# MONTHLY INVESTMENT OVERVIEW

بنك الامارات للاستثمار
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

APR 2018

- While investors had to navigate trade war fears, increased geopolitical tensions in the Middle East and new sanctions against Russia, stabilizing global PMIs and a strong set of Q1 US earnings provided a welcome distraction.
- At its May meeting, the Fed left monetary policy unchanged but described its 2% inflation target as "symmetric", indicating it is willing to allow inflation to overshoot the 2% inflation target in the medium term and will not follow a more aggressive rate hike path should it do so.
- In the UK, Q1 2018 GDP growth missed expectations as the economy grew by 0.1% QoQ, its weakest quarterly growth in five years. As a result, expectations for a rate hike in May by the Bank of England (BoE) fell from 59% before the release of the data to 11% currently.
- The Bank of Japan (BoJ) left monetary policy unchanged in April. In its comments, the BoJ removed its timeline for reaching its 2% inflation target which, at its previous meeting, it planned to reach in about two years.
- The Russian ruble sank almost 10% as investors cut their exposure to Russian assets after the US imposed sanctions on several oligarchs and their related companies including Rusal, one of the world's largest aluminium producers.
- China reported Q1 2018 GDP growth of 6.8%, exceeding expectations as consumer demand stayed strong and manufacturing rebounded. The Q1 figures highlight the inherent resilience of the Chinese economy so far.
- In the MENA, despite increased geopolitical tensions in the beginning of the month, the S&P Pan Arab Composite managed to record a 2.7% monthly gain, helped by a strong rally in oil prices.

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While investors had to navigate trade war fears, increased geopolitical tensions in the Middle East and new sanctions against Russia, stabilizing global PMIs and a strong set of Q1 US earnings provided a welcome distraction. At the time of this writing, 449 S&P500 companies reported robust earnings growth of 23.5% in Q1. Caterpillar in particular reported above consensus earnings, but their CFO lowered investor expectations by saying that Q1 was likely to be the "high water mark" for the year. As a result of toned down earnings guidance, investors started to worry that earnings might have reached a peak as rising inflation and labour costs could eat into future corporate profits.

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Meanwhile, minutes of the March FOMC meeting showed the Fed was increasingly confident it will reach its 2% inflation goal in the coming months, measured by core Personal Consumption Expenditure (PCE), which came in at 1.9% in March, up from 1.6% previously. At its May meeting, the Fed left monetary policy unchanged but described its 2% inflation target as "symmetric". A symmetric reference, compared to an asymmetric one, indicates that the Fed is willing to allow inflation to overshoot the 2% inflation target in the medium term and will not follow a more aggressive rate hike path should it do so. Rising inflation and supportive economic data pushed the US 10Y yield above 3.0% during the month to close April at 2.95%, from 2.74% at the end of March. With short term rates steadily rising and the US 2Y yield climbing from 2.26% to 2.49% in April, US government and corporate bonds underperformed US equities. The S&P recorded a modest gain of 0.3%, while US government and corporate bonds lost 0.8% and 0.7%, respectively. The USD, on the other hand, gained approximately 2.0% against most major peers.

As widely expected, the ECB kept its interest rate and bond-buying program unchanged at its April meeting. The Bank said it plans to maintain its EUR30 bn monthly asset purchases at least through September of this year. Meanwhile, Draghi acknowledged that the Eurozone's most recent economic data has been showing signs of a slowdown, albeit from an unexpectedly fast pace in recent months. Indeed, PMIs in the Eurozone have been on a downward trend after reaching a peak in January but seem to have stabilized with the composite PMI printing at 55.1 in April, from 55.2 in March. Confirming the recent slowdown in economic activity, Q1 GDP growth came in at 0.4% quarter-on-quarter (QoQ), the slowest quarterly growth figure since Q3 2016, while headline inflation fell to 1.2%, from 1.3% in March, somewhat complicating the ECB's QE tapering plan. On a positive note, the Q4 2017 figure was revised upwards to 0.7%, from a previous estimate of 0.6%, bringing the annual growth rate to a still healthy 2.5%. The Eurostoxx 50 recorded a solid 5.2% monthly gain, while the EUR weakened by 2.0% against the USD.

