

# MONTHLY INVESTMENT OVERVIEW

بنك الإمارات للاستثمار

EMIRATES INVESTMENT BANK



## MONTH IN BRIEF

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.

- US equity and bond markets painted contradictory pictures in July amid talks of peak growth and the Fed's relatively more hawkish tone in light of rising inflation. Treasury yields continued their recent decline, sounding a cautious tone, while growth equities handily outperformed their value counterparts.
- Although inflation has come in stronger than expected, the overwhelming expectations are for it to recede as supply bottlenecks resolve, demand normalizes from the pre-pandemic spurt and as the recovery becomes more mature and broad-based.
- Flash PMI data offered further evidence that the Eurozone economy is gathering pace with service sector activity more than offsetting a modest decline in manufacturing PMI.
- While the successful vaccine rollout has opened the door to a quick rebound this year, the risk for the UK economy going ahead is that the spread of the delta variant prompts reintroduction of restrictions and greater caution among consumers.
- Chinese equities, especially the internet/tech sector, fell sharply after China announced its toughest-ever curbs on the online education industry and issued a series of other regulations governing illegal online activity and food delivery.
- The prospect of policy tightening by the Fed remains a concern and continued to weigh on EM currencies. Also, worries that the delta variant could lead to a slower rebound as vaccination rates remain lower in several economies weighed on EM assets in general.
- Although tightened controls in some Asian countries to curb the spread of the virus risk eroding oil demand at a time when the OPEC+ are gradually increasing supply, higher vaccination rates, declining US inventory levels and a cautious OPEC+ stance on supply continue to support oil prices.

# MONTHLY INVESTMENT OVERVIEW

US equity and bond markets painted contradictory pictures in July amid talks of peak growth and the Fed's relatively more hawkish tone in light of rising inflation. **The resurgence of virus cases despite widespread vaccination induced investors to dial back risk-taking to some extent.** Treasury yields continued their recent decline, sounding a cautious tone, while growth equities handily outperformed their value counterparts. The 10-year Treasury yield slipped 25bps to 1.2% while the S&P500 gained 2.3%. Developed equities, represented by the MSCI World Index, gained 1.7% and outperformed their emerging market (EM) peers, represented by the MSCI EM Index, which lost 7.0% dragged down by weak performance from China where tighter regulation for the tech/internet/education sectors weighed on stock prices.

!! The sharp moves in the treasury markets were surprising to say the least and the current level of Treasury yields appears inconsistent with the strength of the ongoing recovery !!

The sharp moves in the treasury markets were surprising to say the least and the current level of Treasury yields appears inconsistent with the strength of the ongoing recovery. **In our view, the best explanation for the recent price action is a defensive positioning due to elevated asset prices, rather than any fundamental change in the outlook for the economy.** Meanwhile and although inflation has come in stronger than expected, the overwhelming expectations are for it to recede as supply bottlenecks resolve, demand normalizes from the pre-pandemic spurt and as the recovery becomes more mature and broad-based. The global Investment Grade Index gained 1.3% while its High Yield counterpart ended flat on the month, reflecting the fall in Treasury yields.

July's meeting of the ECB's Governing Council saw stronger forward guidance on interest rates staying low for longer and the inflation aim was adjusted to a 2% target versus the previous target of below but close to 2%. Meanwhile, flash PMI data offered further evidence that the Eurozone economy is gathering pace with service sector activity more than offsetting a modest decline in manufacturing PMI. **With over 60% of the population in the largest**

**economies of the bloc having received at least one dose of the vaccine, huge household savings should feed through to improved economic activity in the second half of 2021 and beyond.** The EuroStoxx50 gained 0.6% while the EUR ended flat against the USD.

Although inflation hit 2.5% in June, virus risks are likely to deter the BoE from ending its bond purchasing program early this year and significant pent-up consumer demand and large

household savings amassed during lockdowns are likely to support the economic recovery in the coming months. On the flip side and while the successful vaccine rollout has opened the door to a quick rebound this year, the risk for the UK economy going ahead is that the spread of the delta variant prompts reintroduction of restrictions and greater caution among consumers. The FTSE100 was flat in July while the GBP appreciated 0.5% against the USD.

PM Suga lifted a state of emergency for most of Japan as the country's vaccine drive picked up pace. With virus restrictions rolled back to a great extent and exports booming, activity should pick up and Japan's economy is set for a stronger

# MONTHLY INVESTMENT OVERVIEW

performance in 2H 2021. Meanwhile, the BoJ unveiled a lending program to fight climate change and walked back into the equity markets, buying equity ETFs after domestic equities suffered losses following slightly hawkish comments from the Fed. The Nikkei 225 lost 5.2% in July while the JPY depreciated 1.3% against the USD.

