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	2.5%	5.0%
Low Vol / Alternatives	Overweight	15.0%	5.0%
Cash	Favour	10.0%	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

OCT 2019

- October witnessed an extension of September's risk-on trade with risk assets generally outperforming traditional safety assets. A third insurance rate cut by the Fed for the year, US Q3 earnings managing to hold up against a low bar of expectations, the US and China inching closer to a partial trade deal, and a reduced likelihood of a no-deal Brexit, all helped investor sentiment.
- Across the continent in Europe, sentiment further weakened across most sectors in October as the persistent slump in Eurozone manufacturing weighed on services and on the outlook for retail sales. Slowing global growth amid trade tensions, a struggling auto sector, and Brexit continue to weigh on Germany's industrial sector and the Euro-area as a whole.
- In the UK, while the election to be held on December 12 will be an unofficial vote on Brexit and a referendum on Johnson's withdrawal agreement with the EU, the outcome remains unpredictable given the polarised atmosphere and the conflicting views of the various contesting parties.
- While economic data points to further weakness ahead in Japan, the BoJ left its policy unchanged, citing conditions in financial markets and inflation didn't necessitate additional stimulus at this point.
- A decent set of Q3 earnings reports from a few large Chinese companies and easing trade tensions with the US helped sentiment slightly improve later in the month. The Shanghai Composite gained 0.8%, and is up 17.5% year-to-date, supported by ongoing liquidity easing measures.
- While tensions in the MENA remain elevated, oil prices reflect an uneasy calm and investors continue to focus on the global economic slowdown and its dampening impact on oil demand.

MONTHLY INVESTMENT OVERVIEW

October witnessed an extension of September's risk-on trade with risk assets generally outperforming traditional safety assets. A third insurance rate cut by the Fed for the year, US Q3 earnings managing to hold up against a low bar of expectations, the US and China inching closer to a partial trade deal, and a reduced likelihood of a no-deal Brexit, all helped investor sentiment with the MSCI EM Index outperforming its developed market counterpart, the MSCI World Index, by 1.6% on the month. On the earnings front and with 70% of the S&P500 companies having reported their 3Q results, blended EPS has fallen by 1.0% while sales have grown by 3.0% so far. Overall, several companies have managed to beat the low earnings' expectations, providing some support to equities last month.

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While doubts remain about a long-term, comprehensive US-China trade deal owing to structural differences, the prospect of a mini "phase one" deal between the two sides came as a welcome relief for risk sentiment globally. The deal involves China committing to increase purchases of US agri-products, expedite the opening of its financial sector and pledge currency market reforms. While consumer-related data in the US continued its show of strength on the back of a half-century low unemployment rate and rising wages, a deteriorating manufacturing sector prompted the Fed to cut rates by 25bps for a third time this year. Overall, the FOMC remains divided between policymakers who favor insurance against risks from a manufacturing contraction versus those who see a strong consumer that is supporting economic growth. On the month, the US 10-year Treasury yield edged up 3bps to 1.69% while credit markets outperformed government bonds in general.

Across the continent in Europe, sentiment further weakened across most sectors in October as the persistent slump in Eurozone manufacturing weighed on services and on the outlook for retail sales. An initial estimate showed that the Euro-area expanded by only 0.1% in Q3, its weakest growth in six years. The bloc's sliding economic confidence lends further credence to outgoing ECB President Draghi's warnings and his decision to restart QE. Focus now shifts to Lagarde who inherits a limited ECB toolkit and is prodding governments to initiate meaningful fiscal measures to stimulate the bloc's sagging economy. Slowing global growth amid trade tensions, a struggling auto sector, and Brexit continue to weigh on Germany's industrial sector and the Euro-area as a whole. On the month, the EuroStoxx50 gained 1.0% while the EUR appreciated 2.3% against the USD.

After intense parleys in the UK parliament, PM Johnson lost his Brexit vote twice in October and was forced to formally ask the EU to delay Brexit. While the EU reluctantly agreed to grant an extension until January 31, Johnson managed to win backing in Parliament to hold an election on December 12 in an attempt to break the over two-year deadlock. While the election will be an unofficial vote on Brexit and a referendum on Johnson's withdrawal agreement with the EU, the outcome remains unpredictable given the polarised atmosphere and the conflicting views of the various contesting parties. On the month, the GBP rallied 5.3% against the USD as the likelihood of a no-deal Brexit declined significantly. The FTSE100 which derives almost 70% of its revenue from abroad, was hurt by the strength in the GBP, losing 2.2% on the month.

MONTHLY INVESTMENT OVERVIEW

Amid a broader slowdown in China and trade tensions with South Korea, Japanese exports declined more than expected in September, led by a 6.7% and a 15.9% drop in shipments to China and South Korea, respectively. Meanwhile, October's manufacturing PMI showed new orders declined at their fastest clip since June 2016. While economic data points to further weakness ahead, the BoJ left its policy unchanged, citing conditions in financial markets and inflation didn't necessitate additional stimulus at this point. The strength of the safe-haven JPY, which has gained 1.5% against the USD so far this year, hasn't helped authorities to meet their inflation goal. On the month, the JPY ended flat against the USD while the Nikkei225 rallied 5.4%.

