MONTHLY
INVESTMENT OVERVIEW

EMIRATES INVESTMENT BANK

Asset Class	View
Equities	Neutral
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

MAR 2017

- Investor confidence was somewhat shaken by the U.S. President's failure to garner enough support for his healthcare reforms, casting doubts over his ability to push through significant tax cuts and ambitious infrastructure plans.

- In the Eurozone, the composite PMI jumped to its highest level in nearly six years to 56.4 in March, suggesting that GDP growth is gaining momentum, while unemployment fell to its lowest level in eight years. The ECB hinted that it is considering or gradually changing its stance toward ending its stimulus measures.

- The UK formally invoked Article 50, entering into a two-year negotiation with the EU to iron out contentious issues such as free trade, the legal status of inhabitants on both sides and the costs to detach the UK from the EU's budget.

- A combination of US policy uncertainty and Trump's USD "talk down" rhetoric increased demand for the JPY, which appreciated almost 5% versus the USD in Q1, frustrating Japan's tepid economic recovery.

- In India, PM Modi's Bharatiya Janata Party (BJP) achieved a landslide victory in assembly elections held in India's most populous state. The win was seen as a vote of confidence for his federal reform policies and could reinvigorate his mandate for tackling widespread corruption, improving infrastructure, and opening India to global investors.

- Oil prices found strong support towards the end of March after Kuwait Oil Minister Al Marzouq said his country was in support of extending the OPEC production cut deal.

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After a steady start to March, global stocks finished Q1 on a cautious note with the S&P500 closing flat for the month. Investor confidence was somewhat shaken by the U.S. President's failure to garner enough support for his healthcare reforms, casting doubts over his ability to push through significant tax cuts and ambitious infrastructure plans. Within developed markets, the Eurostoxx 50 was the best performer, gaining 5.7% in March alone, as concerns faded over far-right candidate Le Pen's potential victory in the upcoming French presidential elections.

Meanwhile, the Fed increased its benchmark interest rate in March and delivered a more upbeat outlook for the economy as the labor market remains strong and "economic activity continues to expand at a moderate pace". Moreover, U.S. Q4 2016 GDP growth was revised up and U.S. consumer confidence hit a multi-year high. Fed minutes that were released in early April also show that the Fed is considering to reduce the size of its USD4.5 trillion balance sheet as early as this year, which placed downward pressure on global markets.

> "The Fed is considering to reduce the size of its USD4.5 trillion balance sheet as early as this year"

Overall, investor sentiment continues to favor equities over fixed-income from a relative value perspective, despite near-term risks such as the upcoming French elections, Brexit negotiation worries and above all U.S. policy uncertainties. As the broader market appears nonchalant about U.S. political risks, there is limited room for disappointment given elevated valuations and any bad news can have a disproportionate impact on the markets. Moreover, any upward shift in long-term interest rate expectations can also narrow the yield differential between stocks and bonds, quickly eroding stock valuations.

In the Eurozone, the composite PMI jumped to its highest level in nearly six years to 56.4 in March, suggesting that GDP growth is gaining momentum, while unemployment fell to its lowest level in eight years. The EUR gained 0.7% against the USD over the month, amid rising bets that the ECB will be increasingly inclined to withdraw its stimulus programme sooner than later, as well as on ebbing concerns that populist French presidential candidate Le Pen would win the leadership battle.

Earlier in the month, President Draghi kept interest rates and the bond purchase program unchanged – at a reduced rate of EUR 60bn starting from April 2017 – at the ECB's March monetary policy meeting, while hinting that it is considering or gradually changing its stance toward ending its stimulus measures, as economic risks to the bloc abate. However, despite a fairly strong set of PMIs, headline inflation in the Eurozone slipped back to 1.5% in March, from 2.0% in February, which allows Draghi to stay the course on QE until political event risk is out of the way.

