MONTHLY INVESTMENT OVERVIEW

EMIRATES INVESTMENT BANK

Asset Class	View	Current Allocation*	Benchmark Allocation*
Equities	Underweight	22.5%	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	Overweight	15.0%	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 2020

- After being dismissive about the ongoing coronavirus threat for the first two weeks of February, in part due to better-than expected Q4 earnings by Apple, Google, and Amazon, investors finally took note of the potential impact of the outbreak on global economic activity.
- After being watchful initially, the Fed followed through on its earlier statement to act if needed, and in an emergency meeting, slashed its interest rate by 50bps while acknowledging the gravity of the economic threat of the coronavirus and that the problem requires a multi-pronged approach.
- In Europe, Italy remained the key concern with the virus spreading to several parts of the country. With over 350 deaths at the time of this writing, concerns rose it could tip Italy's already fragile economy into recession. If the situation deteriorates further in the weeks ahead, fiscal measures could be expected as Germany comes under increasing pressure to breach its constitutional spending limits.
- In the UK, the uncertainty for businesses is expected to continue as the possibility of a no-deal Brexit still remains and the outcome depends on how negotiations play out through the rest of the year.
- Although still minimal compared to China or South Korea, infections in Japan were on the rise and forced people to work from home and shun crowded places. At stake might be the success of the country's most-high profile event in decades: the 2020 Tokyo Olympics which was expected to boost inbound tourism and consumer spending.
- Weakness in equities spilled over into the commodity market, signalling rising fears that demand for raw materials will collapse as the virus spreads and weighs on global economic growth. At the time of this writing, OPEC+ talks to cut production further failed as Russia refused to participate to any cuts. That leaves the oil market in a quagmire as falling demand will now coincide with increased supply.

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After being dismissive about the ongoing coronavirus threat for the first two weeks of February, in part due to better-than expected Q4 earnings by Apple, Google, and Amazon, investors finally took note of the potential impact of the outbreak on global economic activity. The negative effects of the fast spreading infection on Chinese and global GDP weighed on top of investor minds and overrode positive US jobs and housing data in the second half of the month. While the extent of the slump in China and the blow to global supply chains are difficult to gauge with a great degree of certainty, the expectation that major central banks will provide further monetary policy support, sent treasury yields to new lows in February. Global assets sold off indiscriminately with the S&P500 falling 8.4% on the month while EM equities, represented by the MSCI EM Index, lost 5.4%. Meanwhile, gold ended flat on the month as investors seek a hedge against the uncertainty.

> "While developed market government yields already reflect a significant amount of caution, risk aversion could increase further if the spread of the epidemic rises in the weeks ahead"

Amid a severe risk-off sentiment for most of last month, investors piled into safe havens and exited out of high-yield. After being watchful initially, the Fed followed through on its earlier statement to act if needed, and in an emergency meeting, slashed its interest rate by 50bps while acknowledging the gravity of the economic threat of the coronavirus and that the problem requires a multi-pronged approach. While recent macro data in the US remains relatively healthy, for now, as signalled by the most recent jobs data and rising activity in the housing market, investor sentiment remains bearish, which is adversely affecting consumer sentiment, and markets are pricing in further rates cuts this year.

Meanwhile, global central bankers from Japan to the UK also pledged action aimed at stabilizing financial markets rattled by the spreading coronavirus. The bond market continued to reflect caution with the 10-year US Treasury yield losing 36bps and closing at a fresh all-time low of 1.15% in February. While developed market government yields already reflect a significant amount of caution, risk aversion could increase further if the spread of the epidemic rises in the weeks ahead.

In Europe, Italy remained the key concern with the virus spreading to several parts of the country. With over 350 deaths at the time of this writing, concerns rose it could tip Italy's already fragile economy into recession. While the Eurozone markets are fully pricing in the likelihood of some monetary response at the ECB's July meeting, Lagarde played down the chances of an imminent response to counter the impact of the virus. She said the ECB was monitoring the outbreak "very carefully" and that it was not yet at a stage where it would have a lasting impact on inflation. On the data front, flash PMIs for February showed a significant impact from the coronavirus outbreak, leaving the integrated European economy vulnerable to global supply chain disruptions. If the situation deteriorates further in the weeks ahead, fiscal measures could be expected as Germany comes under increasing pressure to breach its constitutional spending limits. On the month, the pan-European Stoxx600 Index lost 8.5% while the EUR held steady and ended with a loss of just 0.6% against the USD.

