# 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

MAR 2018

- March was dominated by global trade war fears between the US and China and data privacy issues within the tech sector. The Trump administration announced tariffs on up to USD60 bn worth of Chinese imports, in what we believe is an attempt to bring the Chinese to the negotiating table.
- In the fixed income markets, a slight increase in US inflation expectations after better-than-expected US wage growth and employment data further flattened the yield curve with the spread between the two and the 10-year yields at 47bps, the narrowest in a decade.
- Eurozone unemployment came in at 8.5% in February, down from 8.6% in January and the lowest level since December 2008.
- The Nikkei225 was volatile and lost 2.8% in March, as the Trump administration removed earlier steel and aluminum tariffs from many countries including Canada, Mexico, Europe and South Korea but left them in place for Japan.
- The outgoing PBoC chief Zhou said that policymakers would depend less on credit-driven growth as China seeks higher quality economic growth.
- Moody's held South Africa's credit rating at Baa3, the lowest investment grade level, while lifting its outlook to stable, citing more transparent and predictable policies under President Ramaphosa.
- In the MENA, despite a global equity market sell-off, the S&P Pan Arab gained 3.5% in March driven by a strong performance in Egypt and Saudi.

# MONTHLY INVESTMENT OVERVIEW

March was dominated by global trade war fears between the US and China and data privacy issues within the tech sector. The Trump administration announced tariffs on certain commodities – namely steel and aluminium – and proposed tariffs on up to USD60 bn worth of Chinese imports, in what we believe is an attempt to bring the Chinese to the negotiating table. Even though most major US trade partners secured exceptions to the first set of tariffs on steel and aluminum, the uncertainty and the prospect of retaliation left markets nervous. At the time of this writing, China announced retaliatory duties on 128 imported American products.

Investor confidence took a further blow as US heavyweight tech companies grappled with a variety of data privacy, antitrust and regulatory issues. While Amazon shares fell 4.3% in March alone amid concerns about antitrust or other regulatory action against the company, Facebook lost 10.4% as it faces criticism over how it has managed user data. Meanwhile, Tesla shares tanked 22.4% in March amid worries over the prospect of self-driving car technology after two fatal car crashes. Overall, concerns from escalating trade tensions accompanied by tech-related volatility led to Q1 being the worst quarter for global stocks in more than two years. For the month, the S&P500 lost 2.7% while the MSCI Developed World was down 2.5%.

> "Investor confidence took a further blow as US heavyweight tech companies grappled with a variety of data privacy, antitrust and regulatory issues."

In the fixed income markets, a slight increase in US inflation expectations after better-than-expected US wage growth and employment data further flattened the yield curve with the spread between the two and the 10-year yields at 47bps, the narrowest in a decade. Although inflationary pressures are under control, the Fed is expected to continue normalizing monetary policy, which is withdrawing liquidity from the fixed income markets and is increasing borrowing costs for issuers. Against this backdrop, a flattening of the yield curve is indicative of slightly slower economic growth ahead when compared to the strong figures we saw in late-2017. Global fixed income – as measured by the Barclays Global Aggregate Bond Index – is down 0.9% year-to-date. Meanwhile, the Dollar Index ended Q1 on a weak note, while the JPY gained 0.4% against the USD in March, reinforcing its status as a safe-haven currency.

The Eurozone's composite PMI slipped to 55.2 from 57.1 in February, a 14-month low, on slowing export orders hurt by a stronger EUR. At the time of this writing, Eurozone unemployment came in at 8.5% in February, down from 8.6% in January and the lowest level since December 2008. Meanwhile, headline Eurozone inflation picked up, rising 1.4% in March from 1.1% in February. Earlier in the month, the ECB expectedly kept its monetary policy unchanged but dropped its previous reference to expanding its QE program if necessary. The Bank also slightly upgraded its growth forecast for 2018 from 2.3% to 2.4%, although Draghi warned that "global factors, including rising protectionism and developments in foreign exchange and other financial markets" were the major downside risks to growth. The EuroStoxx50 lost 2.3%, while the EUR ended March higher by 1.1% against the USD.

