MONTHLY INVESTMENT OVERVIEW

EMIRATES INVESTMENT BANK

Asset Class	View	Current Allocation*	Benchmark Allocation*
Equities	Cautious	32.5%	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	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

SEP 2020

- Since the virus-induced collapse in March, September was the first month to witness declines across the asset classes. Heightened uncertainty surrounding the upcoming US elections in addition to Trump's scepticism on the integrity of mail-in ballots, deadlock in Congress over the extension of fiscal stimulus, and a resurgence in virus cases all weighed on investor sentiment in September.
- On the monetary policy front, the Fed's shift to average inflation targeting, allowing inflation to run above target for a while to compensate for periods of below-target inflation, was the major market mover in Q3. The key implication is that rates are likely to remain lower for much longer.
- The Eurozone's manufacturing PMI expanded at its fastest pace in more than two years, bolstered by a sharp uptick in trade. The recent rebound in confidence across the Eurozone suggests the bloc's economic recovery is unlikely to be derailed by the rise in infections.
- The UK's economy is showing clear signs of slowing as it simultaneously battles with rising infections and the EU. A rising caseload, tightening restrictions and a spike in unemployment will likely mean the economy loses further momentum in Q4.
- While Japan has already launched a large fiscal stimulus including direct payments to households with low-cost loans provided by the BoJ, PM Suga remains open to step up spending if another wave of infections threatens the recovery.
- Record low interest rates, rising commodity prices and improved mobility data have helped the recovery across EMs even as volatility heightens ahead of the US Presidential elections. Within EM, while China has rebounded, other nations such as South Africa, India and Turkey have lagged behind.
- In the MENA, conditions remain tough as government spending is constrained by lower oil revenue while consumer activity, after a short spike, is faltering as unemployment climbs and austerity measures like the tripling of the VAT pressure household budgets.

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Since the virus-induced collapse in March, September was the first month to witness declines across the asset classes. Heightened uncertainty surrounding the upcoming US elections in addition to Trump's scepticism on the integrity of mail-in ballots, deadlock in Congress over the extension of fiscal stimulus, and a resurgence in virus cases all weighed on investor sentiment in September. The storied FANG+ stocks took the brunt of the hit in early September but recovered well over the latter part of the month. Meanwhile, fiscal relief talks continue to cause market uncertainty as Trump unilaterally moved to scrap stimulus talks only to later renege on the move and ask for an even larger package than initially sought. While a stimulus package is still likely to get approved, the stalemate has last longer than expected and threatens to derail the ongoing economic recovery. Despite a correction in risk assets in September, global equities, represented by the MSCI All Country World Index, gained 7.7% in Q3.

In our view, the global economy is entering into a slower phase in its recovery after a rapid bounce back in Q3 (much to the credit of a rapid policy response by the fiscal and monetary authorities). Governments subsidized household incomes and helped businesses stay afloat while central banks cut interest rates and ensured that stressed credit markets remained awash with liquidity. However, second wave fears in some major developed and Emerging Market (EM) economies, and a vaccine that's still months away from being approved, mass produced and distributed, add up to an uncertain outlook for the global economy. From our vantage point, as long as the trajectory remains positive, even if it is more subdued from here, risk assets should continue to benefit.

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The US economy created 661,000 jobs in September, approximately 200,000 fewer than expected. Meanwhile, the unemployment rate declined to 7.9% in September from 8.4% the month before and down from a peak of 14.7% in April. On the monetary policy front, the Fed's shift to average inflation targeting, allowing inflation to run above target for a while to compensate for periods of below-target inflation, was the major market mover in Q3. The key implication is that rates are likely to remain lower for much longer. The US 10-year Treasury yield ended Q3 at 0.68%, broadly flat over the quarter, but down from 1.9% at the start of the year.

