MONTHLY INVESTMENT OVERVIEW

بنك الامارات للاستثمار

EMIRATES INVESTMENT BANK

Asset Class	View	Current Allocation*	Benchmark Allocation*
Equities	Underweight	27.5%	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	15.0%	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

JUL 2020

- Record monetary and fiscal stimulus, the gradual resumption of economic activity after the lifting of lockdowns and positive early-stage trial results on the vaccine front provided for another strong month for global risk assets.
- Strong Q2 results by the dominant US tech companies in an otherwise lacklustre earnings season, helped the S&P500 recoup all of its pandemic-induced losses, and the index is now up 1.3% year-to-date.
- Confidence in the virus-battered Euro-area received a shot in the arm after EU leaders agreed on a landmark EUR750 bn recovery fund for the region. The funds, raised via bonds that would be backed collectively by its members, will be deployed to the hardest hit countries like Italy and Spain.
- Japan is facing a reality check on the coronavirus as the government initially put the economy first and relied on the country's "cultural standard" to contain the disease. After initial success, the country is now facing a resurgence with cases hitting records nationwide.
- Although China appears to have mostly eradicated the coronavirus within the country, outbreaks in overseas markets have hurt demand for Chinese exports and the escalating tensions with the US pose fresh risks going forward.
- While EM assets have benefitted from accommodative monetary policy and improving economic activity in China, rising infection rates in key economies including Brazil, India and Russia cloud the near-term investment outlook for EM in general especially after the recent sharp price performance.
- The pandemic-induced collapse in oil prices weighed on Saudi Aramco which reported a 73% fall in profit year-over-year in Q2. Despite the weak results, the management maintained its dividend for the quarter and CEO Nasser stated the he is seeing a partial recovery in the energy market as countries around the world take steps to ease restrictions and reboot their economies.

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Record monetary and fiscal stimulus, the gradual resumption of economic activity after the lifting of lockdowns and positive early-stage trial results on the vaccine front provided for another strong month for global risk assets. Over the month, a sharp decline of 4.2% in the Dollar Index buoyed the MSCI Emerging Markets (EM) equity index, which rallied 8.4%, outperforming its developed counterpart, the MSCI World Index which increased by 4.7%.

Meanwhile, strong Q2 results by the dominant US tech companies in an otherwise lacklustre earnings season, helped the S&P500 recoup all of its pandemic-induced losses, and the index is now up 1.3% year-to-date. The resiliency of the rebound is still vaccine-dependant and some high frequency data in July including credit-card spending indicates that a recovery may potentially be losing steam. While the full force of the pandemic has been kept at bay so far by furlough programs, increasing debt burdens would force governments to wind down that support, potentially sending unemployment higher.

> "The resiliency of the rebound is still vaccine-dependant and some high frequency data in July including credit-card spending indicates that a recovery may potentially be losing steam"

In a world stricken by disease and economic setback, expectations are rising that central banks will pin down global borrowing costs for years to come. Money markets are signalling that lending rates will stay near historic lows across Europe and the US, even as rising corporate bankruptcies add pressure to bank balance sheets. Already at historic lows, treasury yields remained steady through July while credit rallied as improving risk-appetite encouraged investors to chase yield. Meanwhile, gold continued its stellar rally and gained 11.0% in July alone as rising expectations of future inflation further enhanced its appeal as a hedge. At the time of this writing, US employers added 1.76 million jobs in July, about 300,000 more than economists expected, pushing the unemployment rate lower by 1% to 10.2%. Further material job gains look increasingly difficult as the US is still far from flattening the virus curve and data point to weakness in months ahead.

Confidence in the virus-battered Euro-area received a shot in the arm after EU leaders agreed on a landmark EUR750 bn recovery fund for the region. The funds, raised via bonds that would be backed collectively by its members, will be deployed to the hardest hit countries like Italy and Spain. While Europe's initial rebound has been swift so far, doubts remain over whether momentum can be sustained with job numbers being a major concern. Furlough programs have kept millions on payrolls but a sluggish recovery means some companies won't be able to afford to bring back all their employees. The EUR appreciated 5.0% against the USD in July in a sign of increased confidence in the Euro-area while the EuroStoxx50 edged lower by 1.9%.

The UK's manufacturing grew at its fastest pace in almost three years in July as lockdown measures eased. While the uptick was driven by a sharp rise in domestic orders, export business fell and the labor market continues to struggle. The threat of fresh outbreaks of the coronavirus, renewed lockdowns, as well as ongoing consumer caution means any meaningful rebound could prove difficult. Mindful of the task at hand, BoE Governor Bailey played down suggestions that the UK's economic rebound is looking robust and stated that the country's growth trajectory will be determined by how quickly people return to work and will be linked to medical progress in tackling the virus. The GBP rallied 5.5% against the USD in July.

