MONTHLY INVESTMENT OVERVIEW

بنك الامارات للاستثمار

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

OCT 2017

- The S&P500 continued its bull run in October with another 2.3% gain, as the US economy defied the impact of the hurricanes and beat the 2.5% GDP forecast, growing at an annual pace of 3.0% in Q3.
- The Trump administration made some progress with its much-anticipated tax reform bill which proposed to cut the highest corporate tax bracket from the existing 35% to 20%, largely favoring larger companies with a higher taxable income.
- Draghi announced that the ECB will cut its bond buying programme from EUR60 bn/month to EUR30 bn/month, starting in January 2018. The ECB will maintain its QE policy until at least September 2018. Meanwhile in early November, the BoE increased its benchmark interest rate to 0.50% from 0.25%, guiding that it would adopt a cautious approach to any future hikes.
- China held its 19th National Party Congress (NPC), at which emphasis was placed on the move towards qualitative measures and away from numerical growth targets.
- In India, the government's decision to demonetize high-value currency notes last year combined with the introduction of a new unified Goods and Services tax system (GST) dampened consumer spending and industrial activity.
- In Saudi, several high profile princes and businessmen have been placed under house arrest on allegations of corruption. The move is intended to signal that the Kingdom is moving towards a higher level of efficiency and transparency, with no one person being above the rule of law.

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Several major indices recorded new highs and global equities made further progress in October on improving consumer and business confidence and a steadily improving macro environment. The S&P500 continued its bull run in October with another 2.3% gain, as the US economy defied the impact of the hurricanes and beat the 2.5% GDP forecast, growing at an annual pace of 3.0% in Q3. Despite a blip in consumer spending due to the storms, businesses continued to spend at a healthy clip. Real consumer spending showed continued strength while core CPI remained well below the Fed 2.0% target, coming in steady at 1.3%. By month-end, an underwhelming, hurricane-affected October jobs report was more than compensated by solid ISM services data. The appointment of Powell as the next Fed Chair was also a positive, as he has similar policy preferences to Yellen and helps ensure a relatively seamless transition.

The underlying labour market remained healthy with average hourly earnings growing 2.9% YoY compared with September's reading of 2.5%. Meanwhile, the Trump administration made some progress with its much-anticipated tax reform bill which proposed to cut the highest corporate tax bracket from the existing 35% to 20%, largely favoring larger companies with a higher taxable income. In response, the smaller-cap focused Russel2000 lagged its large-cap counterpart S&P500 by 150bps in October. On the earnings front, with two-thirds of the S&P500 constituents having reported, YoY EPS growth registered at around 7%.

> "Abating political risks in Catalonia alongside a dovish taper statement by the European Central Bank (ECB) in the final week of October boosted markets."

European stocks were fairly flat in the first three weeks of the month as investors reacted to negative political developments in Catalonia. In Spain, authorities declared the Catalan independence vote as illegal and assumed direct control of the region with little or no violence, calming investor nerves. Overall, Eurozone Q3 GDP was higher than expected at 0.6% QoQ (vs. 0.5%) - the strongest rate of growth since 2011, while the unemployment rate for September also beat expectations and stood at 8.9%. Consumer confidence improved slightly while October's manufacturing PMI came in strongly at 58.6, up from September's 58.1. Abating political risks in Catalonia alongside a dovish taper statement by the European Central Bank (ECB) in the final week of October boosted markets. Draghi announced that the ECB will cut its bond buying programme from EUR60 bn/month to EUR30 bn/month, starting in January 2018. The ECB will maintain its QE policy until at least September 2018. Overall, a slew of corporate earnings and solid economic data lifted European stocks with the EuroStoxx50 gaining 2.3% in October alone.