The Eurozone's manufacturing PMI expanded at its fastest pace in more than two years, bolstered by a sharp uptick in trade. While the ECB expects the economic recovery to continue, it has warned that progress will be slow and uneven across the bloc after a sharp initial rebound. Following the end of lockdowns, growth momentum has slowed recently amid resurgent infection rates. Overall, governments are reluctant to go back into full lockdown aware of the devastation it caused on businesses and consumers. Meanwhile, the recent rebound in confidence across the Eurozone suggests the bloc's economic recovery is unlikely to be derailed by the rise in infections. The EUR rallied 4.3% against the USD, while the EuroStoxx50 edged lower by 1.3% in Q3.

The UK's economy is showing clear signs of slowing as it simultaneously battles with rising infections and the EU. A rising caseload, tightening restrictions and a spike in unemployment will likely mean the economy loses further momentum in Q4. Meanwhile, the labour market has shown some signs of resilience as around three million jobs are still covered by the furlough scheme, which is to be wound down at the end of October and will be replaced by a wage subsidy program. Also, Brexit negotiations with the EU are in flux, with a hard Brexit still a risk as each side places blame on the

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other. On the quarter, the FTSE100 lost 4.9% while the GBP appreciated 4.2% against the USD.

In a worrying sign, business sentiment in Japan is recovering slower than expected. In response, newly appointed PM Suga has signalled a fresh push on reforms, tackling areas such as technology shortfalls that slowed delivery of fiscal support during the pandemic, costly mobile phone charges and massively overbanked parts of the country. While Japan has already launched a large fiscal stimulus including direct payments to households with low-cost loans provided by the BoJ, PM Suga remains open to step up spending if another wave of infections threatens the recovery. The Nikkei225 gained 4.0% in Q3 while broad Dollar weakness helped the JPY appreciate 2.3% against the USD.

Even as several indicators suggest momentum is starting to plateau, China's economy has managed to bring the pandemic under control and move further down the road to recovery than most peers. The country seems to have bounced back well from the Covid-19 slowdown. Exports are growing and retail sales, which had been lagging for months, are back to pre-pandemic levels. China's official manufacturing PMI registered a notable pickup to 51.5 after easing slightly to 51.0 in August, beating the consensus forecast. The non-manufacturing PMI also rose further into expansionary territory against expectations for a decline. Demand, particularly from overseas, jumped more than production with the recovery showing signs of broadening to smaller firms.

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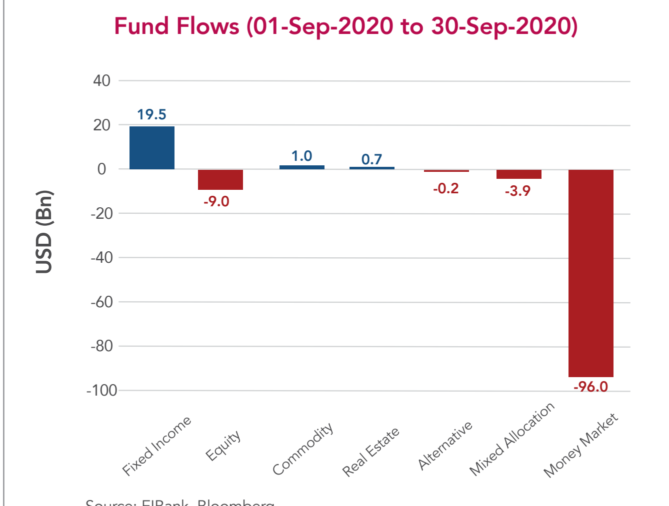
Record low interest rates, rising commodity prices and improved mobility data have helped the recovery across EMs even as volatility heightens ahead of the US Presidential elections. Despite broad optimism, the recovery has been uneven suggesting a protracted return to pre-Covid levels of economic activity. Within EM, while China has rebounded, other nations such as South Africa, India and Turkey have lagged behind. Meanwhile and after a series of backdoor measures fell short of stabilizing the TRY, Turkey's Central Bank finally raised interest rates for the first time since late 2018. The Bank increased the benchmark one-week repo rate to 10.25% from 8.25% despite President Erdogan's appeals for lower borrowing costs. This could provide some reprieve to the beleaguered TRY even though real rates still remain negative as inflation continues to run above the 12% mark. Overall, the MSCI EM Index gained 8.7% in Q3, reducing its YTD losses to 3.0%.

