MONTHLY INVESTMENT OVERVIEW

بنك الامارات للاستثمار

EMIRATES INVESTMENT BANK

Asset Class	View	Current Allocation*	Benchmark Allocation*
Equities	Favour	40.0%	35.0%
Fixed Income	Neutral	45.5%	52.5%
Real Estate	Neutral	2.5%	5.0%
Commodities	Neutral	2.0%	2.5%
Cash	Favour	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

MAR 2021

- The first quarter of 2021 witnessed a classic value-led reflation trade sending intermediate to longer-duration bonds and traditional haven assets (gold, CHF, JPY) lower, exacerbated by the strength in the USD.
- Longer-term US Treasuries faced a steep sell-off in the first quarter of the year fuelled by Biden's USD1.9 trillion fiscal stimulus and plans to accelerate the vaccine campaign.
- European yields have also risen as part of a global reflation trade on the back of the US economic rebound even as the ECB has warned any near-term pickup in the region's inflation will be temporary.
- The UK's relatively superior vaccination efforts have brought forward expectations for a sharp economic rebound, allowing the BoE to strike a relatively hawkish tone.
- Domestic demand in Japan held up better-than-expected despite a state of virus emergency that ended in March as the government and the BoJ put in place a series of measures to help financially struggling firms and households gain access to cheap funds.
- While China's strong export growth and the domestic recovery continued to support industrial demand, the stronger economic growth is forcing the PBoC to dial back some of the stimulus it pumped into the economy last year to curb debt and ease the risk of asset bubbles.
- The massive US stimulus is becoming a double-edged sword for EM. On the one hand, the booming US economy will act as a driver for EM exports. On the other hand, rising US long-term interest rates would tighten global financial conditions.
- The OPEC+ is betting vaccinations and fiscal policy will drive a strong recovery in demand despite a rising number of virus cases in some regions.

MONTHLY INVESTMENT OVERVIEW

The first quarter of 2021 witnessed a classic value-led reflation trade sending intermediate to longer-duration bonds and traditional haven assets (gold, CHF, JPY) lower, exacerbated by the strength in the USD. While regional divergences on vaccination blur the outlook somewhat, the common theme driving up yields as well as cyclical equities has been rising optimism about the global growth outlook. A shrinking virus threat, a measured success in the vaccine rollout, expanding US stimulus, and trillions of dollars in pent-up savings have raised US growth forecasts with the economy expected to grow more than 6.5% in 2021. Developed equities, represented by the MSCI World Index, gained 4.5% while their Emerging Market (EM) counterparts, represented by the MSCI EM Index, are up by 2.0% in the quarter gone by.

Longer-term US Treasuries faced a steep sell-off in the first quarter of the year fuelled by Biden's USD1.9 trillion fiscal stimulus and plans to accelerate the vaccine campaign. The scale of stimulus in the US and globally caused some nervousness over inflation. While we expect inflation to rise in the months ahead, buoyed by transitory factors - notably higher energy prices, supply chain disruptions and low base effects – high unemployment and muted wage pressures mean inflation should settle within central banks' flexible average inflation targets over the medium term. For now, the US yield curve appears to be repricing for a higher inflation and growth regime, with potential to steepen as negative real yields move higher. The US 10-year Treasury yield increased 83bps to end at 1.74%.

"For now, the US yield curve appears to be repricing for a higher inflation and growth regime, with potential to steepen as negative real yields move higher"

Overall, March saw some further sector rebalancing take place as the shift to a major expansion in fiscal policy drove up forecasts for growth and sent Treasury yields higher. While the first week of March witnessed a sharp reflation-based rotation with the tech-heavy Nasdaq falling almost 2% and energy and bank shares rising, the last week witnessed significant volatility within equities when forced selling by a large US-based investment firm sent several marquee names including ViacomCBS, Discovery, and Tencent Music tumbling. In our view and given where valuations stand, we continue to remain selective as the virus remains a risk. A renewed lockdown in parts of Europe, rising cases in the US and inadequate vaccine coverage in many EM are a reminder that a smooth recovery is far from guaranteed.

