

Asset Class Views

Asset Class	View	Current Allocation*	Benchmark Allocation*
 Equities		37.0%	37.5%
 Fixed Income		57.0%	55.0%
 Commodities		1.5%	2.5%
 Cash & Cash Equivalents		4.5%	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

- August brought in a significant surge in volatility followed by a brief period of turbulence led by the unwinding of JPY carry trade on the back of unexpectedly hawkish BOJ policy direction. The volatility subsided and global risk assets recovered to end the month with a positive return.
- The unwinding of the carry trade was triggered by the sharp appreciation in the JPY as a result of a more hawkish BOJ, which was further exacerbated by weaker economic data in the US – namely a weaker than expected jobs report and a higher unemployment rate. The weaker economic data caused the market to price in the potential for a hard landing, recessionary scenario in the US (versus a soft-landing scenario which is still the consensus view across most economists).
- Both Headline and Core Consumer Price Index (CPI) fell straight for the fourth consecutive month to 2.9% and 3.2%, respectively. The measured pace of disinflation, weaker employment data and better than expected retail sales bodes well, in totality, for a first rate cut during the September Fed meeting.
- In the US, the economy is exhibiting signs of slowdown, in line with a restrictive monetary policy rate over the past 12 – 18 months, but we have not materially changed our outlook to the macroeconomy, given the easing financial conditions and weaker but reasonable pace of expected jobs creation, in addition to other consumer spending indicators.
- The equity market correction in early August has shown that ultra-loose monetary policy created market distortions that were not expected by most market participants. We should continue to expect other bouts of volatility in the coming months, emanating from macro indicators and elevated valuations that are pricing in strong growth prospects, as exhibited by the market's adverse reaction to Nvidia's strong 2Q earnings announcement.
- Since June 30, global fixed-income markets have returned 4.4% on average while global equity markets have returned 4.2% until the end of August (albeit with a significant amount of volatility). We continue to believe that market risks are balanced and that bouts of volatility can be used as opportunities to add into quality fixed-income and quality growth equity positions.

Macro & Market Commentary

The onset of August brought in significant surge in volatility followed by a brief period of turbulence led by the unwinding of JPY carry trade on the back of unexpectedly hawkish BOJ policy direction. The volatility subsided and global risk assets recovered to end the month with a positive return.

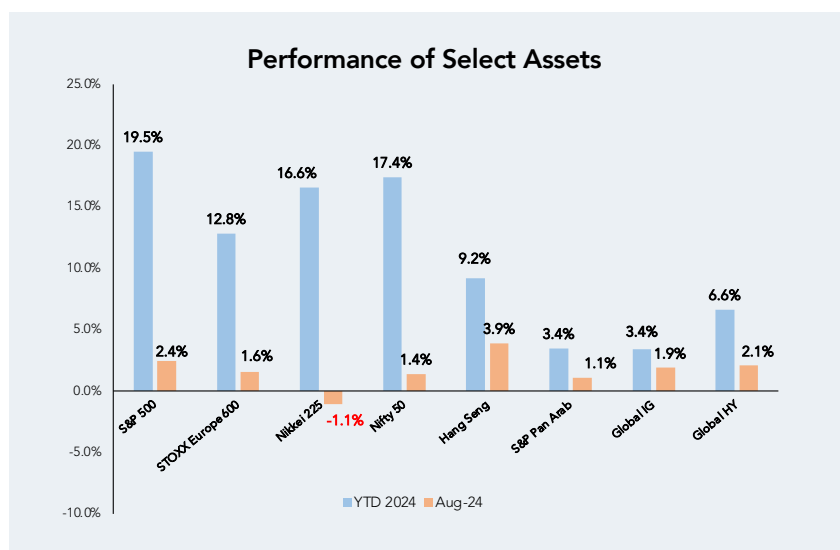
The markets sharply reacted to the unwinding of the USDJPY carry trade, which spooked the Japanese equity market on August 2 and August 5, resulting in an interim drop of 10% and 12%, respectively. In the span of these two days, the Japanese equity market went from being the best performing developed market on a year-to-date basis to being the worst performing one.

The unwinding of the carry trade was triggered by the sharp appreciation in the JPY as a result of a more hawkish BOJ, which was further exacerbated by weaker economic data in the US – namely a weaker than expected jobs report and a higher unemployment rate. The weaker economic data caused the market to price in the potential for a hard landing, recessionary scenario in the US (versus a soft-landing scenario which is still the consensus view across most economists).

The Japanese equity market rebounded by approximately 10% on August 6, as the Deputy Governor of the BoJ indicated that the central bank will be cautious in normalizing monetary policy from an ultra-loose stance. The dovish response by the BoJ calmed markets which was followed by continued progress on inflation and finally a dovish message by Fed Chair Powell at the Jackson Hole Symposium, which clearly indicated the time to start easing is fast approaching. Powell indicated that the Fed was now more focused on the risk of a weakening economy than the high inflation rate.

