MONTHLY INVESTMENT OVERVIEW

EMIRATES INVESTMENT BANK

Asset Class	View	Current Allocation*	Benchmark Allocation*
Equities	Cautious	35.0%	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	12.5%	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

OCT 2020

- Despite a backdrop of continued gridlock in the US on a new fiscal package, investor sentiment remained positive for most of the month as polls indicated an increased likelihood of a Democratic sweep of both Houses of Congress, which would indicate a larger than expected fiscal package. In the second half of October, however, market volatility rose and investor caution returned on resurgence of the coronavirus second wave and expectations that a "blue wave" could result in higher taxes and tighter regulations on the tech, healthcare, and energy sectors. While Biden won the majority of electoral votes and became the President-elect, Republicans are likely to retain control of the Senate, diminishing the risks somewhat.
- While the Eurozone may have rebounded sharply from the coronavirus-induced recession in Q3 with record quarterly GDP growth of 12.7%, the risk of another severe downturn in Europe is rising as new lockdowns take effect in major countries like Germany, France and Belgium. Despite the rise in cases, the restrictions are less severe than those imposed in April-May, while companies and health authorities are better prepared, meaning the fresh economic decline should be milder in our view.
- In the UK, PM Johnson declared a month-long lockdown after data showed the second wave threatened to overwhelm hospitals. In response, the government and the BoE announced a fresh wave of stimulus, acting in conjunction and more aggressively than predicted as the coronavirus forced another lockdown.
- Data showed China's economic recovery continues to gather steam and remained a bright spot in an otherwise negative growth world, with Q3 GDP growing 4.9% as compared with a year ago. China's success in controlling the virus has allowed its economic recovery to gather pace and a resurgent Chinese consumer should augur well for the global economy.
- EM investors in October had positioned for a Democratic sweep of both the White House and Congress which would have increased the probability of approving significant fiscal stimulus, aiding EM risk assets. This trade did not pan out as expected but a more stable Biden administration compared to a volatile Trump one is likely to improve the US's relations with the rest of the world and create a more conducive political backdrop.

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News flow in October was dominated by the resurgence of Covid-19 mainly in Europe and the fate of the extremely polarized US elections. Despite a backdrop of continued gridlock in the US on a new fiscal package, investor sentiment remained positive for most of the month as polls indicated an increased likelihood of a Democratic sweep of both Houses of Congress, which would indicate a larger than expected fiscal package. At the time of this writing, while Biden won the majority of electoral votes and became the President-elect, Trump is undermining the election results and has taken the battle to courts - raising the prospect of some political uncertainty but with a relatively low probability for a successful legal case.

> " Market volatility rose and global equities fell toward the end of October in reaction to new lockdown announcements in Europe "

Market volatility rose and global equities fell toward the end of October in reaction to new lockdown announcements in Europe, in addition to initial expectations of a Democratic blue-wave sweep that would increase the likelihood of higher taxes and increased regulation on the tech, healthcare, and energy sectors. With Republicans likely to maintain control of the Senate, these threats have somewhat diminished. For the month of October, developed equities, represented by the MSCI World Index, lost 3.1% while Emerging Market (EM) equities, represented by the MXEF Index, outperformed and rose 2.0%, driven by increasing optimism regarding China's economic recovery and a favourable EM outlook.

Meanwhile, with around 90% of the constituents of the S&P500 Index having reported for Q3 2020, blended EPS growth is running at -7.5% while sales fell 2.2% compared with the same quarter a year ago, according to data from FactSet Research. About 86% of the companies reporting have exceeded the low bar of expectations, the highest percentage of S&P500 companies reporting a positive EPS surprise in more than a decade. On the data front, while the US economy has regained more than half the lost jobs since the pandemic began, the fact that Covid-19 still isn't under control and that consumers prefer to stay at home as much as possible will continue to restrain a full recovery. That said, unemployment figures continue to trend downwards, monetary policy continues to be extremely supportive, while a positive announcement on the vaccine front will help sustain the nascent recovery.

