The Weekly Market View

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Fed up

Amidst the continuing tensions between Russia-Ukraine and lasting concerns over inflation, the central banks minutes were at the front, top and centre of investors' mind. The week started with Fed member Brainard (viewed as dovish) signalling that the Fed will adopt a faster reduction of its balance sheet. This was later confirmed with the Fed meeting minutes which revealed that the central bank is poised to reduce the balance sheet by USD95bn (USD60bn in USTs and USD35bn in MBS), at a faster rate than market expectations. The minutes also indicated that the Fed could raise rates by 50bp in May. The ECB meeting minutes revealed that the central bank could end the quantitative easing in summer, paving the way for a rate hike latter this year. In the US, economic data remained encouraging, signalling the relative strength of the economy despite the Russia-Ukraine war. Weekly jobless claims fell to the lowest level since 1968. ISM services slightly disappointed but signalled strong economic activity. In Europe, the impact of the Russia-Ukraine war was evident with Germany reporting first drop in factory orders in three months. Global equity markets recorded weekly losses. EM equities underperformed DM peers. In DM, Japanese stocks underperformed the most while UK stocks outperformed. In the bond market, the 10-2yr UST yield steepened with the spread moving into the positive territory. Long-term UST yields jumped with the Fed minutes signalling an aggressive quantitative tightening plan. Core Eurozone bond yields were also higher, on the back of hawkish ECB bias. In commodities, oil prices recorded their second weekly decline as the members of the IEA (International Energy Agency) joined the US in releasing strategic reserves. Gold prices rose despite the hawkish Fed, rising UST yields and dollar strength. The US dollar recorded its largest weekly gain in a month, helped by the rising hawkish Fed bets.

Time to chase credit yet?

Bloomberg US IG index posted losses of more than 7% in the first quarter of the year, marking the worst quarterly loss since 2008. US HY Index, being short-duration in nature, declined by 5%, thus outperforming US IG. Despite the recent sell-off, we do not recommend to add to corporate credit yet. The main driver will be the uncertainty over the Fed's policy. Looking at the previous five Fed tightening cycles, there are two factors which drove the performance of the US corporate credit- the length of the cycle and the aggressiveness of the Fed. Overall, US HY outperformed US IG on an average during the past five tightening cycles. The outperformance was larger in magnitude particularly during the 2004-2006 and 2015-2018 tightening cycle which lasted for 2 to 3 years. However, in case of a shorter rate hike cycle- US HY failed to outperform. In fact, during the 1999-2000 tightening, US HY underperformed US IG. During the 1994-1995 tightening which resembles the current Fed rate projections trajectory- US HY recorded larger losses six months post the first rate hike. US HY index bottomed out after four rate hikes of 25bp while US IG bottomed out post six consecutive rate hikes. Shorter rate hike cycle also tends to add pressure on the low-rated corporate spreads. In the event of the Fed turning aggressive in order to control inflation, US HY could particularly face more volatility. Overall, we remain neutral on US IG and underweight on US HY (off-benchmark). In sector performance, in US IG, communication was the best performer during the first six months post the 1st Fed rate hike while energy and basic industries were the best performer twelve months after the 1st Fed rate hike. In US HY, basic industries and energy were the best performers in the three, six and twelve months post the Fed rate hike. However, given our short-duration stance, we continue to prefer low duration sectors of energy, capital goods and financials in US IG.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	4,488	-1.3	-5.8
Dow Jones	34,721	-0.3	-4.5
Nasdaq	13,711	-3.9	-12.4
DAX	14,284	-1.1	-10.1
Nikkei 225	26,986	-2.5	-6.9
FTSE 100	7,670	1.7	3.9
Sensex	59,447	0.3	2.0
Hang Seng	24,209	-0.8	-8.8
Regional Markets			
ADX	10,094	1.7	18.9
DFM	3,542	0.1	10.8
Tadawul**	13,314	1.7	18.7
DSM**	14,089	4.1	24.5
MSM30**	4,210	0.1	2.7
BHSE**	2,121	2.3	18.1
KWSE**	8,261	1.4	17.4
MSCI			
MSCI World	3,014	-1.5	-6.8
MSCI EM	1,126	-1.6	-8.4