In the UK, Q3 GDP growth came in ahead of expectations, with a reading of 0.4% QoQ. Meanwhile, September CPI YoY ticked up to 2.8%, the highest reading in over five years while retail sales growth fell to 1.2% YoY from August's 2.3% reading, as inflation squeezed real wages. Stubborn inflation prompted the Bank of England (BoE) to finally raise rates after a decade of easy monetary policy. In early November, the BoE increased its benchmark interest rate to 0.50% from 0.25%, guiding that it would adopt a cautious approach to any future hikes. The BoE also warned that considerable risks to the outlook remain, as Brexit uncertainty continues to loom. Meanwhile, Brexit negotiations remain in deadlock despite promises from the EU and the UK to speed up progress, as differences persist on key issues such as the final bill the UK has to foot when leaving the bloc. With leaders from both sides scheduled to meet in December, the FTSE100 gained 1.8% in October, as the GBP weakened 0.9% against the USD.

In Japan, snap elections were a focus and voters handed a majority to incumbent PM Abe's Liberal Democratic Party, allowing for a push to amend the country's constitution to tackle issues like the threat from North Korea and revamping the country's bloated social security system. Broadly, the result meant continuity for the Japanese economic and political landscape. Abe said the government will push forward with a sales tax increase scheduled to take effect in 2019 unless the economy suffers a big shock. On the macro front, the manufacturing PMI fell slightly to 52.8 in October from 52.9 in September, while the CPI also fell 0.2% YoY. Meanwhile, the Bank of Japan (BoJ) trimmed its inflation forecast and left its monetary policy unchanged, signaling further divergence from its major global counterparts. In response, the

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Nikkei225 gained 8.1% in October alone, taking its YTD return to 17.1%.

China's GDP grew by 6.8% YoY in Q3, slightly below the growth achieved in Q2, but in line with expectations and above the official target of 6.5% set for 2017. China has been resilient despite sustained efforts by the government to clean up excess leverage in the economy. Exports were up 8.1% YoY for September, while imports jumped 18.7% YoY in USD terms. Meanwhile, foreign direct investment (FDI) into China rose 17.3% YoY in September, the most in more than two years. Earlier in the month, China held its 19th National Party Congress (NPC), at which emphasis was placed on the move towards qualitative measures and away from numerical growth targets. China's Caixin October PMI came out softer than expected, but YoY retail sales improved in September, posting 10.3% growth, ahead of August's 10.1%. CPI YoY for September was also in line with expectations of 1.6%.

Meanwhile in India, the government's decision to demonetize high-value currency notes last year combined with the introduction of a new unified Goods and Services tax system (GST) dampened consumer spending and industrial activity. Although the CPI held steady at 3.3% in September, it is expected to accelerate over the coming months led by higher fuel prices. In response, the government decided to recapitalize state-owned banks in a significant move to revive stagnated credit growth and somewhat redress rising NPLs and capital adequacy ratios. The NIFTY welcomed this move and continued to make new highs towards the end of October, offsetting the subdued GDP reading and the expected spike in inflationary pressures.

Brazil's services PMI fell into contractionary territory from 50.7 in September to 48.8, reflecting subdued consumer confidence and uncertainty among businesses amid continued political and economic uncertainties. Overall, despite a marginal expansion in manufacturing, the composite PMI dropped from 51.1 to 49.5 in October. Falling unemployment, lower interest rates and declining inflation haven't yet boosted manufacturing activity given high debt loads and bloated inventories among producers.

> "The IMF downgraded its GCC growth forecasts for 2017 from 0.9% earlier to 0.5% and to 2.2% from the earlier 2.5% for 2018."

The IMF downgraded its GCC growth forecasts for 2017 from 0.9% earlier to 0.5% and to 2.2% from the earlier 2.5% for 2018. The Fund expects non-oil sector growth to slow in 2018 as budget deficits remain significant and governments need to sustain their deficit reduction efforts. In the oil markets, Saudi Crown Prince – Mohammad Bin Salman – backed the extension of OPEC production cuts beyond March 2018, making it all but certain that the agreement will be rolled over. His comments gave a boost to oil prices, with Brent trading above USD60/bbl for the first time since July 2015. OPEC and non-OPEC producers meet on November 30 to set oil policy. Overall, heightened tensions in the Kurdistan region of Iraq, a larger-than-anticipated drop in US inventories and a solid OPEC compliance rate of around 85% boosted oil prices with Brent gaining 6.7% in October alone.