The UK formally invoked Article 50, entering into a two-year negotiation with the EU to iron out contentious issues such as free trade, the legal status of inhabitants on both sides and the costs to detach the UK from the EU's budget. EU President Tusk asserted that a free trade agreement can only be deliberated once sufficient progress has been made on the Brexit process. Moreover, the Scottish parliament voted to authorize a referendum on independence from the UK, complicating matters for PM May. Earlier in the month, headline inflation reached its highest level in more than three years, hitting 2.3%, primarily driven by food and transportation costs. Despite inflation crossing the official target of 2.0%, the BoE kept its benchmark interest rate unchanged at 0.25%, pointing to sluggish wage growth and slowing consumer spending growth, while broadly agreeing to wait for some more clarity on inflationary pressures before raising rates.

In Japan, disappointing retail sales and weak wage gains continue to plague Japan's economy as household spending, a key indicator of private consumption, slipped 3.8% in February from a year earlier. Moreover, consumer inflation rose only slightly by 0.3% in February, compared to a 0.4% rise in January, raising doubts over the government's ability of meeting its growth and inflation targets.

A combination of US policy uncertainty and Trump's USD "talk down" rhetoric increased demand for the JPY, which appreciated almost 5% versus the USD in Q1, frustrating Japan's tepid economic recovery. Earlier, Governor Kuroda asserted there is no

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reason to withdraw monetary stimulus anytime soon since inflation remains well below the BoJ's 2.0% goal. He also pointed that while Japan's economy was slowly recovering, it still lacked momentum to quickly boost inflation to the BoJ's target and inflation risks remain skewed to the downside.

In China, the manufacturing PMI rose to a better-than-expected 51.8 in March, compared to 51.6 in February, signaling that the economy continues to benefit from the government's targeted stimulus. The PBoC is looking to slowly hike rates as a stable economy and factory reflation give it room to follow the Fed's tightening path without disturbing the country's economic momentum. In the wake of the Fed's rate hike and China's impressive economic data so far this year, the PBoC raised its 6-month reverse repo rate by 10 bps, while keeping the benchmark 1-year rate unchanged. While a stabilizing macro-economic backdrop has allowed the PBoC to follow the Fed in tightening policy, it stated that this open-market rate increase doesn't necessarily imply a shift in its accommodative monetary stance. This move not only deflects immediate attention away from a weakening CNY after the Fed rate hike but also ensures continuation of the loose monetary policy, aiding the nascent economic recovery.

> "The PBoC is looking to slowly hike rates as a stable economy and factory reflation give it room to follow the Fed's tightening path"

In India, PM Modi's Bharatiya Janata Party (BJP) achieved a landslide victory in assembly elections held in India's most populous state. The win was seen as a vote of confidence for his federal reform policies and could reinvigorate his mandate for tackling widespread corruption, improving infrastructure, and opening India to global investors. Markets cheered the win with India's benchmark Nifty50 reaching a record high and the INR hitting its highest level versus the USD in more than a year.

Brazil's economy contracted 3.6% in 2016, shrinking by a more-than-expected 0.9% in Q4 2016. However, recent economic indicators suggest the beleaguered economy appears to be at a turning point as new President Temer continues efforts to improve the economy's fiscal condition, while the Central Bank loosen's monetary policy as inflation concerns start to fade. Meanwhile, the Central Bank of Russia (CBR) broke away from hawkish guidance provided last month and cut its benchmark rate by 25 bps to 9.75%, as inflation stabilized near a five-year low and growth showed signs of improvement. The Central Bank stated that inflation expectations continue to decline and economic activity is recovering while suggesting "the possibility of cutting the key rate gradually" in the next two quarters.

Mexico's Central Bank raised the benchmark rate by 25bps to 6.5%, its slowest pace of tightening in six consecutive rate hikes, despite the inflation rate rising to its highest level since 2009. A spike in fuel prices and a sliding MXN have pushed inflation expectations to 5.2% for 2017, above the Central Bank's target of 3.0%. However, the MXN has outperformed most EM currencies since the start of this year as economic conditions stabilize amid hopes that NAFTA negotiations will progress better than initially expected.

As for oil, prices found strong support towards the end of March after Kuwait Oil Minister Al Marzouq said his country was in support of extending the OPEC production cut deal. Overall, lower-than-expected U.S. inventory buildup and OPEC talk of extending production cuts helped oil markets recover somewhat, still ending down 5% for the month.