Europe's struggle with inoculations and the resurgence of the coronavirus have tempered the bloc's growth expectations. Meanwhile, European yields have also risen as part of a global reflation trade on the back of the US economic rebound even as the ECB has warned any near-term pickup in the region's inflation will be temporary. In response, the ECB has accelerated its emergency bond-buying program to push back against a rise in borrowing costs that threatens to undermine the bloc's fragile recovery. With a much smaller stimulus and slower vaccinations as compared to the US, the Euro-area recovery is expected to be slower and weaker. Fresh lockdowns in France and some other countries add to the near-term challenges. The EuroStoxx50 rallied 10.3% in Q1 while the EUR lost 4.0% against the USD.

With about 45% of its residents vaccinated compared with only about 11% for the EU, the UK's economy is well on track to reopen fully in the second half of this year. Meanwhile, UK manufacturing growth accelerated to its highest level in a decade as orders jumped in anticipation of looser lockdown restrictions. The country's relatively superior vaccination efforts have brought forward expectations for a sharp economic rebound, allowing the BoE to strike a relatively hawkish tone. The FTSE100 gained 3.9% in the quarter while the GBP gained 0.8% against the USD.

MONTHLY INVESTMENT OVERVIEW

Amid the ongoing global semiconductor shortage, exports from Japan took a hit. The global shortage of semiconductors led to a bigger-than-expected drop in Japan's industrial production, putting pressure on the country's auto and electronics exports. A major earthquake also disrupted supply chains inside Japan. Meanwhile, domestic demand held up better-than-expected despite a state of virus emergency that ended in March as the government and the BoJ put in place a series of measures to help financially struggling firms and households gain access to cheap funds. The Nikkei225 gained 6.3% in Q1 while the JPY lost its safe-haven bid and fell 7.2% against the USD.

China's economy picked up speed in March, with the industrial, services and construction sectors improving after the Lunar New Year holidays on the back of strong domestic and international demand. China's manufacturing PMI picked up in March suggesting the domestic recovery is gathering pace as economic activity returns to normal and demand strengthens. While strong export growth and the domestic recovery continued to support industrial demand, the stronger economic growth is forcing the PBoC to dial back some of the stimulus it pumped into the economy last year to curb debt and ease the risk of asset bubbles. Chinese equities sold off from mid-February on concerns around monetary tightening. The Shanghai Composite Index ended Q1 lower by 0.9%.

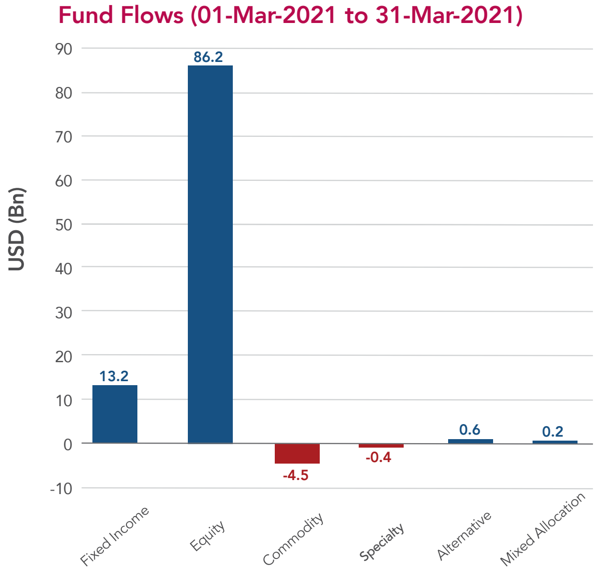
" Saudi equities posted a healthy monthly 8.3% gain, driven by financials, following the announcement of a USD3.2 trillion investment package to jump-start the economy "

Even though China – with its early control of the virus – and the US – with its outsized stimulus – are leading the charge, the outlook for broader EM has become somewhat complicated as the rise in US yields creates incremental capital flight fears for EM economies. While the much expected and aggressive US economic rebound is underpinning the Dollar Index, US treasuries have led the global rates selloff and have started to put pressure on some of the EM economies. Overall, the massive US stimulus is becoming a double-edged sword for EM. On the one hand, the booming US economy will act as a driver for EM exports. On the other hand, rising US long-term interest rates would tighten global financial conditions. In response, EM central banks are diverging with some beginning to hike interest rates. Turkey, Russia and Brazil all raised borrowing costs last month. The MSCI EM Index gained 2.0% in Q1 while the JP Morgan EM Currency Index fell 3.1%.