The UK's economy showed little evidence of being adversely affected by the coronavirus outbreak with both business and consumer sentiment picking up in February. Meanwhile, BoE Governor Carney joined his global peers and said the central bank stands ready to take all necessary steps to help the UK economy weather the impact of the outbreak. Earlier in the month, the EU ratified the UK's Brexit bill, setting the stage for intense parleys to determine whether the two sides can avoid a disorderly separation by year-end. Overall, the uncertainty for businesses is expected to continue as the possibility of a no-deal Brexit still remains and the outcome depends on how negotiations

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play out through the rest of the year. On the month, the FTSE100 fell 9.7% while the GBP lost 2.9% against the USD.

Although still minimal compared to China or South Korea, infections in Japan were on the rise and forced people to work from home and shun crowded places. In an emergency statement, Governor Haruhiko Kuroda said the BoJ will "strive to provide ample liquidity and ensure stability in financial markets." Meanwhile, PM Abe said he would use the remaining USD2.5 bn in reserves from the current year's budget to draw up a second package to tackle the virus-related economic fallout. At stake might be the success of the country's most-high profile event in decades: the 2020 Tokyo Olympics which was expected to boost inbound tourism and consumer spending. There were reports that the Olympics could be postponed until the end of the year. The Nikkei225 lost 8.9% while the safe-haven JPY gained 0.4% on the month.

> "Weakness in equities spilled over into the commodity market, signalling rising fears that demand for raw materials will collapse as the virus spreads and weighs on global economic growth"

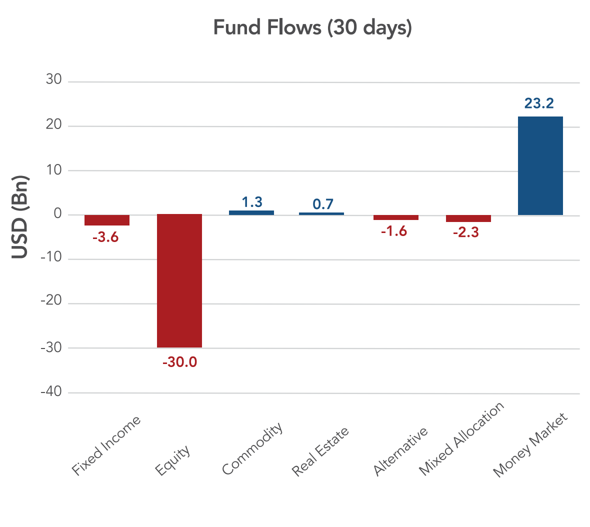
Chinese equities, as represented by the Shanghai Composite Index, ended 7.7% lower on February 3 when they reopened after the extended Lunar New Year holidays. The PBoC's promise to use monetary policy aggressively if need be and the government's announcement to lower tariffs by 50% on USD75 bn worth of US imports calmed sentiment earlier in the month. While China has already been easing monetary policy for some time now, it took additional steps last month to add more liquidity to the system. Despite best efforts by policymakers, travel curbs and community quarantines have paralyzed economic activity considerably and are expected to take a material toll on Q1 growth numbers. On the month, the Shanghai Composite had a volatile ride and ended lower by 3.2%.

EM equities outperformed their developed peers in February. While new coronavirus cases in China appear to be stabilizing, the virus is still spreading to many developed countries and to the rest of Asia, sparking fears of a pandemic. Meanwhile, rising tensions between Turkey and Russia at the Turkish-Syrian border also weighed on Turkish assets, causing the Turkish BIST100 to plummet by 11.0% in February alone.

