













MONTHLY INVESTMENT OVERVIEW

بنك الإمارات
للاستثمار

EMIRATES INVESTMENT BANK



MONTH IN BRIEF

Asset Class	View	Current Allocation*	Benchmark Allocation*
 Equities		30.0%	40.0%
 Fixed Income		40.0%	40.0%
 Real Estate		5.0%	5.0%
 Commodities		2.5%	5.0%
 Low Vol / Alternatives		15.0%	5.0%
 Cash		7.5%	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.

-  Global equities were mixed in May as US-initiated protectionist policies alongside European nationalistic movements are threatening to derail a synchronized global growth backdrop.
-  US Treasuries had a relatively volatile month as investors weighed various economic data. A tight labour market and rising oil prices cemented the Fed's rate hike path, while a stronger USD, a cautious tone from the Fed, and geopolitical turmoil in Europe helped push yields lower in what was clearly interpreted as a risk-off trade.
-  US equities recorded decent gains with the S&P500 closing 2.2% higher for the month, supported by a solid Q1 earnings season which saw earnings advance by 23.5% year-over-year (YoY), while revenues rose 8.1%.
-  In Europe, adverse political developments in Italy and Spain, in addition to a strong EUR, have weighed on equity markets and could potentially weaken the strong pace of growth witnessed in 2017.
-  A stronger safe-haven JPY, owing to trade war fears and geopolitical concerns, has complicated BoJ Governor Kuroda's job as he conceded that inflation has continued to be weak despite a steady economic expansion underway in Japan.
-  Chinese stocks finished May in positive territory as 230 China A shares – mainland CNY shares – will be included in the MSCI Emerging Market Index from June 1st, a move that could potentially attract billions of dollars into the mainland stock market.
-  USD strength and heightened risk aversion weighed on EM in May as the MSCI EM Index underperformed the MSCI World Index, its developed market counterpart, by 4.1% in USD terms.

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Global equities were mixed in May as political developments in Italy took centre stage and trade war fears between the US and China resurfaced. Towards the end of the month, **Trump decided to expand his protectionist policies and re-impose steel and aluminium tariffs on the EU, Canada and Mexico.** Although US GDP growth remains intact with a 2.2% annualized growth rate in Q1 and a fairly strong start to Q2, economic activity is somewhat slowing across Europe, China and Japan. While US PMI data continues to look upbeat, composite PMIs from Europe and Japan are showing signs of a slowdown, albeit from high rates. The Eurozone composite PMI declined to 54.1 in May from 55.1 in April, while Japan's manufacturing PMI fell to 52.8, from 53.8. US-initiated protectionist policies alongside European nationalistic movements are threatening to derail a synchronized global growth backdrop.

In the US, equity markets recorded decent gains with the S&P500 closing 2.2% higher for the month, supported by a solid Q1 earnings season which saw earnings advance by 23.5% year-over-year (YoY), while revenues rose 8.1%. The latest jobs report also provided support to risk assets towards the end of the month as **the US economy added 223k new jobs in April, compared to the 2018 monthly average of 207k, while average hourly wages increased by 2.7% YoY.** Meanwhile, the labour market tightened further with the unemployment rate falling to 3.8% in May, its lowest level since April 2000.

In the fixed-income markets, US Treasuries had a relatively volatile month as investors weighed various economic data that played for and against the asset class. A tight labour market and rising oil prices increased inflation expectations and cemented the Fed's rate hike path, while a stronger USD, a cautious tone from the Fed, and increased demand for Treasuries amid geopolitical turmoil in Europe helped push yields lower from their mid-month highs in what was clearly interpreted as a risk-off trade. Meanwhile, minutes of the last Fed meeting show

that the Fed is still forecasting a total of three rate hikes for 2018, maintaining their guidance for two more rate hikes for the rest of the year. Over the month, the US yield curve flattened as the US 2-year yield remained unchanged while both the US 10 and 30-year Treasury yields ended 10bps lower at 2.86% and 3.08%, respectively. Overall risk-off sentiment contributed to the strength in the USD, as the Dollar Index gained 2.3% for the month.