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	102.8	-1.5	29.5
Nymex WTI USD/bbl	98.3	-1.0	27.8
Gold USD/t oz	1,947.5	1.1	6.4
Silver USD/t oz	24.8	0.6	6.3
Platinum USD/t oz	979.2	-1.1	1.7
Copper USD/MT	10,390.0	1.4	7.2
Alluminium	3,356.3	-2.4	19.7
Currencies			
EUR USD	1.09	-1.5	-4.3
GBP USD	1.30	-0.7	-3.8
USD JPY	124.34	1.5	7.8
USD CHF	0.93	0.9	2.4
Rates	**Latest**	**Weekly (bp)**	**YTD(bp)**
USD Libor 3m	1.01	4.9	80.2
USD Libor 12m	2.27	10.0	168.8
UAE Eibor 3m	1.06	1.0	69.6
UAE Eibor 12m	2.31	15.6	156.9
US 3m Bills	0.68	17.0	65.0
US 10yr Treasury	2.70	31.8	119.0

Notes: *Data as of April 8 2022 unless stated otherwise; **Data as of April 7 2022

Summary market outlook

Global Yields	Long-term bond yields rose on the back of aggressive quantitative tightening plans. The 10-2yr yield curve, which had briefly inverted, moved into the positive territory while real yields climbed. European bond yields jumped on hawkish ECB bias. Overall, we recommend a lower duration stance (5Y USTs) on the back of higher interest rate volatility in the near term.
Stress and Risk Indicators	VIX index rose over the week amidst the risk-off sentiment. SKEW index ended the week lower. We expect financial market volatility to stay elevated through this year as the pandemic era policy accommodation is withdrawn.
Equity Markets	
Local Equity Markets	GCC stock markets posted weekly gains despite the decline in oil prices. Qatar and Bahrain led the gains. Abu Dhabi and Saudi stocks also performed well while Dubai and Oman underperformed their peers. We stay neutral GCC equities within our global equity framework. Stable to higher oil prices, potential for revival in growth prospects, and scope for reversing the underperformance of the past years are all balanced by lack of structural growth plays in the equity markets.
Global Equity Markets	Global equities ended the week in losses. EM equities underperformed DM peers. UK equities outperformed while Japanese equities underperformed for the second consecutive week. US equities also recorded a decline with Nasdaq underperforming the most. We are moderately overweight US, UK, and Asia Pacific; underweight Eurozone and EMs outside Asia. By sector we prefer industrials, IT, and communication services. Our strategic preference is for large cap non-cyclical growth with focus on quality. 'Build back better' themes including green recovery, digitalization and health care innovation are likely to do well. Yet, in the very near-term, as the new wave of COVID-19 fear subsides, we see opportunities in cyclicals, value, small caps, and re-opening sectors.
Technology Segments	Nasdaq-100 index declined by c3.6%. Hang Seng Tech index recorded losses of c6%.
Commodities	
Precious Metals	Gold prices rose during the week, despite sustained gains in the US dollar and rising bond yields. We keep our overweight in gold as a hedge against potential inflation and geopolitical risks.
Energy	Oil prices declined for the second consecutive week with IEA joining US in announcing plans of releasing strategic reserves. Overall, over the medium-term we believe that oil prices will remain sustained as the market balances into the new normal.
Industrial Metals	Industrial metal prices ended mixed last week with aluminium prices declining while copper price jumped. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain.
Currencies	
EURUSD	The euro weakened versus the US dollar despite the hawkish ECB bias. We expect ECB policy divergence to play a major role in the performance of the euro.
Critical levels	R2 1.114 · R1 1.1008 · S1 1.0791 · S2 1.0706
GBPUSD	The GBP weakened against the US dollar. We expect the GBP to be driven by how the BoE policy evolves over the near-term and to decouple from the EUR.
Critical levels	R2 1.3242 · R1 1.3134 · S1 1.295 · S2 1.2874
USDJPY	The yen weakened against the US dollar with the rising divergence between the BoJ and Fed monetary policy bias. Over the medium-term, BoJ's yield curve targeting should put downward pressure on JPY.
Critical levels	R2 126.17 · R1 125.25 · S1 122.84 · S2 121.35