Chinese equities, especially the internet/tech sector, fell sharply after China announced its toughest-ever curbs on the online education industry and issued a series of other regulations governing illegal online activity and food delivery. Meanwhile, the PBoC made a surprise cut to the required reserve ratio in mid-July which was more an insurance policy to help extend the recovery into the second half of 2021 as authorities balance financial stability risks and growth. Even though the long-term outlook for select Chinese equities remains favourable in our view, sentiment is disturbed in the near term until the extent of the regulatory pressures becomes clearer. The Shanghai Composite fell 5.4% on the month CNY was flat against the USD.

EM equities continued to lag their developed market peers in July, driven by weakness in Chinese equities. Also, worries that the delta variant could lead to a slower rebound as vaccination rates remain lower in several economies weighed on EM assets in general. The prospect of policy tightening by the Fed remains a concern and continued to weigh on EM currencies. EM equities posted their worst month since March 2020 as China's crackdown on several domestic sectors dragged EM

assets lower. At the time of this writing, the delta outbreak appeared to be spreading across several cities in China prompting authorities to close tourist sites, call off cultural events and impose travel restrictions. The MSCI EM index lost 7.0% on the month.

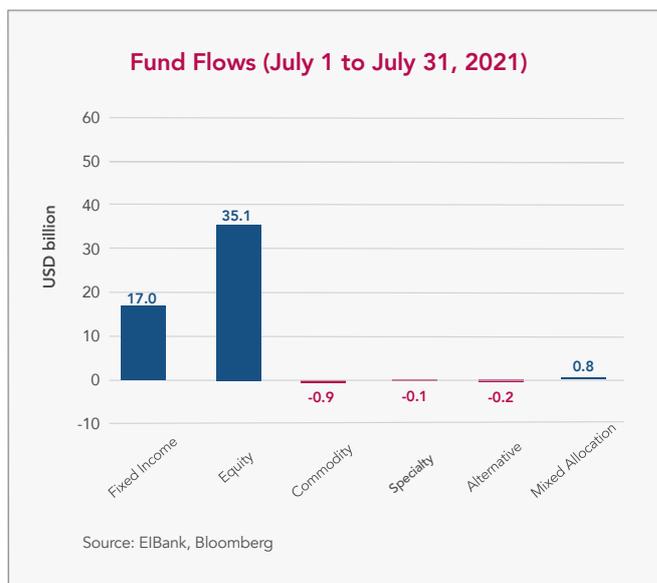
Although tightened controls in some Asian countries to curb the spread of the virus risk eroding oil demand at a time when the OPEC+ are gradually increasing supply, higher vaccination rates, declining US inventory levels and a cautious OPEC+ stance on supply continue to support oil prices. Meanwhile, the Saudi economy is poised to maintain growth in the second half of the year backed by higher oil prices and decent progress on vaccinations. Also, the UAE's recent decision to lift an entry ban on UAE residents coming from the subcontinent and few other countries bodes well for demand

and economic activity, prior to onset of the EXPO. The S&P Pan Arab Composite Index posted a gain of 1.1% in July, boosted by macro recovery and recoup in earnings, while Brent registered a fourth straight positive month and gained 1.6%.

“ Even though the long-term outlook for select Chinese equities remains favourable in our view, sentiment is disturbed in the near term until the extent of the regulatory pressures becomes clearer ”

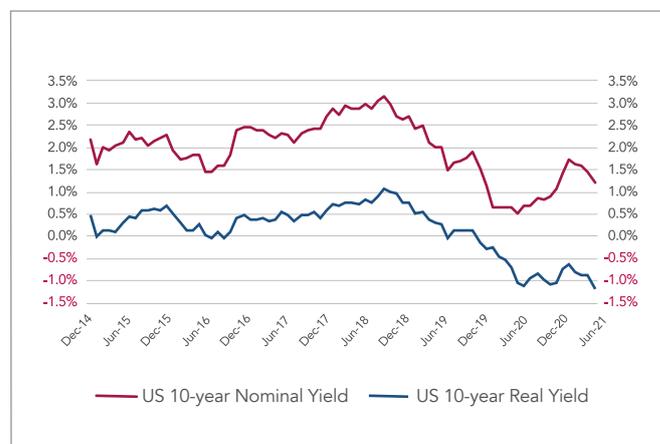
## Fund Flows

- Flows into mutual funds and related investment products showed weaker demand for equities, and slightly stronger flows into global fixed income funds.
- Net flows into global equity funds slowed last month as concerns over the delta variant weighed on risk appetite. A data-dependent Fed tilting toward tapering sooner than later still allowed longer duration growth sectors to handily outperform their value/cyclical peers and attract a larger share of flows.
- Flows into fixed-income ETFs remained strong compared with the previous month. Flows into IG credit funds and government-only funds witnessed robust inflows amid “peak growth” concerns in the US while inflation-protected strategies saw higher inflows.
- Risk-appetite was mixed through the month. Cross-border FX flows favoured the CNY, the CAD and the CHF.



