MONTHLY INVESTMENT OVERVIEW

بنك الامارات للاستثمار
EMIRATES INVESTMENT BANK

Asset Class	View	Current Allocation*	Benchmark Allocation*
Equities	Cautious	25.0%	40.0%
Fixed Income	Neutral	42.5%	40.0%
Real Estate	Neutral	5.0%	5.0%
Commodities	Neutral	2.5%	5.0%
Low Vol / Alternatives	Overweight	15.0%	5.0%
Cash	Favour	10.0%	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

NOV 2019

- A few contentious issues continued to preclude the consummation of a much-anticipated US-China trade deal while growing unrest in Hong Kong also led to concerns that any Chinese aggression would create a further split between the two sides. Trump's decision to sign into legislation a US bill that supports Hong Kong protestors kept the prospect of a deal still elusive.
- Germany's factory orders rose for the first time in three months and Euro-area retail sales also grew more than expected. Meanwhile, some weakness in the services PMI suggested that while Europe's slowdown may have stabilized, the Bloc is more likely to tread at a slow pace of growth for some time.
- The BoE decided to make no change to its monetary policy at its meeting while warning that if the global slowdown worsens or the Brexit impasse continues post elections in December, then monetary policy may need to turn decisively dovish.
- To deal with the damage caused by the recent natural disasters and pressure to keep the economic momentum going well beyond the 2020 Tokyo Olympics, Japan's ruling coalition has called for a budget increase of up to USD 92bn. After years of monetary stimulus and its diminishing impact, focus now is clearly shifting for fiscal policy to play a more prominent role.
- Despite broad optimism surrounding a possible trade deal, the latest batch of data evidence China's sluggish economic environment. Industrial output and retail sales both grew less than expected in October while fixed-asset investment came in below expectations.
- The US-China trade dispute alongside conflicting signals about the health of the global economy, in addition to some question marks over the sustainability of the US shale boom, continues to pull the oil market in opposite directions.

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A few contentious issues continued to preclude the consummation of a much-anticipated US-China trade deal while growing unrest in Hong Kong also led to concerns that any Chinese aggression would create a further split between the two sides. While the size and timing of already in-place tariff rollbacks as well as structural issues including technology and intellectual property remain unresolved, Trump's decision to sign into legislation a US bill that supports Hong Kong protestors kept the prospect of a deal still elusive. Despite the stumbling blocks, broad optimism over the possibility of a "phase one" trade deal prevailed and continued to aid risk assets in November. Some of that optimism may have proved to be premature. The S&P500 gained 3.4% on the month to close at a new life-time high of 3,141.

"Minutes of October's FOMC meeting suggested that the Fed will likely maintain rates at their current levels for the time being"

Minutes of October's FOMC meeting suggested that the Fed will likely maintain rates at their current levels for the time being. While most officials saw downside risks to the economy as elevated and lowered the benchmark rate for a third time this year, the minutes showed most participants prefer to follow a "wait and see" strategy from here in order to allow the economy to digest the rate cuts already implemented. Earlier in the month and in his testimony to the House's Budget Committee, Fed Chair Powell reiterated the Fed's stance to remain on "pause" mode. While noting that the policy remains flexible and data-dependent, Powell stated that the Fed saw few signs that the manufacturing slump is spilling over to the dominant services sector. After a robust US employment report, several economic data points signalled that some global economic slowdown pressures may have started to recede, aiding risk assets at the cost of safe-havens. The broader risk-on theme helped the 10-year US Treasury yield gain 8 bps to end the month at 1.78%.

In a sign that the worst may be over for the Eurozone, the flash manufacturing PMI rose to 46.6 in November from 45.9. While the gauge is still in contraction, the second straight monthly uptick was accompanied by an improvement in business confidence. Germany's factory orders rose for the first time in three months and Euro-area retail sales also grew more than expected. Meanwhile, some weakness in the services PMI suggested that while Europe's slowdown may have stabilized, the Bloc is more likely to tread at a slow pace of growth for some time. New ECB President Lagarde reaffirmed that the Central Bank would continue to support the Eurozone economy while monitoring the side-effects of its easy monetary policy. On the month, the EUR lost 1.2% against the USD while the EuroStoxx50 gained 2.8%.

The UK's economy grew at its slowest pace in nearly a decade in Q3, as Brexit worries hit manufacturing and business investment. Q3 GDP grew at a mere 1.0% annualized pace, as Brexit uncertainty took a toll on the ability of businesses to plan and spend for the future. Meanwhile, the BoE decided to make no change to its monetary policy at its meeting while warning that if the global slowdown worsens or the Brexit impasse continues post elections in December, then monetary policy may need to turn decisively dovish. The GBP ended the month weaker by 0.1% against the USD.

MONTHLY INVESTMENT OVERVIEW

Japan's economy grew at 0.4% QoQ, revised upwards from a preliminary estimate of 0.1% QoQ and in line with a 0.4% growth rate in the previous quarter. To deal with the damage caused by the recent natural disasters and pressure to keep the economic momentum going well beyond the 2020 Tokyo Olympics, Japan's ruling coalition has called for a budget increase of up to USD 92bn. After years of monetary stimulus and its diminishing impact, focus now is clearly shifting for fiscal policy to play a more prominent role. While the policy direction is welcome, Abe's ability to borrow such a large amount remains questionable, as Japan's government debt stands at twice its GDP. The Nikkei225 gained 1.6% on the month while the JPY lost 1.4% against the USD.