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
04/12/22 14:00	NFIB Small Business Optimism	Mar	94.9	95.7
04/12/22 16:30	**CPI YoY**	**Mar**	**8.40%**	**7.90%**
04/12/22 16:30	**CPI Ex Food and Energy YoY**	**Mar**	**6.60%**	**6.40%**
04/13/22 15:00	MBA Mortgage Applications	8- Apr	--	-6.30%
04/13/22 16:30	**PPI Final Demand YoY**	**Mar**	**10.50%**	**10.00%**
04/13/22 16:30	**PPI Ex Food and Energy YoY**	**Mar**	**8.40%**	**8.40%**
04/14/22 16:30	**Retail Sales Advance MoM**	**Mar**	**0.50%**	**0.30%**
04/14/22 16:30	Initial Jobless Claims	9- Apr	--	--
04/14/22 16:30	Continuing Claims	2- Apr	--	--
04/14/22 18:00	U. of Mich. Sentiment	Apr P	58.8	59.4
04/15/22 17:15	**Industrial Production MoM**	**Mar**	**0.40%**	**0.50%**
04/15/22 17:15	Capacity Utilization	Mar	77.90%	77.60%

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
04/11/22 10:00	**Machine Tool Orders YoY**	**Mar P**	**--**	**31.60%**
04/12/22 03:50	PPI YoY	Mar	9.30%	9.30%
04/15/22 04/22	Nationwide Dept Sales YoY	Mar	--	-0.70%

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
04/12/22 10:00	**Germany CPI YoY**	**Mar F**	**--**	**7.30%**
04/12/22 13:00	Germany ZEW Survey Expectations	Apr	--	-39.9
04/12/22	Bank of France Ind. Sentiment	Mar	102	107
04/14/22 15:45	**ECB Main Refinancing Rate**	**14- Apr**	**--**	**0.00%**
04/14/22 15:45	**ECB Marginal Lending Facility**	**14- Apr**	**--**	**0.25%**
04/14/22 15:45	**ECB Deposit Facility Rate**	**14- Apr**	**--**	**-0.50%**
04/14/22 16:30	**Eurozone Manufacturing Sales MoM**	**Feb**	**--**	**0.60%**
04/15/22 10:45	**France CPI YoY**	**Mar F**	**--**	**4.50%**

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
04/13/22 10:00	**CPI YoY**	**Mar**	**--**	**6.20%**
04/13/22 10:00	RPI YoY	Mar	--	8.20%
04/14/22 03:01	RICS House Price Balance	Mar	--	79%

China and India

Date & Time (GST)	**Indicator**	**Period**	**Expected**	**Prior**
04/12/22 16:00	India Industrial Production YoY	Feb	3.00%	1.30%
04/12/22 16:00	**India CPI YoY**	**Mar**	**6.38%**	**6.07%**
04/12/22 10:30	**India Wholesale Prices YoY**	**Mar**	**13.00%**	**13.11%**
04/13/22	**China Exports YoY**	**Mar**	**13.00%**	**20.90%**
04/13/22	China Imports YoY	Mar	8.30%	19.50%
04/13/22 04/16	**China 1-Yr Medium-Term Lending Facility Rate**	**15- Apr**	**2.80%**	**2.85%**

Sources

All information in this report has been obtained from the following sources except where indicated otherwise:

1. Bloomberg
2. Wall Street Journal
3. RTT News
4. Reuters
5. Gulfbase
6. Zawya

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