With current crude oil prices grossly inadequate to balance the budgets for most of the region's governments, elevated stock-market valuations in Saudi are somewhat detached from the Kingdom's current underlying economic fundamentals. Broadly, conditions remain tough as government spending is constrained by lower oil revenue while consumer activity, after a short spike, is faltering as unemployment climbs and austerity measures like the tripling of the VAT pressure household budgets. Meanwhile, OPEC+ countries have broadly maintained historic supply cuts agreed upon during the oil-price crash despite the economic pressure felt by them. Brent came under severe pressure, losing 9.6% in September, as the demand outlook deteriorated amid a resurgence of virus cases while the S&P Pan Arab Composite edged higher by 2.1%.

Fund Flows

- Money market assets declined for an eighth consecutive week as investors continue to shift towards higher yielding global fixed income and equities.
- In September, inflows into global fixed income funds remained moderately positive while flows out of global equities were moderately negative as the US Congress still didn't come to an agreement over another round of fiscal relief. Demand for EM fixed income was mixed with hard currency debt favoured over local currency bonds.
- Within equities and after the tech-led selloff in early September, flows rebounded in the last two weeks. Demand was concentrated in US-dedicated funds, global benchmark products, and global EM equities. China-dedicated ETFs also saw net sizable inflows.
- Cross-border FX flows favoured the CNY as China leads the global economic recovery and continues to attract capital flows.



Source: EIBank, Bloomberg

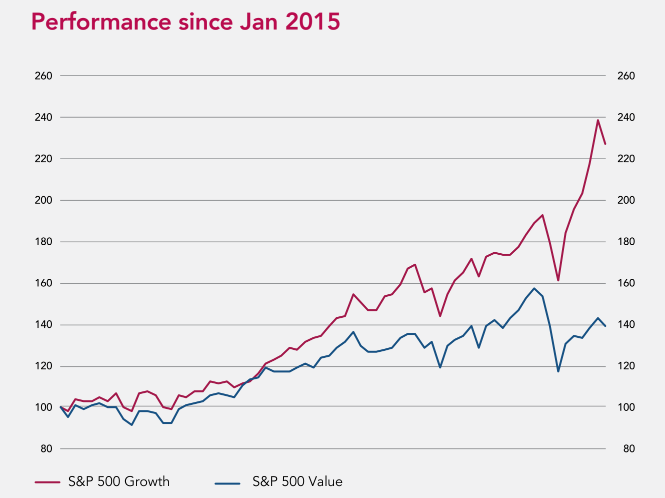
Investment Theme: Fiscal Stimulus In Focus

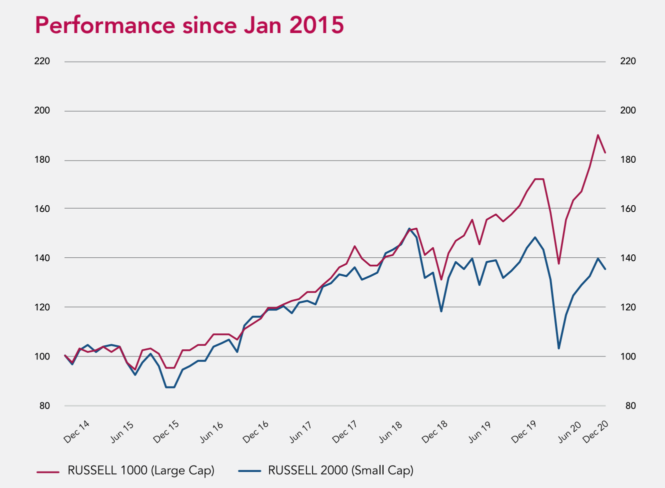
While the current US political climate remains tense just ahead of the presidential elections next month, a probability and scenario analysis results in a likely fiscal relief package to be passed, no matter who becomes president. For President Trump, an announcement before the elections will help give a boost to the US economy and shore up sentiment in his favour while a Biden presidency will be more in favour of increased government spending. The markets seem to be pricing in the passage of some sort of package – the question remains on how large it will be.

