The Weekly Market View

April 25 2021

ASSET MANAGEMENT LIMITED

Virus and tax scare impacts sentiment

Renewed concerns of rising Covid-19 infections across the globe, particularly in Asia, weighed on the overall risk sentiment. Covid-19 infection rates rose to an all-time high, led by surge in infection rate in India and Brazil. In addition, reports of the Biden administration planning to double the capital gains tax to fund the spending plans, also negatively impacted the sentiment. While concerns on rising infections remained dominant, incoming economic data underpinned the outlook on the recovery prospects. Initial weekly jobless claims declined to the lowest level since the beginning of the pandemic, signalling improvement in the labour market. Preliminary prints of purchasing manager indices in the developed market were encouraging and indicative of accelerating business activity. Nevertheless, global equity markets ended slightly lower for the week. US stocks pulled back from their record highs, ending their three consecutive week of gains. Amongst DMs, UK, Japan and Canada underperformed the most. EM equities outperformed DM stocks, recording positive returns. In the bond market, US Treasury yields ended the week marginal lower on the back of risk-off sentiment. US IG bonds performed better than US HY. European bond yields were mostly lower with the ECB cautioning of the uncertain outlook in the near-term. In the currency market, the dollar continued to descend for the third consecutive week. In commodities, gold prices were flat while oil prices ended the week lower, weighed by the rising infections globally.

Rally in long-term USTs to be temporary

The recent rally in safe-haven US Treasuries as a reaction to improving economic data has astounded market participants. US treasury yields have stabilised in April after reaching their post-pandemic high at the end of March. We believe there have been several contributing factors, explaining the recent rally. There has been some evidence of profit-taking, especially by Japanese investors-who were heavy sellers during the first quarter. Another factor is that the post-pandemic highs were reflecting the pricing of the cyclical recovery. More importantly, the stabilisation in bond yields last week was mainly driven by the concerns of rising infections worldwide as well as the reports of Biden's tax stimulus dampening the risk-on sentiment. Given that the recovery is slowly being priced in the economic forecasts, we are unlikely to witness similar trend in upward growth surprises seen previously. This coupled with near-term risks of surge in infections globally could normalise long-term bond yields. However, it is noteworthy that any rally in US Treasuries has been short-lived this year and it is likely to remain so as long as markets remain confident of the recovery ahead. The market reaction to the latest upbeat CPI print was also muted, indicating that the markets may be believing the Fed's inflation narrative. Yet, this could turn the other way round if strong signs of economic recovery build the reflation narrative further. The upcoming Fed meeting this week will be closely tracked by the market to assess the central bank's reaction to recent upbeat economic data. As such, we continue to maintain our short-duration stance on US Treasuries as we believe that long-term rates will still remain subject to volatility.

For our latest view across assets, see our report Q2 2021 Outlook: A balancing act, April 2021 and the chart book Q2 2021 Outlook Chart book: A balancing act, April 2021.

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Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	4,180	-0.1	11.3
Dow Jones	34,043	-0.5	11.2
Nasdaq	14,017	-0.3	8.8
DAX	15,280	-1.2	11.4
Nikkei 225	29,021	-2.2	5.7
FTSE 100	6,939	-1.2	7.4
Sensex	47,878	-2.0	0.3
Hang Seng	29,079	0.4	6.8
Regional Markets (Sunday to Thursday)			
ADX	6,102	-0.5	20.9
DFM	2,626	-0.3	5.4
Tadawul	10,134	1.5	16.6
DSM	10,845	-0.5	3.9
MSM30	3,719	0.3	1.7
BHSE	1,486	0.7	-0.2
KWSE	6,029	1.3	8.7
MSCI			
MSCI World	2,946	-0.2	9.5
MSCI EM	1,353	0.3	4.8

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	66.1	-1.0	27.6
Nymex WTI USD/bbl	62.1	-1.6	28.1
Gold USD/t oz	1,777.2	0.0	-6.4
Silver USD/t oz	26.0	0.1	-1.5
Platinum USD/t oz	1,231.9	2.2	14.9
Copper USD/MT	9,545.5	2.2	23.3
Alluminium	2,352.8	2.2	18.9
Currencies			
EUR USD	1.21	1.0	-1.0
GBP USD	1.39	0.3	1.5
USD JPY	107.88	-0.8	-4.3
CHF USD	0.91	-0.7	-3.2
Rates			
USD Libor 3m	0.18	-6.6	-26.3
USD Libor 12m	0.28	-4.0	-17.9
UAE Eibor 3m	0.36	-0.3	-30.5
UAE Eibor 12m	0.52	-6.5	-20.8
US 3m Bills	0.02	50.0	-73.9
US 10yr Treasury	1.56	-1.4	70.6

