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

JUL 2018

- Global PMIs remain well in expansionary territory and fixed asset investment in the US shows business resilience. However, trade war fears, volatile oil prices, gradual monetary tightening by the Fed, and ensuing USD strength are simultaneously affecting market confidence.
- While tensions somewhat cooled down after Trump and European Commission President Juncker agreed to lower or eliminate US-EU tariffs related to non-auto industrial goods, China upped the ante with the US by refusing to approve a proposed merger between US technology firm Qualcomm and Dutch chipmaker NXP Semiconductors on antitrust grounds.
- With both the EU and the UK yet to reach an accord and contentious issues routinely bogging down PM May, the risk of a no-Brexit deal has increased.
- Amid increasing pressure from banks and insurers which see profits eroding from a prolonged period of low interest rates, the Bank of Japan (BoJ) is mulling over a more flexible, sustainable approach to its monetary policy.
- Healthy earnings growth, coupled with an approximate 15% broad-based EM equity sell-off from this year's peak, has widened the valuation gap between EM equities and their developed market peers, presenting pockets of opportunity in Chinese domestic, consumer plays.
- Investor concerns that the US-China trade escalation could adversely affect demand for base metals from China weighed on commodities in general with the Bloomberg Commodity Index dropping 2.3% for the month.

MONTHLY INVESTMENT OVERVIEW

July was a mixed bag as far as trade war fears were concerned. While tensions somewhat cooled down after Trump and European Commission President Juncker agreed to lower or eliminate US-EU tariffs related to non-auto industrial goods, China upped the ante with the US by refusing to approve a proposed merger between US technology firm Qualcomm and Dutch chipmaker NXP Semiconductors on antitrust grounds. The move was intended to send a message that the Chinese authorities have several tools to counter unilateral US trade threats.

Overall, global PMIs remain well in expansionary territory and fixed asset investment in the US shows business resilience. However, trade war fears, volatile oil prices, gradual monetary tightening by the Fed, and ensuing USD strength are simultaneously affecting market confidence. Additionally, China's slowing growth amid its deleveraging drive also remain headwinds for global growth in H2 2018. For the month, developed equities, as represented by the MSCI World Index, gained 3.1% on solid US Q2 GDP and robust earnings growth while the MSCI Emerging Market (EM) Index recovered from its 11-month low to end July higher by 1.7%.

> "The S&P500 ended July with a monthly gain of 3.6% while the US 10-year Treasury yield rose 10bps to 2.96% on solid growth data and a meaningful retracement in the US-EU trade dispute"

In the US, and in response to Fed Chair Powell's assessment of the strength of the US economy and the likely need for additional rate hikes, Trump sharply criticized the Fed saying higher rates and the strong USD are hurting the US. In a separate attack, Trump said that he is prepared to levy tariffs on the entire value of US imports from China, should negotiations fail between the two sides. The tit-for-tat US-China trade dispute escalated by the end of the month as Trump threatened to increase levies on billions of dollars in Chinese goods, to which China responded in kind. China announced that it has prepared a list of USD60 bn worth of US imports to levy duties on if the Trump administration goes ahead and hikes tariff rates on USD200 bn of Chinese products.

Meanwhile, US Q2 GDP increased 4.1% on strong consumer and business spending as well as a surge in exports as companies front-loaded production before the retaliatory tariffs' deadline by China. On the earnings front, 448 of the S&P500 constituents have reported their Q2 results so far with earnings growth at 25.5% and revenue growing at 10.0% year-over-year. Overall, trade tensions remained on the boil in July but robust corporate earnings pushed equities higher. The S&P500 ended July with a monthly gain of 3.6% while the US 10-year Treasury yield rose 10bps to 2.96% on solid growth data and a meaningful retracement in the US-EU trade dispute.

In Europe and despite signs of slowing growth in Q2 amid concerns over US trade tariffs, the easing in growth has not been sharp enough to keep the ECB from maintaining its plans to slowly withdraw its monetary stimulus. The ECB kept its monetary policy unchanged and reiterated its stance to end bond purchases by December 2018 and to keep rates unchanged at least until Q3 2019. On the trade front, Trump and European Commission President Juncker agreed to work towards eliminating all tariffs and subsidies related to non-auto industrial goods. While the agreement was silent on auto trade, Juncker said both sides agreed to suspend any new tariffs while the negotiations were ongoing, aiding risk sentiment. Meanwhile, Eurozone headline CPI for July came in higher than expected at 2.1% while Q2 GDP missed expectations and printed at 0.3% quarter-on-quarter. Unemployment remained unchanged at 8.3%. The EuroStoxx50 gained 3.8% in July while the EUR ended flat in July.

