The Weekly Market View

August 29 2022

ADCB ASSET MANAGEMENT LIMITED

Penalised for a premature pivot

Financial markets that believed in a Fed pivot (the notion that the US Federal reserve will reverse its hawkish stance and eventually cut interest rates as early as next year) had a rude awakening last week. Comments from the Fed members alongside the address by Fed Chair Jerome Powell at the annual Jackson hole Central banking summit were perceived by markets as being hawkish. Even in Europe, markets worried about the possibility of ECB hiking its policy rate by 75bps at its September meeting. As a result, market expectations of central bank policy rates adjusted higher – for instance, market pricing on Friday indicated investors were expecting the Fed to raise interest rates to 3.8% by February 2023, up from expectations of 3.3%. The hawkish impact was most felt at the short-end of the bond spectrum while weaker-than-expected economic data over the past week (global PMIs, durable goods orders, new home sales, and personal income and spending data in the US) kept the long-term bond yields under check. Global equities, which were looking technically overbought at the start of the week, recorded their worst weekly performance since mid-June. Hawkish policy expectations helped the USD gain further over the week. The EUR/USD fell to the lowest level since December 2002, but managed to trim its weekly loss and settle above parity on expectations that ECB could possibly hike its policy rate by 75bps in September. Gold prices fell for the second consecutive week after rising in the prior four-week period. Silver and platinum prices fell too. Oil prices rose strongly over the past week on signals from Saudi Arabia that OPEC+ could cut output. Industrial metal prices rose strongly too despite the USD strength on China's stimulus measures.

Cash: is it king or is it trash?

Over the long run, returns on cash underperform those on other financial market assets including equities and bonds. For the context, over the past 120 years or so in the US, cash gave an average annual return of 1% while US bonds and US equities returned 2.5% and 6.6% respectively on an annualized basis. The experience of the past 12 years has been even worse. After all, for most of that time, holding cash yielded almost nothing. For investors in Europe, the returns on cash were below zero given the negative interest rate regime there. Looking at this experience one could be tempted to believe that cash is trash. However, considering the even more recent experience of the past eight months or so, cash can be perceived to be the king. At the time when most financial market assets, especially equities and bonds suffered significant losses, cash proved to be a store of value. In real terms, i.e., after adjusting for inflation, returns on cash were negative but still were significantly better than losses in equity and bond portfolios. Also, as central banks have engaged in a tough fight against inflation, they increased interest rates sharply making returns on cash a lot more tangible. This proposition makes cash a king. From an asset allocation point of view, there are two broad reasons to hold cash in one's portfolios. Firstly, this could be done as a sign of caution when one believes that economy is likely to enter a recession. Second, when one sees the returns on cash turning lucrative. Inflation, interest rates, risk-appetite, and performance of other financial market assets are some factors that could influence the allocation to cash in multi-asset portfolios. Holding periods also make a difference. Holding too much cash for too long penalizes the investor with huge opportunity costs – something we have noticed over the past 12 years or so. But holding cash on a tactical basis could prove to be good to the portfolios – something that we have experienced over the past eight months. Against that context, for some time now, we have been overweight cash and liquidity in our asset allocation. Holding cash in USD or a currency pegged to the USD turned out to be a sound investment decision given the strength in the greenback so far this year and weakness in other financial market assets. However, at this stage we are waiting patiently for opportunities to deploy the cash to increase our exposure to other financial market assets at a cheaper value than at the start of the year. In our view, such an opportunity to re-risk should arrive sooner rather than later.

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Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	4,058	-4.0	-14.9
Dow Jones	32,283	-4.2	-11.2
Nasdaq	12,142	-4.4	-22.4
DAX	12,971	-4.2	-18.3
Nikkei 225	28,641	-1.0	-0.5
FTSE 100	7,427	-1.6	0.6
Sensex	58,834	-1.4	1.0
Hang Seng	20,170	2.0	-13.8
Regional Markets			
ADX	10,079	0.0	18.7
DFM	3,463	1.3	8.4
Tadawul**	12,592	0.3	11.1
DSM**	13,746	-1.6	18.3
MSM30**	4,538	-1.5	9.4
BHSE**	1,901	0.1	5.8
KWSE**	7,786	0.9	10.6
MSCI			
MSCI World	2,695	-3.3	-16.6
MSCI EM	1,007	0.5	-18.3