Weakness in equities spilled over into the commodity market, signalling rising fears that demand for raw materials will collapse as the virus spreads and weighs on global economic growth. Commodities in general had a torrid time in February as the coronavirus spread beyond China's shores and became rooted in other major markets such as Japan, Korea, Italy as well as Iran. With travel bans and restrictions on public conferences and events, demand destruction worries took their toll on energy as well, with Brent falling 13.1% on the month. Oil-reliant MENA markets also took it on the chin due to heightened concerns about the growing cases of the virus in the region. The S&P Pan Arab Composite lost 7.0% in February. At the time of this writing, OPEC+ talks to cut production further failed as Russia refused to participate to any cuts. That leaves the oil market in a quagmire as falling demand will now coincide with increased supply.

Fund Flows

- Over the past two weeks, global equity funds & ETFs witnessed a stream of outflows. The redemptions were mainly seen in the US while EM equity flows were somewhat resilient, for now. 2.97% of S&P 500 stocks are above their 20 day Moving Average (MA), lowest reading since 2007. Put/Call ratio has skyrocketed, indicating extremely bearish positioning.
- IG Corporate bond Funds & ETFs also saw significant outflows and there currently are not many buyers in site. Treasuries continued to see large inflows as the safety trade witnessed relentless demand.
- Despite the heavy sell-off overall, investor sentiment continues to be negative and we do not foresee any significant catalysts for the markets to rebound from here.



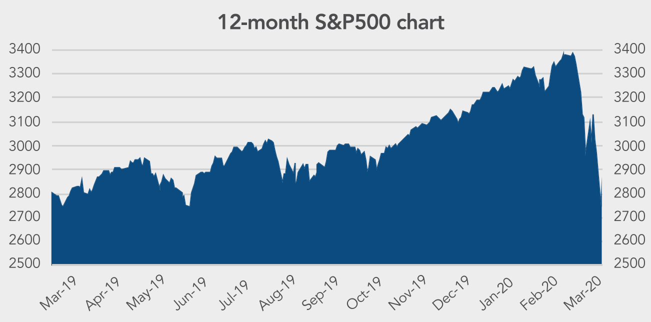
Source: EIBank, Bloomberg

FX, Interest Rates & Commodities

- The roller coaster in Currencies, Interest Rates and Commodities started last week when the OPEC+ discussions broke down. Hence the earlier USD gains due to Covid-19 upheaval were sharply reversed.
- On 25 Feb 2020 with EUR at 1.0850 we forecasted higher EUR levels closer to 1.1200. The Oil price war pushed EUR even higher to 1.1400, a total move over two weeks of +5 %. Consequently, EUR is poised to try to breach 1.1500, a level last seen in January 2019.
- Similarly, JPY, a classic safe-haven, strengthened 8.00% to ¥102.00 against the USD over the past two weeks: Some short-term correction is expected, however should the uncertainty continue, the psychological barrier of ¥100.00 is clearly in sight.
- CHF gained massively almost 6.00% to the USD in the past two weeks to reach 0.9200. Small correction higher is possible but the overall direction is USD weakness.
- GBP strengthened against the USD circa 2% in the last two weeks and reached 1.3150, a more moderate move compared to other G7 currencies. Our medium term target for 1.3500 remains.
- Gold as mentioned in our forecast on February 25th re-tested 7-Year highs of $ 1,700/oz. In times of market stress, Gold's reaction is usually a movement in spades of $30 - $40 in a day or so, hence the all-time high of $1,800/oz is now well within reach.
- The drop in Oil prices between 20% and 30% lower on a single day, with WTI at $32 / barrel and Brent at $35.80 / barrel, looked like a horror story. Market expectation is for further correction lower towards 20's, although we should see a minor bounce back eventually.
- On the Interest Rates side, the curve completely flat-lined on March 9th, with US 3 Month Libor dropping to 0.76%, US 2 Years to 0.46%, 5 Years to 0.49%, 10 Years to 0.55% and 30 Years to 0.53%. The Oil price war compounded by the Covid-19 fallout, is increasing pressure on Central Banks (FED, ECB, Bank of England, Bank of Japan) to unanimously cut rates further and resume market stimulating Bond buying programs, in an effort to stave off a complete meltdown in the stock markets.

