MONTHLY INVESTMENT OVERVIEW

EMIRATES INVESTMENT BANK

Asset Class	View	Current Allocation*	Benchmark Allocation*
Equities	Cautious	30.0%	40.0%
Fixed Income	Neutral	40.0%	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	7.5%	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 2018

- As we enter into the last quarter of 2018, global growth seems a far cry from the synchronised growth we witnessed at the end of 2017. While global growth still remains solid, the recent sharp sell-off in Emerging Market (EM) currencies has weighed on sentiment, especially in select countries such as Turkey, Argentina and Venezuela.
- Trade tensions between the US and China went from bad to worse in September as Trump imposed 10% tariffs on another USD200bn of Chinese imports. Any further direction to global risk sentiment would depend on how negotiations play out between the two sides. Nonetheless, the S&P500 gained 7.2% in Q3, its best quarter since 2013.
- After rallying for most of the month on hopes that Italy's budget will raise deficits by less than feared, European equities lost ground after the populist coalition government agreed to a wider-than-expected 2019 budget deficit of 2.4%.
- The recent weakness in the GBP as a result of Brexit uncertainty hasn't translated into gains for the export-oriented FTSE100 as investors now fear the costs of a no-deal Brexit would outweigh the benefits of a weak GBP.
- Amid trade tensions and a rise in global risk aversion led by domestic and political challenges, EM currencies have continued to slide with the JP Morgan EM Currency Index losing 10.8% so far this year. Higher interest rates in the US accompanied by the rising USD are putting pressure on EM economies saddled with disproportionate dollar debt and a high current account deficit.
- Saudi and Russia have said oil markets are adequately supplied and that OPEC stands ready to boost output by up to 1.5 mio bbl/day to meet any incremental demand. OPEC's tepid response to Trump's calls to lower prices, alongside news that the US has no plans to tap into its strategic oil reserves, propelled oil prices.

MONTHLY INVESTMENT OVERVIEW

As we enter into the last quarter of 2018, global growth seems a far cry from the synchronised growth we witnessed at the end of 2017. While the US economy goes from strength to strength and the Fed continues its normalization programme, political risks in Italy and the UK are acting as a headwind in Europe, while China is grappling with a government induced slowdown at a time when its trade dispute with the US continues to escalate. Overall, while global growth still remains solid, the recent sharp sell-off in Emerging Market (EM) currencies has weighed on sentiment, especially in select countries such as Turkey, Argentina and Venezuela.

Trade tensions between the US and China went from bad to worse in September as Trump imposed 10% tariffs on another USD200bn of Chinese imports (a 25% tariff was already imposed on USD50 bn worth of imports). While the move itself was confrontational and should have been negative for risk assets, the 10% tariff was much lower than the initially proposed 25% and was marginally positive for markets. Solid US economic data and China's plans to stimulate its domestic consumption also kept risk sentiment neutral over the month. Any further direction to global risk sentiment would depend on how negotiations play out between the two sides. The S&P500 gained 7.2% in Q3, its best quarter since 2013.

"Despite increased uncertainty surrounding US trade policy, the US 10-year Treasury yield rose 20bps to 3.06%, reacting positively to solid economic data and the Fed's upbeat assessment of the US economy."

Meanwhile and in a widely expected move, the Fed raised its benchmark rate by 25bps to a range of 2-2.25% while reaffirming that a strong US economy will probably warrant further gradual rate hikes in 2019. Although the committee dropped the word "accommodative" from its policy language, Fed chair Powell played down the significance of that move suggesting monetary policy would continue to remain accommodative. Despite increased uncertainty surrounding US trade policy, the US 10-year Treasury yield rose 20bps to 3.06%, reacting positively to solid economic data and the Fed's upbeat assessment of the US economy.

