MONTHLY
INVESTMENT OVERVIEW

EMIRATES INVESTMENT BANK

Asset Class	View
Equities	Cautious
Fixed Income	Cautious
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

AUG 2017

- Global risk assets started the month of August on a bearish note, but signs of a pickup in global growth and improving economic data helped global markets rebound and close slightly higher for the month.
- In the US, equity markets initially corrected as Trump decided to dissolve several business councils, but increased expectations of a slightly more dovish Fed and improving economic data provided a boost to risk assets towards the end of the month.
- In Europe, equity markets underperformed their US peers for a fourth consecutive month despite encouraging economic indicators that point to a strong recovery of the Eurozone.
- The lack of progress in the Brexit negotiations is weighing on the GBP which lost 2.2% over the month, while the export-oriented FTSE 100 managed to close 0.8% higher.
- In Emerging Markets, Brazilian equities significantly outperformed their EM peers with the main index rallying almost 8% in August as the country officially exited recession by recording its second positive quarterly growth figure in two years.
- Saudi Arabia announced it would remove any foreign ownership limit on healthcare and education companies, which could potentially attract billions in foreign investments.

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Global risk assets started the month of August on a bearish note weighed down by escalating geopolitical tensions, the lack of progress by Trump on his reform agenda and, later in the month, the now recurring US debt ceiling issue. However, signs of a pickup in global growth and improving economic data towards the second half of August helped global markets rebound and close slightly higher for the month. Global equities, as measured by the MSCI All Country World Index, gained 0.2% and recorded their tenth consecutive month of positive performance. Emerging markets, which rallied 2.0% in August and 27% so far this year, outperformed once again their developed markets peers, which finished in the red and lost 0.1%. Meanwhile, safe haven assets such as gold or sovereign debt were in high demand amid intensifying geopolitical concerns as tensions between North Korea and the US escalated.

> "Signs of a pickup in global growth and improving economic data helped global markets rebound"

In the US, equity markets experienced a similar V-shaped recovery, managing to close pretty much flat for the month. The S&P 500, which was losing as much as 1.8% as of August 18th, rebounded strongly towards the end of the month and managed to close 0.1% higher. Initially, US equities corrected amid increasing doubts to the "reflation trade" as Trump decided to dissolve several business councils. His decision came in response to the departure of several CEOs who quit in protests to comments made by the President after the events in Charlottesville. Later in the month, increased expectations of a slightly more dovish Fed and improving economic data provided a boost to risk assets. The US preliminary Composite PMI increased to 56.0 in August, its highest level since May 2015, helped by a strong preliminary Services PMI figure that came in at 56.9, a 2.2 points increase from July. Additionally, the US Q2 GDP figure was upwardly revised to an annualized 3.0%, from the 2.6% previously estimated, due to stronger than previously forecast consumer spending and business investment.

On the other hand, a relatively muted inflation data led several FOMC members to express concerns over lower-than-expected inflation reading in recent months, while a weaker than expected August jobs report further dampened market expectations of another rate hike this year. Additionally, the flight-to-safety buying triggered by US/North Korea tensions, in addition to the now recurring debt ceiling issue, further compressed yields with the US Treasury 10Y yield dropping 18bps over the month to close at 2.12%, its lowest level since November 2016.

In Europe, equity markets underperformed their US peers for a fourth consecutive month despite encouraging economic indicators that point to a strong recovery of the Eurozone. Preliminary PMIs for August came in slightly above expectations with a small drop in the Services PMI being offset by a stronger than expected manufacturing sector. Overall, the preliminary Composite PMI printed at 55.8, 0.1 point higher than in July and its seventh consecutive month above 55, suggesting the Eurozone's growth is maintaining a steady pace. Moreover, Eurostat reported preliminary Eurozone Q2 GDP was up 2.2% compared with a year ago, the fastest growth since 2011, while the Eurozone's investor confidence reached in August its highest level since July 2007. Meanwhile, August inflation figures surprised to the upside with headline inflation edging 0.2% higher to 1.5%, while core inflation remained unchanged at 1.2%.

However, complicating ECB's monetary policy normalization and acting as a potential headwind to the bloc's economic growth, the EUR strengthened another 0.6% in August and an impressive 13.2% year-to-date (YTD). A strong EUR is raising concerns within the ECB as it hampers the Bank's efforts to hit its inflation goal of just under 2.0% and might force the Bank to delay tapering its QE program. As a result, European sovereign debt yields dropped over the month with German and French 10Y yields compressing by 18bps and 14bps, respectively.

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Meanwhile, the lack of progress in the Brexit negotiations is weighing on the GBP which lost 2.2% over the month, while the export-oriented FTSE 100 managed to close 0.8% higher. EU negotiator Barnier said there was no conclusive progress made following the third round of talks as both parties still need to agree on the UK's financial and budgetary liabilities before discussing their future relationship.

On the macro-economic front, July inflation data was slightly lower than expected as headline inflation fell for the first time in six months, dampening concerns that high inflation readings might lead the BoE to tighten its monetary policy soon. This would negatively impact an already struggling economy where real household income continues to decline as GBP-induced inflation erodes purchasing power. On a more positive note, the UK manufacturing PMI is showing green shoots of recovery as it picked up for the third consecutive month to reach 56.9, its second highest reading in three years.

> "Brazilian equities significantly outperformed their EM peers as the country emerges from a two-year recession"

Fuelled by gains in private consumption and capital expenditures, Japan's economy expanded at a 4.0% annualized rate in Q2, exceeding expectations of a 2.5% rise. The economy grew for a sixth straight quarter, while inflation, though mild, continued to edge upwards. However, consensus states it is unlikely that the economy would sustain the current pace of growth for the rest of the year amid lacklustre wage gains. Despite the positive GDP data, the Nikkei 225 recorded a monthly loss of 1.4% amid escalating geopolitical tensions in the region.

