MONTHLY INVESTMENT OVERVIEW

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

JAN 2018

- Global equity markets had a strong start to 2018 with the MSCI All Country World Index gaining 5.7% in January, supported by a robust performance in both developed and emerging markets.
- While the global recovery continues with leading indicators pointing toward continued expansion, a potentially higher than expected rate path has caused investors to place fixed-income and equity valuations under increased scrutiny.
- In the US, while Q4 2017 GDP growth missed expectations, the January jobs report showed a healthy increase with wage growth accelerating to its quickest pace since 2009, boosting inflation expectations.
- In Europe, the STOXX Europe 600 gained 3.0% by the third week of January, but gains were partly reversed towards the end of the month as the EUR appreciated sharply against the USD over the possibility of a faster paring back of asset purchases by the ECB.
- In the UK, further progress in Brexit negotiations and a better-than-expected 0.5% GDP reading in Q4, which took the full year figure to 1.5%, helped strengthen the GBP.
- Japan’s manufacturing PMI recorded a December reading of 54.0 from November’s 53.6, marking 16 consecutive months of expansion. Meanwhile, core CPI for December showed a 0.9% year-over-year increase, unchanged from November and highlighting difficulties faced by the Bank of Japan (BoJ) in reviving inflation.

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Global equity markets had a strong start to 2018 with the MSCI All Country World Index gaining 5.7% in January, supported by a robust performance in both developed and emerging markets. Solid global economic data – strong earnings growth, robust manufacturing activity, an uptick in wage growth and inflation expectations – has placed additional pressure on the Fed to increase rates, resulting in a significant shift upwards in the US yield curve. A potentially higher than expected rate path has caused investors to place fixed-income and equity valuations under increased scrutiny. 2018 may well be a year where stronger than expected economic growth may be too much of a good thing, at least for now.

> "A potentially higher than expected rate path has caused investors to place fixed-income and equity valuations under increased scrutiny."

While the global recovery continues with leading indicators pointing toward continued expansion, investor return expectations improved entering 2018 on a weaker USD, US tax reforms and synchronous global demand growth. Manufacturing PMIs remain strongly in expansionary territory amid buoyant trade across the US, Europe, Japan and major emerging markets, and are being reflected in the ongoing Q4 earnings season. At the time of this writing, 284 S&P500 companies have reported their FY2017 results so far with earnings growth of 14.5% and sales growth of 8.8%. Meanwhile in Europe, 134 STOXX Europe 600 companies reported their results, with earnings growth of 9.6% and sales growth of 8.6%.

In the US, while Q4 2017 GDP growth missed expectations, the ISM purchasing manager index (PMI) pointed to robust manufacturing activity. The January jobs report showed a healthy increase with wage growth accelerating to its quickest pace since 2009, boosting inflation expectations. Overall, the US macroeconomic picture remained broadly strong and expectations for Q1 GDP growth are high. In the fixed-income markets, government shutdown concerns, better-than-expected CPI and retail sales data alongside speculation that China may slow or halt purchases of US Treasuries pushed the policy-sensitive 2-year Treasury yield to over 2.0% for the first time since 2008. The 10-year yield ended the month higher by 30bps at 2.7% on higher inflation prospects amid stronger growth expectations from corporate tax cuts and other pro-growth measures. Earlier in the month, the Dollar Index declined by 1.7%, falling to a three-year low on initial comments by US Treasury Secretary Mnuchin who said that a weak dollar was good for US trade. He later backed off the comments saying that the USD will reflect US economic strength in the long run. Overall, a strong set of earnings and an end to the government shutdown continued to aid equities with the S&P500 ending the month of January 5.6% higher.

In Europe, German Chancellor Merkel drew closer to striking a deal with the Social Democratic Party (SDP) in January and finalized the coalition terms with several key figures of the SDP at the time of this writing in early-February. Merkel will still set policy guidelines as Chancellor but the SDP will now get the finance, foreign, and labor ministries. The pact will still need to be approved by a broader group of SDP members and should it be rejected, then Merkel may need to form a minority government that is dependent on opposition votes to enact laws. Meanwhile as expected, the ECB kept its interest rate and bond-buying program unchanged at its January meeting. The Bank had reduced its monthly asset purchases from EUR60 bn to EUR30 bn starting January and said it still plans to maintain that pace at least through September this year. While noting that the exchange rate presents a source of uncertainty for the inflation outlook, Draghi stated that he still sees inflation on a "a sustained upward trend". The STOXX Europe 600 gained 3.0% by the third week of January, but gains were partly reversed towards the end of the month as the EUR appreciated sharply against the USD over the possibility of a faster

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paring back of asset purchases by the ECB. For the month, the EUR appreciated 3.4% versus the USD. Overall, confidence in the Eurozone remains high with unemployment falling to 8.7% and leading indicators suggesting continued acceleration.

In the UK, the GBP appreciated 5.0% against the USD in January to its highest level since the Brexit vote in June 2016. Further progress in Brexit negotiations and a better-than-expected 0.5% GDP reading in Q4, which took the full year figure to 1.5%, helped strengthen the GBP. The UK's manufacturing PMI was at its highest in a decade and labor productivity also made its biggest gain since 2011, up by 0.9% for Q3 2017. Meanwhile, headline inflation stands at 3.0%, which will likely lead the Bank of England (BOE) to hike rates this year and contributed to the strengthening of the GBP. Overall, the UK economy beat expectations and grew at an annualized rate of 2.0% in Q4 2017, while the export-oriented FTSE100 lost ground and finished the month lower by 2.0%.