Japan is facing a reality check on the coronavirus as the government initially put the economy first and relied on the country's "cultural standard"

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to contain the disease. After initial success, the country is now facing a resurgence with cases hitting records nationwide. Recent gains in retail sales and industrial production suggest growth began to rebound but a surge in cases threatens the fragile recovery. Meanwhile, Japan's economy shrank an annualized 2.2% in Q1. Although the figure was less than the initial estimate of a 3.4% contraction, widening virus outbreaks in the US and other key markets darken the trade outlook and rising case numbers in Japan's biggest cities threaten jobs and consumer spending at home. The recent sharp decline in the Dollar Index allowed the JPY to gain 2.0% against the USD in July.

Even as China's economy grew 3.2% in Q2, after shrinking 6.8% in Q1, fresh clusters of coronavirus cases along with severe flooding are holding back China's full recovery. While factory output data showed activity grew at its fastest pace in nearly a decade, consumption is weak, retail sales are stabilising but remain fragile, and export growth is facing headwinds as the recovery stutters in the rest of the world. Overall, although China appears to have mostly eradicated the coronavirus within the country, outbreaks in overseas markets have hurt demand for Chinese exports and the escalating tensions with the US pose fresh risks going forward. The Shanghai Composite had a solid August, gaining 10.9% on the month.

> "Although China appears to have mostly eradicated the coronavirus within the country, outbreaks in overseas markets have hurt demand for Chinese exports"

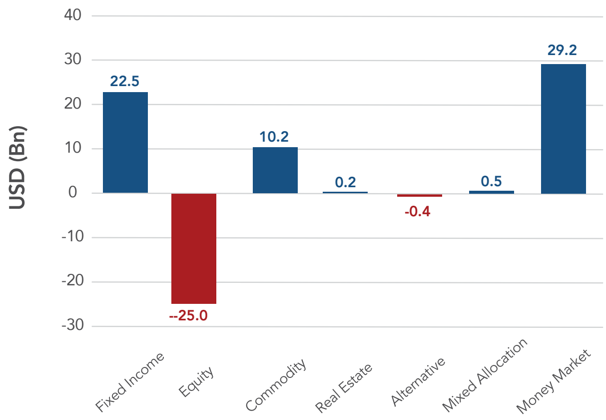
After falling by over 25% as of March this year, EM equities rallied strongly aided by determined central banks, led by the Fed, infusing massive liquidity into the system. While EM assets have benefitted from accommodative monetary policy and improving economic activity in China, rising infection rates in key economies including Brazil, India and Russia cloud the near-term investment outlook for EM in general especially after the recent sharp price performance. Overall, a combination of low risk-free rates, the ensuing chase for yield and a China returning to near-normalcy continue to offer a favourable backdrop for selective EM credit.

Oil has rebounded swiftly after the sharp plunge in April, but the rally has stalled near USD40/bbl with rising infections raising concerns about a sustained recovery in demand. Although demand is expected to pick up as economies crawl back to normalcy, the pace of recovery in oil prices would moderate as OPEC+ plans to add 1.5 mio bbl/day more in August compared to July to unwind some of its historic virus-driven output curbs. At the time of this writing, the pandemic-induced collapse in oil prices weighed on Saudi Aramco which reported a 73% fall in profit year-over-year in Q2. Despite the weak results, the management maintained its dividend for the quarter and CEO Nasser stated the he is seeing a partial recovery in the energy market as countries around the world take steps to ease restrictions and reboot their economies. Brent gained 5.2% on the month but is still down 34.4% year-to-date. The S&P Pan Arab Composite edged higher by 1.7% in July.

Fund Flows

- Over the past couple of weeks, global equity fund and ETF flows gradually softened as investors took note of the sporadic resurgence of virus cases and moderation in economic activity in July across the US, Europe and Japan.
- The US and China drove the majority of equity outflows while Japan and Developed Europe held up. EM equity funds also saw meaningful outflows with accelerated outflows from China-dedicated funds as the US ratcheted up tensions with China.
- Meanwhile, flows into fixed income products remained firm and broadly in-line with recent trends. Inflows into credit funds were again notably high as investors continue to chase yield while inflows into inflation-protected products also picked up as expectations of future inflation begin to rise.
- Money market fund and ETF flows rose for a third straight week as US policy uncertainty and geopolitical risks keep investors cautious.

Fund Flows (16-Jul-2020 to 05-Aug-2020)



Source: Bloomberg

Investment Theme: Digital Payments

Digital payments continue to gain traction as credit/debit card transactions replace cash and as more consumers are pulled into online shopping and e-commerce. While the digital payments boom has already led to a significant decline in the use of cash, the coronavirus pandemic has accelerated the move away from cash as lockdowns forced people to transact online.

The safety and convenience associated with cashless transactions is responsible for the stellar growth in this industry and we believe the world is moving toward an increasingly cashless society underpinned by advancements in big data, AI and cloud computing.

A rising number of businesses are building their own apps in order to have a wider reach globally and in-app purchases and transactions are exponentially rising. We will discuss this phenomenon in more detail in our next thematic publication.

For now, it's important to note that the move to digital transactions has the potential to benefit several sub-sectors including e-commerce service/solution providers (such as Shopify, Square, Lightspeed) in addition to credit card issuers/payment providers (such as Visa, Mastercard, American Express, and Paypal).