Italy continued to weigh on European markets in September. After rallying for most of the month on hopes that Italy's budget will raise deficits by less than feared, European equities lost ground after the populist coalition government agreed to a wider-than-expected 2019 budget deficit of 2.4%. Later and amid intense scrutiny over its budget, the government proposed to reduce its 2020 and 2021 budget deficits to 2.1% and 1.8% of GDP, respectively, while maintaining the 2019 figure at 2.4%. Despite the conciliatory move, the decision essentially heightens political risk in Europe and could intensify confrontation between Italy and the EU. Following the announcement, the 10-year Italian government bond yield rose to 3.26% before ending the month at 3.14%, a 4-year high.

On the data front, Euro-area expansion edged lower in September as the economy feels the heat from the global trade war that continues to ratchet up. The flash manufacturing PMI for September came in at a 2-year low of 53.3 on destocking by manufacturers amid ongoing European trade negotiations with the US. Brexit uncertainty and Italian budget fears also weighed on overall sentiment. Meanwhile, the ECB kept its monetary policy unchanged, confirming its intention to end QE by the end of the year and reiterated its plan to keep interest rates on hold for at least a year. On the month, the EuroStoxx50 gained 0.2% while the EUR ended flat against the USD.

In the UK, after months of deadlock and amid pressure to strike a deal, Brexit negotiations began on a positive note in September. Both the EU and the UK started on a more accommodative approach but by mid-month, talks between the two sides broke down as EU leaders bluntly rejected PM May's proposal in its current form. With November being the deadline for a deal, May promised fresh plans to break the stalemate while warning that the UK should prepare for a no-deal Brexit scenario. Meanwhile, UK equities have been weighed down

MONTHLY INVESTMENT OVERVIEW

by the real possibility of a no-deal Brexit. The recent weakness in the GBP as a result of Brexit uncertainty hasn't translated into gains for the export-oriented FTSE100 as investors now fear the costs of a no-deal Brexit would outweigh the benefits of a weak GBP. The GBP whipsawed tracking Brexit negotiations and ended September with a gain of 0.6% against the USD while the FTSE100 gained 1.0%.

Japan's Q2 GDP growth was revised up to an annualized 3.0% from an earlier estimate of 1.9%, led by upward revisions in business spending and private consumption. While the economy is expected to temporarily slowdown in Q3 due to the impact of natural disasters, the revised GDP figure helped the Nikkei225 gain 5.5% in September alone, also aided by the drop in the JPY, which lost 2.4% against the USD. Meanwhile, BoJ Governor Kuroda stated that there would be no change in monetary policy until inflation reaches the Bank's 2% target. However, in light of diminishing returns from zero-bound interest rates, the BoJ trimmed its purchases of long-maturity bonds and is willing to tolerate wider fluctuations and flexibility in bond operations.

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EM economies have borne the brunt of tighter US monetary policy, a slowdown in China, and the potential impact of global trade protectionism. September saw some pullback in EM sentiment after China sent a strong signal that it continues to open up its economy and has no intention to use the USD/CNY exchange rate as a weapon in its trade dispute with the US. Amid trade tensions and a rise in global risk aversion led by domestic and political challenges, EM currencies have continued to slide with the JP Morgan EM Currency Index losing 10.8% so far this year. Higher interest rates in the US accompanied by the rising USD are putting pressure on EM economies saddled with disproportionate dollar debt and a high current account deficit.

In China, the PBoC left interest rates unchanged in response to the US Fed's 25bps rate increase, underscoring the government's resolve to keep borrowing costs low to help stabilize economic growth in the midst of its ongoing trade conflict with the US. The move could put downward pressure on the CNY as the interest rate differential between the two economies narrows further with the overnight SHIBOR at 2.65% versus the Fed Funds Rate at 2.25%. The CNY has lost 5.6% against the USD so far this year.

Meanwhile, India's economy grew at an impressive annualized rate of 8.2% in Q2 on the back of strong domestic demand and a favourable base, coming off disruptions caused by demonetization and the Goods & Services Tax (GST). Despite the strong numbers, growth is expected to cool off going forward as the RBI remains focused on taming inflation caused by the recent sharp depreciation in the INR. The INR has lost 13.5% against the USD year-to-date.