The 10-year US Treasury yield rose 19bps in October to 0.87%, its biggest monthly climb in 2 years. In general, treasuries sold off despite weakness in equities as investor positioning shifted to reflect the widely touted Democratic clean sweep of the White House and Congress which would've likely resulted in a large fiscal boost, an even wider fiscal deficit and the possibility of a strong reflation trade. Broadly, this year's unprecedented flood of monetary stimulus has caused fixed-income investors to contend with a sharp decline in global bond yields, compressing future return expectations and leaving little protection against equity drawdown risks.

While the Eurozone may have rebounded sharply from the coronavirus-induced recession in Q3 with record quarterly GDP growth of 12.7%, the risk of another severe downturn in Europe is rising as new lockdowns take effect in major countries like Germany, France and Belgium. In response and in an extraordinary move, the ECB strongly signalled that it will unveil a package of additional easing measures when the Governing Council next meets in December. Despite the rise in cases, the restrictions are less severe than those imposed in April-May, while companies and health authorities are better prepared, meaning the fresh economic decline should be milder in our view. The EuroStoxx50 reacted sharply to lockdown announcements in the last week of October and ended October lower by 7.4% while the EUR fell 0.6% against the USD.

With the UK's Q2 GDP plunging 19.8% and Brexit negotiations still in limbo, announcement of a fresh lockdown across the UK worsened the economic

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outlook for one of the worst affected countries in Europe. PM Johnson declared a month-long lockdown after data showed the second wave threatened to overwhelm hospitals. In response, the government and the BoE announced a fresh wave of stimulus, acting in conjunction and more aggressively than predicted as the coronavirus forced another lockdown. While the BoE boosted its bond-buying program by a larger-than-expected GBP150 bn, the Chancellor of the Exchequer Sunak extended the government's furlough program until March. The FTSE100 declined sharply on the lockdown news and ended the month down 4.9% while the GBP was volatile but ended almost flat against the USD.

"Data showed China's economic recovery continues to gather steam and remained a bright spot in an otherwise negative growth world"

Amid declining factory activity due to weakening output, new business and employment, Japan is considering a USD96 bn budget top-up to offset some of the economic drag resulting from the pandemic. While the economy strongly rebounded in the April-June quarter, lacklustre business and household spending threaten the fragile recovery. Meanwhile and at its October meeting, the BoJ lowered its growth outlook for the remainder of fiscal year 2020 ending March 2021. The Bank also noted that inflation is expected to be negative in the near term as a result of the pandemic. The safe-haven JPY benefitted from increasing demand owing to the relative risk-off environment toward the end of month and ended stronger by 0.8% against the USD in October.

Data showed China's economic recovery continues to gather steam and remained a bright spot in an otherwise negative growth world, with Q3 GDP growing 4.9% as compared with a year ago. While a slower recovery in Chinese consumption remained a drag with retail sales contracting 7.2% in the first nine months of 2020 from a year ago, retail sales rose by a better-than-expected 3.3% in September. Industrial Production rose 6.9% in September from a year ago, bringing total growth for the first nine months of the year to 1.2%. China's success in controlling the virus has allowed its economic recovery to gather pace and a resurgent Chinese consumer should augur well for the global economy. The Chinese growth advantage over the rest of the world reflected in the CNY which gained another 1.5% against the USD in October. The CNY has appreciated 6.25% against the USD since the end of May.

