# MONTHLY INVESTMENT OVERVIEW

EMIRATES INVESTMENT BANK

| Asset Class | View | Current Allocation* | Benchmark Allocation* |
|---|---|---|---|
| Equities | Neutral | 37.5% | 40.0% |
| Fixed Income | Neutral | 40.0% | 40.0% |
| Real Estate | Cautious | 2.5% | 5.0% |
| Commodities | Neutral | 5.0% | 5.0% |
| Low Vol / Alternatives | Neutral | 5.0% | 5.0% |
| Cash | Overweight | 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

NOV 2020

- The combination of higher potential efficacy of the vaccine candidates and the prospect of a new, more stable US administration fuelled a sharp rally in risk assets predicated on the idea of a robust global economic recovery in 2021 and muted geopolitical risks. While the backdrop remains positive for next year with reduced political tail risks, further fiscal stimulus and an improvement on the virus front, a number of uncertainties remain.
- Eurozone governments are struggling to deal effectively with the virus as they vacillate between keeping economies open and imposing new restrictions. Despite the apparent problems, optimism over a potential Brexit trade deal, signs that the coronavirus pandemic is peaking and a likely breakthrough on the joint stimulus deal have helped the EUR gain around 6.4% year-to-date against the USD.
- Japan's PM Suga called for a third extra budget last month to help the economy recover following two previous supplementary budgets. In the upcoming package, the government plans to earmark more money to promote domestic tourism and dining out.
- Amid further evidence that it's economic recovery is becoming more balanced and broad-based, China's services sector accelerated in November as new business rose at its fastest pace in over a decade. The Shanghai Composite gained 5.2% in November while the CNY outperformance continued and has partly been due to the robust recovery in the domestic economy.
- Emerging Market (EM) equities, as represented by the MSCI EM Index, continued to rise and gained 9.2% in November alone, hitting nearly a 3-year high as optimism surrounding a vaccine, broad-based USD weakness, a renewed search for yield buoyed risk appetite toward EM assets.
- After days of tense talks, OPEC+ members agreed to ease oil-output cuts next year. While the 500k bbl/day of extra production falls short of wide expectations of a full 3-month delay in the 2 mio bb/day of supply cuts, OPEC+ members have struck a cautious deal as members seek to release more oil into the market despite new waves of coronavirus persistently weighing on demand.

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The combination of higher potential efficacy of the vaccine candidates and the prospect of a new, more stable US administration fuelled a sharp rally in risk assets predicated on the idea of a robust global economic recovery in 2021 and muted geopolitical risks. With central banks still erring on the side of providing too much stimulus and the increasing prospects of a return to normalcy with the rollout of vaccination programmes, beaten-down value equities (energy, banks, industrials, etc) that would benefit form a broad-based global economic recovery continued their recent outperformance over high-growth equities (tech). The MSCI World Value Index rallied 14.8% in November, significantly outperforming its growth counterpart, the MSCI World Growth Index, which gained 10.8%.

With vaccine news signalling that the ongoing health crisis could soon be behind us, the outlook for risk assets has brightened recently. While the backdrop remains positive for next year with reduced political tail risks, further fiscal stimulus and an improvement on the virus front a number of uncertainties remain, including logistical challenges, anti-vaxxers and how long any vaccine's protection against the coronavirus will last. With equities trading at lofty valuations, earnings expectations should continue to recover to provide continued support for equities.

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After sharply rising in October on expectations that a Democratic clean sweep might result in a large fiscal boost, US treasury yields were volatile but ended mostly flat in November. Despite reduced political uncertainty in the US, positive vaccine-related news flow and a sharp rally in risk assets globally, the US 10-year Treasury yield ended lower by 4bps to 0.84% as investors expect that the Fed could start buying more longer-term US Treasuries to help temper some recent upward pressure on yields. The strong likelihood of a divided US government also would require the Fed to do the heavy lifting in the absence of a strong US fiscal response due to political gridlock. Long-term US treasury yields have risen smartly from their March lows and further up-move from here would depend on the speed and strength of the US economic recovery coupled with stimulus.