Both Headline and Core Consumer Price Index (CPI) fell straight for the fourth consecutive month to 2.9% and 3.2%, respectively. The measured pace of disinflation combined with the forthcoming employment report and better than expected retail sales bodes well for the first rate cut during the September Fed meeting.

The dovish messages helped spur a rebound in risk assets with the Nikkei returning 23% since the bottom on August 5 through August month-end and the S&P500 returning 9% over this same period. Meanwhile, fixed-income performed well over this



volatile period as measured by the Bloomberg Global Agg Corporate Bond Index, returning 0.9% since August 5 through August 30.

While other economic and political factors may have contributed to the sell-off, it's important to maintain a measured longer-term outlook. We continue to believe that market risks are balanced and that bouts of volatility can be used as opportunities to add into quality fixed-income and quality growth equity positions, that can continue to re-rate with the expected earnings growth and margin expansion.

Global Fixed-Income

Since June 30, global fixed-income markets have returned 4.4% on average while global equity markets have returned 4.2% (albeit with a significant amount of volatility). Over this period, investment grade also slightly outperformed high yield (4.4% versus 4.1%), as the sharp descent in yields on duration led to a strong re-pricing upwards.

In the US, the economy is exhibiting signs of slowdown, in line with a restrictive monetary policy rate over the past 12 – 18 months, but we have not materially changed our outlook to the macroeconomy, given the easing financial conditions and reasonable pace of expected jobs creation and other consumer spending indicators. In such an economic environment, fixed-income should continue to perform well as fixed-income yields are well above earnings yields and the risk-return profile for fixed-income is more favourable, in our view.

In the month ended August 2024, IG index yielded returns of 1.9%, whereas the HY recovered at 2.1%, on the back of normalization of credit spreads and conviction of the soft-landing narrative.

Global Equities

Within equities, the correction came with a technical factor and has shown that ultra-loose monetary policy created market distortions that were not expected by most market participants. We should continue to expect other bouts of volatility in the coming months, emanating from macro indicators and elevated valuations that are pricing in strong growth prospects, as exhibited by the market's adverse reaction to Nvidia's strong 2Q earnings announcement, as well as concentrated positioning in mega tech.

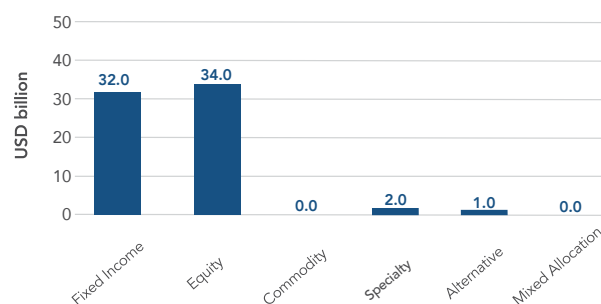
As a result of rotation into defensive sectors, healthcare and consumer staples outperformed the broader market, returning 4.9% and 4.2%, respectively in August, versus a return of 2.4% for the S&P500. Meanwhile, and although the tech sector only returned 1.5%, quality growth companies are expected to be resilient over the longer term, hence warranting patience as they exhibit strong free cash flow generation and have strong balance sheets with low debt levels.

The valuations of quality growth companies may have front loaded lofty expectations in the interim and they have to prove their monetizing capability of AI to a skeptical or uncertain market. If they are successful in doing so, the market will likely re-rate them upwards again due to their superior earnings growth profile. Until then, sector and geographic diversification should also help mitigate overall portfolio volatility.

Fund Flows

- An equity market correction in early August allowed opportunistic investors to increase their equity exposures. Net fund flows into equities came in at USD34 billion to take advantage of the market correction, especially after the BoJ and Fed communicated dovish messages that should help support equity prices going forward.
- Meanwhile, net fund flows into fixed-income came in at USD32 billion as investors awaited the first interest rate cut by the Fed, with most expectations hovering between a 25bps to 50 bps cut. Longer duration government securities and aggregate bonds funds accounted for the bulk of the flows.

Monthly ETF Flows - August 2024



Source: ElBank, Bloomberg

Multi Asset Strategies

Asset Class	Conservative		Balanced		Aggressive		Views
	Current Weight	Strategic Weight	Current Weight	Strategic Weight	Current Weight	Strategic Weight	
Fixed-Income	75.0%	75.0%	57.0%	55.0%	30.0%	25.0%	📈
Developed Markets	67.5%	67.5%	46.5%	46.8%	19.0%	18.8%	📈
Developed Market Sovereigns	12.5%	15.0%	5.0%	5.5%	1.0%	1.3%	↔️
Developed Market Investment Grade	55.0%	52.5%	33.5%	30.3%	13.0%	11.3%	📈
Developed Market High Yield	0.0%	0.0%	8.0%	11.0%	5.0%	6.3%	📉
Emerging Markets (including GCC)	7.5%	7.5%	10.5%	8.3%	11.0%	6.3%	📈
Equities	20.0%	20.0%	37.0%	37.5%	63.0%	65.0%	↔️
Developed Markets	17.0%	17.0%	31.7%	31.9%	54.3%	55.3%	↔️
US Equities	13.5%	13.0%	25.0%	24.4%	44.0%	42.3%	↔️
European Equities	2.5%	3.0%	4.8%	5.6%	7.0%	9.8%	📉
Japanese Equities	1.0%	1.0%	1.9%	1.9%	3.3%	3.3%	↔️
Emerging Markets Equities	3.0%	3.0%	5.3%	5.6%	8.7%	9.8%	↔️
Commodities	0.0%	0.0%	1.5%	2.5%	2.5%	5.0%	📉
Gold	0.0%	0.0%	1.0%	1.0%	1.5%	2.0%	↔️
Diversified	0.0%	0.0%	0.5%	1.5%	1.0%	3.0%	📉
Cash & Equivalents	5.0%	5.0%	4.5%	5.0%	4.5%	5.0%	↔️