Meanwhile, digital technology allows a proper trail of transactions potentially reducing crime, money laundering and tax evasion. As a result, cybersecurity companies will also have a large role to play but we will delve into this sub-theme in a later publication.

From a near-to-medium term perspective, elevated equity prices and the euphoria around this trend in general has led some of the leading companies within this space to command fairly rich valuations. As a result and from a risk-return standpoint, we would recommend playing this theme selectively and only if one has a long term horizon.

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
Visa Inc	382	36.5x	33.6x	11.8x	11.8x	16.7x	15.8x	21.6x	23.3x	0.6%	0.6%
Mastercard Inc	323	43.2x	36.9x	43.9x	43.1x	19.0x	17.2x	29.4x	28.2x	0.5%	0.5%
Paypal Holdings Inc	226	47.5x	43.0x	12.2x	9.4x	9.8x	9.0x	31.5x	31.5x	0.0%	0.0%
Shopify Inc	121	557.4x	501.5x	25.7x	53.3x	41.8x	36.2x	Neg	438.8x	0.0%	0.0%
American Express Co	81	18.7x	15.1x	3.8x	3.4x	2.2x	2.0x	10.6x	NA	1.7%	1.8%
Square Inc	61	161.3x	121.4x	35.3x	28.8x	9.9x	10.2x	169.1x	92.4x	0.0%	0.0%
Lightspeed Pos Inc	3	Neg	Neg	Neg	9.3x	15.5x	12.0x	Neg	Neg	0.0%	0.0%
First Trust Nasdaq Cybersecurity	2	65.6x	NA	7.0x	NA	3.6x	NA	NA	NA	1.4%	NA
Etfmg Prime Mobile Payments	0.8	42.1x	NA	4.1x	NA	3.2x	NA	NA	NA	0.0%	NA
Global X Fintech Etf	0.7	125.4x	NA	5.0x	NA	6.0x	NA	NA	NA	0.0%	NA

Source: Bloomberg

Asset Class Views

Asset Class	June	July	View / Rationale
Equities	↓	↓	
US	↘	↘	Latest high-frequency data reinforce the impression that economic activity has lost some momentum after an initial turn higher.
Europe	↘	↘	Government wage support is finite, unemployment is already rising and confidence, though rebounding, seems fragile.
UK	↘	↘	Even as traffic congestion and restaurant bookings creep up, other indicators remain repressed suggesting a slow, painful recovery.
Japan	↓	↓	Despite debt-to-GDP well over 250%, fiscal and monetary policies are being pushed to new extremes to keep businesses afloat and support households.
China	↔	↔	We may turn Cautious on Chinese equities as tensions with the US continue to heat up.
India	↘	↘	Built-up inventory since the lifting of nation-wide lockdowns is only declining slightly due to weak aggregate demand.
Brazil	↔	↘	Hard data in Brazil suggests activity remains far below pre-crisis levels but commodity price rebound a welcome boost.
Russia	↘	↘	Consumer activity remains depressed even with major restrictions lifted.
MENA	↘	↘	While Google mobility data - a proxy for economic activity – shows signs of pickup, the effects of Saudi austerity measures will hold back growth in the near-term.

Asset Class	June	July	View / Rationale
Fixed Income	↔	↔	
US	↔	↔	Fed sees sizeable downside risks over the medium-term and will pursue continued quantitative easing and tailored emergency lending facilities.
Europe	↘	↘	With 10Y government yields for countries such as Spain and Portugal at only 0.25%, there is little upside even if the ECB turns even more dovish.
UK	↘	↘	Social distancing coupled with caution among businesses and consumers will weigh on demand, which is likely to prompt further easing from the BoE.
Japan	↘	↘	The BoJ, putting its 2% inflation target aside, has ramped up purchases of corporate bonds and commercial paper and is extending emergency loans to hard-hit firms.
China	↗	↗	Slowing inflation is creating more room to ease monetary policy, but the stabilization in the economy and a strong expansion in credit means there's no need to rush.
India	↔	↔	Increased taxes on gasoline and diesel have ignited price pressures, putting the RBI's inflation target of 4% at risk.
Brazil	↔	↔	The central bank has shaved 200bps off the policy rate to 2.25% and has also announced 16.7% of GDP in liquidity measures.
Russia	↔	↔	The broader story remains one of weak demand keeping inflation low and below the central bank's target of 4%.
MENA	↔	↔	Credit selection remains key as governments and corporates struggle with the fall of oil prices and due to strict lockdown measures.

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

Asset Class Views

Asset Class	June	July	View / Rationale
Currencies *			
EUR	↔	↔	Broad-based USD weakness and EU solidarity through an EUR750 bn stimulus package caused a sharp run-up in the EUR.
CHF	↔	↔	Relative weakness in the US economy and heightened US-China tensions help the safe-haven CHF.
GBP	↗	↗	GBP remains supported by the overall weakness in the USD and BoE's reluctance to go into negative interest rate territory.
JPY	↗	↔	Downgrade the JPY to Neutral as a surge in coronavirus cases threatens the fragile recovery in Japan and will place further pressure on the economy.

* All currency views expressed relative to the USD

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

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