Despite some disappointing economic data, UK stocks rallied strongly in April. The latest PMI figures showed a significant drop in activity in March with the composite settling at 52.4, 2.1pts lower than in February. Data also showed meagre wage growth and high inflation caused UK household spending to grow by 1.7% in 2017, the weakest rate since 2011 as falling real wages took their toll on household budgets. More recently, Q1 2018 GDP growth missed expectations as the UK economy grew by 0.1% QoQ, its weakest quarterly growth in five years. As a result, expectations for a rate hike in May by the Bank of England (BoE) fell from 59% before the release of the data to 11% currently. Over the month, the GBP weakened by 1.8% against the USD, while the export-oriented FTSE 100 gained 6.4%.

The Bank of Japan (BoJ) left its benchmark rate unchanged at -0.1% at its meeting in April and

# MONTHLY INVESTMENT OVERVIEW

will continue targeting a 0.0% yield for the 10-year government bond. In its comments, the BoJ removed its timeline for reaching its 2% inflation target which, at its previous meeting, it planned to reach in about two years. This was broadly seen as another sign that the BoJ is struggling to revive stubbornly low inflation. In March, headline inflation fell to 1.1%, from 1.5% previously, while core inflation remained unchanged from February at 0.5%. However, after two consecutive monthly declines, the manufacturing PMI rebounded to 53.8 in April, from 53.1 previously, confirming that the economy is expanding from a soft first quarter. The Nikkei 225 recorded a monthly gain of 4.7%, while the JPY fell by 2.9% against the USD.

> "The BoJ removed its timeline for reaching its 2% inflation target which, at its previous meeting, it planned to reach in about two years."

In Emerging Markets (EM), the Russian ruble sank almost 10% as investors cut their exposure to Russian assets after the US imposed sanctions on several oligarchs and their related companies including Rusal, one of the world's largest aluminium producers. After losing as much as 7% in the first half of April, the main Russian equity index rebounded strongly and managed to close 1.6% higher for the month as the US said it may grant sanctions relief to Rusal, if Oleg Deripaska gives up control over the company. An 8% increase in oil prices in April also helped stabilize the market.

In India, minutes of the last RBI policy meeting showed a shift to a more hawkish stance from most of the members. While a majority of the six-member panel highlighted upside risks to inflation from expansionary fiscal policy and from the proposed hike in farm-supported prices, the minutes also revealed optimism that the economy will rebound this year with the output gap closing. After dropping in contractionary territory in February, the composite PMI increased for two consecutive months and printed at 51.9 in April, supporting equities which gained 6.2% in April. The 10-year benchmark rate rose 35bps to end the month at 7.75% while the INR lost 2.3% against the USD.

Meanwhile, China reported Q1 2018 GDP growth of 6.8%, exceeding expectations as consumer demand stayed strong and manufacturing rebounded. Although some slowdown in growth is expected going forward as the government continues to manage debt concerns and US trade expectations, the Q1 figures highlight the inherent resilience of the Chinese economy. More recently, the latest PMI figures for both the private and the public sector rebounded in April. The official composite PMI, which focuses on large state-owned companies, edged 0.1pts higher to 54.1, while the private sector composite PMI printed at 52.3, up from 51.8 in March. At the sub-index level for the private sector PMI, export orders shrunk for the first time since November 2016, a sign that the US-China trade dispute might be taking its toll on global trade.

In the MENA, despite increased geopolitical tensions in the beginning of the month, the S&P Pan Arab Composite managed to record a 2.7% monthly gain, helped by a strong rally in oil prices which saw Brent close above USD 74.6/bbl. Qatar was the best regional performer as several companies are considering raising their foreign ownership limits. Meanwhile, Saudi shares, which gained 6.1% in March, gained another 4.3% in April capitalizing on the country's upgrade to Emerging Market status by FTSE Russell.

