

# MONTHLY INVESTMENT OVERVIEW

بنك الإمارات  
للإستثمار

EMIRATES INVESTMENT BANK

Asset Class	View	Current Allocation*	Benchmark Allocation*
 Equities		40.0%	35.0%
 Fixed Income		42.5%	52.5%
 Real Estate		5.0%	5.0%
 Commodities		2.5%	2.5%
 Cash		10.0%	5.0%

 Overweight,  Favour,  Neutral,

 Cautious,  Underweight

\* Allocations are based on a Balanced 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



-  Robust corporate earnings, increasingly positive US economic data, Biden's plans for massive additional US policy stimulus, accelerating economic growth and a renewed pledge by the Fed to remain accommodative aided risk appetite and pushed equities higher.
-  With the vaccine rollout proceeding well and Covid-19 cases broadly under control, the US consumer has started to spend as the economy reopens, feeling more confident. This setup means growth and inflation are heating up with the pace of job growth also accelerating.
-  Optimism about the outlook for the Eurozone economy strengthened in April due to a pickup in inoculations and the prospect that the region's EUR750 bn joint recovery fund will soon kick in.
-  While the UK has suffered one of the worst death tolls from the pandemic so far, PM Johnson's administration also rolled out one of the most successful inoculation programs globally.
-  China's tech sector remained under a regulatory cloud after authorities imposed wide-ranging financial restrictions on 13 well-known internet companies, including Tencent and TikTok developer ByteDance. The crackdown comes as Chinese authorities are looking to rein in the growing influence of the country's largest internet companies.
-  While support emanating from US stimulus plans, dovish central banks and rising commodity prices are all playing in favour of EM, worries over India's deepening Covid-19 crisis, escalating US-Russia tensions and China's Huarong debt concerns are weighing on investor sentiment and acting as a headwind.
-  Oil has rallied in 2021 as the rollout of vaccines allows major economies to reopen and as the OPEC+ started to gradually ease the supply curbs they imposed last year to reduce excess global oil inventories.

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April was a solid month for global equities across the board. The MSCI World returned 4.5% alone in the month, what it achieved in a volatile Q1.

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On the fiscal side, the Biden administration unveiled plans to pay for its \$1.8 trillion spending plan with higher taxes, focused on the wealthiest Americans. On the earnings front and with more than 90% of the S&P500 constituents having reported, blended year-over-year EPS grew 50.3% according to FactSet data with more than 86% exceeding EPS expectations. Meanwhile, global yields also cooled from their recent highs, the Dollar Index fell 2.1% which in turn helped Emerging Market (EM) assets despite a surge in India's COVID-19 infections. Developed equities, represented by the MSCI World Index, gained 4.5%, outperformed their EM counterparts, represented by the MSCI EM Index, which gained 2.4%.

With the vaccine rollout proceeding well and Covid-19 cases broadly under control, the US consumer has started to spend as the economy reopens, feeling more confident, having almost 15% of GDP in excess savings since the start of pandemic last year. This setup means growth and inflation are heating up with the pace of job growth also accelerating. At the time of this writing, US headline CPI as of April rose 4.2% compared to a year ago, its biggest increase since 2008 and core CPI grew by 3%. **Despite repeated assurances from the Fed that the uptick in inflation is "transitory", investors remain reluctant and heightened fears about the risk of rising consumer-price gains are driving investors in to Treasury inflation-protected securities.** In our view, inflation remains a major concern for investors in terms of its effect on Central Banks accommodative policies and we expect inflation to stabilize and rise gradually after a spike in the next couple of months as supply side

makes a comeback, demand normalizes and low base effects resolve.

The Fed announced its policy to hold its benchmark interest rate steady near zero. While acknowledging rapid progress on vaccinations and strong policy support, Fed Chair Powell said that it would be "some time" before there was substantial further progress in the economic recovery and that it was "not time yet" to begin discussing a change to its asset purchase program. **Although inflationary expectations are increasing on the back of**

**strong pent-up demand and rising commodity prices, the Fed's preferred inflation gauge still remains well below the central bank's 2% goal.** Even as the longer-term trend in yields has turned higher, strong reassurance from the Fed alongside rising cases and uneven progress globally on vaccinations kept yields in check through April. The US 10-year Treasury yield closed the month at 1.63%, lower by 11bps.

