MONTHLY INVESTMENT OVERVIEW

بنك الامارات للاستثمار
EMIRATES INVESTMENT BANK

Asset Class	View	Current Allocation*	Benchmark Allocation*
Equities	Cautious	25.0%	40.0%
Fixed Income	Neutral	45.0%	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 2019

- Despite the IMF downgrading its earlier projections for 2019 global GDP growth, risk assets continued their rally in April. Global equities, as represented by the MSCI All Country World Index, gained 3.2% in April, taking its tally to 15.2% year-to-date.
- At the time of this writing, risk aversion heightened after Trump accused China of backpedalling on its trade promises and vowed to slap higher tariffs on more Chinese goods if a deal is not finalized soon.
- A flash reading of the Eurozone's Q1 GDP showed the economy grew 0.4% in Q1, up from 0.2% in Q4. The unemployment rate dropped to 7.7% in March, its lowest level in more than a decade, while a strong labor market and accommodative monetary policy provided support, reversing the sharp slowdown of the second half of 2018.
- Despite internal opposition from members of her own party, PM May continues to engage in talks with the opposition party and aims to reach an agreement across party lines within the coming weeks.
- Mindful of the weak external environment and stubbornly low inflation, the BoJ reiterated its ultra-dovish stance and said it will maintain its monetary policy at least through the spring of 2020.
- The Shanghai Composite ended flat in April as positive economic data heightened investor fears that the authorities may roll back easy financial conditions. The Index is up 23.4% year-to-date.
- Rising oil prices have started to weigh on oil importing countries including Turkey and Argentina, adding to macroeconomic instability last month. On the month, Brent gained 6.5% and is up 35.3% year-to-date.

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Despite the IMF downgrading its earlier projections for 2019 global GDP growth, risk assets continued their rally in April. Global equities climbed further on the month while credit spreads narrowed further mainly on dovish central banks, rising expectations of a trade agreement between the US and China, and some positive Chinese economic data. At the time of this writing, risk aversion heightened after Trump accused China of backpedalling on its trade promises and vowed to slap higher tariffs on more Chinese goods if a deal is not finalized soon. Global equities, as represented by the MSCI All Country World Index, gained 3.2% in April, taking its tally to 15.2% year-to-date.

Surprisingly, Q1 US GDP beat expectations and grew at a 3.2% annual pace, up from the 2.2% pace of Q4. While consumer and business spending were disappointing, improvement in trade and a build-up in inventories contributed to growth. Although the reading helps offset rising fears of slowing global growth, record inventory accumulation provided a temporary boost to GDP and should normalize in the coming quarters. Overall, a dovish policy stance from the Fed on still subdued US inflation and hopes for a resolution of the US-China trade dispute have aided global risk sentiment and propelled global equities so far this year. The S&P500 gained 3.9% in April, higher by 17.5% year-to-date.

While the headline Q1 US GDP growth number was a positive surprise, the Fed's preferred inflation gauge, the core PCE Index disappointed, rising below expectations in April. The core PCE Index (ex. food and energy) increased 1.6% in March YoY, its smallest increase since January 2018. While US inflation expectations seem to have fallen in April, the US labor market continues to tighten, and should start placing gradual upward pressure on wages. For now, a further retreat in inflation from the Fed's 2% target reinforces the Central Bank's decision to stay on the sidelines. On the month, the 10-year US Treasury yield increased 10bps to 2.5%.

> "A further retreat in inflation from the Fed's 2% target reinforces the Central Bank's decision to stay on the sidelines"

Within the Eurozone, macroeconomic concerns remained at the forefront in April with the EUR falling to a near two-year low against the USD amid worries about the health of the region's economy. The German Ifo business climate indicator fell further in April, highlighting the difficulties the Eurozone's largest economy is facing as global growth slows and political worries mount. However, a flash reading of the Eurozone's Q1 GDP showed the economy grew 0.4% in Q1, up from 0.2% in Q4. The unemployment rate dropped to 7.7% in March, its lowest level in more than a decade, while a strong labor market and accommodative monetary policy provided support, reversing the sharp slowdown of the second half of 2018. Meanwhile, the ECB expectedly left its interest rates unchanged at its April meeting and expects rates to remain at their present levels at least through the end of 2019. The Bank cited that stabilizing but slower growth momentum is expected to extend further into this year. The EuroStoxx50 rallied 4.9% while the EUR was flat on the month.

In the UK, the Brexit impasse continues to dominate sentiment with EU leaders agreeing to the UK's request for a Brexit delay, provided the UK participates in the upcoming EU elections on May 23. Despite internal opposition from members of her own party, PM May continues to engage in talks with the opposition party and aims to reach an agreement across party lines within the coming weeks. Record low unemployment and benign inflation have helped the UK consumer defy Brexit-related uncertainty even as manufacturing slows down. The FTSE100 gained 1.9% while the GBP ended April flat against the USD.

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Japan logged a trade deficit in fiscal year 2018 for the first time in three years amid higher energy prices and sluggish demand from China. The US-China trade conflict took its toll with exports rising merely 1.9% from a year earlier while imports jumped 7.1% on higher energy costs. Mindful of the weak external environment and stubbornly low inflation, the BoJ reiterated its ultra-dovish stance and said it will maintain its monetary policy at least through the spring of 2020. The Bank also lowered its economic growth and inflation forecasts while conceding it is unlikely to meet its 2.0% inflation target anytime soon. The Nikkei225 gained 5.0% while the JPY edged lower by 0.5% against the USD on the month.