At the time of this writing, several high profile princes and businessmen in Saudi have been placed under house arrest on allegations of corruption. The move is intended to signal that the Kingdom is moving towards a higher level of efficiency and transparency, with no one person being above the rule of law. While the local Saudi equity market found support, the S&P Pan Arab Composite is down approximately 2.0% since news of the arrests was made public. Meanwhile, the SAR 12-month forward rate increased to the 3.78 levels against the USD (versus the current peg of 3.75) while Saudi's 5-year CDS rate increased from 82 to 95 basis points.

The political climate in the MENA is evolving at a rapid pace, which is making it more difficult for consumers and businesses alike to plan for the foreseeable future. The developments have come at a critical time when a higher level of visibility is needed to attract FDI into Saudi Arabia, as the Kingdom embarks on aggressive plans to wean its economy off oil. A smooth transition towards this end-goal is in everyone's interest.

Asset Class Views

Asset Class	September	October	View / Rationale
Equities	↘	↘	
US	↘	↘	Earnings growth has been fair to modest outside of the technology sector.
Europe	↔	↔	Dovish QE taper alongside robust economic expansion bodes well for equities.
UK	↘	↘	Political standstill and Brexit impasse continue to linger.
Japan	↗	↔	A 9%+ surge over the past month in the Nikkei 225 makes us downgrade the market to Neutral.
China	↔	↔	Authorities finely balancing growth prospects with downside risk concerns.
India	↘	↘	Higher fuel prices and slowing growth are a headwind for rich equity valuations.
Brazil	↘	↘	Brazil's services PMI fell into contractionary territory from 50.7 in September to 48.8.
Russia	↔	↔	Higher oil prices should be supportive of the overall economy.
MENA	↘	↘	Saudi political purge and on-going Qatar standoff could weigh on risk appetite.
Asset Class	**September**	**October**	**View / Rationale**
Fixed Income	↔	↔	
US	↔	↔	Fed balance sheet reduction plans and a near certain year-end rate hike likely to see yields rise.
Europe	↘	↘	Robust economic expansion to eventually push up yields.
UK	↔	↔	A dovish rate hike plan by the BoE should keep yields in check.
Japan	↘	↘	Zero-bound policy rate and lower liquidity makes domestic bonds relatively unattractive.
China	↔	↔	Bottom-up selectivity remains key as authorities focus on reducing excess leverage in the economy.
India	↔	↔	Higher expected inflation on higher fuel prices to push up yields.
Brazil	↔	↔	A sharp drop in inflation allows the Central Bank to remain pro-growth.
Russia	↔	↔	Central Bank to remain accommodative as inflation remains at comfortable levels.
MENA	↔	↔	MENA fixed-income a risk-off trade as geopolitical tensions continue to evolve.

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

Asset Class Views

Asset Class	September	October	View / Rationale *
Currencies	NM	NM	
USD / EUR	↔	↔	Neutral stance on USD/EUR after dovish QE taper by the ECB.
USD / CHF	↗	↗	A Fed determined to normalize monetary policy to be positive for the USD relative to the CHF.
USD / GBP	↗	↗	Political standstill and Brexit impasse continue to linger.
USD / JPY	↗	↗	Accommodative monetary policy for the foreseeable future puts pressure on JPY against the USD.
EUR / CHF	↗	↗	Favour the EUR on robust economic expansion in the Eurozone.
EUR / GBP	↗	↗	Favour the EUR on robust economic expansion in the Eurozone.
EUR / JPY	↗	↗	Favour the EUR over the JPY as the BoJ remains accommodative.
CHF / GBP	↗	↗	Favour the CHF vs the GBP as Brexit uncertainty weighs on GBP.
CHF / JPY	↗	↗	Favour the CHF as BoJ expected to remain accommodative.
GBP / JPY	↗	↗	Favour the GBP as the BoJ remains relatively more accommodative.

* Reference currency is the USD

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

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IMPORTANT INFORMATION