Eurozone governments are struggling to deal effectively with the virus as they vacillate between keeping economies open and imposing new restrictions. The Euro-area economy, battered by a second wave of infections and stricter containment measures, is likely to start 2021 on a weak footing even as EU member states remain at loggerheads over finalizing a multi-year budget that includes the EUR750 bn joint pandemic recovery fund. Despite the apparent problems, optimism over a potential Brexit trade deal, signs that the coronavirus pandemic is peaking and a likely breakthrough on the joint stimulus deal have helped the EUR gain around 6.4% year-to-date against the USD. On the month, strong global cues lifted the EuroStoxx50 by 18.1%.

Like its counterparts in Europe, the UK government once again reintroduced restrictions to contain the latest outbreak of the virus. Although the UK government has spent more than most other economies in supporting households and companies through the lockdowns, it recognised that businesses and households would need continued help longer and so announced the extension of the furlough scheme to the end of March. Allowing the virus to spread extensively in the first and second wave along with very extensive lockdowns have meant that the UK is set to suffer more economic pain from the coronavirus crisis than any other major economy. The GBP, mired in Brexit-related uncertainty, rose 2.9% against the USD while the FTSE100 rallied 12.4% in November.

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High frequency indicators are flashing warning signs about the strength of Japan's economic recovery as new Covid cases hit fresh highs. November also marked a fourth month in a row that the core CPI was negative. In response, PM Suga called for a third extra budget last month to help the economy recover following two previous supplementary budgets. In the upcoming package, the government plans to earmark more money to promote domestic tourism and dining out. Meanwhile, the BoJ is likely to consider extending its special funding program to support virus-hit businesses. The Nikkei225 rose 15.0% while the JPY edged higher by 0.3% against the USD through November.

Amid further evidence that it's economic recovery is becoming more balanced and broad-based, China's services sector accelerated in November as new business rose at its fastest pace in over a decade. Services firms hired more workers for a fourth straight month in November, while business confidence improved to its highest level in almost 10 years. New export orders improved despite the recurring coronavirus, driven by holiday demand and the reopening of businesses and schools in the US and Europe. In response, the PBoC appears to be starting a transition back to a neutral stance against a backdrop of a robust economic recovery. The Shanghai Composite gained 5.2% in November while the CNY outperformance continued and has partly been due to the robust recovery in the domestic economy.

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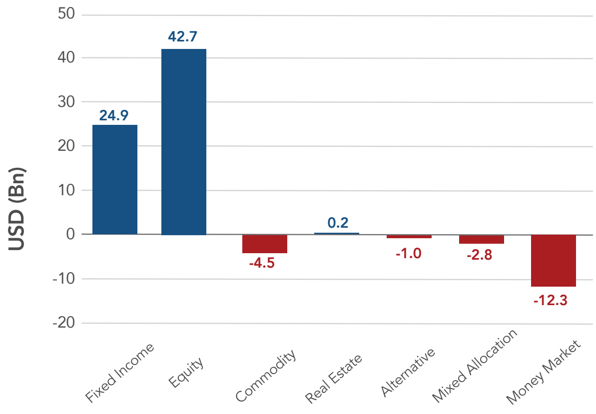
India's RBI pledged to keep its easy money policy for as long as necessary to support the virus-battered economy, while leaving borrowing costs unchanged amid stubborn inflation. The bank also revised its growth outlook, seeing a milder 7.5% contraction this fiscal year as opposed to its reading in October for a 9.5% decline. Meanwhile, Turkey's inflation climbed more than expected in November, raising pressure on the new Central Bank Governor Agbal to keep monetary policy tight. The TRY has been battered this year by an accommodative monetary stance alongside a surge in fiscal spending and a government-sponsored credit push. Overall, Emerging Market (EM) equities, as represented by the MSCI EM Index, continued to rise and gained 9.2% in November alone, hitting nearly a 3-year high as optimism surrounding a vaccine, broad-based USD weakness, a renewed search for yield buoyed risk appetite toward EM assets.

