MONTHLY
INVESTMENT OVERVIEW

EMIRATES INVESTMENT BANK

Asset Class	View
Equities	Cautious
Fixed Income	Neutral
Real Estate	Neutral
Commodities	Neutral
Low Vol / Alternatives	Overweight
Cash	Favour

Overweight, Favour, Neutral,
Cautious, Underweight

About Emirates Investment Bank

EIBank is a Dubai-based boutique dedicated to the service of an exclusive group of private and institutional clients. Private banking and investment banking needs are approached holistically.

In private banking, the bank prides itself on offering highly personalised investment solutions and one-on-one servicing by a professional team of wealth management specialists. EIBank's open platform provides clients with access to markets globally.

In investment banking, the bank provides clients with advice on mergers & acquisitions, access to capital markets and other corporate finance matters.

MONTH IN BRIEF

SEP 2017

- Despite intense warmongering between the US and North Korea after the latter fired a missile over Japan, and hurricane-related disruptions resulting in softer economic data, US equities trended higher in September.
- We upgrade Fixed-Income to Neutral from Cautious as we seek to slightly reduce our equity exposure. The change in view lowers volatility risk and provides additional stability to our portfolios.
- In the Eurozone, the manufacturing PMI climbed to a six-year high despite the recent appreciation in the EUR, highlighting the robustness of the economic recovery and may provide assurance to the ECB's plans of phasing out its QE program.
- In the UK, the political and economic outlook remains uncertain and dominated by Brexit negotiations as PM May signaled that she wants a transitional deal, but provided no clarity for the long-term.
- In Japan, PM Abe dissolved parliament and called a snap election for October 22, seeking a renewed mandate to deal with the growing threat from North Korea and to rebalance the bloated social security system.
- Saudi Arabia passed a royal decree to allow women to drive, in one of the most radical reforms in its history, while the economy contracted at an annual rate of -1.0% in Q2, highlighting the adverse effects of government spending cuts and subdued consumer demand.

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Despite intense warmongering between the US and North Korea after the latter fired a missile over Japan, and hurricane-related disruptions resulting in softer economic data, US equities trended higher in September. The S&P500 reached new heights, gaining 1.9% for the month, influenced by a more optimistic tax reform outlook. While lower taxes have the potential to boost EPS and would be a bounty for US equities, it is worth noting that Trump has yet to deliver on any major policies. Some of the most notable highlights of the plan include cutting the corporate tax rate to 20% from 35%, doubling the standard deduction limit on personal income taxes, and reducing the number of tax brackets for individuals from seven down to three.

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Towards the end of the month, investors turned their attention to Fed Chair Yellen as she cautioned against complacency in raising rates, despite continued uncertainty surrounding inflation. The Fed also announced plans to start reducing its USD4.5 trillion balance sheet starting October by letting USD10 bn in bonds mature each month, slowly ratcheting up until it reaches USD50 bn a month. An on-course Fed alongside Trump's proposed tax cuts and the possibility of a widening fiscal deficit caused U.S. Treasuries to sell off, pushing the benchmark 10-year yield up by 22bps to 2.33%. Overall, despite all the political noise, global markets continued to reward the improving economic fundamentals with the MSCI All Country World returning 2.0% for the month.

In the Eurozone, the manufacturing PMI climbed to 58.1, from August's 57.4, its highest level in more than six years. This came alongside the recent appreciation in the EUR, highlighting the robustness of the Eurozone economic recovery and may provide assurance to the ECB's plans of phasing out its QE program. The ECB is expected to set out the details of its QE exit plans at its October meeting. Meanwhile, German business confidence unexpectedly weakened for a second straight month in September, in a sign that the region's biggest economy is struggling to maintain its current strong pace of expansion. After years of tailwinds from a weak EUR and very low borrowing costs, businesses now face additional headwinds as the economy grows near-capacity while a strengthening EUR threatens to weigh on exports. Although worries about the stronger EUR have started to surface, optimism about the economic outlook has also improved, highlighted by a modest easing in export growth and steadily improving domestic demand conditions. Meanwhile, headline inflation held steady at 1.5%, while core-inflation slipped 10 bps to 1.1%.

In the UK, the political and economic outlook remains uncertain and dominated by Brexit negotiations. Very low unemployment is a clear positive but consumer confidence remains weak as wage growth remains lackluster. PM May signaled that she is seeking a transitional deal, but provided no clarity for the long-term. Despite this highly uncertain backdrop, the UK's economic activity proved to be fairly resilient leading the Bank of England (BoE) to signal that an interest rate rise is warranted sooner than later as inflation remains substantially above the central bank's target of 2.0%. Growing expectations of a rate rise and a potential, transitional deal supported the GBP, which gained 3.6% against the USD and was the only major currency that saw meaningful gains against the greenback in September.

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In Japan, PM Abe dissolved parliament and called a snap election for October 22, seeking a renewed mandate to deal with the growing threat from North Korea and to rebalance the bloated social security system. However, his bet looks increasingly shaky, given growing support for a new party formed by the popular Governor of Tokyo, who continues to attract members from across party lines. Meanwhile, minutes of the July meeting revealed that the BoJ had postponed its deadline for reaching its inflation target for a sixth time since the QE program started in 2013. Taking all of these forces in, Japanese equities had a strong Q3 as the pickup in global growth boosted exports by 18.0% year-on-year, despite the JPY being flat against the USD over the quarter.

"S&P stated that China's sustained period of excess credit growth has increased its economic and financial risks."