Coronavirus infections and slow progress on vaccinations drove the Eurozone into a double-dip recession in Q1. However, optimism about the

outlook for the Eurozone economy strengthened in April due to a pickup in inoculations and the prospect that the region's EUR750 bn joint recovery fund will soon kick in. Sentiment strengthened markedly in manufacturing and turned positive in services. Meanwhile, the European Commission proposed reopening borders to fully inoculated travellers, a step toward a return to normalcy. Despite the measured progress, the increase in government bond yields since December creates a reason for concern prompting the ECB's Lagarde to pledge to conduct asset purchases at a "significantly higher pace" in Q2. The EuroStoxx50 was up 1.4% in April, while in a bid of risk assets strengthening, the EUR appreciated 2.5% against the USD.

While the UK has suffered one of the worst death tolls from the pandemic so far, PM Johnson's administration also rolled out one of the most successful inoculation programs globally. Now, PM Johnson is resisting calls from members of his ruling

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Conservative Party to speed up the easing of rules that have been in place for much of the past 13 months. Meanwhile, **the UK's economic rebound from the pandemic is already raising concerns that the BoE will start discussing how and when they can start the monetary normalization process.** The FTSE100 rallied by 3.8% in April amid hopes for a faster economic recovery while the GBP gained 0.3% against the USD.

Japan's PM Suga called a third state of emergency in the Tokyo region in an attempt to control the latest spread of the virus. Despite the continued restrictions on mobility, April's factory activity expanded at the fastest pace since early 2018 and suggested that greater-than-expected strength in the factory sector may support the economy while consumer spending is hit by virus countermeasures and caution over infections. The strong expansion also highlights the tailwind manufacturers are getting from strong external demand, particularly from China and the US. The export-oriented Nikkei225 still fell 1.3% in April as the JPY gained 1.3% against the USD.

China's tech sector remained under a regulatory cloud after authorities imposed wide-ranging financial restrictions on 13 well-known internet companies, including Tencent and TikTok developer ByteDance. JD.com Inc., Meituan and Didi were also among firms summoned to a meeting with several regulatory agencies. The crackdown comes as Chinese authorities are looking to rein in the growing influence of the country's largest internet companies. Meanwhile, **China's recovery was a mixed bag in April, with fixed-asset investment buoyed by strong exports and a hot property market, while retail sales missed forecasts.** Manufacturing activity fell short of expectations in April, affected in part by semiconductor shortages and suggesting that the economy's strong pandemic bounceback could be normalizing. On the month, the Shanghai Composite ended flat and the CNY appreciated 1.2% against the USD.

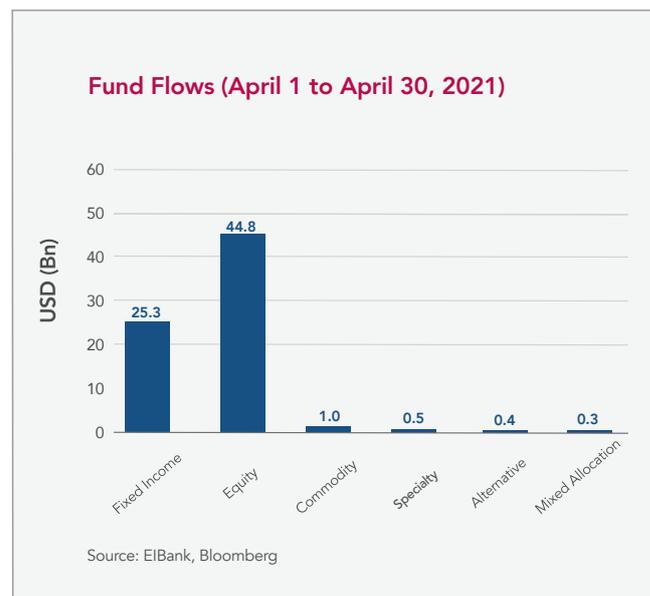
**!! The economic recovery in EM is likely to be even further delayed due to slow vaccine rollouts while government finances are also under pressure !!**

Strong demand from China, a post-pandemic boom in government spending and pledges by major countries to decarbonize the world have lifted the prices of many commodities like steel, copper, palladium. This, alongside renewed Dollar weakness, as investors turned optimistic about global growth prospects in April, augurs well for EM in general. Support emanating from US stimulus plans, dovish central banks and rising commodity prices are all playing in favour of EM. Meanwhile, worries over India's deepening Covid-19 crisis, escalating US-Russia tensions and China's Huarong debt concerns are weighing on investor sentiment and acting as a headwind. The economic recovery in EM is likely to be even further delayed due to slow vaccine rollouts and difficulty containing the coronavirus, while government finances are also under pressure. The JP Morgan EM Currency Index was up 1.3% in April while EM equities continue to lag their developed peers, represented by the MSCI EM Index, returned 2.4%.