After days of tense talks among OPEC+ members and reports of a possible breakdown in OPEC+ unity, the group agreed to ease oil-output cuts next year and will add 500k bbl/day of production to the market in January. While the deal falls short of wide expectations of a full 3-month delay in the 2 mio bb/day of supply cuts, OPEC+ members have struck a cautious deal as members seek to release more oil into the market despite new waves of coronavirus persistently weighing on demand. Overall, the recovery trade worked well for oil prices and Brent rose 27.0% to USD47.6/bbl in November. Meanwhile, strong global cues lifted the S&P Pan Arab Composite by 7.8% last month.

## Fund Flows

- US election results and positive news about vaccines resulted in a large increase in investor risk appetite, with record net inflows into global equities, pro-cyclical rotations within fixed income, and a pickup in cross-border fund flows to emerging markets.
- Within equities, demand for EM assets continued to rise through the month. Demand was highest for EM equity products, led by China as the country's domestic recovery gained further momentum.
- Flows into global fixed income funds also had a pro-risk bias. Treasury funds experienced net outflows, while credit and aggregate-type products saw accelerated net inflows as search for yield gained momentum in November.
- Money market funds continued to witness outflows amid declining risk-aversion and strong investor appetite for risk assets.
- Cross-border FX flows were also consistent with rising investor risk appetite. Globally cross-border demand favoured EM FX, especially the CNY.

Fund Flows (01-Nov-2020 to 30-Nov-2020)




Source: EIBank, Bloomberg

## Investment Theme: Emerging Markets coming into favour

The positive sentiment post the recently concluded US election, encouraging progress on vaccines, abundant liquidity, weaker US Dollar and an improving outlook for a global cyclical recovery have driven demand for Emerging Market (EM) assets.

Inflows into EM reached a monthly record in November and given the prospect of a breakthrough in US stimulus talks, we expect continued strong inflows into EM over the course of 2021. From a flow of funds perspective, we expect investors will continue to shift assets away from money market funds and towards equities.

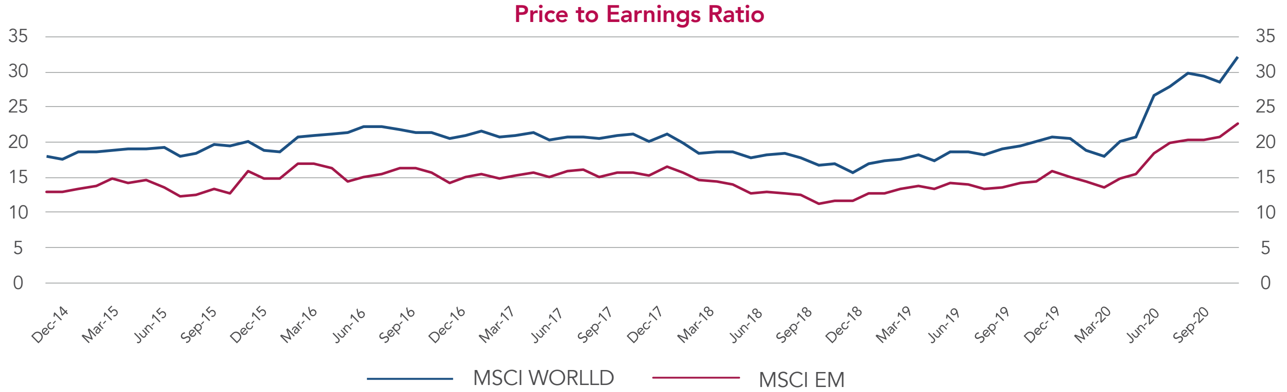
While equities in general have climbed to all-time highs and equity allocations are elevated, yields on cash remain near zero and factors including a low interest-rate environment and robust fund flows support the medium-term outlook for risk assets. Emerging markets have lagged the developed markets for multiple cycles, hence this also warrants a case, subject to macro stability and improved trade relationships/ geo-politics.