In the UK, Brexit negotiations continue to dominate sentiment as the deadline for an agreement approaches. With both sides yet to reach an accord and contentious issues routinely bogging down PM May, the risk of a no-Brexit deal has increased. Meanwhile, UK manufacturing PMI jumped to 55.8 in July from 53.1 in June, boosted by the biggest increase in home-building since the end of 2015.

MONTHLY INVESTMENT OVERVIEW

On the other hand, the services PMI slowed in July to 53.5 from 55.1 in June, highlighting that business activity rose at its slowest pace since April. The FTSE100 rose 1.5% over the month while the GBP fell 0.6% against the USD.

Amid increasing pressure from banks and insurers which see profits eroding from a prolonged period of low interest rates, the Bank of Japan (BoJ) is mulling over a more flexible, sustainable approach to its monetary policy. Although the BoJ decided to maintain the 10-year yield target at about 0% for now and left its bond purchase program unchanged, it announced minor tweaks to its policy at its July meeting, which includes a shift in their purchases of ETFs and allows for greater flexibility in their bond operations. Both moves are seen as a small step towards monetary policy normalization and pushed yields higher. The Nikkei225 gained 1.1% while the JPY depreciated 1.0% against the USD in July.

> "The PBoC imposed a 20% reserve requirement on some trading of foreign-exchange forward contracts in a strong signal that it is not comfortable with the relentless slide in the CNY"

Within EM, the escalating trade dispute with the US continued to take a toll on the Chinese economy as the July manufacturing PMI came in at 51.2, its weakest level since February. While the outlook for exporters remains dependent on the outcome of the trade dispute, pockets of opportunity – led by domestic, consumer plays – are starting to present themselves in China and other Asian markets. Healthy earnings growth, coupled with an approximate 15% broad-based EM equity sell-off from this year's peak, has widened the valuation gap between EM equities and their developed market peers.

Meanwhile, the CNY continued to slide in July as slowing growth and a deepening trade rift with the US put downward pressure on the currency. Earlier in the month, the Chinese authorities allowed the CNY to fall 3.0% against the USD in July alone in a sign that they may be trying to cushion the impact of US trade tariffs. The PBoC later imposed a 20% reserve requirement on some trading of foreign-exchange forward contracts in a strong signal that it is not comfortable with the relentless slide in the CNY. The move intends to target short sellers and makes it expensive for onshore investors to buy the USD. The Shanghai Composite gained 1.0% in July but is down 13.0% YTD.

In Turkey, amid pressure from Erdogan to lower interest rates, Turkey's Central Bank kept its benchmark rate unchanged at 17.75% against wide expectations of a 100bps hike. The TRY fell sharply on concerns about Erdogan's undue influence on monetary policy, especially with inflation running at 15.4%. A showdown with the US over a detained American pastor worsened sentiment for the already beleaguered currency, which has lost 30.0% YTD against the USD. Amid irrational monetary policy decisions and political uncertainties, investors are continuing to lower their exposure to Turkish assets at this time.

Meanwhile, the INR reached a lifetime low against the USD as PM Modi needed to prove his majority in a no-confidence vote called by the opposition. Although the Modi government comfortably won the vote amid a heated parliamentary session surrounding allegations of opaqueness and general mismanagement, the INR has faced downward pressures in recent months amid a broader EM currency selloff. A worsening fiscal position due to rising oil prices and populist policies ahead of general elections early next year exacerbated the sell-off. The INR is down 7.3% against the USD so far this year while the benchmark NIFTY has risen 7.8% YTD.

Brent fell 9.6% in the first two weeks of July after Saudi lowered pricing for most crude grades amid pressure from the US and to ease the effect of supply disruptions from Venezuela, Libya and looming sanctions on Iran. In the second half of the month, oil prices rebounded as countries started to lower their oil imports from Iran. For the month, Brent closed at USD74.3/ bbl, a decline of 6.5%. Overall, investor concerns that the US-China trade escalation could adversely affect demand for base metals from China weighed on commodities in general with the Bloomberg Commodity Index dropping 2.3% for the month.