Investment Theme: Underweight & De-risk Investment Portfolios

Extreme volatility has hit the equity markets while liquidity has dried up in the fixed-income markets as a result of the coronavirus and its adverse impact on global economic activity. With the S&P500 down 15.2% and the Eurostoxx600 down 19.9% on a year-to-date basis, some investors are asking whether it's a good time to jump into the equity market. We believe that investors should actually de-risk their portfolios and lower their equity exposures, as the full impact of the coronavirus is still not reflected in current market valuations in our view. We should expect negative headline news with regards to Q1 GDP activity and should expect earnings revisions downwards by many companies that have been hurt by a weak consumer. As such, we would advise clients to be patient at this time and focus on preserving capital.



Source: EIBank, Bloomberg

Asset Class Views

Asset Class	January	February	View / Rationale
Equities	↘	↓	
US	↘	↘	Investor sentiment has turned materially negative and could have an adverse impact on consumer sentiment.
Europe	↘	↘	Receding uncertainty over global trade policy offset by a sharp disruption in supply chains.
UK	↔	↘	Country-specific uncertainties related to Brexit negotiations to add to overall global economic uncertainty.
Japan	↘	↓	Economy to be impacted by weaker exports while the fiscal stimulus provides much needed support.
China	↔	↔	Chinese equities find support as wide-ranging policy support kicks in.
India	↘	↘	A cyclical recovery is pushed back as rising food inflation hurts consumer spending.
Brazil	↔	↔	The coronavirus spread creates a headwind to the commodities trade.
Russia	↔	↘	Additional public spending to offset a shaky external outlook and poor oil fundamentals.
MENA	↘	↘	Breakdown in the OPEC+ alliance creates a dilemma for oil-reliant MENA economies.
Asset Class	**January**	**February**	**View / Rationale**
Fixed Income	↔	↔	
US	↔	↔	Relentless safe-haven buying pushes the US 10-year yield to an all-time low below 1% as a cautious consumer may start hurting corporate fundamentals.
Europe	↘	↘	With rates still in negative territory, the ECB has less ammunition to mitigate a potential global economic downturn.
UK	↔	↔	Despite sounding dovish, slightly up-trending growth and fiscal stimulus to keep BoE on hold.
Japan	↘	↘	With the government stepping up spending, the BoJ can afford to keep monetary policy on hold.
China	↔	↔	An all-out policy support pushes yields to new lows.
India	↔	↔	A temporary inflation surge has held back conventional monetary easing for now.
Brazil	↔	↔	Tame inflation provides Central Bank breathing room despite weakness in the BRL.
Russia	↔	↔	Poor oil market dynamics to test credit fundamentals of Russian sovereigns, GREs, and corporates.
MENA	↔	↔	Poor oil market dynamics to test credit fundamentals of GCC economies.

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

Asset Class Views

Asset Class	January	February	View / Rationale
Currencies			
USD / EUR	↔	↔	A 50bps emergency Fed rate cut creates room for some further USD weakness.
USD / CHF	↗	↗	SNB is not too comfortable with continued CHF appreciation.
USD / GBP	↔	↔	Fed has more monetary space than its peers which should allow further weakness in the USD versus the GBP from current levels.
USD / JPY	↗	↔	A sharp risk-off bid and an emergency 50bps rate cut by the Fed aided the JPY. Some JPY weakness expected in the short term however the currency pair could move towards the 100 mark.
EUR / CHF	↔	↗	SNB is not too comfortable with continued CHF appreciation.
EUR / GBP	↔	↔	Brexit negotiations to provide direction for the currency pair in the medium term.
EUR / JPY	↔	↔	Both currencies face multiple headwinds as the external environment deteriorates.
CHF / GBP	↔	↔	Receding political uncertainty in the UK to potentially aid the GBP against the CHF.
CHF / JPY	↔	↔	Both currencies benefit from the ongoing safety trade.
GBP / JPY	↗	↗	The GBP has more room to strengthen against the JPY fundamentally.

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

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