Despite the recent sharp rally, the MSCI EM Index trades at a P/E of 25x, a significant discount to its developed counterpart, the MSCI World Index's P/E of 33x.

On the fixed-income side, the search for yield remains unrelenting in an ultra-loose monetary policy environment. While debt levels remain elevated and pose a challenge in the long term, lack of real inflationary pressures, pro-cyclical investor positioning, and a weak dollar bode well for EM assets.

We recommend re-allocation of some exposure to EM equities and fixed-income for long term investors seeking higher growth.

Price to Earnings Ratio




| Fund Name | Currency | Focus | AUM (USD mns) | Asset Class | YTD Return | 5Yr Annual Return | Expense Ratio | Gross Indicative Div. Yield |
|---|---|---|---|---|---|---|---|---|
| iShares JP Morgan USD EM Debt | USD | EM-Debt | 19,267 | Fixed Income | 0.0% | 6.3% | 0.39% | 4.1% |
| iShares MSCI EM Equity | USD | EM-Equity | 27,440 | Equity | 13.4% | 11.7% | 0.68% | 0.9% |

| Asset Class | Opportunity set | UW | C | N | F | OW | Comments |
|---|---|---|---|---|---|---|---|
| Main | Equities | | | | | | Equity earnings improving albeit from a low base; Cyclical sectors are showing early signs of leadership; sustainable value rotation depends on a broad-based economic recovery post the successful vaccine outcome and a moderately steepening yield curve. |
| | Credit | | | | | | Response function of major central banks remains extremely accommodative and asymmetric - quick to react to downside pressures but willing to let upside forces overshoot. We remain constructive on higher-yielding credit selectively as default risks are more than offset by central bank support. |
| Equities | US | | | | | | Lofty valuations in tech, strong monetary and fiscal support are driving investor positioning into the more domestic economy-facing smaller & mid cap value plays. We still focus on the quality factor within equities while playing the expected cyclical upswing in 2021 and prefer US with neutral positioning. |
| | Europe | | | | | | The make-up of the EuroStoxx50 is geared towards value-oriented sectors like banks, energy and industrials with high-growth tech constituting just 8%. While the long-term outlook remains uncertain, 2021 should augur well as the virus peaks and the recovery picks up pace amid extremely supportive monetary and fiscal policies. |
| | Japan | | | | | | Weak global demand for Japanese goods and services owing to a strenghtening JPY, anemic domestic consumption and high debt levels make the potential economic recovery highly uneven and uncertain. |
| | EM | | | | | | We remain overweight EM equities as a stable political environment under a Biden administration coupled with a weakening USD, expected sharp economic rebound with relatively bettter valuations and a search for yield in a lower-for-longer interest rate world should benefit EM assets. |
| Fixed Income | US IG | | | | | | Risk compensation by almost every measure is at record lows. With the Fed looking to control long-term yields, US IG is extremely sensitive to rising rates and any meaningful curve steepener has the potential to cause significant drawdowns. |
| | US HY | | | | | | Fundamentals are becoming a secondary consideration in a Fed world that opens the path to even tighter spreads amid an unrelenting bid for high yield. We remain constructive on the space and try to find value selectively on a bottom-up basis. |
| | Europe IG | | | | | | While IG valuations have little room for upside, certain consumer cyclicals remain attractive from a risk-reward perspective as the sector is expected to recover gradually and should benefit form the positive vaccine-based recovery trade. |
| | Europe HY | | | | | | We see further rate compression and the HY rebound to continue due to the vaccine news with any further ECB stimulus to add more fuel to the rally. While extended lockdowns could derail the HY recovery, the vaccine developments remain well on track to sustain HY demand amid very low yields elsewhere. |
| | Global Aggregate | | | | | | With significant spread compression already done within the IG space, we favor more cyclical exposures in the quality HY space that are expected to benefit from the re-opening of economies. Even in HY, spreads have narrowed significantly but pockets of opportunity remain on a selective basis. |

UW - Underweight, C - Cautious, N -Neutral, F - Favour, OW - Overweight

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## IMPORTANT INFORMATION