Asset Class Views

Asset Class	June	July	View / Rationale
Equities	↘	↘	
US	↘	↘	Business environment remains resilient with the economy set to grow at approximately 2.8% this year.
Europe	↔	↔	A positive outcome on tariff negotiations with the US would help stimulate growth.
UK	↘	↘	The risk of a no-Brexit deal has increased with both sides yet to reach an accord.
Japan	↔	↔	BoJ mulling over a more flexible approach to monetary policy seen as a first sign towards eventual normalization.
China	↔	↔	Negative sentiment is presenting several opportunities selectively in China/Asia.
India	↘	↘	NIFTY richly valued and vulnerable to external headwinds.
Brazil	↘	↘	US-China trade escalation could adversely affect demand for commodities and commodity exporters.
Russia	↘	↘	Bank of Russia held its benchmark one-week repo rate at 7.25% as the RUB continues to weaken alongside a broad-based EM currency selloff.
MENA	↘	↘	Structural economic reforms, although positive in the long-term, are negatively affecting aggregate demand in the interim period.
Asset Class	**June**	**July**	**View / Rationale**
Fixed Income	↔	↔	
US	↔	↔	Fed's upgrade of US economy positive for rates but inflation still undershooting in a digitized, global economy.
Europe	↘	↘	Uptick in inflation and ECB policy stance to push yields higher.
UK	↔	↔	A Brexit-worried BoE to remain dovish.
Japan	↘	↘	Despite a slight change in stance on normalization, BoJ committed to near-zero rates.
China	↔	↔	PBoC to keep loose monetary and fiscal stance in light of growth concerns.
India	↔	↔	Fiscal slippage worries to keep rates elevated.
Brazil	↔	↔	Growth-oriented Central Bank holds rates at record low.
Russia	↔	↔	Central bank maintains high benchmark rates to combat RUB-depreciation.
MENA	↔	↔	An upbeat Fed puts upside pressure on USD-pegged MENA rates.

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

Asset Class Views

Asset Class	June	July	View / Rationale *
Currencies	NA**	NA**	
USD / EUR	↔	↔	Some EUR exposure for USD portfolios is warranted at the current levels.
USD / CHF	↔	↔	Continue to maintain a Neutral stance between the USD and CHF.
USD / GBP	↔	↗	The drop in the GBP seems to be pricing in a higher likelihood of a no-Brexit deal.
USD / JPY	↗	↗	A shift in BoJ's stance to eventual normalization a positive for the JPY but not enough to warrant a downgrade of the USD.
EUR / CHF	↔	↗	ECB stance to end QE at year-end provides support to the EUR.
EUR / GBP	↔	↗	A no-Brexit deal scenario would weigh on the GBP.
EUR / JPY	↗	↗	Favour the EUR versus the JPY as ECB policy normalization is ahead of the BoJ's.
CHF / GBP	↔	↔	A no-Brexit deal scenario to weigh on the GBP.
CHF / JPY	↗	↗	Favour the CHF given BoJ's still ultra-accommodative stance.
GBP / JPY	↗	↔	Downgrade the GBP vs the JPY as risk-adjusted upside more Neutral at current levels.

* Reference currency is the USD

**NA - Not applicable

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

FOR MORE INFORMATION, PLEASE CONTACT:

Emirates Investment Bank pjsc
PO Box 5503, Dubai
Dubai Festival City, UAE

+971 4 231 7777

+971 4 231 7788

www.eibank.com

ASSET MANAGEMENT TEAM:

Nadi Bargouti, CFA
Managing Director – Head of Asset Management
nadi.bargouti@eibank.com

Yaser Al-Nimr
Director – Asset Management
yaser.alnimr@eibank.com

Fabien Paturaud, CFA
Associate Director – Asset Management
fabien.paturaud@eibank.com

Hamad Al Majidi
Senior Associate – Asset Management
hamad.almajidi@eibank.com

Joyson D'Souza, CFA
Associate – Asset Management
joyson.dsouza@eibank.com

IMPORTANT INFORMATION

This report is for our clients only. It is not an offer or a solicitation to offer, buy or sell any security or instrument or to participate in any particular trading strategy. This report is based on current public information that we consider reliable, but it should not be considered accurate or complete.

This report is not intended to provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. We recommend that investors independently evaluate particular investments and strategies and we encourage investors to always seek professional advice. The securities, instruments or strategies discussed in this report may not be suitable for all investors and certain investors may not be eligible to purchase or participate in some or all of them.

The value of and income from investments may vary because of a variety of factors. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. Fluctuations in exchange rates could have adverse effects on the value, price of and income derived from certain investments. Certain transactions give rise to substantial risk and are not suitable for all investors.

We and our affiliates may transact the securities or derivatives referred to in this research. We may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

Emirates Investment Bank pjsc is regulated by the Central Bank of the United Arab Emirates.