Amid growing pressure to increase output and greater conviction that global fuel demand is on a firmer footing, the OPEC+ agreed to add about 2mio bbl/day starting May. Although European oil consumption is weak as France, Germany and Italy extend or impose new lockdowns, demand indicators from China remain strong. Overall, the OPEC+ is betting vaccinations and fiscal policy will drive a strong recovery in demand despite a rising number of virus cases in some regions. Crude corrected in March amid a resurgence in Covid-19 infections in Europe and an imminent increase in OPEC+ supplies, which could swell further if the US and Iran agree on a deal. Brent lost 3.9% in March but is up 22.7% in Q1. Meanwhile, Saudi equities posted a healthy monthly 8.3% gain, driven by financials, following the announcement of a USD3.2 trillion investment package to jump-start the economy. The S&P Pan Arab Composite Index is up 11.2% in Q1.

Fund Flows

- Net flows into global equity funds remained strong in March, led by stronger demand for US-focused funds. Investors net sold China-dedicated products hurt by the wind-down of Archego Capital Management but remained interested in global EM funds; By sector, flows were concentrated in cyclicals viz., financials and real estate.
- Flows into global fixed-income funds remained positive but moderated. IG credit funds saw marginal outflows as longer-term yields rose on rising inflation expectations while demand for HY products remained strong as growth expectations saw upward revisions.
- Money market fund assets rose and benefitted from the heightened volatility and the sell-off in long-duration bonds.
- Cross-border FX flows were muted, often a sign of lower investor risk appetite as rising US yields and the accompanying Dollar strength acted as headwinds.



Source: EIBank, Bloomberg

Normalization of longer-term yields

Against the extremely supportive fiscal and monetary backdrop starting March 2020, growth and inflation expectations are growing, particularly for the US economy, while rising cases elsewhere are coinciding with rapid rollout of vaccines which provide cushion to risk appetite.

Although confidence in the global economic outlook is strong, expectations for asset returns are more modest given the strong run up since the market bottom in March 2020; EPS growth, more than multiple expansion, should drive returns for 2021 and 2022 and consolidate the positive performance for risk assets, in our view.

Meanwhile, the Fed reinforced that it stands ready to do whatever it takes to keep short-term rates under control. The dovish outlook from the last FOMC minutes is keeping investor optimism alive amid a reminder that the pandemic is far from done. Despite that, treasuries have corrected sharply as investors continue to reprice expectations for reduction in asset purchases (easing) and a steady rise in rates as the vaccine rollout gathers pace and the prospect of additional stimulus fosters a rosier outlook for the economy.

On the flip side, higher US yields and a resilient dollar are expected to put some pressure on EM assets in the coming months. In the near term, less easy financial conditions can temporarily disrupt the recovery process. Rising cases and a slow pace of vaccinations in Europe, monetary tightening in China and relatively superior growth prospects in the US mean that the EM economic recovery risks being uneven. Rising commodity prices and strong export demand from a resurgent US consumer should help cushion any uneven recovery in EM over the medium term.

Overall, a steady rise in real yields signals the global economy continues to gain traction. Structural forces including productivity gains from technological innovations are expected to keep inflation in check, in our view. In such an environment, we would broadly continue to favour equities over fixed income. Lower unemployment and an expected strong jobs market should help maintain a positive earnings cycle over the foreseeable future.