In Europe, adverse political developments in Italy and Spain, in addition to a strong EUR, have weighed on equity markets and could potentially weaken the strong pace of growth witnessed in 2017. **In Italy, after weeks of heightened uncertainty surrounding the formation of a new government and calls for impeachment of President Mattarella, the two populist parties finally formed a coalition government, naming an academic Conte as PM of Italy.** Meanwhile, Spain's opposition parties also formed a new government after ousting PM Rajoy, whose former aides were convicted in a multi-million EUR corruption case.

Over the month, the EUR lost 3.2% against the USD while the EuroStoxx50 edged lower by 3.7%. European government bonds were predominantly driven by political developments in Italy with the Italian 2-year yield touching a 6-year high of 2.64% in a knee-jerk reaction as fears of new elections spiked. With a new coalition government formed shortly after, 2-year yields fell back sharply and closed the month at 1.07%. Meanwhile, the German 10-year government yield lost 22bps to close at 0.34% as investors de-risked their exposure to Eurozone assets.

In the UK, despite wide expectations of a May rate hike, recent disappointing growth figures and falling inflation compelled the BoE to leave interest rates unchanged at 0.5% and to cut its 2018 growth forecast from 1.8% to 1.4%. However, the Bank warned that interest rates may still have to rise in the coming months as inflation, which eased to 2.4% YoY in April – a 12-month low – continues to weigh on consumer and business sentiment. The GBP lost 3.4% in May, while the FTSE100 gained 2.3%.

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Japan's economy contracted by an annualized 0.6% in Q1, worse than analyst expectations of a 0.2% decline amid weaker export growth and a drop in both investment and consumption. Meanwhile, April core CPI came in at 0.4% YoY in April, slowing from 0.5% in March and well below the central bank's 2% inflation target. **A stronger safe-haven JPY, owing to trade war fears and geopolitical concerns, has complicated BoJ Governor Kuroda's job as he conceded that inflation has continued to be weak despite a steady economic expansion underway in Japan.** He reiterated the Bank's readiness to maintain its stimulus program. The Nikkei225 lost 1.2% in May while the JPY gained 0.5% and is 3.4% stronger against the USD year-to-date.

Within Emerging Markets (EM), weaker-than-expected investment and retail sales in April, in addition to a drop in home sales, pointed to a slowdown in Chinese growth as policymakers try to navigate debt risks and negotiate their way to a trade deal with the US. While growth still remains strong, the downtrend is likely to continue as the government reins in debt levels. The CNY has remained relatively stable against the USD so far this year, gaining 1.5% YTD. Meanwhile, Chinese stocks finished May in positive territory as 230 China A shares – mainland CNY shares – will be included in the MSCI Emerging Market Index from June 1st, a move that could potentially attract billions of dollars into the mainland stock market.

India expanded by a strong 7.7% YoY in Q1, almost entirely driven by domestic demand while net exports continue to be sluggish. The data signals the economy has likely turned the corner after a slowdown induced by structural reforms such as demonetization and the Goods and Services Tax (GST). However, the recent depreciation in the INR and inflation concerns due to an increase in oil prices prompted the RBI to hike its policy repo rate by 25bps to 6.25%. Over the month, the INR weakened by 1.1% against the USD, while the Nifty50 closed flat.

!! A strong rebound in the Egyptian economy in Q1 and Saudi's EM Index inclusion by FTSE Russell both helped the S&P Pan Arab Composite rise 8.2% YTD.!!







































Despite the Central Bank of Turkey's emergency 300bps rate hike and other measures to provide dollar liquidity, the TRY continued its downward spiral and lost 11.4% in May alone, reflecting investor concerns about the Bank's ability to tame inflation, particularly amid President Erdogan's interference in monetary policy and his opposition to higher rates. Meanwhile, Moody's, which had already downgraded Turkey to Ba2 from Ba1 in March, announced that it would review the country's credit rating for another potential downgrade, citing concern over economic management and the erosion of investor confidence.

