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	42.5%	40.0%
Real Estate	Neutral	5.0%	5.0%
Commodities	Neutral	5.0%	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

FEB 2019

- Constructive US-China trade talks, an increasingly patient Fed and further stimulus from the People's Bank of China (PBoC) helped investor sentiment in February. For the month, the MSCI All Country World Index gained 2.5%, sustaining its solid start to the New Year. We have reduced some of our equity exposure and rebalanced the proceeds into fixed-income, slightly increasing our fixed-income exposure.
- S&P500 companies grew Q4 earnings by 12.1% while revenue witnessed 6.0% growth. Overall, a patient Fed and slow but steady progress in US-China trade negotiations buoyed US equities with the S&P500 gaining 3.0% in February.
- A combination of negative events including Italy's standoff with the EU, protests in France and trade tensions affecting the bloc's exports, resulted in the Eurozone economy growing at 1.8% in 2018, its slowest pace in four years.
- Although there are still sticky issues regarding intellectual property rights, forced technology transfers and Chinese state-led subsidies, reports that US and Chinese trade officials have begun drafting mutually-agreed proposals on some Chinese reforms and Trump's willingness to keep negotiating as long as the trade talks keep progressing have buoyed Chinese equities so far this year.
- Brazilian President Bolsonaro fired one of his key aides and Secretary General Bebianno on corruption charges related to campaign financing. The development comes as a blow to the government's reform agenda just ahead of its proposal to overhaul the country's bloated pension system.
- The S&P Pan Arab Composite's Q4 earnings and sales witnessed a growth rate of 4.3% and 5.7%, respectively with 62% of the companies having reported so far.

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Constructive US-China trade talks, an increasingly patient Fed and further stimulus from the People's Bank of China (PBoC) helped investor sentiment in February. While an official deal remains elusive, hopes that the US and China are slowly progressing toward a potential trade agreement helped global equities. For the month, the MSCI All Country World Index gained 2.5%, sustaining its solid start to the New Year. We have reduced some of our equity exposure and rebalanced the proceeds into fixed-income, slightly increasing our fixed-income exposure.

As per February's PMI data, the services sector and manufacturing sector in developed economies are showing diverging growth paths. While manufacturing PMIs in Europe and Japan fell into contractionary territory, US data showed activity continues to expand, albeit at a slower pace. Meanwhile, the global service sector gauge remains robust and continues to help support the ongoing slowdown in manufacturing activity.

" The German economy barely avoided a recession with zero growth in Q4, after shrinking 0.2% in Q3, while Italy officially fell into a recession "

In the absence of a trade deal and with the March 1st deadline having passed, global equities welcomed reports of the possibility of a 60-day extension by the US. In the US, Q4 GDP grew 2.6%, still robust but lower than the Q3's 3.4% annualized rate. Meanwhile, S&P500 companies grew Q4 earnings by 12.1% while revenue witnessed 6.0% growth. Overall, a patient Fed and slow but steady progress in US-China trade negotiations buoyed US equities with the S&P500 gaining 3.0% in February.

Amid fears of a slowdown in global growth, subdued inflationary pressures and lacklustre wage gains, Fed Chair Powell reiterated the Central Bank's willingness to be patient while also indicating the Fed's ability to maintain a much larger balance sheet than it had earlier envisaged. The minutes of the FOMC's January meeting all but confirmed the Fed's desire to stop shrinking its balance sheet sometime later this year. The Bank reasoned that soft inflation data allows it to remain patient while allowing it to study the effects of its already implemented rate hikes. The US 10-year Treasury yield edged higher by 9bps on the month to 2.72%.