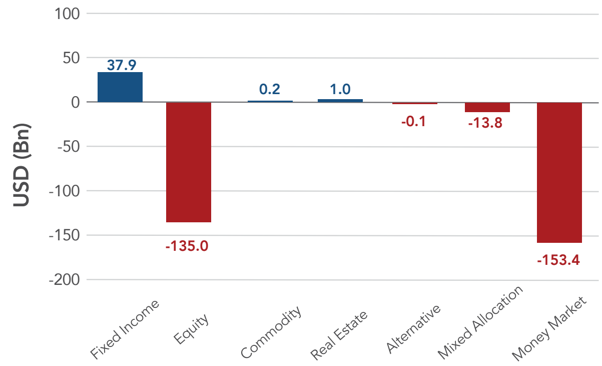
While weakness in developed markets created a generally unfavourable backdrop for EM in the latter half of October, concerns about spiralling inflation and geopolitical developments weighed heavily on Turkish assets and sent the TRY to new all-time lows of 8.3/USD. Meanwhile, India's manufacturing PMI rose to 58.9 in October 2020, the highest in more than a decade as sales continued to surge on measures taken to gradually open the economy. New orders and output at Indian manufacturers continued to recover from the Covid-19-induced contractions. Overall, EM investors in October had positioned for a Democratic sweep of both the White House and Congress which would have increased the probability of approving significant fiscal stimulus, aiding EM risk assets. This trade did not pan out as expected but a more stable Biden administration compared to a volatile Trump one is likely to improve the US's relations with the rest of the world and create a more conducive political backdrop.

The double whammy of growing supply and dwindling demand continues to weigh on oil prices. Brent lost another 8.5% in October after falling almost 10.0% the previous month as coronavirus cases climbed across Europe and the US, raising concerns the fragile demand recovery may be slightly dented or delayed. The oil market is also facing rising supply from Libya, presenting OPEC+ with some tough choices when the group meets at the end of this month to review its output production and cuts. Meanwhile, the S&P Pan Arab Composite ended 2.5% lower on the month.

Fund Flows

- Inflows into global fixed income funds remained firm with high-yield credit products seeing large inflows. Overall, flows continued to favor fixed income over equities as investors preferred to wait and watch the outcome of the US elections and also turned cautious on announcements of fresh lockdown measures in some of the large European countries.
- Cross-border FX flows were moderately positive and strongly favoured the CNY on the back of consistently improving prospects for the Chinese economy. Meanwhile, net inflows into longer-duration fixed income remained firm as investors continued to chase yield.
- Money market fund assets continued their decline, and have fallen for 13 consecutive weeks.

Fund Flows (01-Oct-2020 to 31-Oct-2020)



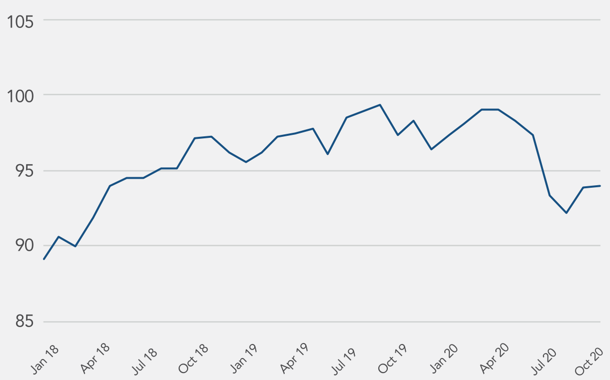
Source: EIBank, Bloomberg

Investment Theme: Conducive growth environment

The price movement of many asset classes over the past couple of weeks has been very consistent with a more favourable macro backdrop. Firstly, a Biden administration coupled with a divided Congress lowers the threat of increased regulation on the tech and healthcare sectors and lessens the probability of a reversal of previous tax cuts by the Trump administration. A Biden administration is also expected to bring some sense of stability in international relations as the US seeks to remedy some of its relationships abroad, mainly in Europe and China.

