favour

Underweight Cautious Neutral Favour Overweight

Asset Allocation Views

- With rapid roll out of vaccines, global growth is broadening, hence equity earnings are expected to pick up as demand normalizes. Alongside, yield curve has been steepened in Q1 and we foresee that the yields have potential to rise further.
- On relative valuation and theme, we prefer selective cyclicals, economy-facing smaller caps and EM equities, apart from our strategic positioning across core technology, healthcare & innovation.
- Within equities, we continue our strategic preference for leading US tech companies with structural tailwinds, strong balance sheets and sustainable free cash flows.
- From here on, credit will get support from improving growth as central bank support starts to wane. We like EM corporate credit selectively, particularly Asian HY as the risk-reward remains favourable. GCC credit is expected to remain in demand amid improving macro on the back of oil and scarcity of supply.
- QE growth led by fiscal and monetary stimulus has artificially suppressed yields. With growth expected to rebound, yield curve on its path to normalization, we remain cautious and underweight long duration credit and Sovereigns as treasury yields climb. We recommend shortening duration of fixed income portfolios, through active portfolio management while taking advantage of any sell-off in a barbelled positioning.
- With inflationary pressures rising, we continue to prefer some exposure to precious metals (gold, silver) and TIPS, for tail risk hedging. We are neutral on oil at current levels.
- Overall, we seek to diversify portfolio risks across equities, credit, income-generating assets and cash.
- We favour cash to take advantage of sharp pullbacks in risk assets amid higher volatility that is expected to persist amid normalization of the yield curve and markets expectations of central bank activity.

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IMPORTANT INFORMATION