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	101.0	4.4	29.8
WTI USD/bbl	93.1	2.5	23.7
Gold USD/t oz	1,736.8	-0.7	-4.7
Silver USD/t oz	19.1	-0.5	-18.1
Platinum USD/t oz	877.0	-3.0	-8.6
Copper USD/MT	8,188.3	1.1	-15.9
Alluminium	2,502.8	4.6	-10.8
Currencies			
EUR USD	1.00	-0.7	-12.4
GBP USD	1.17	-0.7	-13.2
USD JPY	137.54	0.4	19.5
USD CHF	0.97	0.8	5.9
Rates	**Latest**	**Weekly (bp)**	**YTD (bp)**
USD Libor 3m	3.07	11.2	286.0
USD Libor 12m	4.12	10.7	354.0
UAE Eibor 3m	2.81	-7.0	244.7
UAE Eibor 12m	3.49	-10.6	275.4
US 3m Bills	2.78	14.0	272.0
US 10yr Treasury	3.05	4.7	154.8

Notes: *Data as of August 26 2022 unless stated otherwise; **Data as of August 25 2022.

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Summary market outlook

Global Yields	Yields rose sharply over the past week on hawkish central bank commentary. However, weaker-than-expected economic data managed to keep the long-term bond yields under control. For instance, yields on US 3M bills rose by 14bps while yields on 10Y USTs rose only by 5bps over the past week. Core Eurozone government bond yields moved higher amid rising expectations for a 75bps rate hike from ECB in September, and data indicating economic activity is slowing. Peripheral Eurozone and UK government bond yields broadly tracked core markets. Yields on 10Y JGBs rose to a one-month high. Bond yields and prices are inversely correlated. i.e. when bond yields fall, prices rise and vice versa. Overall, we recommend adding duration on USTs (7-10Y segment) as growth slowdown/recession fears rise.
Stress and Risk Indicators	VIX index, a measure of implied volatility in equities rose sharply over the past week to hit a six-week high. VVIX, a measure of volatility in VIX remained stable though. SKEW index, a measure of tail risks, was largely unchanged. MOVE index, which measures implied volatility in bonds, fell marginally but remained at elevated levels. We expect financial market volatility to stay elevated as the monetary policy normalizes.
Equity Markets	
Local Equity Markets	GCC equity markets underperformed their EM peers but outperformed global benchmarks. Higher oil prices helped regional equities over the week. In the regional context, Kuwait and UAE equities outperformed while Qatar equities underperformed. 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 posted their second consecutive weekly loss. Sector wise, IT, communication services, and consumer discretionary underperformed significantly. We are moderately overweight US, UK, and Asia Pacific; underweight Eurozone and EMs outside Asia. By sector we prefer healthcare, industrials, and communication services. Our strategic preference is for large cap non-cyclical growth with focus on quality. Our other high conviction ideas include clean energy themes (for medium to long-term); aerospace & defence, food security, energy security, and cybersecurity as plays on rising geopolitical tensions and deglobalization; and consumer services, airlines, and hotels, restaurants & leisure as plays on re-opening.
Technology Segments	HK tech index outperformed US tech amid market expectations that the US and China could reach an agreement to allow US PCAOB access to Chinese ADRs' audit papers. Within the technology sector, we prefer non-cyclical growth over cyclical growth (tech hardware, semiconductors etc.) over a 12-month horizon.
Commodities	
Precious Metals	Gold prices fell for the second consecutive week after rising in the prior four-week period. Silver and platinum prices fell too. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Oil prices rose strongly over the past week on signals from Saudi Arabia that OPEC+ could cut output. 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 rose strongly over the past week despite the USD strength. Copper prices increased 1% and aluminium prices rose c5% on China's stimulus measures. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain.
Currencies	
EURUSD	The EUR/USD fell to the lowest level since December 2002, but managed to trim its weekly loss and settle above parity on expectations that ECB could possibly hike its policy rate by 75bps in September. We expect ECB policy divergence to play a major role in the performance of the euro.
Critical levels	R2 1.0545 · R1 1.0256 · S1 0.9789 · S2 0.9611
GBPUSD	Hawkish Fed commentary and risk-off sentiment helped the GBP/USD to fall further over the past week. We expect GBP to weaken against USD and stay flat versus the EUR.
Critical levels	R2 1.2493 · R1 1.2119 · S1 1.1544 · S2 1.1343
USDJPY	USD/JPY rose further over the past week on broader USD strength and widening yield differentials between the USTs and JGBs. BoJ policy remains odd-one out and is likely to cause JPY weakness.
Critical levels	R2 144.11 · R1 140.88 · S1 132.41 · S2 127.17