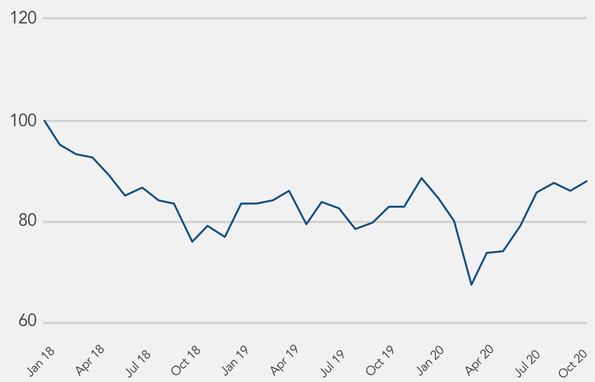
The US presidential elections last week overshadowed several other positive growth factors. The Fed indicated that they will continue to be extremely accommodative while the Bank of England announced a fresh round of stimulus with a larger than expected bond buying program of GBP150 bn. Meanwhile, the unemployment rate in the US fell to 6.9% and Q3 earnings have come in much better than expected. More importantly, Pfizer just announced that their Covid-19 vaccine seems to have a 90% efficacy rate and this opportune announcement has boosted investor sentiment with many cyclical sectors re-pricing upwards.

Dollar weakness benefits risk assets in general



Source: Bloomberg, EIBank

MSCI Emerging Market Index



Source: Bloomberg, EIBank

Asset Class Views

Asset Class	September	October	View / Rationale
Equities	↘	↘	
US	↔	↔	A divided government reduces the threat of increased regulation and a hike in the tax rate.
Europe	↔	↔	Despite a resurgent virus, better preparedness and continued fiscal support from authorities should limit the economic fallout of a second lockdown in some countries.
UK	↘	↘	Economy experiencing a sharp loss of momentum as the country faces another month-long lockdown coupled with Brexit uncertainty.
Japan	↓	↓	Despite a strong rebound in the July-Sep quarter, the pace of recovery is slow as the business mood remains downbeat.
China	↔	↔	More solid readings on PMIs highlight the strength of the recovery.
India	↘	↘	Lack of a meaningful spending boost means the recovery will be gradual and uneven.
Brazil	↘	↘	Generous cash handouts and substantial fiscal and monetary stimulus are fueling a rebound in activity following the pandemic plunge.
Russia	↘	↘	A second wave of Covid-19 is weighing on Russia's recovery.
MENA	↘	↘	Mobility in Saudi is still operating about 20% below its pre-virus level for the last three months. Meanwhile, the IHS Markit UAE PMI fell to 49.5 in October.
Asset Class	**September**	**October**	
Fixed Income	↔	↔	
US	↔	↔	With a Democratic clean sweep looking unlikely, the Fed will have to continue doing the heavy lifting.
Europe	↘	↘	Further stimulus pressure mounts on the ECB after third straight month of Eurozone deflation.
UK	↘	↘	The BoE expanded its QE programme by another GBP150 bn as the economy stares at another lockdown.
Japan	↘	↘	BoJ's Kuroda said the Central Bank was willing to launch further monetary easing "without hesitation" if downside risks increase.
China	↗	↗	A hesitant revival in global demand continues to support the initial supply-side rebound, but may be at risk due to renewed virus fears.
India	↔	↔	Temporary factors causing inflation have started to recede, allowing the RBI to re-focus on reviving growth.
Brazil	↔	↔	The weaker BRL is translating into higher inflation.
Russia	↔	↔	The Central Bank kept its key rate unchanged in September and October, while signaling a bias toward near-term easing.
MENA	↔	↔	Non-oil growth is slower, reserves are lower, debt is higher and deficits are wider.

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

Asset Class Views

Asset Class	September	October	View / Rationale
Currencies *			
EUR	Neutral	Neutral	While risk appetite towards Europe is high, renewed lockdowns and deflationary pressures are likely to weigh on the EUR.
CHF	Neutral	Neutral	A Biden victory lends support to a more conducive global environment and more of a risk-on approach.
GBP	Neutral	Neutral	GBP faces twin attacks from volatile Brexit news flow and fresh lockdowns.
JPY	Neutral	Neutral	USD is facing broad-based weakness as investors rebalance into riskier assets.

* All currency views expressed relative to the USD

Overweight, Favour, Neutral, Cautious, Underweight

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IMPORTANT INFORMATION