Meanwhile, China's manufacturing activity grew at its fastest pace since 2012, suggesting that efforts to clean up the excesses in the financial sector aren't yet dampening economic growth. The government continues to balance growth prospects while consciously attempting to reduce systematic risks. Earlier in the month, S&P downgraded China's long-term sovereign credit rating from AA- to A+, following a similar downgrade by Moody's in May. S&P stated that China's sustained period of excess credit growth has increased its economic and financial risks. In addition, S&P also downgraded China's short-term rating from A-1+ to A-1. According to the IMF, even if authorities maintain current levels of public investment, such "augmented debt" will continue to rise and reach 92% of GDP by 2022.

In India, a slowdown in economic growth to a three-year low of 5.7% in Q2 has prompted the government to explore the need for a fiscal stimulus package. At 2.4% of GDP in Q2, the current account deficit rose to a four-year high due to a surge in imports caused by disruptions in the domestic supply chain post-demonetization. Following the announcement of Q2 GDP figures, Fitch lowered its 2017 India growth estimate down to 6.9%, from 7.4% previously forecast, while Indian equities closed the month 1.3% lower.

In the MENA, Saudi Arabia passed a royal decree to allow women to drive, in one of the most radical reforms in its history. The Kingdom also raised USD 12.5bn from its second USD bond sale this year as it seeks to bolster its finances amid an economic overhaul. However, the economy contracted at an annual rate of -1.0% in Q2, after shrinking -0.5% in Q1, highlighting the adverse effects of government spending cuts and subdued consumer demand in the interim period.

Meanwhile, the International Energy Agency (IEA) stated global oil demand will climb this year by the most since 2015 on stronger consumption from Europe and China. Earlier in the month, OPEC and Russia said they were well on course toward clearing a global oil glut and urged member nations to stay focused and disciplined, without confirmation of on extension of the deal which is due to expire end of March 2018. Data from the International Energy Agency (IEA) showed at current compliance levels, oil markets would be finally balanced next year and ending the accord could put the market back in surplus. Oil had a solid September as prices finally managed to break through the USD50/bbl resistance, closing with a monthly gain of 9.9%.

Asset Class Views

Asset Class	August	September	View / Rationale
Equities	↘	↘	
US	↘	↘	Valuations remain fair to rich on improving economic indicators. Tax reform plan, a potential tailwind to EPS growth but already mostly priced in.
Europe	↔	↔	Economic activity remains robust but a strong EUR could start to affect momentum.
UK	↘	↘	Chances of a transition Brexit deal could cushion negative sentiment.
Japan	↗	↗	Domestic growth momentum firming as export growth remains buoyant.
China	↔	↔	Macro numbers steady despite excess leverage debt concerns.
India	↔	↘	3-year low GDP reading raises fiscal stimulus package talk.
Brazil	↘	↘	An uptick in global growth outlook to be positive for this commodity-focused market.
Russia	↔	↔	Despite renewed US sanctions, improving economic activity and higher oil prices should be supportive.
MENA	↘	↘	With no resolution to the Qatar situation, political uncertainty could weigh on the region's growth prospects.
Asset Class	**August**	**September**	**View / Rationale**
Fixed Income	↘	↔	
US	↔	↔	Fed Chair Yellen hawkish on rate hike and QE balance sheet reduction. Overweight credit selectively and continue to underweight duration.
Europe	↘	↘	On watch for an upgrade although ECB taper announcement likely by year-end.
UK	↘	↔	Risk-off upgrade as UK fixed-income provides more stability than UK equities.
Japan	↘	↘	Near-zero policy rate and reduced liquidity makes domestic bonds relatively unattractive.
China	↔	↔	Selectivity remains key as authorities focus on reducing excess leverage in the economy.
India	↔	↔	A hawkish RBI concerned with inflation and widening deficit to push up yields.
Brazil	↔	↔	A sharp drop in inflation allows the Central Bank to remain accommodative for the foreseeable future.
Russia	↔	↔	Central Bank to remain accommodative as inflation expected to weaken further.
MENA	↔	↔	MENA fixed-income offers stability relatively to the equity markets as earnings quality and growth remains muted.

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

Asset Class Views

Asset Class	August	September	View / Rationale *
Currencies	NM	NM	
USD / EUR	↗	↔	Neutral stance on USD/EUR at this time.
USD / CHF	↗	↗	Hawkish Fed to be positive for the USD relative to the CHF.
USD / GBP	↗	↗	Brexit uncertainty to keep a cap on the GBP on a relative basis.
USD / JPY	↗	↗	Accommodative BoJ keeps pressure on JPY against the USD.
EUR / CHF	↗	↗	Favour the EUR as Eurozone's growth remains robust.
EUR / GBP	↗	↗	Favour the EUR over the GBP as Eurozone enters QE taper stage.
EUR / JPY	↗	↗	Favour the EUR over the JPY as Eurozone enters QE taper stage.
CHF / GBP	↗	↗	Favour the CHF vs the GBP as Brexit negotiations keep the GBP in check.
CHF / JPY	↗	↗	Favour the CHF as BoJ expected to remain accommodative in the foreseeable future.
GBP / JPY	↔	↗	Favour the GBP as a hawkish BoE looking to contain inflation.

* Reference currency is the USD

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

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

ASSET MANAGEMENT TEAM:

Nadi Bargouti, CFA
Managing Director – Head of Asset Management
nadi.bargouti@eibank.com

Yaser Al-Nimr
Director – Asset Management
yaser.alnimr@eibank.com

Fabien Paturaud, CFA
Associate Director – Asset Management
fabien.paturaud@eibank.com

Hamad Al Majidi
Senior Associate – Asset Management
hamad.almajidi@eibank.com

Joyson D'Souza, CFA
Associate – Asset Management
joyson.dsouza@eibank.com

IMPORTANT INFORMATION