> " Rising oil prices have started to weigh on oil importing countries including Turkey and Argentina, adding to macroeconomic instability last month "

China's GDP surpassed expectations, growing by 6.4% in Q1, underpinned by strong Industrial Production (IP) and consumer spending. A slew of measures including tax cuts, infrastructure spending and looser monetary policy have supported consumption and stabilized business activity While the economy is showing signs of stabilization after a sharp slowdown in 2018, China's growth is expected to continue to slow with the government setting a growth target of 6.0%-6.5% for 2019. The Shanghai Composite ended flat in April as positive economic data heightened investor fears that the authorities may roll back easy financial conditions. The Index is up 23.4% year-to-date.

EM equities as represented by the MSCI EM Index wobbled and underperformed their developed market peers in April, led by Turkish and Argentine concerns. The Turkish Central Bank dropped its commitment to deliver further monetary tightening if needed while the ARS sank to an all-time low against the USD on concern that President Macri will lose October's election to former, populist President Cristina. Meanwhile, rising oil prices have started to weigh on oil importing countries including Turkey and Argentina, adding to macroeconomic instability last month. Elsewhere, Brazilian equities advanced as Bolsonaro's pension reform legislation made it through a constitutional committee in the lower chamber of the legislature. While the much-needed reform is some distance away from coming into force and could be watered down before being passed, investors have taken a positive view on the government's efforts so far. The benchmark Ibovespa gained 1.0% while the BRL closed flat. Overall, the MSCI EM Index underperformed its developed market peer, the MSCI World, by 1.4% in April.

The prospect of OPEC and its allies extending their production cuts, Venezuela's deepening crisis, and potential losses from conflict-torn Libya, have ensured the uptrend in oil prices continues. Brent reached a 6-month high in April on news that the Trump administration will no longer extend the 6-month waiver granted to certain countries to buy Iranian crude. Oil prices still retreated slightly by the end of the month after data showed US crude oil inventories reached their highest levels since October 2017. On the month, Brent gained 6.5% and is up 35.3% year-to-date. Meanwhile, the S&P Pan Arab Composite gained 4.1% in April as a surge in oil prices and the rally in global equities boosted confidence among MENA investors.

Asset Class Views

Asset Class	March	April	View / Rationale
Equities	↘	↘	
US	↘	↘	Valuations fair at current levels as earnings headwinds materialize.
Europe	↘	↘	Green shoots of economic recovery may keep some equity investors interested.
UK	↘	↘	Brexit uncertainty continues to keep equities in check despite attractive valuations.
Japan	↔	↔	Japanese equities supported by an ultra-accommodative BoJ.
China	↔	↔	While sentiment will be affected by ongoing trade talks, domestic plays may pose an opportunity should a sell-off continue.
India	↘	↘	Limited upside as markets factoring in PM Modi's re-election.
Brazil	↔	↔	Investors pin hopes on the steady progress of Bolsonaro reforms.
Russia	↔	↔	Economy is stuck in slow lane even as the threat of fresh US sanctions fades.
MENA	↘	↘	Some earnings figures coming in better than expected as region continues to look for a catalyst.
Asset Class	**March**	**April**	**View / Rationale**
Fixed Income	↔	↔	
US	↔	↔	Disappointing inflation data puts a lid on rates.
Europe	↘	↘	With the exception of Italian sovereigns, yields continue to be depressed as ECB remains accommodative.
UK	↔	↔	Brexit impasse continues to dominate BoE dovish stance.
Japan	↘	↘	BoJ reiterates its ultra-dovish stance as inflation nowhere in sight.
China	↔	↔	Loose fiscal and monetary policies to keep rates lower-bound.
India	↔	↔	RBI could turn dovish as growth slows in election year.
Brazil	↔	↔	CBB remains supportive while the government pushes ahead with its reform agenda.
Russia	↔	↔	Rising inflationary pressures to keep the Central Bank watchful.
MENA	↔	↔	Surge in oil prices might aid in reducing some credit concerns.

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

Asset Class Views

Asset Class	March	April	View / Rationale
Currencies			
USD / EUR	↔	↔	Neutral EUR versus USD at the current levels.
USD / CHF	↗	↗	Dashed rate cut expectations provides some support to the USD.
USD / GBP	↗	↗	GBP remains speculative due to Brexit uncertainty.
USD / JPY	↗	↗	Fundamentals favor the USD against the JPY.
EUR / CHF	↔	↔	Both central banks remain accommodative for now.
EUR / GBP	↔	↔	Brexit impasse clouds outlook for both currencies against the USD.
EUR / JPY	↔	↔	Semblance of a Euro-area recovery to support the EUR while the JPY is a flight to safety trade amid rising fears of a trade conflict.
CHF / GBP	↔	↔	GBP remains speculative due to Brexit uncertainty.
CHF / JPY	↔	↔	Both currencies to act as a safe-haven should US-China trade talks break down.
GBP / JPY	↔	↔	GBP remains speculative due to Brexit uncertainty.

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

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IMPORTANT INFORMATION