In the UK, despite record low unemployment, data showed meager wage growth and high inflation caused UK household spending to grow by 1.7% in 2017, the weakest rate since 2011 as falling real wages took their toll on household budgets. However, lower-than-expected inflation figures in February and modest improvements in wages allowed the Bank of England (BoE) to hold its benchmark rate at 0.5%. The recent strengthening in the GBP, which has gained 3.7% against the USD so far this year, has eased some of the inflationary concerns. However, hawkish comments from two members calling for a rate hike sent government bond prices lower. Meanwhile, the Organization for Economic Cooperation and Development (OECD) reported that the UK's growth would be the slowest of all G20 countries this year as slowing consumer and business demand – due to Brexit uncertainty – weigh on economic prospects. The GBP rose 1.9% against the USD while the FTSE100 followed the global sell-off and lost 2.4% in March.

# MONTHLY INVESTMENT OVERVIEW

In Japan, the Nikkei225 was volatile and lost 2.8% in March, as the Trump administration removed earlier steel and aluminum tariffs from many countries including Canada, Mexico, Europe and South Korea but left them in place for Japan. Meanwhile, in a major distraction to Japan's sustained economic recovery, a long-standing real estate scandal involving PM Abe and his wife resurfaced last month. Although he denied any wrongdoing, he faces pressure from opponents to resign, raising some doubts about his political future and his ability to continue pushing through economic and political reforms. The safe-haven JPY continued to gain amid a US-China trade dispute and is up 5.7% against the USD so far this year.

At its annual legislative meeting, China set the annual GDP growth target to about 6.5% for 2018 as the country seeks to maintain steady growth while curbing financial risks. The outgoing PBoC chief Zhou said that policymakers would depend less on credit-driven growth as China seeks higher quality economic growth. As a step in that direction, China plans to merge its banking (CBRC) and insurance agencies (CIRC) to form a new powerful regulator called China Banking and Insurance Regulatory Commission (CBIRC). The move is in line with the government's efforts to tighten control over debt-laden, state-owned entities in an effort to make them more efficient and productive. Meanwhile, the National People's Congress approved a constitutional amendment to repeal presidential term limits, paving the way for President Xi to continue at the helm long after his 2-term limit ends in 2023.

In Russia, the diplomatic spat over the poisoning of a former Russian spy on British soil took a toll on the Russian equity markets. In a sharp response to the allegations, UK PM May expelled 23 Russian diplomats alongside actions to freeze Russian assets in the UK. Russia expelled 23 UK diplomats in a like-for-like response. The RUB fell 1.4% against the USD in March. Meanwhile and after more than two quarters of major supply-side disruptions caused by demonetization and the introduction of the nationwide Goods & Services Tax (GST), India's economy seems to have turned the corner as it grew 7.2% in the last quarter of 2017, its fastest pace in five quarters. However, climbing oil prices and a spike in yields caused by the government's fiscal overshoot are likely to hit private investment and growth going forward.

Moody's held South Africa's credit rating at Baa3, the lowest investment grade level, while lifting its outlook to stable, citing more transparent and predictable policies under President Ramaphosa. As the imminent risk of exclusion from investment-grade bond indexes receded, the yields on the country's benchmark bonds fell to their lowest level in almost three years. S&P and Fitch downgraded South Africa to junk status last year.

" In the MENA, despite a global equity market sell-off, the S&P Pan Arab gained 3.5% in March driven by a strong performance in Egypt and Saudi. "

Within Emerging Markets (EM), following China's threat of reciprocal tariffs after Trump ordered USD60 bn in tariffs on Chinese imports, EM equities fell sharply with the MSCI EM dropping by 2.0%. The on-going standoff has the potential to disrupt the momentum in EM driven by strong exports to developed economies.