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The World Bank (WB) forecast Japan's economy to grow 1.3% in 2018, slightly lower than 2017 due to the possibility of a gradual withdrawal of the government's fiscal stimulus and the moderation in export growth. That said, growth momentum continues to be strong amid a strengthening global economy. While Japan's manufacturing PMI recorded a December reading of 54.0 from November's 53.6, marking 16 consecutive months of expansion, core CPI for December showed a 0.9% year-over-year increase, unchanged from November and highlighting difficulties faced by the Bank of Japan (BoJ) in reviving inflation. Expectedly, the BoJ left its benchmark rate at -0.1% and would continue targeting a 0.0% yield for the 10-year government bond. The Bank expects the inflation rate to reach 2.0% in about two years. The Nikkei225 gained 1.5% even as the JPY appreciated 3.1% against the USD in January.

Within emerging markets, China's GDP rose 6.8% year-over-year in Q4 2017, taking the full year figure to a solid 6.9%. Meanwhile, a sustained deleveraging drive to purge pollution and excessive borrowing has begun to weigh on China's manufacturing PMI which slipped from 51.6 in December to 51.3 in January, an 8-month low. However, the non-manufacturing PMI rose to 55.3 from 55.0 in December, well into expansionary territory. China's forex reserves rose to USD3.14 trillion, their highest level in more than a year as exports rose more than expected in December due to rising global demand for Chinese goods.

In an expected move, S&P lowered its long-term rating for Brazil sovereign debt from BB to BB-, with a stable outlook, citing faltering progress on fiscal reforms and greater political uncertainty in 2018. The move brings S&P's long-term sovereign rating for Brazil three notches below Investment Grade (IG). Moody's and Fitch both rate Brazil two notches below IG. Meanwhile in India, Finance Minister Jaitley delivered a pre-election budget aimed at boosting distressed rural incomes but at a cost of larger-than-expected fiscal slippage. In response, the 10-year government bond yield rose above 7.5%, its highest level since March 2016. Moreover, a proposal to revive a tax on long-term equity gains hurt sentiment but the benchmark NIFTY50 still finished the month 4.7% higher.

In the oil markets, robust global demand, sharply falling crude oil inventories and record-high compliance by OPEC members with the production cuts continued to push oil prices higher. According to the International Energy Agency (IEA), US crude output could surpass 10 million barrels a day in 2018 as higher prices motivate shale producers to ramp-up production, provided the OPEC-led production caps remain in palace. Brent gained 3.3% and closed January at USD69/bbl, a three-year high.

Asset Class Views

Asset Class	December	January	View / Rationale
Equities	↘	↘	
US	↘	↘	Faster than expected wage growth sparks fear of a more hawkish Fed.
Europe	↔	↔	Sustained economic expansion and contained inflation bode well for equities.
UK	↘	↘	Continued GBP strength to weigh on the export-oriented Footsie.
Japan	↔	↔	Uptick in global demand and loose monetary policy to support equities.
China	↔	↔	Equities supported by strong global demand despite Government-led slowdown.
India	↘	↘	Pre-election budget displays larger-than-expected fiscal slippage.
Brazil	↘	↘	Earnings continue to rebound led by higher commodity prices.
Russia	↔	↔	Muted inflation to allow the Central Bank to lower rates in an attempt to stimulate the economy.
MENA	↘	↘	Oil price rebound a positive but consumer and business confidence still low.
Asset Class	**December**	**January**	**View / Rationale**
Fixed Income	↔	↔	
US	↔	↔	Sustained economic expansion, an uptick in wage growth and the recently passed tax cuts to put upward pressure on yields.
Europe	↘	↘	Continued expansion to put upward pressure on yields as end of ECB QE is in sight.
UK	↔	↔	Pick-up in growth and relatively high inflation put the BoE in a position to raise rates.
Japan	↘	↘	Yields vulnerable to upside risks amid accelerating economic growth.
China	↔	↔	Government-led slowdown and higher borrowing costs amid deleveraging calls for credit selectivity.
India	↔	↔	Rates to remain steady with the RBI keeping a closer eye on inflationary pressures.
Brazil	↔	↔	Central Bank expected to remain dovish on below target inflation and timid recovery.
Russia	↔	↔	December rate cut was part of a gradual shift towards a more neutral rate policy.
MENA	↔	↔	USD-pegged policies to move in tandem with a higher rate path in the US.

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

Asset Class Views

Asset Class	December	January	View / Rationale *
Currencies	NA**	NA**	
USD / EUR	↔	↔	Continue to be Neutral as various forces play in favour of both currencies.
USD / CHF	↗	↗	Favour the USD as Fed could raise rates faster than expected.
USD / GBP	↗	↔	BOE signalled that it may need to accelerate rate hikes to combat inflation.
USD / JPY	↗	↗	Favour the USD on diverging monetary policies.
EUR / CHF	↗	↗	Favour the EUR on continued economic growth.
EUR / GBP	↗	↔	BOE signalled that it may need to accelerate rate hikes to combat inflation.
EUR / JPY	↗	↗	Favour the EUR as ECB expected to end QE by the end of the year.
CHF / GBP	↗	↔	Higher rate path expected by the BoE as economy grows faster than expected.
CHF / JPY	↗	↗	Favour the CHF as the BoJ maintains its easy monetary policy stance.
GBP / JPY	↔	↔	Neutral stance on GBP/JPY at current levels.

* Reference currency is the USD

**NA - Not applicable

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

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IMPORTANT INFORMATION