Summary market outlook

Global Yields	10yr UST yields were marginally lower on the back of risk-off sentiment amidst rising infections and Biden's tax scare. In Europe, core bond yields were flat despite the progress in vaccinations as the ECB cautioned on the near-term uncertainty. Overall, we maintain a lower duration stance (5yr bonds US Treasuries) in anticipation of interest rate volatility in the near term.
Stress and Risk Indicators	Last week, the VIX index jumped slightly mid-week, but ended the week near post-pandemic lows. We think the VIX index will not fall back to the pre-pandemic levels before the virus comes fully under control.
Equity Markets	
Local Equity Markets	Volatile oil prices, corporate earnings and optimism around privatization were key drivers for regional markets. Saudi and Kuwaiti equities outperformed the most while UAE and Qatari equities lost value and underperformed. Overall, MSCI GCC index rose c1% during the week outperforming both EM and Global equity benchmarks. We remain neutral GCC equities within our global equity framework. Stable to higher oil prices, potential for revival in growth and scope for reversing the underperformance of 2020 are all balanced by lack of structural growth plays in the equity market.
Global Equity Markets	Global equities lost marginally over the week. EMs not only outperformed DMs but also delivered positive returns. Within EM both LatAm and Asia outperformed while EMEA lost some value. Amongst DMs, UK, Japan and Canada underperformed the most. Sector wise, health care, real estate and materials outperformed while, energy, consumer discretionary, and communication services underperformed the most. Our equity strategy is to overweight US and UK, and underweight Eurozone and EM outside Asia. We are neutral Asia and prefer structural growth opportunities there. By sector we prefer IT and communication services as long-term plays and energy as a cyclical play. We have also identified industry level opportunities to play the vaccine availability in the medium-term. 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.
Technology Segments	Global IT, communication services and consumer discretionary all posted small losses during the week. However, divergence between regions emerged. On the one hand, Chinese tech posted strong positive returns (3%) as investors saw some of the regulatory overhang on the sector lifted thanks to recent directives from regulators there. On the other hand, Nasdaq-100 index lost c0.7% during the week.
Commodities	
Precious Metals	Gold prices ended the week unchanged, despite the continued weakness in dollar. We keep our overweight in gold as a hedge against potential risks on the horizon.
Energy	Oil prices declined over the week as rising infection concerns, particularly in India, weighed on the market sentiment. Overall, we believe that oil prices are likely to remain sustained as the market approaches a balance.
Industrial Metals	Industrial metals performed well last week on the back of weaker dollar and improving economic data. While another commodity super-cycle appears difficult, demand for commodities linked to environmental friendly green infrastructure is likely to sustain.
Currencies	
EURUSD	EUR gained against the USD as yields on USTs retreated further. We expect movements in major currencies to be influenced by how the virus cases, re-opening of the economies, and the policy support unfold.
GBPUSD	The pound sterling ended flat versus the dollar. We expect the cable to be driven by how the re-opening plays out over the near-term and therefore to some extent further decouple from the EUR.
USDJPY	The yen gained versus the greenback amidst the stabilizing UST yields. However, over the medium-term, we believe that BoJ yield curve targeting should put continuing downward pressure on JPY.

Critical levels	R2	R1	S1	S2
EURUSD	1.2363	1.223	1.1834	1.1571
GBPUSD	1.4191	1.4034	1.3694	1.3511
USDJPY	112.27	110.07	106.58	105.29

Note: R2, R1, S2 and S1 refer to Bloomberg calculated weekly technical resistance and support levels.

Forthcoming important economic data/events

United States

	Indicator	Period	Expected	Prior	Comments
04/26/21	Durable Goods Orders	Mar P	2.50%	-1.20%	All eyes will be on the Fed meeting where markets will be assessing the central banks reaction to recent economic data. GDP 1Q print will also be important-expected to show that growth bounced back sharply in the first quarter of the year.
04/28/21	**FOMC Meeting**	**28-Apr**	**No change**		
04/29/21	**Initial Jobless Claims**	**28-Apr**	**550k**	**547k**	
04/29/21	**Continuing Claims**	**17-Apr**	**3,590k**	**3,674k**	
04/29/21	**GDP Annualized QoQ**	**1Q A**	**6.90%**	**4.30%**	
04/29/21	Core PCE QoQ	1Q A	2.40%	1.30%	
04/30/21	Personal Income	Mar	20.0%	-7.10%	
04/30/21	Personal Spending	Mar	4.20%	-1.00%	
04/30/21	Univ. of Mich. Sentiment	Apr F	87.5	86.5	

Japan

	Indicator	Period	Expected	Prior	Comments
04/27/21	**BOJ MPC meeting**	**27-Apr**	**No Change**		BOJ meeting will be the main focus this week. In addition, retail sales for March and the PMI print for April will be important.
04/28/21	**Retail Sales YoY**	**Mar**	**4.60%**	**-1.50%**	
04/30/21	Jobless Rate	Mar	2.90%	2.90%	
04/30/21	Tokyo CPI Ex-Fresh Food, Energy	Apr	0.30%	0.30%	
04/30/21	Industrial Production YoY	Mar P	-0.30%	-2.00%	
04/30/21	**Jibun Bank Japan PMI Mfg**	**Apr F**	**--**	**53.3**	

Eurozone

	Indicator	Period	Expected	Prior	Comments
04/26/21	**Germany IFO expectations**	**Apr**	**101.2**	**100.4**	The most important data will be GDP 1Q advanced print which is expected to show that growth slowed further compared the previous quarter. CPI and German IFO expectations will also be closely watched.
04/29/21	Eurozone Consumer Confidence	Apr F	--	-8.1	
04/30/21	Unemployment Rate	Mar	8.30%	8.30%	
04/30/21	CPI MoM	Apr P	0.50%	0.90%	
04/30/21	**CPI Core YoY**	**Apr P**	**0.80%**	**0.90%**	
04/30/21	**GDP SA QoQ**	**1Q A**	**-0.80%**	**-0.70%**	
04/30/21	GDP SA YoY	1Q A	-2.00%	-4.90%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
This week	Nationwide House PX MoM	Apr	0.50%	-0.20%	Relatively light week in the UK
This week	Nationwide House Px NSA YoY	Apr	5.00%	5.70%	

China and India

	Indicator	Period	Expected	Prior	Comments
This week	Foreign Direct Investment YoY CNY	Mar	--	--	Focus will be on the PMI release for April.
04/30/21	**China Non-manufacturing PMI**	**Apr**	**55.9**	**56.3**	
04/30/21	**China Manufacturing PMI**	**Apr**	**51.7**	**51.9**	
04/30/21	**China Composite PMI**	**Apr**	**--**	**55.3**	

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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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