In the MENA, despite a global equity market sell-off, the S&P Pan Arab gained 3.5% in March driven by a strong performance in Egypt and Saudi. Egyptian equities were up 12.8% on strong investor interest due to rapidly declining inflation while Saudi equities surged 6.1% on renewed investor interest linked to a FTSE EM upgrade. Meanwhile, a drop in US drilling activity, the IEA's upgrade of oil demand forecast for 2018 and concerns that the Trump administration could reintroduce sanctions against Iran lifted oil prices. Brent ended March at USD70.3/bbl, a monthly gain of 6.8%.

# Asset Class Views

| Asset Class | February | March | View / Rationale |
|---|---|---|---|
| **Equities** | ↘ | ↘ | |
| US | ↘ | ↘ | Trade war concerns and tech sector data privacy issues are adversely affecting market sentiment. |
| Europe | ↔ | ↔ | A strong EUR is acting as a slight headwind to growth momentum. |
| UK | ↘ | ↘ | Business and household consumption continue to weaken. |
| Japan | ↔ | ↔ | Abe's real estate controversy can act as a distraction to his expansionary fiscal policy plans. |
| China | ↔ | ↔ | Focus on local, consumer plays due to the potential of a wider US-China trade dispute. |
| India | ↘ | ↘ | Selectivity remains key as overall valuations remain rich despite recent correction. |
| Brazil | ↘ | ↘ | Overall macroeconomic indicators improving but the political situation remains uncertain. |
| Russia | ↔ | ↘ | Increased sanctions amid Russia-UK standoff to hurt sentiment and create uncertainty. |
| MENA | ↘ | ↘ | Egypt & Saudi currently providing the most attractive opportunities. |
| **Asset Class** | **February** | **March** | **View / Rationale** |
| **Fixed Income** | ↔ | ↔ | |
| US | ↔ | ↔ | Case for gradual rate increases intact despite growing trade war fears. |
| Europe | ↘ | ↘ | Latest data indicates inflation pickup to push yields higher. |
| UK | ↔ | ↔ | Weak risk sentiment and a drop in inflation keeps yields in check. |
| Japan | ↘ | ↘ | US-China trade tensions ease upward pressure on zero-bound JGB yields. |
| China | ↔ | ↔ | Government focus on quality growth model calls for credit selectivity. |
| India | ↔ | ↔ | Higher oil prices put upward pressure on fiscal deficit and yields. |
| Brazil | ↔ | ↔ | Central Bank to remain ultra-accommodative as recovery remains lacklustre. |
| Russia | ↔ | ↔ | Record low inflation creates room for further monetary easing. |
| MENA | ↔ | ↔ | USD-pegged monetary policies to track US yields upward. |

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

# Asset Class Views

| Asset Class | February | March | View / Rationale * |
|---|---|---|---|
| **Currencies** | NA** | NA** | |
| USD / EUR | ↔ | ↔ | Eurozone inflation pickup may be a catalyst for policy normalization by the ECB. |
| USD / CHF | ↗ | ↗ | Favour the USD as the Fed pursues monetary policy normalization. |
| USD / GBP | ↔ | ↔ | Neutral stance as the Fed and the BoE remain inflation-focussed. |
| USD / JPY | ↗ | ↗ | Favour the USD versus the JPY given BoJ's accommodative stance. |
| EUR / CHF | ↗ | ↗ | Favour the EUR on improving economics in the Eurozone. |
| EUR / GBP | ↔ | ↔ | Although UK inflation dipped, BoE rate hike in May still all but certain. |
| EUR / JPY | ↗ | ↗ | Favour the EUR versus the JPY on monetary policy divergence. |
| CHF / GBP | ↔ | ↔ | Favour the GBP on an inflation-focussed BoE, despite recent GBP strength. |
| CHF / JPY | ↗ | ↗ | Recent JPY strengthening leaves room for a CHF rebound. |
| GBP / JPY | ↗ | ↗ | Favour the GBP given the wide differential in inflation. |

* 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