In Emerging Markets, Brazilian equities significantly outperformed their EM peers with the main index rallying almost 8% in August alone on both improving economic data - as the country recorded its second positive quarterly growth figure after two years of recession - and plans from the government to privatize the state-owned utility company Centrais Eletricas Brasileiras which spurred demand for equities of Brazilian state-owned companies.

Meanwhile, China reported a better than expected manufacturing PMI which rose to a solid 51.7 in August, from 51.4 in July, marking its thirteenth consecutive month in expansionary territory, which helped ease concerns about slowing growth and high debt levels which could derail the Chinese economy. The uptick in growth prospects in both Developed and Emerging Markets provided a boost to commodity prices, especially metals, such as iron ore and copper which gained 10.9% and 6.5% in August, respectively.

In the MENA, the S&P Pan Arab Composite recorded a 0.9% monthly gain, despite a 6.4% drop in Qatari shares. Fitch downgraded Qatar's sovereign long-term rating by one notch from AA down to AA- with negative outlook, in line with ratings from both S&P and Moody's, as the period of uncertainty is likely to extend into 2018 and will weigh on the country's growth prospects.

In Egypt, the country successfully attracted much needed foreign capital following the central bank's decision last month to raise rates by 200bps for the second time this year and the disbursement of a USD1.2 bn loan by the IMF. In August, Egypt's official reserves jumped by USD4.7 bn to USD36 bn, allowing the country to remove capital controls, while Moody's reaffirmed the country's B3 rating - stable outlook - warning however that the reform momentum may face some headwinds especially ahead of the upcoming 2018 presidential elections.

In Saudi Arabia, after recording a USD1.6 bn increase in FX reserves in June, sparking hopes that the country had adjusted to lower oil prices, FX reserves resumed their fall in July, dropping by USD6.3 bn down to USD487 bn. Meanwhile, the Kingdom announced it would remove any foreign ownership limit on healthcare and education companies, which could potentially attract billions in foreign investments.

Asset Class Views

Asset Class	July	August	View / Rationale
Equities	↘	↘	
US	↘	↘	Valuations remain fair to rich on improving economic indicators. Setbacks to Trump's administration legislative agenda could be a headwind.
Europe	↔	↔	Economic activity gathers momentum but a strong EUR could weigh on the region's recovery.
UK	↘	↘	Lack of progress in Brexit talks to weigh on UK equities.
Japan	↗	↗	Six consecutive quarters of positive GDP growth amid revival of consumer spending should be supportive.
China	↔	↔	Fading concerns about slowing growth and high debt levels on upbeat macroeconomic data.
India	↔	↔	Goods & Services Tax (GST) disruption proved to be temporary as PMIs rebounded strongly in August.
Brazil	↘	↔	We upgraded our view from Cautious to Neutral as the country emerges from a 2-year recession. However, political risk remains elevated.
Russia	↔	↔	Economic activity rebounds strongly in Q2 despite renewed sanctions imposed by the US.
MENA	↘	↘	The Qatar situation lingers and could weigh on the region's growth prospects.

Asset Class	July	August	View / Rationale
Fixed Income	↘	↘	
US	↔	↔	Reduced likelihood of a third interest rate hike as several FOMC members express concerns over weak inflation.
Europe	↘	↘	A strong EUR may complicate ECB's QE tapering decision.
UK	↘	↘	Despite inflation easing slightly in August, the Bank of England will likely remain the course in their path to rate normalization.
Japan	↘	↘	Negative policy rate and reduced liquidity makes domestic bonds relatively unattractive.
China	↔	↔	Corporate debt yields are attractive but selectivity remains key as authorities focus on reducing excess leverage in the economy.
India	↔	↔	Reserve Bank of India has more room to ease policy as the economy shows signs of slowdown.
Brazil	↔	↔	Central Bank expected to remain accommodative as economy exits recession.
Russia	↔	↔	Despite uptick in growth, Central Bank to remain accommodative as new US sanctions will dampen the recovery.
MENA	↔	↔	Attractive risk-adjusted valuations, but lingering geopolitical tensions adversely affecting investor sentiment in and towards the region.

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

Asset Class Views

Asset Class	July	August	View / Rationale *
Currencies	NM	NM	
USD / EUR	↗	↔	Neutral stance on USD/EUR as ECB might delay its already well-priced QE tapering announcement.
USD / CHF	↗	↗	Fed gradually moving away from easy monetary policy to be positive for the USD.
USD / GBP	↗	↗	Lack of progress in Brexit talks to weigh on the UK economy and GBP relative to the USD.
USD / JPY	↗	↗	Falling wages and weaker than expected inflation in Japan should allow the BoJ to remain accommodative.
EUR / CHF	↗	↗	Favour the EUR as Eurozone's recovery gathers momentum.
EUR / GBP	↗	↗	Favour the EUR over the GBP as Eurozone's recovery gathers momentum and Brexit talks fail to progress.
EUR / JPY	↗	↗	Favour the EUR over the JPY as Eurozone's recovery gathers momentum.
CHF / GBP	↗	↗	Favour the CHF vs the GBP as lack of progress in Brexit talks to weigh on the GBP.
CHF / JPY	↗	↗	Favour the CHF as BoJ expected to remain accommodative in the foreseeable future.
GBP / JPY	↔	↔	GBP and JPY face economic headwinds that will weigh on both currencies.

* Reference currency is the USD

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

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IMPORTANT INFORMATION