Multi Asset Strategies

Asset Class	Conservative		Balanced		Aggressive		Views
	Current Weight	Strategic Weight	Current Weight	Strategic Weight	Current Weight	Strategic Weight	
Fixed-Income	**70.0%**	**75.0%**	**45.5%**	**52.5%**	**17.5%**	**25.0%**	Neutral
Developed Markets	63.0%	71.3%	36.4%	44.6%	11.8%	18.8%	Cautious
US Sovereigns	*3.5%*	*7.5%*	*1.1%*	*2.6%*	*0.2%*	*0.6%*	Neutral
Developed Market Sovereigns	*3.5%*	*7.5%*	*1.1%*	*2.6%*	*0.2%*	*0.6%*	Neutral
Developed Market Aggregate (IG)	*49.0%*	*56.3%*	*20.5%*	*28.9%*	*5.3%*	*10.0%*	Underweight
Developed Market High Yield	*7.0%*	*0.0%*	*13.7%*	*10.5%*	*6.1%*	*7.5%*	Neutral
Emerging Markets Fixed Income	7.0%	3.8%	9.1%	7.9%	5.7%	6.3%	Favour
Equities	**20.0%**	**17.5%**	**40.0%**	**35.0%**	**67.5%**	**60.0%**	Favour
Developed Markets	14.5%	13.6%	29.0%	27.1%	48.9%	46.5%	Neutral
US Equities	*11.0%*	*8.8%*	*22.0%*	*17.5%*	*37.1%*	*30.0%*	Favour
European Equities	*3.0%*	*3.5%*	*6.0%*	*7.0%*	*10.1%*	*12.0%*	Neutral
Japanese Equities	*0.5%*	*1.3%*	*1.0%*	*2.6%*	*1.7%*	*4.5%*	Neutral
Emerging Markets Equities	5.5%	3.9%	11.0%	7.9%	18.6%	13.5%	Favour
Real Estate	**0.0%**	**2.5%**	**2.5%**	**5.0%**	**2.5%**	**5.0%**	Neutral
Commodities	**0.0%**	**0.0%**	**2.0%**	**2.5%**	**2.5%**	**5.0%**	Neutral
Gold	*0.0%*	*0.0%*	*1.5%*	*1.9%*	*1.9%*	*3.8%*	Neutral
Silver	*0.0%*	*0.0%*	*0.5%*	*0.6%*	*0.63%*	*1.3%*	Neutral
Cash & Equivalents	**10.0%**	**5.0%**	**10.0%**	**5.0%**	**10.0%**	**5.0%**	Favour

Underweight Cautious Neutral Favour Overweight

Asset Allocation Views

- With stronger growth expected and the accompanied rise in inflation expectations, particularly for the US economy, we continue to believe in the reflation theme albeit selectively. Rising cases are coinciding with rapid rollout of vaccines which provides reasonable cushion to risk appetite.
- We continue our strategic medium to long term preference to select large tech companies in the US with structural tailwinds, strong balance sheets, and sustainable free cash flow generation.
- Given the unprecedented monetary and fiscal stimulus in the US, our outlook on the USD remains cautious over the medium to long term and we continue to prefer selective cyclicals, economy-facing smaller caps and quality EM equity over the medium term. In the short term, the case for strength in the USD remains intact based on rise in nominal yields.
- Secular disinflationary forces -globalization, technology, ageing – will continue to anchor core inflation over the medium term. We recommend some exposure to precious metals (gold, silver) and TIPS, for tail risk hedging.
- In EM corporate credit, we favour countries with strong current account and domestic demand. GCC credit is expected to remain in demand amid favourable risk-reward dynamics improving macro and scarcity of supply. We recommend to stay shorter duration within fixed income through active portfolio management.
- We always seek to diversify portfolios across equities, credit, income-generating assets and cash, to generate superior long term returns.

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

CONTACTS:

Asad Saeed Khan, CFA
Head of Asset Management
asad.khan@eibank.com

Yaser Al-Nimr
Director - Asset Management
yaser.alnimr@eibank.com

Joyson D'Souza, CFA
Associate Director – Asset Management
joyson.dsouza@eibank.com

Ravindra Deshpande
Associate Director – Asset Management
ravindra.deshpande@eibank.com

IMPORTANT INFORMATION