# Asset Class Views

| Asset Class | March | April | View / Rationale |
|---|---|---|---|
| **Equities** | Cautious | Cautious | |
| US | Cautious | Cautious | Very strong Q1 earnings growth but guidance may be adversely affected by higher operating and debt costs. |
| Europe | Neutral | Neutral | Most recent economic data has been showing signs of a slowdown, albeit from a fast pace of growth in recent months. |
| UK | Cautious | Cautious | Weakening economic indicators to weigh on market sentiment. |
| Japan | Neutral | Neutral | Economic activity expected to rebound from a soft Q1 due to weak consumer spending. |
| China | Neutral | Neutral | Favour local consumer stocks as US-China trade dispute remains unresolved. |
| India | Cautious | Cautious | Elevated valuations call for selectivity as rising oil prices may adversely affect GDP growth. |
| Brazil | Cautious | Cautious | Weakening economic indicators coupled with political uncertainty to act as headwinds. |
| Russia | Cautious | Cautious | Prospect of further US sanctions to create uncertainty and weigh on sentiment. |
| MENA | Cautious | Cautious | Higher energy prices providing a welcome relief but geopolitical instability still warrants a cautious view. |

| Asset Class | March | April | View / Rationale |
|---|---|---|---|
| **Fixed Income** | Neutral | Neutral | |
| US | Neutral | Neutral | Fed on track for further rate hikes amid supportive economic data. |
| Europe | Cautious | Cautious | Weakening inflation data to potentially complicate the ECB's QE taper plan. |
| UK | Neutral | Neutral | BOE to remain supportive amid weak growth and consumer spending figures. |
| Japan | Cautious | Cautious | BoJ's easy monetary policy to continue as the timeframe to reach inflation target was removed. |
| China | Neutral | Neutral | High-quality issuers are coming to market with attractive, new floating rate issues. |
| India | Neutral | Neutral | Neutral view as rising oil prices are leading to higher inflation, fiscal deficits and yields. |
| Brazil | Neutral | Neutral | Despite an uptick in inflation, Central Bank to remain ultra-accommodative as recent economic data disappoint. |
| Russia | Neutral | Neutral | US sanctions could significantly push up borrowing costs for Russian issuers, selectively creating opportunities. |
| MENA | Neutral | Neutral | USD-pegged monetary policies to face higher cost of funding. |

Overweight, Favour, Neutral, Cautious, Underweight

# Asset Class Views

| Asset Class | March | April | View / Rationale * |
|---|---|---|---|
| **Currencies** | NA** | NA** | |
| USD / EUR | ↔ | ↔ | Weakening economic data to potentially complicate the ECB's QE taper plan. |
| USD / CHF | ↗ | ↗ | Favour the USD as supportive economic data leaves Fed on track for further rate hikes. |
| USD / GBP | ↔ | ↗ | Favour the USD as weak UK economic data weigh on the GBP. |
| USD / JPY | ↗ | ↗ | Favour the USD versus the JPY as BoJ expected to remain accommodative for the foreseeable future. |
| EUR / CHF | ↗ | ↔ | Weakening economic data to potentially complicate the ECB's QE taper plan. |
| EUR / GBP | ↔ | ↔ | BoE and ECB are in a 'wait and see mode' awaiting confirmational data. |
| EUR / JPY | ↗ | ↗ | Favour the EUR versus the JPY as BoJ QE exit talks are still elusive. |
| CHF / GBP | ↔ | ↔ | A more neutral BoE to put a halt to the recent GBP strengthening. |
| CHF / JPY | ↗ | ↗ | CHF to potentially strengthen after the recent rise in the JPY. |
| GBP / JPY | ↗ | ↗ | GBP has more room to strengthen relative to the JPY. |

* Reference currency is the USD

**NA - Not applicable

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

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## IMPORTANT INFORMATION