In its quarterly report, the EU downgraded its 2019 forecast for Eurozone growth to 1.3% from its most recent forecast of 1.9%, citing weakening global trade, the slowdown in China, and uncertainty stemming from Brexit. A combination of negative events including Italy's standoff with the EU, protests in France and trade tensions affecting the bloc's exports, resulted in the Eurozone economy growing at 1.8% in 2018, its slowest pace in four years. The German economy barely avoided a recession with zero growth in Q4, after shrinking 0.2% in Q3, while Italy officially fell into a recession after its Q4 GDP contracted by 0.2%, following a 0.1% drop in Q3. The bloc's Industrial Production (IP) also fell for the second month in a row in December on sluggish demand and political uncertainty. The deteriorating economic fundamentals are evident in the European earnings season. With 82% of Stoxx600 companies having reported their Q4 numbers, revenue has grown 5.5% while EPS has witnessed a contraction of 0.8% year-over-year (YoY).

Meanwhile and after his 2019 budget proposal was rejected by the Spanish Parliament, socialist PM Sanchez called for a snap election in yet another sign of increasing political tensions in Europe. The looming elections, to be held on April 28, extend a period of political uncertainty for Spain since 2015. The development comes just ahead of European Parliament elections in May, which could further increase political risk as populist parties struggle for power across Europe. The EuroStoxx50 gained 4.4% on the month while the EUR lost 0.7% against the USD.

After losing the Parliamentary vote on her draft Brexit deal with the EU, PM May managed to win support of the Lower House to renegotiate key contentious issues. At the time of this writing, PM May is trying to obtain some concessions from the EU mainly on the Irish border issue. If she manages to secure some sort of compromise, the UK Parliament could face another vote in mid-March. The GBP appreciated 1.2% against the USD on the increasing likelihood of a delay in Brexit while the FTSE100 gained 1.5% in February.

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Japanese retail sales fell 2.3% in January month-on-month after declining marginally by 0.1% in December and dashing hopes that domestic demand may offset weakening external demand. Meanwhile, Industrial Production (IP) for January also dropped 3.7%, its biggest decline in a year. Preliminary data showed Japanese exports declined 8.4% YoY in January, its largest monthly decline since August 2016. The data highlights the impact of China's slowdown and the US-China trade dispute on Japan's dominant export sector. In response, BoJ Governor Kuroda said the Bank still has recourse to pursue further easing in light of deteriorating economic data and near-zero inflation. The Nikkei225 gained 2.9% on the month while the JPY fell 2.3% against the USD.

> "The S&P Pan Arab Composite's Q4 earnings and sales witnessed growth of 4.3% and 5.7%, respectively with 62% of the companies having reported so far"

China's exports plunged 20.7% YoY in February after rising 9.1% in January. The slump was partly due to front-loading in January ahead of the Lunar New Year holiday season but mainly due to a weaker global demand for Chinese goods. The sharp fall in the value of goods to the US suggested US tariffs have started to become a meaningful drag on exports. Meanwhile, China's trade surplus for February came to USD4.1 bn and much weaker than the expected USD26.4 bn. Overall and although there are still sticky issues regarding intellectual property rights, forced technology transfers and Chinese state-led subsidies, reports that US and Chinese trade officials have begun drafting mutually-agreed proposals on some Chinese reforms and Trump's willingness to keep negotiating as long as the trade talks keep progressing have buoyed Chinese equities so far this year. The Shanghai Composite has gained 18.0% on a year-to-date basis, albeit from depressed levels.

In Brazil and at the beginning of the month, index heavyweight and the world's largest iron ore miner, Vale, plunged following the collapse of a dam at one of its mining complexes. The tragedy resulted in several casualties forcing the company to announce production cuts by about 10% as it decommissions all similar dams in the interest of safety. Later in the month, Brazilian President Bolsonaro fired one of his key aides and Secretary General Bebianno on corruption charges related to campaign financing. The development comes as a blow to the government's reform agenda just ahead of its proposal to overhaul the country's bloated pension system.

Meanwhile, a bipartisan group of US senators introduced a bill to ratchet up sanctions on Russia accusing it of meddling in the 2016 US elections and for its interventionist policies in Ukraine. Earlier, Moody's joined S&P and Fitch in upgrading Russia's rating to IG status to Baa3 from Ba1, citing the Russian economy's strength amid US sanction risks. The rating agency recognized that Russia is now in a better position to navigate downside risks as oil prices have recovered and the nation returns to fragile growth. The move is likely to result in increased investment flows in the country, although US sanctions risk remains an overhang.

