MONTHLY INVESTMENT OVERVIEW

بنك الامارات للاستثمار

EMIRATES INVESTMENT BANK

Asset Class	View	Current Allocation*	Benchmark Allocation*
Equities	Cautious	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

NOV 2018

- As we enter into the last month of 2018, the global economy continues to expand, albeit at a slower pace and with a divergence in growth between a strong US economy and weakening growth across most of the rest of the world.
- While the probability of a 25bps rate hike later this month remains on the cards, expectations of further rate hikes in 2019 were tempered following Fed Chair Powell's speech that US rates now are "just below" the neutral level. Two hikes are now expected versus earlier projections of four.
- Investor sentiment continued to deteriorate in Europe as the Eurozone's Q3 GDP slowed to its lowest level in over four years, rising only 0.2%, down from 0.4% in Q2. While the ECB remains on course to end its QE program by the end of this year, a recent patch of disappointing data could call that decision into question.
- PM May finally managed to hammer out a draft Brexit deal with her EU counterparts. She now faces an uphill battle in passing the agreement through the UK Parliament. If the deal gets approved by the UK Parliament on December 11, negotiations for new trade and security relations can begin.
- Slowing domestic demand and the lingering threat of higher US tariffs next year remained a drag on Chinese manufacturing. To boost down-trending growth, China has launched a new round of fiscal stimulus to be implemented in 2019 with a possible cut to the reserve requirement ratio to support regional banks.
- After a difficult year so far, Emerging Market (EM) equities stabilized in November but still remain down 14% YTD, as represented by the MSCI EM Index. Meanwhile, OPEC and Russia agreed to cut production by 1.2m bbl/day, defying Trump's calls to keep output high. The cut was slightly more than anticipated and sparked a rebound in crude prices.

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As we enter into the last month of 2018, the global economy continues to expand, albeit at a slower pace and with a divergence in growth between a strong US economy and weakening growth across most of the rest of the world. Global trade tensions, European political risks, a slowdown in China, and volatile oil prices are weighing on investor sentiment. Positive headlines emerged from the Trump-Xi meeting at the G20 summit but risk-on sentiment is likely to be short-lived amid a trust deficit and a host of political misgivings between the two warring sides. A draft Brexit-deal between the EU and the UK will also be detail-dependant and we would rather await further announcements before changing our view and increasing our risk exposures.

> " Strong Q3 earnings did little to buoy investor sentiment as subdued forward guidance reinforced fears of peak earnings "

While the probability of a 25bps rate hike later this month remains on the cards, expectations of further rate hikes in 2019 were tempered following Fed Chair Powell's speech that US rates now are "just below" the neutral level. The slightly dovish tone shaved off 15bps from the US 10-year Treasury yield with the spread between 2 and 10-year US Treasury rates falling to just 20bps, signalling the market is pricing in lower Fed rates in the future. At the time of this writing, US jobs data for November also came in below expectations reinforcing investor expectations of a slower Fed trajectory in 2019. Meanwhile, Apple and Facebook came under severe pressure in November as investors recalibrated their risk expectations for both companies. Apple announced that it would stop reporting iPhone unit sales, which was interpreted negatively by the market, while investors were also rightly concerned about Facebook's on-going data privacy issues and any potential regulation that may be passed as a result. On the earnings front, the US Q3 earnings season was reasonably strong with the S&P500 EPS growing in excess of 25% year-over-year (YoY). Yet the strong set of numbers did little to buoy investor sentiment as subdued forward guidance amid trade war fears and rising domestic borrowing costs reinforced fears of peak earnings. The S&P500 gained 1.8% in November following October's sell-off while the Dollar Index remained steady.

Investor sentiment continued to deteriorate in Europe as the Eurozone's Q3 GDP slowed to its lowest level in over four years, rising only 0.2%, down from 0.4% in Q2. Meanwhile, the Eurozone manufacturing PMI expanded at its weakest pace in over two years, coming in at 51.8 from October's 52.0. Headline inflation also disappointed, slipping from a six-year high of 2.2% YoY to 2.0% in November. As for Italy, the EU rejected Italy's high-deficit budget proposal once again, and adopted measures to discipline the country through a possible fine of up to 0.2% of its GDP. Unfazed, the Italian government continues to make good on its populist campaign promises such as cutting taxes and lowering the retirement age. While the ECB remains on course to end its QE program by the end of this year, a recent patch of disappointing data could call that decision into question.

After months of bitter negotiations, PM May finally managed to hammer out a draft Brexit deal with her EU counterparts. She now faces an uphill battle in passing the agreement through the UK Parliament. If the deal gets approved by the UK Parliament on December 11, negotiations for new trade and security relations can begin. Although Brexit rhetoric continues to dominate domestic news flow, BoE Governor Carney warned a no-deal Brexit could cause a plunge in the GBP and lead to high levels of inflation. The GBP continued to flip-flop alongside the Brexit negotiations before ending the month almost flat while the FTSE100 edged lower by 2.1%.

After rebounding in Q2, Japan's Q3 GDP shrank by an annualized 1.2%, as natural disasters disrupted

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the country's supply chains and a slowdown in global demand undermined exports. The economy is expected to recover in Q4 on the government's reconstruction programmes and robust investment in preparation for the 2020 Tokyo Olympics. Meanwhile and despite fully recognizing that prolonged ultra-loose monetary policy could squeeze margins and potentially destabilize the country's banking system, BoJ's Governor Kuroda ruled out the chance of a near-term interest rate hike, warning that doing so threatens to derail the country's fragile economic recovery. For the month, the Nikkei225 gained 2.0% while the JPY declined by 0.6% against the USD.

