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

AUG 2018

- After months of deliberation, the US reached a bilateral deal with Mexico to amend NAFTA and while talks with Canada ended without an agreement, hopes that both sides agreed to continue negotiations aided risk sentiment.
- Developed equities, as represented by the MSCI World Index, gained 1.0% in August, while their Emerging Market (EM) counterparts, as represented by the MSCI EM Index, lost 2.9% on fears that Turkey's woes could snowball into a larger EM crisis.
- After months of adopting a confrontational approach with the EU on budget limits, top Italian officials stated that the populist government's 2019 budget will raise deficits by less than feared.
- While the UK's PM May has been preparing the markets for the possibility of a no-deal Brexit scenario, EU Brexit chief negotiator Barnier's comment that the EU is willing to offer the UK an unprecedentedly close relationship after its exit lifted hopes of a deal to be struck.
- Still struggling to revive stubbornly low inflation, BoJ's Kuroda dismissed speculation that the Bank was planning to adjust its ultra-loose monetary policy and will not raise rates "for quite a long time".
- The PBoC sent out a conciliatory tone on the fall in the CNY, signalling that it does not intend to use the USDCNY exchange rate as a weapon in the on-going trade conflict with the US.
- Amid heightened trade tensions and a rise in global risk aversion led by domestic and political challenges, EM currencies have continued to slide with the JP Morgan EM Currency Index losing 12.6% so far this year.

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August saw meaningful progress on the trade front. After months of deliberation, the US reached a bilateral deal with Mexico to amend NAFTA and while talks with Canada ended without an agreement, hopes that both sides agreed to continue negotiations aided risk sentiment. Meanwhile and despite Trump's threats to withdraw from the WTO and hopes for a resolution in the US-China trade dispute fizzling out, China's conciliatory tone on its currency management helped alleviate fears of an all-out trade war between the two world powers.

For the month, the S&P500 gained 3.0% on overall easing trade tensions and a strong US Q2 corporate earnings season. With all of the S&P 500 constituents having reported earnings for Q2, EPS increased by 25% year-over-year, a similar showing to Q1's strong numbers. Moreover, 80% of S&P 500 companies beat analyst estimates in Q2 with revenues expanding 10.1% year-over-year. Developed equities, as represented by the MSCI World Index, gained 1.0% in August, while their Emerging Market (EM) counterparts, as represented by the MSCI EM Index, lost 2.9% on fears that Turkey's woes could snowball into a larger EM crisis.

Amid pressures from Trump to slow down or stop rate hikes, the last Fed meeting minutes and Powell's speech at Jackson Hole implied that there will be a rate hike later this month if the economy performs in line with expectation, and that the risks are not material enough yet to change course on the current gradual rate hike path. Despite the Fed's upbeat assessment of the economy, the 10-year US Treasury yield fell 10bps in August to 2.86% amid a flight-to-safety trade on contagion fears of a worsening currency crisis in Turkey and Argentina. The Dollar Index ended with a monthly gain of 0.6%.

> " Brexit continues to dominate headlines in the UK as the deadline for an agreement approaches and both sides seem to have taken a more accommodative approach. "

The Eurozone's Q2 GDP growth was revised upwards to 0.4% QoQ (2.2% annualized), from 0.3% previously, boosted by better-than-expected figures mainly from Germany and the Netherlands. Meanwhile, and following the recent easing of trade tensions with the US, major sentiment indicators improved in August. Firstly, the Eurozone composite PMI rose marginally to 54.4 in August from 54.3 in July, slightly below the forecast of 54.5. Amid fears that Italy's populist government could increase spending and miss fiscal targets, the small increase in the composite PMI suggests that the Eurozone economy is holding up well in Q3. Secondly, the German Ifo business climate Index rebounded strongly to 103.8, its highest level since March.

At the time of this writing and after months of adopting a confrontational approach with the EU on budget limits, top Italian officials stated that the populist government's 2019 budget will raise deficits by less than feared. Italian government bonds rose on the news. For the month, the 10-year Italian government bond yield touched 3.2%, 290bps above that of Germany. While the headline Eurozone CPI missed expectations and came in at 2.0% and below the expected 2.1% forecast, the EU unemployment rate continued to trend lower, hitting 8.2% in August. For the month, the EuroStoxx50 lost 3.8% while the EUR fell 0.8% against the USD.

Brexit continues to dominate headlines in the UK as the deadline for an agreement approaches and both sides seem to have taken a more accommodative approach. Earlier in the month, the GBP sold off on UK trade minister Fox's comments that there is a 60/40 chance of a "no-deal" Brexit, blaming stubbornness on the part of EU negotiators. By the end of August and after months of deadlock, there was a positive shift in the negotiations. While the UK's PM May has been preparing the markets for

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the possibility of a no-deal Brexit scenario, EU Brexit chief negotiator Barnier's comment that the EU is willing to offer the UK an unprecedentedly close relationship after its exit lifted hopes of a deal to be struck. The GBP lost 1.3% against the USD and 0.5% against the EUR while the FTSE100 fell by 4.1%.

After shrinking in Q1 for the first time in two years, the Japanese economy expanded by a faster-than-expected annualised pace of 1.9% in Q2, helped by private consumption. While external demand was sluggish and weighed on growth amid rising global trade tensions, consumer spending underpinned the economy in Q2. Meanwhile and still struggling to revive stubbornly low inflation, BoJ's Kuroda dismissed speculation that the Bank was planning to adjust its ultra-loose monetary policy and will not raise rates "for quite a long time". For the month, the Nikkei225 gained 1.4% while the JPY appreciated 0.7% against the USD.