For now, fiscal relief talks continue to cause market uncertainty as Trump unilaterally moved to scrap stimulus talks only to later renege on the move and ask for an even larger package than initially sought. With Biden ahead in most major polls and having further extended his lead since Trump's coronavirus diagnosis, the fate of the next round of stimulus could lie in Biden's hands.

Regardless of who wins, a meaningful stimulus is expected soon as additional government spending is clearly required to prevent the nascent recovery from stalling. That said, the impending stimulus would pave the way for a broader rally in equities with greater interest in sectors that have been overshadowed by the dominant tech sector.

Price action is already suggesting a shift toward cyclicals with US industrials signalling the start of a new business cycle. Meanwhile, US small and mid-sized companies have also outperformed their larger peers recently. While risks remain and near-term volatility is always possible with such a hotly contested presidential election and incrementally positive but still no decisive news on the vaccine, we remain constructive on a cyclical recovery well into 2021.





Source: Bloomberg

Asset Class Views

Asset Class	August	September	View / Rationale
Equities	↓	↘	
US	↘	↔	A Biden victory, which is becoming more likely, increases the probability of a fiscal relief package to be passed.
Europe	↔	↔	Despite a decline in the August Composite PMI, the economic expansion is set to continue, albeit at a slower pace.
UK	↘	↘	Although data showed demand for electricity and restaurant bookings at around normal levels, tightened restrictions in an effort to control the second wave are expected to slow the recovery.
Japan	↓	↓	Challenges galore for new PM Suga as deflation risks re-emerge with limited fiscal room for manoeuvre.
China	↔	↔	Virus flare-ups abroad and rising tensions with the US are roadblocks to a solid pickup in growth so far.
India	↘	↘	Economy slowly on the mend as India's Covid-19 curve has started to show signs of flattening out.
Brazil	↘	↘	High frequency data suggest the economy is continuing to crawl out of a coronavirus-led plunge - but activity remains well below pre-Covid levels.
Russia	↘	↘	While a gradual recovery continues, outlook remains uncertain as fiscal support fades and political risks rise.
MENA	↘	↘	Conditions remain tough as government spending is constrained by lower oil revenue while consumer activity, after a short spike, is faltering.
Asset Class	**August**	**September**	
Fixed Income	↔	↔	
US	↔	↔	With growth momentum slowing and fiscal stimulus talks muddled, rates to remain lower bound.
Europe	↘	↘	With second straight monthly reading of deflation in September, pressure mounts on ECB to increase monetary stimulus and for the fiscal authorities to step up their own support.
UK	↘	↘	The main policy reaction will remain QE, with BoE reluctant to go into negative rate territory.
Japan	↘	↘	BoJ's Kuroda reiterated that risks to the economy and inflation are to the downside.
China	↗	↗	Demand-side recovery remains slow despite some progress and inflation is softening leaving the door open for PBoC to guide rates lower.
India	↔	↔	With inflation expected to remain elevated on supply side disruptions, RBI to remain watchful but is signaling an accommodative stance as a commitment to reviving growth.
Brazil	↔	↔	Brazilian consumers continue to be under pressure due to a weak BRL.
Russia	↔	↔	Central Bank may be done with easing for now as inflation picks up due to a weaker RUB.
MENA	↔	↔	Bottom-up yield selection to remain in focus as the region faces a challenging macro environment.

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

Asset Class Views

Asset Class	August	September	View / Rationale
Currencies *			
EUR	Neutral	Neutral	Medium-term EUR strength remains intact, but the near-term could favor the USD as Europe deals with deflation.
CHF	Neutral	Neutral	Despite the SNB's best efforts to fight off deflationary forces, the safe-haven Franc continues to look strong.
GBP	Neutral	Neutral	Prospects of renewed restrictions on mobility and no-deal Brexit headlines continue to weigh on the GBP.
JPY	Neutral	Neutral	Multiple global macro uncertainties in Q4 are likely to keep the safe-haven JPY underpinned.

* All currency views expressed relative to the USD

Overweight, Favour, Neutral, Cautious, Underweight

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