In Argentina, attempts to stem capital outflows proved unsuccessful prompting the government to seek the IMF's help. In recent weeks, **markets have lost confidence in both currencies as a result of spiralling inflation and fiscal laxity. The TRY and the ARS have lost 19.2% and 34.1% respectively against the USD so far this year.**

Overall, USD strength and heightened risk aversion weighed on EM in May as the MSCI EM Index underperformed the MSCI World Index, its developed market counterpart, by 4.1% in USD terms.





















In the MENA, despite higher oil prices, most MENA markets closed with a negative performance for the month with the S&P Pan Arab Composite edging lower by 1.4%. However, a strong rebound in the Egyptian economy in Q1 and Saudi Arabia's Emerging Market Index inclusion by FTSE Russell both helped the S&P Pan Arab Composite rise 8.2% YTD. Meanwhile, **disciplined output cuts by OPEC, supply disruptions in Venezuela and Trump's announcement to pull the US out of the Iran nuclear deal and re-impose sanctions exacerbated supply concerns in an increasingly tighter oil market, helping Brent hit a 3.5 year high of USD80/bbl.** However, oil gave up some of its gains towards the end of the month after Russian and Saudi energy ministers discussed plans to ease some of the OPEC production cuts to address global concerns over rising crude prices. For the month, Brent was up 3.2%.

Asset Class Views

Asset Class	April	May	View / Rationale
Equities			
US			Lingering trade war with key allies creating an aura of global uncertainty.
Europe			Abating political risk, for now, and recent correction in the EUR keep us Neutral on European equities.
UK			2018 GDP forecast by the BoE cut from 1.8% to 1.4% but recent improvement in PMI data encouraging.
Japan			BoJ remaining steadfast in its fight to boost inflation should support risk assets.
China			Focus on selective domestic consumer stocks as US-China trade concerns remain a headwind.
India			Rich valuations and inflation concerns to keep upside limited.
Brazil			10-day trucker strike to affect growth estimates and weigh on equities, while political uncertainty remains ahead of October elections.
Russia			Russia-West political tensions continue to adversely affect sentiment.
MENA			Oil price rally needs to be coupled with pro-growth policies to act as a catalyst for the region.
Asset Class	April	May	View / Rationale
Fixed Income			
US			A cautious Fed to ease upward pressure on short-term yields as yield curve flattens.
Europe			Heightened political risks and lack of inflation to potentially delay ECB taper plans.
UK			Recent pullback in inflation should keep BoE pro-growth.
Japan			Open-ended BoJ to keep yields zero-bound.
China			Credit selectivity is key as authorities focus on deleveraging and quality growth.
India			High oil prices and recent depreciation in the INR to put upward pressure on yields.
Brazil			Despite a sharp depreciation in the BRL, the Central bank held rates amid sluggish growth.
Russia			Selectivity remains key as US-West political tensions to push up local borrowing costs.
MENA			A cautious Fed to ease upward pressure on USD-pegged monetary policies.

 Overweight,  Favour,  Neutral,  Cautious,  Underweight

Asset Class Views

Asset Class	April	May	View / Rationale *
Currencies	NA**	NA**	
USD / EUR			EUR investors may find the recent EUR weakness a good entry point but USD investors would need a larger drop to initiate a position.
USD / CHF			Recent USD appreciation and a cautious Fed lends some support to the CHF.
USD / GBP			Favour the USD as uncertainties continue to weigh on the GBP.
USD / JPY			Favour the USD versus the JPY as BoJ reiterates its ultra-accommodative stance.
EUR / CHF			Adverse political developments to complicate the ECB's QE taper plan.
EUR / GBP			BoE and ECB both face headwinds and remain data-dependent.
EUR / JPY			Favour the EUR versus the JPY as BoJ reiterates its ultra-accommodative stance.
CHF / GBP			Cooling inflation figures helps BoE remain pro-growth and accommodative.
CHF / JPY			Favour the CHF given BoJ's loose monetary stance.
GBP / JPY			Favour the GBP versus the JPY on interest rate differential.

* Reference currency is the USD

**NA - Not applicable

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