MONTHLY INVESTMENT OVERVIEW

بنك الامارات للاستثمار

EMIRATES INVESTMENT BANK

Asset Class	View
Equities	Cautious
Fixed Income	Cautious
Real Estate	Neutral
Commodities	Neutral
Low Vol / Alternatives	Overweight
Cash	Favour

Overweight, Favour, Neutral, Cautious, Underweight

About Emirates Investment Bank

EIBank is a Dubai-based boutique dedicated to the service of an exclusive group of private and institutional clients. Private banking and investment banking needs are approached holistically.

In private banking, the bank prides itself on offering highly personalised investment solutions and one-on-one servicing by a professional team of wealth management specialists. EIBank's open platform provides clients with access to markets globally.

In investment banking, the bank provides clients with advice on mergers & acquisitions, access to capital markets and other corporate finance matters.

MONTH IN BRIEF

JUL 2017

- Global equities continued their upward run in July, supported by expectations of a less hawkish Fed that will follow a cautious approach to rate normalization. An upbeat Q2 earnings season and robust economic data also reinforced the surge upwards.
- Despite some recent doubts to the "reflation trade" amid US policy paralysis and a sliding Dollar Index which lost 8.5% YTD, the Fed is likely to continue with its normalization path on the premise that an increasingly tighter labor market would eventually feed into inflation.
- Draghi is scheduled to attend the US Fed's symposium in Jackson Hole on August 24-26, which he can use as a platform to provide more clarity on the timeline and execution of tapering the ECB's bond-buying program.
- Investors welcomed Greece's 4.625% yielding 5-year bond issue, helping the struggling economy raise EUR3 bn in its first bond issue since 2014. With the sale, PM Tsipras is seeking to chalk out a path for an exit from the current onerous bailout program, which ends in August 2018.
- China's Q2 GDP rose by a better-than-expected 6.9%, matching the strong pace of Q1 and underscoring the economy's resilience, even as the government continues to tighten policy and takes other steps to reduce systematic risks.
- The International Energy Agency (IEA) reported OPEC's June compliance slipped to 78%, even while the average compliance rate during the first six months of the pact was 92%. Saudi Arabia said it planned to step up pressure on member nations that aren't complying with their commitments.

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Global equities continued their upward run in July, supported by expectations of a less hawkish Fed that will follow a cautious approach to rate normalization. An upbeat Q2 earnings season and robust economic data also reinforced the surge upwards. US Q2 GDP rose at an annual rate of 2.6%, up from Q1's lackluster 1.2% annualized pace, but 0.1% below expectations. With around 75% of S&P500 companies having reported, Q2 2017 earnings have increased by 10.1% on average compared with Q2 2016 while revenues have increased by 5.4% over the same period. The Dow Jones surpassed the psychological 22,000 points mark towards the end of the month and global equities edged higher with the MSCI World gaining 2.4% while the MSCI EM rose 6.0% in July alone. With a relatively healthy labor market, low inflation has been the main hindrance in the US Fed's efforts to normalize rates. CPI peaked at 2.7% year-over-year (YoY) in February and has since declined to 1.6%.

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At its July 26 meeting, the FOMC decided to maintain its target federal funds rate at 1%-1.25%, in line with market expectations. The Fed indicated it is ready to begin trimming its balance sheet, stating it expects to begin allowing some of its bond holdings to mature "relatively soon". Despite some recent doubts to the "reflation trade" amid US policy paralysis and a sliding Dollar Index which lost 8.5% YTD, the Fed is likely to continue with its normalization path on the premise that an increasingly tighter labor market would eventually feed into inflation. Later in the month, Chair Yellen said that the Fed is not too far from its neutral rate and that inflation remains fairly low, which caused investors to lower their perception of the Fed from "hawkish" to "less hawkish". This supported markets globally.

In Europe, the macro story continued its upward momentum. Manufacturing PMIs in the region remained in solid expansionary territory, with the German and French manufacturing PMIs at 58.1 and 54.9, respectively. The German Ifo Business Climate Index also hit an all-time high in July. Earlier in the month, the ECB kept interest rates and its monetary stimulus program unchanged. Much like the Fed, Draghi's tone was also less hawkish than in late June, when he suggested the ECB may make an announcement later on in the year about the gradual winding down of its asset purchase program (the implementation of which is largely expected to start at the beginning of 2018). Draghi is scheduled to attend the US Fed's symposium in Jackson Hole on August 24-26, which he can use as a platform to provide more clarity on the timeline and execution of tapering the ECB's bond-buying program.