Oil has rallied in 2021 as the rollout of vaccines allows major economies to reopen and as the OPEC+ started to gradually ease the supply curbs they imposed last year to reduce excess global oil inventories. Although optimism over the resumption of economic activity in Europe and the US has underpinned demand for oil, the health crisis in India, the third-largest oil importer, remains grave. Meanwhile, **Saudi Aramco's profit soared in Q1 following a recovery in global oil markets, allowing the Kingdom's state-owned company to maintain its USD75 bn dividend, for now, as pressure increases for Saudi companies to re-invest their profits back into the economy instead of paying out dividends.** At the time of this writing, oil continued to climb up as a cyberattack put the largest oil products pipeline in the US out of action. Volatility continues to be high given positive demand outlook from China, US and Europe and demand worries from India as the country battles the pandemic. On the month, Brent rallied 5.8% while the S&P Pan Arab Composite Index was up 4.3%.

## Fund Flows

- Net flows into global equity funds remained strong but decelerated moderately in April compared to the previous month, partly reflecting net outflows from China-dedicated products. Firmer demand for western European shares continued and flows in US-dedicated funds remained stable with largest inflows into infrastructure funds, possibly due to the Biden administration's recent proposals. Flows into cyclicals viz., financials and energy were strong.
- Flows into global fixed income remained robust. EM bond funds continued to see moderate net inflows, led by hard currency. Overall, investors continued to reduce exposure to government debt on rising inflation and growth expectations, ploughing monies into both IG and HY corporate credit.
- Money market fund assets rose and benefitted from investor concerns surrounding rising inflationary pressures.
- Risk appetite gained momentum and weighed on the Dollar Index. Cross-border FX flows accelerated, and favoured GBP, EUR, and CAD.



## Portfolio diversification is warranted

With limited precedent on consumer behaviour immediately after a pandemic, investors are struggling to grasp the extent to which demand can make a comeback. There are estimates that US consumers will have banked about USD2.5 trillion in extra savings by year end, equivalent to 17% of pre-pandemic annual consumer spending.

Fed officials have repeatedly stated that they see the recent spurt in inflation as “transitory” and a fallout of the pandemic-induced supply-side disruptions, last year’s low base and pent-up demand. While a surge in consumer spending and higher commodity prices pose upside risks to short term inflation, still relatively high unemployment, propensity of consumers to save for a rainy day given the scarring caused by the pandemic and the overarching role of technology in dampening prices continue to act as headwinds to runaway inflation in our view.

Also, not all of those excess dollar savings will get spent at once; rather it is anticipated they will support a multiyear expansion. This, alongside the Fed’s reassurances that it stands ready to do whatever it takes to keep short-term rates under control is keeping investor optimism alive despite concerns around inflation and the pandemic being far from over.

Meanwhile, ten-year breakeven rates, a proxy for expected inflation over the next decade, are near their highest since March 2013 at about 2.57%. The five-year breakeven rate rose as high as 2.82%, the highest since 2005. From a historical perspective, treasury markets have overestimated the persistence of early-cycle inflation, as the 10-year yield and break-even inflation actually surged the most in the early parts of the last two recoveries and then normalized as demand-supply dynamics balanced.

Overall, a steady rise in real yields signals the global economy continues to gain traction. While the impact of higher rates are considered a headwind to valuations, interest rates are going up for the right reasons (i.e., higher growth expectations and pricing power). Similar to past cycles, better growth improves cash flows and pushes credit spreads lower, which should more than offset the adverse impact from a higher risk-free rate. In such an environment, we would broadly continue to favour equities over fixed income. Continually improving employment and consumer confidence should help maintain a positive earnings cycle over the foreseeable future.

Although confidence in the global economic outlook is strong and improving, expectations for asset returns are more modest given the strong run up since the market bottom in March 2020 and due to lofty valuations. EPS growth, more than multiple expansion, should drive returns for 2021 and 2022 and consolidate the positive performance for risk assets, in our view. Within equities, steeper yield curves accrue to the benefit of financials while bull markets in commodities are a boon to industrials, energy and materials. These cyclical sectors plus consumer discretionary are expected to drive bulk of the earnings growth relative to the growth sectors. This is a marked departure over the past many years, where bulk of the growth in earnings came from technology and healthcare.