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Despite broad optimism surrounding a possible trade deal, the latest batch of data evidence China's sluggish economic environment. Industrial output and retail sales both grew less than expected in October while fixed-asset investment also rose by a weaker-than-expected 5.2% year-to-date. The weak data raises the prospect of further easing measures and increases pressure on the authorities to conclude the phase-one trade deal with the US. Complicating matters further, the US House and Senate each passed a bill to support the democratic freedom movement in HK. While Trump approved the bill, he explicitly stated his desire to finalize the phase one deal with China sooner than later, although he seemed to retract such comments in early December. Chinese equities edged lower on the month with the Shanghai Composite losing 2.0% in November.

Following comments by Brazil's Economy Minister stating that he is unfazed by the recent weakness in the BRL and that the weakening exchange rate is a natural consequence of falling interest rates, the BRL fell to a record low. The Brazilian Central Bank has lowered its benchmark interest rate to an all-time low with more to come as the economy struggles to come out of the deep 2015 - 16 recession. Meanwhile, the standoff between NATO allies, Turkey and the US, escalated after Turkey said it will test a component of the newly acquired Russian air defence system. The move risks possible US sanctions and bodes ill for the Turkish economy.

The US-China trade dispute alongside conflicting signals about the health of the global economy, in addition to some question marks over the sustainability of the US shale boom, continue to pull the oil market in opposite directions. While the OPEC+ alliance expects the demand-supply scenario to come into balance in 2020, the direction of oil prices will be dependent on the potential resolution of the trade war and the resulting pickup or slowdown in global economic activity. On the month, Brent edged higher by 3.7% while the S&P Pan Arab Composite Index edged higher by 1.1%.

Meanwhile, Saudi Aramco, the Saudi Arabian state owned oil company, is finally coming to market as it offered a 1.5% stake in an initial public offering. Touted to be the world's largest public offering, the issue values the company at a US$1.7 trillion market capitalization and raised proceeds of approximately US$25.6 billion for the Kingdom. The listing initially removed some liquidity from the Saudi equity market, as investors liquidated some of their positions in other securities in order to raise capital and participate in the offering.

Asset Class Views

Asset Class	October	November	View / Rationale
Equities	↘	↘	
US	↘	↘	Rich valuations and subdued earnings to cap upside.
Europe	↘	↘	Macro environment continues to be weak but the worst may be over for the Bloc.
UK	↘	↔	There is a growing belief that a Boris Johnson victory may finally put some Brexit uncertainty behind us.
Japan	↔	↘	A fiscal boost may help offset Japan's weak growth prospects.
China	↔	↔	Economic outlook to get a boost should a phase-one trade deal be concluded.
India	↘	↘	Economy struggling on weak consumption growth.
Brazil	↔	↔	Subdued economic growth to continue while BRL weakness to help exporters.
Russia	↔	↔	Economic growth gradually picking up on budget spending.
MENA	↘	↘	Slight oil price rebound amid OPEC+ cuts in production to help fiscal balances.
Asset Class	**October**	**November**	**View / Rationale**
Fixed Income	↔	↔	
US	↔	↔	Fed turns neutral but an overall lower yield environment helps alleviate some corporate credit default risk.
Europe	↘	↘	Slender yields continue on ECB policy and slight improvement in macro data.
UK	↔	↔	Sovereign yields remain low amid political and economic uncertainties.
Japan	↘	↘	Government spending plans fail to cheer markets.
China	↔	↔	Accommodative policy stance continues amid sluggish economic environment.
India	↔	↔	Mixed signals curb monetary policy easing as moderating economic growth is countered by rising inflation.
Brazil	↔	↔	Continued accommodative monetary policy stance to help offset subdued growth.
Russia	↔	↔	Growth slowdown and meek inflation support Central Bank's dovish stance.
MENA	↔	↔	Credit concerns remain elevated although oil prices have slightly rebounded.

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

Asset Class Views

Asset Class	October	November	View / Rationale
Currencies			
USD / EUR	↔	↔	Neutral Fed and Dovish ECB pose challenge for EUR.
USD / CHF	↗	↗	Resilient US macro fundamentals and pause in rate cuts to support USD.
USD / GBP	↗	↔	GBP seems to be pricing in a Johnson victory in parliament, which will allow him to enact his Brexit plan.
USD / JPY	↗	↗	Weak exports and uninspiring growth undermine JPY.
EUR / CHF	↔	↔	Neutral stance as both central banks remain accommodative.
EUR / GBP	↗	↔	GBP seems to be pricing in a Johnson victory in parliament, which will allow him to enact his Brexit plan.
EUR / JPY	↔	↔	Facing economic headwinds, both currencies are expected to remain weak against the USD.
CHF / GBP	↗	↔	GBP seems to be pricing in a Johnson victory in parliament, which will allow him to enact his Brexit plan.
CHF / JPY	↔	↔	Continued Neutral stance on both currencies.
GBP / JPY	↔	↗	Fundamentals to keep JPY in check as a Johnson victory likely to end some Brexit uncertainty.

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

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