Meanwhile, Eurostat reported preliminary Eurozone Q2 GDP was up 2.1% compared with a year ago, its fastest growth since 2011 and in line with forecasts, leading the EUR to a 30-month high against the USD. A strengthening Eurozone economy, expectations of monetary policy tightening in early 2018, and general softness in the USD have all contributed to the EUR rally so far which gained 3.6% versus the USD in July alone. In the sovereign debt market and buoyed by the Eurozone's solid recovery, investors welcomed Greece's 4.625% yielding 5-year bond issue, helping the struggling economy raise EUR3 bn in its first bond issue since 2014. With the sale, PM Tsipras is seeking to chalk out a path for an exit from the current onerous bailout program, which ends in August 2018.

In the UK, the Bank of England (BoE) voted to hold rates steady at 0.25% after signalling in its last meeting that rates could rise sooner than anticipated on higher inflation. However, sluggish growth in the first half of the year, an unexpected drop in inflation in June and a weak pickup in wages attributed to a 6-2 vote in favour of holding rates. The BoE also cut its 2017 GDP growth forecast to 1.7% from the earlier 1.9%, with Governor Carney warning that high inflation triggered by a Brexit-fuelled fall in the GBP had hurt consumer spending. The IMF has also taken a similar view and downgraded its 2017 growth forecast for UK GDP from 2.0% to 1.7%. On a positive note, the UK economy seems to be benefitting from the rapid Eurozone recovery. Figures showed the UK manufacturing PMI picked up for the first time in three months in July, boosted

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by a strong reading on exports, primarily driven by the fall in GBP vis-à-vis the EUR. The GBP lost 2.1% against the EUR in July and has lost 4.9% YTD. Despite a marked slowdown in productivity and consumer spending, the unemployment rate fell to 4.5% - the lowest since 1975. Overall, the export-oriented FTSE100 gained 0.9% in July even as the GBP gained 1.5% against the USD over the same period.

As broadly expected, the Bank of Japan (BoJ) kept its monetary policy unchanged and postponed the timing of its 2.0% inflation target yet again, while it lowered its CPI forecast for fiscal years 2017 and 2018. The BoJ affirmed its current yield-curve control and asset purchase program and said that it now expects to hit the 2.0% inflation target in fiscal year 2020. However, it expects the economy to expand 1.8% during fiscal 2017, stronger than an earlier projection of 1.6% made in April. Despite the JPY appreciating by 1.9% against the USD, the Nikkei gained 1.1% in July.

> " In the MENA, the S&P Pan Arab closed flat in July as the IMF lowered Saudi's 2017 GDP growth forecast to 0.1% from 0.4%, citing OPEC production cuts and uncertainty over oil prices "

Moody's upgraded its outlook for China's banking system to stable from negative, the first revision in two years. The rating agency sees fading concerns over China's shadow banking sector following steps from regulators to curb systemic imbalances. The move comes after Moody's had recently downgraded China's long-term local and foreign currency ratings one notch, to A1 from Aa3, on debt concerns and decelerating growth. China's Q2 GDP rose by a better-than-expected 6.9%, matching the strong pace of Q1 and underscoring the economy's resilience, even as the government continues to tighten policy and takes other steps to reduce systematic risks. Consumption contributed roughly 63% to growth in the year's first half, providing evidence of China's efforts to rebalance its economy towards a more sustainable footing, driven by the Chinese consumer.

In India, the Composite PMI fell to 46.0 in July from 52.7 in June, its steepest drop since 2009, owing to the disruption caused to supply and distribution links by the newly rolled out Goods & Services Tax (GST). Meanwhile, the Reserve Bank of India (RBI) cut its benchmark rate by 25bps and urged the government to speed up projects given an "urgent need" to boost slowing private consumption.

The Central Bank of Brazil (CBB) cut interest rates by 100bps to 9.25% after inflation fell to a decade low of 3.0% in June. It is the third time this year that the CBB has cut rates by 100 basis points, in an attempt to pull the economy out of recession. The CBB stated, "the pace of easing will continue to depend on the evolution of economic activity, the balance of risks, possible reassessments of the extension to the cycle, and on inflation forecasts and expectations". However, heightened political uncertainty is likely to continue to weigh on the economy.