Amid increasing evidence of downward pressures on the Chinese economy, the country's Q3 GDP growth missed forecasts. The 6.0% GDP growth figure underscored the increasing toll of the trade war with the US. Ahead of a month-end deadline for companies to pay taxes and in response to a broader economic slowdown in China, the PBoC injected roughly USD35 bn into the financial system. Meanwhile, a decent set of Q3 earnings reports from a few large companies and easing trade tensions with the US helped sentiment slightly improve later in the month. The Shanghai Composite gained 0.8%, and is up 17.5% year-to-date, supported by ongoing liquidity easing measures.

The easing threat of US sanctions after Turkey agreed to an extended ceasefire in northern Syria and declining, though still elevated inflation, allowed the Turkish Central Bank to act more aggressively than expected. The Bank cut the benchmark one-week repo rate from 16.5% to 14.0%. Elsewhere, centre-left populist leader Fernandez was elected as Argentine President in a vote dominated by economic concerns. The vote was a return to the old politics of populism and complicates outgoing Macri's reform efforts agreed with the IMF. While Fernandez has promised to respect all obligations, he has urged the IMF to allow more fiscal room and outline a reasonable path to Argentina's economic recovery. The ARS fell 3.6% against the USD in October and has lost almost 60% against the USD year-to-date.

> "Oil prices remain under pressure as the protracted trade dispute between the US and China has muted demand while global markets are awash in supply amid booming output from US shale fields"

Worries about the state of the global economy continued to weigh on oil demand. Weeks after a series of strikes on Saudi's oil facilities, reports carried news of an attack on an Iranian oil tanker in the Arabian Gulf. While tensions in the region remain elevated, oil prices reflect an uneasy calm and investors continue to focus on the global economic slowdown and its dampening impact on oil demand. Overall, oil prices remain under pressure as the protracted trade dispute between the US and China has muted demand while global markets are awash in supply amid booming output from US shale fields. On the month, Brent edged lower by 0.9% while the S&P Pan Arab Composite lost 2.3%.

Asset Class Views

Asset Class	September	October	View / Rationale
Equities	↘	↘	
US	↘	↘	Rich valuations keep upside capped amid lackluster earnings outlook.
Europe	↘	↘	EU macro data still falling; valuations are not cheap either.
UK	↘	↘	Brexit-can kicked further down the road; an uncertainty premium to persist.
Japan	↔	↔	Global slowdown weighing on Japan's dominant export sector.
China	↔	↔	Economic outlook relatively soft; long-term bottom-up opportunities remain.
India	↘	↘	Economic slowdown showing signs of bottoming out.
Brazil	↔	↔	Economy struggling to make a comeback from the deep recession of 2015-16.
Russia	↔	↔	Narrative needs to shift from macro stability to growth; room for further monetary easing.
MENA	↘	↘	Structural reforms key to unlock lacklustre growth prospects.
Asset Class	**September**	**October**	**View / Rationale**
Fixed Income	↔	↔	
US	↔	↔	Yield differential attractive against the rest of the world although the Fed has turned neutral.
Europe	↘	↘	Valuations excessive even if falling macro data prevents rates from normalizing.
UK	↔	↔	BoE expanding balance sheet to counter slowdown risks.
Japan	↘	↘	BoJ tinkering with the slope of the yield curve while keeping rates zero-bound.
China	↔	↔	Both monetary and fiscal policy remain very accommodative.
India	↔	↔	Significant room to ease monetary policy amid low inflation and slow growth.
Brazil	↔	↔	Central Bank cuts rates to an all-time low, but signals caution ahead.
Russia	↔	↔	Real interest rates are high, scope for further rate cuts.
MENA	↔	↔	Selectivity remains a priority as credit concerns to rear their ugly head.

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

Asset Class Views

Asset Class	September	October	View / Rationale
Currencies			
USD / EUR	↔	↔	USD monetary policy likely to switch to Neutral from here.
USD / CHF	↗	↗	Maintain a Favourable stance for the USD as the Fed indicates a pause in rate cuts.
USD / GBP	↗	↗	Brexit drama to keep GBP vulnerable against most G10 currencies.
USD / JPY	↗	↗	Continue to Favour the USD as Japanese export sector continues to struggle.
EUR / CHF	↔	↔	Both currencies face headwinds from Euro-area weakness and Brexit.
EUR / GBP	↗	↗	GBP is more vulnerable than the EUR on Brexit uncertainties.
EUR / JPY	↔	↔	Maintain our Neutral stance on the EUR versus the JPY.
CHF / GBP	↗	↗	GBP remains speculative amid Brexit vagaries.
CHF / JPY	↔	↔	Accommodative central banks on both sides warrants a Neutral stance.
GBP / JPY	↔	↔	Continue to be Neutral on the GBP versus the JPY.

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