Rising commodity prices and strong export demand from a resurgent US consumer should also help cushion any uneven recovery in EM over the medium term. With higher volatility and dispersion, we recommend higher portfolio diversification in high quality equity names across growth, cyclicals and defensive, moderate duration fixed income exposure and overall active management to benefit from intermittent volatility over the next few months.

## Multi Asset Strategies

Asset Class	Conservative		Balanced		Aggressive		Views
	Current Weight	Strategic Weight	Current Weight	Strategic Weight	Current Weight	Strategic Weight	
<b>Fixed-Income</b>	<b>67.5%</b>	<b>75.0%</b>	<b>42.5%</b>	<b>52.5%</b>	<b>15.0%</b>	<b>25.0%</b>	
Developed Markets	60.8%	71.3%	34.0%	44.6%	10.1%	18.8%	
US Sovereigns	3.3%	7.5%	1.1%	2.6%	0.2%	0.6%	
Developed Market Sovereigns	3.4%	7.5%	1.1%	2.6%	0.1%	0.6%	
Developed Market Aggregate (IG)	47.3%	56.3%	19.1%	28.9%	4.5%	10.0%	
Developed Market High Yield	6.8%	0.0%	12.7%	10.5%	5.3%	7.5%	
Emerging Markets Fixed Income	6.7%	3.8%	8.5%	7.9%	4.9%	6.3%	
<b>Equities</b>	<b>20.0%</b>	<b>17.5%</b>	<b>40.0%</b>	<b>35.0%</b>	<b>65.0%</b>	<b>60.0%</b>	
Developed Markets	15.0%	13.6%	30.0%	27.1%	48.8%	46.5%	
US Equities	10.5%	8.8%	21.0%	17.5%	34.1%	30.0%	
European Equities	4.0%	3.5%	8.0%	7.0%	13.0%	12.0%	
Japanese Equities	0.5%	1.3%	1.0%	2.6%	1.7%	4.5%	
Emerging Markets Equities	5.0%	3.9%	10.0%	7.9%	16.2%	13.5%	
<b>Real Estate</b>	<b>2.5%</b>	<b>2.5%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>	
<b>Commodities</b>	<b>0.0%</b>	<b>0.0%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>5.0%</b>	<b>5.0%</b>	
Gold	0.0%	0.0%	1.5%	1.9%	3.0%	3.8%	
Silver	0.0%	0.0%	1.0%	0.6%	2.0%	1.3%	
<b>Cash &amp; Equivalents</b>	<b>10.0%</b>	<b>5.0%</b>	<b>10.0%</b>	<b>5.0%</b>	<b>10.0%</b>	<b>5.0%</b>	

Underweight Cautious Neutral Favour Overweight

## Asset Allocation Views

- We remain constructive on risk assets given the booming global growth, reopening from the pandemic, strong policy stimulus amid uncertainty around policy shifts and rising inflation. Given multiple factors in play around the growth and policy stance, strategic positioning in equities is warranted, with greater diversification and higher cash allocation to take advantage of the expected volatility.
- We are underweight on investment-grade credit as it has come under pressure from rising yields, but continue to find value in select high-yield names globally and recommend to seek fixed income exposure through this segment. We recommend to stay shorter duration within fixed income through active portfolio management.
- COVID-19 recovery should take place in stages with the US recovering first, followed by Europe and finally Emerging Markets. This likely will prolong the rotation and prevent yields from rising too fast and destabilizing equity multiples. As a result, we continue our strategic preference to select large tech companies in the US with structural tailwinds, strong balance sheets, and sustainable free cash flow. However, with increasing inflation expectations, we recommend increased allocation to cyclicals (financials, materials, energy).
- We understand inflation remains a major concern for investors and expect inflation to stabilize and rise gradually after a spike in the next couple of months and recommend meaningful allocation into inflation beneficiaries (banks, commodities), as well as income generating assets. We recommend increasing exposure to precious metals (gold, silver) and TIPS, for tail risk hedging.
- With US expected to lead global growth, rising nominal yields and the correction in the US dollar from 2020, our outlook on the USD remains neutral.
- We favour EM countries with a strong export base to withstand shock to domestic demand owing to rising covid cases and slow vaccinations. GCC credit is expected to remain in demand amid favourable risk-reward dynamics improving macro and scarcity of supply.
- Despite heightened concerns on rising inflation expectations, we are still in an accommodative backdrop for equities and other income generating assets. We seek to diversify portfolio risks across equities, fixed income, income-generating assets and cash, to generate superior long-term return. We prefer to use cash as a buffer against drawdown risks in both equity and fixed income markets.

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