> "The Chinese authorities are trying to counter the slowdown by stimulating domestic demand, easing bank reserve requirements and loosening fiscal policy."

Despite sustained pressure from Trump on trade and a government induced slowdown of the domestic economy to tackle excessive debt levels, China's August PMIs showed the economy is holding up well. The August manufacturing PMI rose to 51.3 from 51.2 in July while the composite PMI came in at 53.8 versus 53.6 in July. Meanwhile, the PBoC sent out a conciliatory tone on the fall in the CNY, signalling that it does not intend to use the USDCNY exchange rate as a weapon in the on-going trade conflict with the US. Earlier, the PBoC had already imposed a 20% reserve requirement on some trading of foreign-exchange forward contracts to target short sellers and make it expensive for onshore investors to buy the USD. The CNY has lost 5.0% against the USD so far this year as trade tensions with the US and slowing growth have dented investor confidence in the Chinese economy. The Chinese authorities are trying to counter this by stimulating domestic demand, easing bank reserve requirements and loosening fiscal policy.

In other EMs, the already fragile situation in Turkey deteriorated further after the US decision to increase tariffs on Turkish steel and aluminium imports in response to the imprisonment of a US pastor in Turkey. Meanwhile, both the S&P and Moody's cut Turkey's sovereign credit rating on concerns about the country's economic stability. While S&P slashed Turkey's sovereign credit rating to 'B+' from 'BB-' citing the possibility of a balance of payment crisis amid the extreme volatility of the TRY, Moody's downgraded the Turkish government's long-term issuer ratings to Ba3 from Ba2 on the persistent weakening of Turkey's public institutions.

Overall, amid heightened trade tensions and a rise in global risk aversion led by domestic and political challenges, EM currencies have continued to slide with the JP Morgan EM Currency Index losing 12.6% so far this year. In the last week of August alone, the ARS lost 19% against the USD after the Argentine government asked the IMF to speed up its disbursement of USD50 bn in bailout funds while the TRY also tumbled against the USD after Moody's downgraded 20 Turkish financial institutions. Both the TRY and the ARS have lost 57.8% and 50.5% against the USD so far this year as of August month-end.

Brent gained 4.3% in August on the prospect of lower oil supplies from Iran. The US is trying to halt Iranian oil exports in an effort to force the country to negotiate a new nuclear agreement. While the prospect of US sanctions on Iran is positive for oil prices, the US-China trade dispute threatens to undermine global growth and is adversely affecting commodity prices. Overall, the regional S&P Pan Arab Composite Index ended the month lower by 2.3%.

Asset Class Views

Asset Class	July	August	View / Rationale
Equities	↘	↘	
US	↘	↘	Despite trade worries, strong earnings momentum to underpin equities.
Europe	↔	↔	Italian concerns remain a headwind to risk sentiment but composite PMIs holding up well.
UK	↘	↘	A positive shift in tone on Brexit negotiations to potentially aid risk appetite.
Japan	↔	↔	BoJ's assurance of ultra-low interest rates positive for equities.
China	↔	↔	Amid oversold gloom, opportunities have emerged in select domestic consumption plays.
India	↘	↘	Fiscal deficit worries and external headwinds to keep equities under pressure.
Brazil	↘	↘	Trade war fears keep commodities under pressure.
Russia	↘	↘	US sanctions and a weak RUB taking a toll on inflation.
MENA	↘	↘	MENA equities still seeking a demand-catalyst amid low trading volumes.
Asset Class	**July**	**August**	**View / Rationale**
Fixed Income	↔	↔	
US	↔	↔	Fed rate increases could flatten the yield curve even further, potentially draining money from the economy.
Europe	↘	↘	Sluggish core inflation data to keep rates in check.
UK	↔	↔	Declining inflation eases pressure on BOE to raise rates.
Japan	↘	↘	BoJ re-iterated its near-zero rate stance "for quite a long time".
China	↔	↔	Loose financial conditions in light of growth concerns to keep rates lower-bound.
India	↔	↔	RBI to maintain hawkish bias amid weak-INR-induced inflation.
Brazil	↔	↔	Slowing CPI to keep Central Bank accommodative.
Russia	↔	↔	Central bank to raise rates to support the RUB.
MENA	↔	↔	USD-pegged MENA rates to rise with US Fed plans.

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

Asset Class Views

Asset Class	July	August	View / Rationale *
Currencies	NA**	NA**	
USD / EUR	Neutral	Neutral	We remain Neutral USD/EUR at current levels.
USD / CHF	Neutral	Neutral	We remain Neutral USD/CHF at current levels.
USD / GBP	Favour	Favour	The probability of a Brexit deal increased this month but not enough to warrant a GBP upgrade.
USD / JPY	Favour	Favour	BoJ's reassurance on ultra-loose monetary policy to keep JPY upside in check.
EUR / CHF	Favour	Favour	Positive on the EUR as ECB seeks monetary policy normalization eventually.
EUR / GBP	Favour	Favour	GBP is too dependant on Brexit outcome.
EUR / JPY	Favour	Favour	Favour the EUR versus the JPY as ECB normalizing earlier than BoJ.
CHF / GBP	Neutral	Neutral	Some exposure to both currencies is warranted at current levels.
CHF / JPY	Favour	Favour	Favour the CHF given BoJ's still ultra-accommodative stance.
GBP / JPY	Neutral	Neutral	Neutral GBP versus the JPY at current levels.

* Reference currency is the USD

**NA - Not applicable

Overweight, Favour, Neutral, Cautious, Underweight

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