As for the MENA, the S&P Pan Arab Composite Index was down 0.3% although Egypt reversed its negative performance in February with a strong gain of 8.9% in March. There is growing evidence that indicates investor confidence is rising among foreign investors as structural reforms begin to take shape. Earlier, Fitch downgraded Saudi Arabia's credit rating from AA- to A+, citing the deterioration of state finances due to low oil prices and doubts over the government's administrative capacity to implement its economic reform plans. All three major rating agencies now have a stable outlook on Saudi debt, indicating that there is no imminent risk of any further downgrade. Fitch's cut puts its Saudi rating on par with Moody's, two levels above S&P's rating.

Asset Class Views

Asset Class	February	March	View / Rationale
Equities	↔	↔	
US	↔	↔	Elevated valuations provide limited room for disappointment amid growing US policy uncertainty.
Europe	↔	↔	Composite PMI jumped to its highest level in nearly six years.
UK	↘	↘	PM May triggered Article 50, initiating a difficult 2-year long negotiation process.
Japan	↗	↗	Introduction of structural reforms have yet to overcome relatively weak consumer spending.
China	↔	↔	China PMIs trend slightly higher as the economy benefits from the government's stimulus; Softer USD takes depreciation pressure off CNY.
India	↔	↔	Recent victory in state elections revives Modi's reform agenda while equity valuations still look fair.
Brazil	↘	↘	Faster than expected drop in inflation allows the Central Bank to be more aggressive in its attempt to stimulate the economy.
Russia	↔	↔	Geopolitical standoff with the US poses some risk to what was perceived to be a rosier relationship with the new Trump administration.
MENA	↘	↘	The stabilization of oil prices are conducive to the economic reform plans in the GCC.
Asset Class	**February**	**March**	**View / Rationale**
Fixed Income	↘	↘	
US	↔	↔	Hawkish Fed could start reducing the size of its USD 4.5trn balance sheet as early as this year.
Europe	↘	↘	Strong batch of economic data put pressure on the ECB to start QE unwind talk.
UK	↘	↘	UK economy shows signs of slowing down after months of resilience as GDP drops to 0.4% in Q1 from 0.7% in Q4 2016.
Japan	↘	↘	BoJ remains accommodative for the foreseeable future as private consumption remains weak.
China	↔	↔	Corporate debt yields are attractive but selectivity remains key.
India	↔	↔	Sharp appreciation in the INR allows for some monetary easing in the near-term.
Brazil	↔	↔	Faster than expected drop in inflation allows the Central Bank to be more aggressive in its attempt to stimulate the economy.
Russia	↔	↔	The Central Bank cut its benchmark rate by 25bps as inflation stabilized near a five-year low and growth showed signs of improvement.
MENA	↔	↔	Valuations remain attractive on a risk-adjusted basis, but selectivity is key in light of recent downgrades.

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

Asset Class Views

Asset Class	February	March	View / Rationale *
Currencies	NM	NM	
USD / EUR	↗	↗	Potential Fed balance sheet reduction and monetary policy tightening in the US to be positive for the USD but the ECB has also started its own QE unwind talk.
USD / CHF	↗	↗	Potential Fed balance sheet reduction and monetary policy tightening in the US to be positive for the USD.
USD / GBP	↗	↗	UK economy shows signs of slowing down after months of resilience.
USD / JPY	↗	↗	Continue to favour the USD as BoJ is expected to remain accommodative for the foreseeable future.
EUR / CHF	↘	↔	Upgrade the EUR to Neutral as a strong batch of economic data put pressure on the ECB to start QE unwind talk.
EUR / GBP	↗	↗	Favour the EUR over the GBP as UK economy starts to go through an uncertain negotiating process with the EU.
EUR / JPY	↗	↗	Favour the EUR over the JPY amid improving growth outlook in the Eurozone.
CHF / GBP	↔	↔	Depressed GBP levels offers upside potential but exposes investors to more volatility.
CHF / JPY	↗	↗	Favour the CHF as BoJ is expected to remain accommodative for the foreseeable future.
GBP / JPY	↑	↗	Uncertainty surrounding the Brexit process leads us to downgrade the GBP vs the JPY to Favour.

* Reference currency is the USD

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

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