📉 Underweight 📉 Cautious ↔️ Neutral 📈 Favour 📈 Overweight

Asset Allocation Views

- In the most awaited Jackson Hole Speech in August, the Fed chair indicated that time has come for normalizing the monetary policy. Although not declaring a victory on inflation just yet, there was an easing direction based on declining inflation through successive data points and a focus on a weakening labour market. Easing policy should help risk assets in an environment that is exhibiting signs of slow down but not deterioration.
- With the correction post to the peak in July and the aftermath of JPY carry trade unwind, equity markets have swiftly recovered till the end of the month returning 19.5% while global fixed-income markets have returned 3.4% over this same period. However, fixed-income has clearly led the way as a risk-off trade since June 30 through September 10 with a return of 5.6% as compared to a return of 1.1% for global equities. Equity volatility continues to rise driven by macro slowdown fears and concentrated positioning.
- Within fixed-income, the yield curve has sharply priced in aggressive rate cuts warranted by inflation moving towards the 2% target and slowing labour market. With disinversion, the longer end of the curve has priced in future inflation expectations and lower real yields despite concerns on rising US debt, while we continue to see value in the belly of the curve, namely medium-term duration between 5-7 years. A decrease in the Fed Funds Rate through the end of the year and into next year should bode well for a continued reversion to a normal yield curve.
- Within equities, defensive sectors, such as healthcare and consumer staples, are starting to outperform the broader market, whilst real estate and utilities have also recently caught up in broadening performance of the market from its high concentration in tech. While the tech sector has recently underperformed, quality growth companies are expected to be resilient over the longer term given their earnings growth potential and high-quality balance sheets that should not only help them weather economic weakening but rather take advantage of it through inorganic growth.
- We anticipate continued volatility in the short term with neutral positioning on equities and overweight stance maintained on fixed income. We prefer quality growth tilt with balancing of risks to other defensive segments and high growth markets such as India.

Key Market Highlights

Investor attention has recently shifted from a moderation of economic activity, a so-called soft landing, to fears of a hard landing or recession in the US. Part of this reasoning is not only coming from a faster labour market rebalancing through downward revisions in job growth but it also stems from the fact that monetary policy has been restrictive for a long period. With the continued drop in inflation over the last two years, which has resulted in elevated real rates, the Fed is seen as being behind the curve, where economic risks to the downside have increased.

Restrictive monetary policy generally works with a lag and knowing that the Fed Fund's Rate still stands at 5.25% - 5.50%, against an inflation rate that is trending downwards to approximately 2.5% - 3.0%, is causing some worries that the Fed needs to act more swiftly. A 25-bps rate first rate cut in September will bring down the Fed Fund's Rate to 5.0% - 5.25% and we believe that the Fed will not be

pressed for higher rate cuts of 50bps, as it may send a concerning message about the health of the economy.

Approximately 200k jobs were created each month from 2013 through 2019 (prior to the Covid pandemic). In the past 3 months from June through August, only approximately 116k jobs were created each month on average. The consumer still drives over 70% of GDP growth and weakening employment data, being a leading economic indicator, has caused some economists to speculate that the US economy will weaken at a stronger pace than forecast.

In contrast, other market observers will argue that the employment rate is well below historical standards. As such, the Fed should still be prudent and focus on reducing inflation even further before turning more of their attention to addressing a weakening labour market.

Monthly Job Creation (Nonfarm Payrolls '000)

Period	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
December	55	278	273	222	146	182	126	-243	566	136	290	-
November	273	284	226	119	229	97	208	268	631	258	182	-
October	220	240	319	108	147	164	100	673	860	361	165	-
September	185	307	135	297	92	87	203	1,046	480	255	246	-
August	243	181	141	149	135	251	221	1,534	465	243	210	142
July	122	243	294	363	184	55	90	1,585	939	690	184	89
June	179	333	156	251	199	213	204	4,615	778	420	240	118
May	214	202	337	45	216	329	38	2,619	451	286	303	216
April	186	311	277	190	197	146	308	-20,477	319	272	278	108
March	142	277	94	255	128	226	227	-1,411	831	494	146	310
February	285	159	269	215	212	387	5	264	527	862	287	236
January	189	184	196	113	226	146	258	253	398	251	482	256
Average	195	236	221	198	187	219	169	-1,377	589	440	266	184

Source: Bloomberg

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