In Egypt, the Central Bank unexpectedly raised rates by 200bps for the second time this year, citing that the "temporary" rate hike was aimed at easing the inflationary impact of recent subsidy cuts and tax increases. The Bank last raised interest rates by 200bps in May, stating the move was to contain "demand-side pressures". The weaker EGP, coupled with cuts in fuel and electricity subsidies, has driven inflation to about 30%.

In the MENA, the S&P Pan Arab closed flat in July as the IMF lowered Saudi's 2017 GDP growth forecast to 0.1% from 0.4%, citing OPEC production cuts, uncertainty over oil prices and the impact of structural reforms the country is undertaking to diversify its economy. The Fund lauded the Kingdom's plans to overhaul its economy and recommended a "more gradual phasing of reforms to allow households and businesses more time to adjust". Meanwhile, the International Energy Agency (IEA) reported OPEC's June compliance slipped to 78%, even while the average compliance rate during the first six months of the pact was 92%. Saudi Arabia said it planned to step up pressure on member nations that aren't complying with their commitments. Meanwhile, Brent gained 9.9% in July on bigger-than-expected inventory drawdowns and signals from Saudi Arabia that it would further reduce output in August.

Asset Class Views

Asset Class	June	July	View / Rationale
Equities	↘	↘	
US	↘	↘	Fair to rich valuations on positive earnings momentum. Legislative agenda setbacks could be a headwind.
Europe	↔	↔	Solid economic momentum and fading political risk bode well for European equities.
UK	↘	↘	Several macro and political headwinds continues to make us Cautious on UK equities.
Japan	↗	↗	Unemployment at a record low alongside a determined BoJ should lend support.
China	↔	↔	Fading concerns of a hard landing and a stabilizing macro environment.
India	↔	↔	Goods & Services Tax (GST) disruption and stretched valuations a cause of concern in the short term.
Brazil	↘	↘	Political risk alleviated by a pro-active Central Bank that has room to lower rates.
Russia	↔	↔	Renewed sanctions and low oil price environment create strong headwinds.
MENA	↘	↘	The Qatar situation is evolving, but contained.

Asset Class	June	July	View / Rationale
Fixed Income	↘	↘	
US	↔	↔	Credit spread selectively key as the Fed looks to normalize its balance sheet as early as September.
Europe	↘	↘	The ECB may guide markets on tapering QE as soon as September.
UK	↘	↘	Although the BoE held rates steady in its latest meeting, the Bank will likely remain the course in their path to rate normalization.
Japan	↘	↘	Negative policy rate and 10-year yield pegged near-zero by BoJ makes domestic bonds relatively unattractive.
China	↔	↔	Selectivity remains key as authorities continue to rein in excessive leverage.
India	↔	↔	Slowdown due to Goods & Services Tax (GST) disruption caps yields.
Brazil	↔	↔	Pro-active Central Bank to counter economic downturn, but political risk expected to persist.
Russia	↔	↔	Low inflation and sub-par growth to allow the Central Bank to remain accommodative.
MENA	↔	↔	Evolving geopolitical tensions adversely affecting investor sentiment in (and to) the region.

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

Asset Class Views

Asset Class	June	July	View / Rationale *
Currencies	NM	NM	
USD / EUR	↗	↗	We are starting to lean towards a more Neutral stance on USD/EUR FX as talk of an eventual ECB QE tapering starts to make the rounds.
USD / CHF	↗	↗	The pace of balance sheet reduction and the pace of rate normalization by the Fed to be key.
USD / GBP	↗	↗	Brexit uncertainty to weigh on the UK economy and GBP relative to the USD.
USD / JPY	↗	↗	Weaker than expected inflation in Japan allows the BoJ to be even more accommodative than anticipated, which should weigh down the JPY.
EUR / CHF	↔	↗	Upgrade the EUR to Favour as talk of an eventual ECB QE tapering starts to make the rounds.
EUR / GBP	↗	↗	Favour the EUR over the GBP as talk of an eventual ECB QE tapering starts to make the rounds.
EUR / JPY	↗	↗	Favour the EUR over the JPY given strong economic momentum in Europe.
CHF / GBP	↗	↗	Favour the CHF vs the GBP as Brexit negotiation concerns to weigh on the GBP.
CHF / JPY	↗	↗	Favour the CHF as BoJ expected to remain accommodative in the foreseeable future.
GBP / JPY	↔	↔	GBP and JPY face economic headwinds that put downside pressure on both currencies.

* Reference currency is the USD

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