## Contradictory signals from the fixed income and equity markets

- Treasuries extended their four-month rally as the fast-spreading Covid-19 delta variant added to concerns that the peak of US economic recovery and policy accommodation is behind us. The prospect of a slower rebound from the pandemic is weighing on markets even as strong US payroll data is certainly increasing the likelihood of a guidance toward a Fed taper announcement later this year.
- Nominal bond yields have fallen sharply from their highs in March at a time when inflation expectations have held up, driving real yields further into negative territory. The ongoing decline in real yields suggests that the fixed-income markets are pointing towards a cautious stance to global economic growth while the equity markets are painting a rosier picture. Our view remains that inflation is elevated for now and is impacted by supply disruptions and set to return toward central banks’ target in 2022. We believe the recent rally in government bonds will be temporary before macro growth fuels a rise in 10-year yield toward 1.75%-2.0% in 2022.
- While negative real rates were appropriate during the depths of last year’s recession, it is harder to justify them now when the US economy is experiencing a strong recovery. With capex strong and household balance sheets in good health, global growth is expected to be above trend well into 2022, in our view. Also, global markets remain awash with liquidity with money market fund assets ballooning to over USD5 trillion during the pandemic and investors continue to seek opportunities to invest.
- This makes us believe the recent decline in US Treasury yields is likely to reverse somewhat, as some of the near-term factors like extreme short investor positioning, relative value in US yields, lower supply and concerns over the delta variant ebb going forward.
- Broadly, the macro picture in the US is clearly supportive of higher yields, particularly real yields, but the resilient bid for duration, especially against an uncertain virus backdrop, leaves the forward trajectory choppy. Even if yields have bottomed, ongoing uncertainties due to the delta variant, inflation and Fed policy mean it’s far from certain that they will climb quickly.



## 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

- We continue to remain moderately overweight risk assets given the cyclical economic recoveries taking place globally and at different stages of the up-cycle, higher growth expectations and robust earnings results. We may move towards a more neutral stance in the coming months given where overall valuations stand.
- We believe the global economy is in a mid-cycle expansion, and in such an environment, sector and security selection remain crucial. With capex strong and household balance sheets in good health, we expect above-trend global growth to moderate but persist well into 2022. We continue to advise an increased allocation to lower duration areas of the market like cyclicals (financials, materials, autos) and Europe.
- Our view remains that secular trends, including demographics and technology, make a return of sustainably high inflation unlikely. That said, elevated inflation is likely to last longer, and set to return toward target in the second half of 2022. We continue to advocate some allocation into inflation beneficiaries (banks, commodities) and some exposure to precious metals (gold, silver).
- While looking at the business cycle, we also assess the potential impact of longer-term disruptions and play the theme via select large tech companies in the US with pricing power, structural tailwinds, and strong balance sheets.
- In fixed income, we expect the Fed to begin tapering asset purchases later this year, possibly in December, and to keep rates on hold until Q4 2022. Given this backdrop, 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.
- Growth shocks and monetary-policy uncertainties in the medium term would prompt a rethink in our strategies and risk tolerance at a later stage. For now and within multi-asset portfolios, we generally prefer equities over other risk assets based on relative valuations and growth prospects.
- We favour EM countries with strong inoculation programs and with strong export franchises. Regionally, we like Sukuk which is expected to remain in decent demand amid favourable risk-reward dynamics, improving macro (oil prices) 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 around regime shifts and protect portfolios against sharp drawdowns.

## 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](http://www.eibank.com)

## CONTACTS:

### **Asad Saeed Khan, CFA**

Head of Asset Management  
[asad.khan@eibank.com](mailto:asad.khan@eibank.com)

### **Yaser Al-Nimr**

Director - Asset Management  
[yaser.alnimr@eibank.com](mailto:yaser.alnimr@eibank.com)

### **Joyson D'Souza, CFA**

Associate Director – Asset Management  
[joyson.dsouza@eibank.com](mailto:joyson.dsouza@eibank.com)

### **Ravindra Deshpande**

Associate Director – Asset Management  
[ravindra.deshpande@eibank.com](mailto:ravindra.deshpande@eibank.com)

## IMPORTANT INFORMATION

This report is for our clients only. It is not an offer or a solicitation to offer, buy or sell any security or instrument or to participate in any particular trading strategy. This report is based on current public information that we consider reliable, but it should not be considered accurate or complete.

This report is not intended to provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. We recommend that investors independently evaluate particular investments and strategies and we encourage investors to always seek professional advice. The securities, instruments or strategies discussed in this report may not be suitable for all investors and certain investors may not be eligible to purchase or participate in some or all of them.

The value of and income from investments may vary because of a variety of factors. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. Fluctuations in exchange rates could have adverse effects on the value, price of and income derived from certain investments. Certain transactions give rise to substantial risk and are not suitable for all investors.

We and our affiliates may transact the securities or derivatives referred to in this research. We may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

Emirates Investment Bank pjsc is regulated by the Central Bank of the United Arab Emirates.