Saudi and Russia have said oil markets are adequately supplied and that OPEC stands ready to boost output by up to 1.5 mio bbl/day to meet any incremental demand. OPEC's tepid response to Trump's calls to lower prices, alongside news that the US has no plans to tap into its strategic oil reserves, propelled oil prices. Overall, fears of shrinking global supplies amid looming US sanctions on Iran, a terrorist attack in Libya, the hurricanes in the US, and the ongoing turmoil in Venezuela led Brent higher by 6.9% in September alone. Meanwhile in Saudi, inflation rose from about -1% at the start of the year to nearly 3% due to the implementation of a value-added tax, a reduction in fuel subsidies and an increase in the levies on expatriate workers. For the month, the S&P Pan Arab Composite edged lower by 0.3%.

Asset Class Views

Asset Class	August	September	View / Rationale
Equities	↘	↘	
US	↘	↘	Upward and flattening shift in the yield curve a risk to equity valuations as the spread between the 10Y and 2Y treasury is only at 36bps currently.
Europe	↔	↔	Italian budgetary concerns as populist government agrees to a wider-than-expected deficit of 2.4%.
UK	↘	↘	UK equities have been weighed down by the real possibility of a no-deal Brexit.
Japan	↔	↔	BoJ's assurance of ultra-low interest rates positive for equities.
China	↔	↔	Selectivity remains key amid extreme negative sentiment.
India	↘	↘	Deteriorating macros warrant continued rate hikes but RBI careful not to derail the recovery.
Brazil	↘	↘	A potential change in leadership may warrant an upgrade to Neutral.
Russia	↘	↘	Increasing US sanctions are resulting in closer cooperation between Russia and China.
MENA	↘	↔	Anecdotal evidence suggests that there is a slight increase in investor sentiment, as some investors are starting to see value at these levels and are positioning themselves for the upcoming dividend season.
Asset Class	**August**	**September**	**View / Rationale**
Fixed Income	↔	↔	
US	↔	↔	Strong macro data puts additional pressure on the Fed to maintain its higher rate path trajectory.
Europe	↘	↘	Italy sovereigns have sold off as budget deficit wider than expected and needs to be funded.
UK	↔	↔	The BoE needs to be wary of the possibility of no-deal Brexit, maintaining relative low rates than may otherwise have been the case.
Japan	↘	↘	BoJ tweaking puts upward pressure on long-term rates.
China	↔	↔	Slowing growth to keep monetary policy loose in China.
India	↔	↔	Deteriorating macros warrant continued rate hikes but RBI careful not to derail the recovery.
Brazil	↔	↔	Despite optimism over politics, Central Bank remains accommodative.
Russia	↔	↔	Central Bank delivered a 25bps rate hike against market expectations and stands ready to tighten further if necessary.
MENA	↔	↔	USD-pegged MENA rates to rise with US Fed trajectory.

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

Asset Class Views

Asset Class	August	September	View / Rationale *
Currencies	NA**	NA**	
USD / EUR	↔	↔	We remain Neutral USD/EUR at current levels.
USD / CHF	↔	↗	SNB lowers its inflation expectations amid a strong currency and stands ready to intervene in the FX markets.
USD / GBP	↗	↗	Favour the USD as a no-deal Brexit possibility is real.
USD / JPY	↗	↗	JPY to weaken further amid general USD strength.
EUR / CHF	↗	↗	Positive on the EUR as ECB on track to normalize monetary policy.
EUR / GBP	↗	↗	GBP weakness to continue on Brexit uncertainty.
EUR / JPY	↗	↗	Positive on the EUR as the ECB normalization on track.
CHF / GBP	↔	↔	We remain Neutral CHF/GBP at current levels.
CHF / JPY	↗	↔	Downgrade the CHF to Neutral as SNB lowers inflation expectations.
GBP / JPY	↔	↔	We remain Neutral the GBP versus the JPY at current levels.

* Reference currency is the USD

**NA - Not applicable

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

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IMPORTANT INFORMATION