Slowing domestic demand and the lingering threat of higher US tariffs next year remained a drag on Chinese manufacturing. The manufacturing PMI fell to 50.0 in November, down from 50.2 in October. While the temporary agreement between Trump and Xi to suspend additional tariffs for three months should provide a sentiment boost, a major breakthrough seems unlikely at the moment as serious issues like forced technology transfers and intellectual property thefts remain vast. To boost down-trending growth, China has launched a new round of fiscal stimulus to be implemented in 2019 with a possible cut to the reserve requirement ratio to support regional banks.

" To boost down-trending growth, China has launched a new round of fiscal stimulus to be implemented in 2019 with a possible cut to the reserve requirement ratio to support regional banks. "

After a difficult year so far, Emerging Market (EM) equities stabilized in November but still remain down 14% YTD, as represented by the MSCI EM Index. Despite some thaw in US-Turkey relations and the recent 6-month Iranian oil import waiver granted by the US, the TRY remained under pressure as annual inflation soared to 25.2% in October, its highest level in 15 years. With real rates negative in Turkey and the US Fed poised to hike in December, there is pressure on the Turkish Central Bank to hike its benchmark rate further from the current 24%. Meanwhile, India's Q3 GDP expanded 7.1%, a marked slowdown compared with the 8.2% growth in Q2, as rising yields, a sharply falling INR, and elevated oil prices weighed on domestic demand, evidenced by weaker Industrial Production (IP) and vehicle sales data. Elsewhere in EM, Brazil's new government and Argentina's IMF bailout have started addressing entrenched economic weaknesses in both countries. Argentina is in the midst of a painful adjustment process to address structural imbalances - this has encompassed exceptionally high interest rates, a deep recession and a massive loss of purchasing power. On the other hand, after the euphoria surrounding Brazil's new government, reality has sunk in as Bolsonaro tries to assemble his team and take bold reforms to revive an ailing economy.

Brent lost 22.2% in November after the US agreed to temporarily spare eight countries from Iran-related sanctions. Overall, slowing global growth amid escalating trade war fears, record Saudi production to plug a supply shortfall due to Iran sanctions, and higher than expected US inventories took a heavy toll on oil prices. At the time of this writing, OPEC and Russia agreed to cut production by 1.2m bbl/day, defying Trump's calls to keep output high. The cut was slightly more than anticipated and sparked a rebound in crude prices.

Asset Class Views

Asset Class	October	November	View / Rationale
Equities	↘	↘	
US	↘	↘	Investor sentiment is shaky as companies that even slightly miss top or bottom line estimates are being hit excessively.
Europe	↔	↔	Equity markets pricing-in moderating economic growth and heightened political risk.
UK	↘	↘	Brexit outcome on December 11 crucial for the UK's near-term and long-term outlook.
Japan	↔	↔	Slowing global growth poses a headwind to Japanese equities as BoJ continues to provide liquidity.
China	↔	↔	Selectivity remains key amid attractive valuations.
India	↘	↘	Upcoming election calendar keeps equities range-bound.
Brazil	↘	↘	After the election euphoria, markets turn their focus on fundamentals.
Russia	↘	↘	Lower oil prices and US sanctions continue to impact risk sentiment.
MENA	↔	↔	Weak investor sentiment offset by long-term value buyers.

Asset Class	October	November	View / Rationale
Fixed Income	↔	↔	
US	↔	↔	A shift downward in the yield curve is positive as 2019 rate trajectory lowered.
Europe	↘	↘	ECB to remain accommodative as heightened political risk to continue adversely affecting sentiment.
UK	↔	↔	Brexit outcome crucial to GBP, inflation expectations and BOE stance.
Japan	↘	↘	Yield peg widened, but still close to zero.
China	↔	↔	Slowing growth to force authorities to maintain accommodative stance and provide liquidity.
India	↔	↔	Low inflation reading eases pressure on rates.
Brazil	↔	↔	Central Bank dovish stance to keep rates lower-bound.
Russia	↔	↔	Central Bank remains focused on inflation while supporting fading growth.
MENA	↔	↔	A shift downward in the US yield curve is positive as 2019 rate trajectory lowered.

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

Asset Class Views

Asset Class	October	November	View / Rationale
Currencies			
USD / EUR	Neutral	Neutral	We remain Neutral EUR/USD at the current levels.
USD / CHF	Favour	Favour	Favour the USD on a normalizing Fed compared to a more accommodative SNB.
USD / GBP	Favour	Favour	GBP outlook continues to be Brexit-dependant.
USD / JPY	Favour	Favour	Weakening macros to weigh on the JPY.
EUR / CHF	Favour	Favour	Favour the EUR as ECB on track to end QE by year-end and still tilting towards the hawkish side.
EUR / GBP	Favour	Favour	GBP outlook continues to be Brexit-dependant.
EUR / JPY	Favour	Favour	GBP outlook continues to be Brexit-dependant.
CHF / GBP	Neutral	Neutral	An accommodative SNB offsets a lack of clarity on the GBP.
CHF / JPY	Neutral	Neutral	We remain Neutral CHF/JPY at current levels.
GBP / JPY	Neutral	Neutral	An accommodative BoJ offsets a lack of clarity on the GBP.

Overweight, Favour, Neutral, Cautious, Underweight

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