In the MENA, the EGX30 Index rose 4.8% in February after Egypt received another USD2 bn tranche out of the IMF's three-year, USD12 bn loan program that the country agreed to in 2016. While the IMF's Chief Lagarde praised the Egyptian government's enactment of policies, the agency warned the country of a more difficult external environment going ahead and told it to push ahead with efforts to curb inflation, reduce debt and allow for a more flexible exchange rate. Overall, the S&P Pan Arab Composite edged lower by 0.8% on the month as Q4 earnings and sales witnessed growth of 4.3% and 5.7%, respectively with 62% of the S&P Pan Arab Composite companies having reported so far.

Meanwhile, oil continued its stellar rally for most of February taking its year-to-date returns to 22.7%. The uptrend had a sudden reversal towards the end of the month as global demand growth concerns overshadowed OPEC-led supply cuts and sanctions on Venezuela and Iran. Clear signs of slowing manufacturing activity across the developed world as well as China could weigh on oil prices going forward, especially after a 29% rally since the last week of December. Brent ended February with a gain of 6.7%.

Asset Class Views

Asset Class	January	February	View / Rationale
Equities	↘	↘	
US	↘	↘	After a strong rally, tapering EPS growth-outlook calls for a watchful stance.
Europe	↔	↘	Tactical downgrade to cautious after a strong rally this year.
UK	↘	↘	Brexit news flow and weaker global growth continue to dominate risk sentiment.
Japan	↔	↔	Slowing global growth offsets reasonable valuations.
China	↔	↔	Depressed valuations and accommodative fiscal and monetary policy to aid equities.
India	↘	↘	Election uncertainty to keep rich valuations capped.
Brazil	↔	↔	Corruption allegations distract the positive momentum.
Russia	↔	↔	Valuations remain depressed as economic sanctions continue to affect flows.
MENA	↘	↘	On watch for a potential upgrade to neutral as selective opportunities present themselves.

Asset Class	January	February	View / Rationale
Fixed Income	↔	↔	
US	↔	↔	Fixed-income offers downside protection compared to equities right now.
Europe	↘	↘	ECB’s switch to an accommodative stance a positive but for the wrong reasons.
UK	↔	↔	Brexit uncertainty to keep rates in check.
Japan	↘	↘	Near-zero rates to remain as inflation remains stubbornly low.
China	↔	↔	PBoC maintains its dovish stance amid slower growth.
India	↔	↔	RBI can focus on slowing growth as inflation remains well below target.
Brazil	↔	↔	CBB’s accommodative stance to continue as price pressures remain well-contained.
Russia	↔	↔	Central Bank keeps record-low rates unchanged amid lower inflationary risks.
MENA	↔	↔	Credit metrics will be tested this year.

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

Asset Class Views

Asset Class	January	February	View / Rationale
Currencies			
USD / EUR	↔	↗	Upgrade the USD against the EUR as ECB turns decisively dovish.
USD / CHF	↗	↗	As ECB turns dovish, the SNB has the potential to become even more accommodative too.
USD / GBP	↗	↗	GBP exposure remains speculative as Brexit deadline looms.
USD / JPY	↗	↗	JPY has room to depreciate against the USD on diverging fundamentals.
EUR / CHF	↔	↔	SNB and ECB to remain accommodative as growth outlook weakens.
EUR / GBP	↔	↔	The pair remains range-bound as Brexit deadline looms.
EUR / JPY	↔	↔	Both currencies pose downside risks against the USD.
CHF / GBP	↔	↔	GBP remains depressed but speculative as Brexit deadline looms.
CHF / JPY	↔	↔	Neutral CHF/JPY at current levels.
GBP / JPY	↔	↔	GBP remains depressed under the Brexit cloud.

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

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IMPORTANT INFORMATION