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
08/29/22 18:30	Dallas Fed Manf. Activity	Aug	-12.2	-22.6
08/30/22 17:00	FHFA House Price Index MoM	Jun	0.80%	1.40%
08/30/22 17:00	S&P CoreLogic CS US HPI YoY NSA	Jun	--	19.75%
08/30/22 18:00	**Conf. Board Consumer Confidence**	**Aug**	**97.5**	**95.7**
08/30/22 18:00	**JOLTS Job Openings**	**Jul**	**10,300k**	**10,698k**
08/31/22 15:00	MBA Mortgage Applications	26-Aug	--	-1.20%
08/31/22 16:15	ADP Employment Change	Aug	--	128k
08/31/22 17:45	MNI Chicago PMI	Aug	53.1	52.1
09/01/22 15:30	Challenger Job Cuts YoY	Aug	--	36.30%
09/01/22 16:30	**Initial Jobless Claims**	**27-Aug**	**--**	**243k**
09/01/22 16:30	Nonfarm Productivity	2Q F	-4.60%	-4.60%
09/01/22 16:30	Unit Labor Costs	2Q F	10.80%	10.80%
09/01/22 16:30	**Continuing Claims**	**20-Aug**	**--**	**1,415k**
09/01/22 17:45	**S&P Global US Manufacturing PMI**	**Aug F**	**--**	**51.3**
09/01/22 18:00	Construction Spending MoM	Jul	-0.10%	-1.10%
09/01/22 18:00	**ISM Manufacturing**	**Aug**	**52.2**	**52.8**
09/02/22 16:30	**Change in Nonfarm Payrolls**	**Aug**	**295k**	**528k**
09/02/22 16:30	**Unemployment Rate**	**Aug**	**3.50%**	**3.50%**
09/02/22 16:30	**Average Hourly Earnings YoY**	**Aug**	**5.20%**	**5.20%**
09/02/22 16:30	Labor Force Participation Rate	Aug	--	62.10%
09/02/22 18:00	Factory Orders	Jul	0.20%	2.00%
09/02/22 18:00	Durable Goods Orders	Jul F	--	0.00%

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
08/30/22 03:30	**Jobless Rate**	**Jul**	**2.60%**	**2.60%**
08/30/22 03:30	Job-To-Applicant Ratio	Jul	1.27	1.27
08/31/22 03:50	**Industrial Production YoY**	**Jul P**	**-2.60%**	**-2.80%**
08/31/22 03:50	**Retail Sales YoY**	**Jul**	**1.90%**	**1.50%**
08/31/22 09:00	Consumer Confidence Index	Aug	--	30.2
08/31/22 09:00	Housing Starts YoY	Jul	-3.40%	-2.20%
09/01/22 03:50	Capital Spending YoY	2Q	3.00%	3.00%
09/01/22 04:30	**Jibun Bank Japan PMI Mfg**	**Aug F**	**--**	**51.0**
09/01/22 09:00	Vehicle Sales YoY	Aug	--	-13.40%
09/02/22 03:50	Monetary Base YoY	Aug	--	2.80%

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
08/29/22-09/02/22	Germany Retail Sales NSA YoY	Jul	--	-9.80%
08/30/22 13:00	Eurozone Consumer Confidence	Aug F	--	-24.9
08/30/22 16:00	**Germany CPI YoY**	**Aug P**	**7.80%**	**7.50%**
08/31/22 10:45	**France CPI YoY**	**Aug P**	**--**	**6.10%**
08/31/22 10:45	France PPI YoY	Jul	--	27.00%
08/31/22 11:55	**Germany Unemployment Change (000's)**	**Aug**	**25.0k**	**48.0k**
08/31/22 13:00	**Eurozone CPI MoM**	**Aug P**	**--**	**0.10%**
09/01/22 12:00	**S&P Global Eurozone Manufacturing PMI**	**Aug F**	**--**	**49.7**
09/01/22 13:00	**Eurozone Unemployment Rate**	**Jul**	**--**	**6.60%**
09/02/22 10:00	Germany Exports SA MoM	Jul	--	4.50%
09/02/22 10:00	Germany Imports SA MoM	Jul	--	0.20%
09/02/22 13:00	Eurozone PPI YoY	Jul	--	35.80%

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
08/28/22-09/03/22	Nationwide House Px NSA YoY	Aug	8.90%	11.00%
08/30/22 12:30	Net Consumer Credit	Jul	--	1.8b
08/30/22 12:30	Mortgage Approvals	Jul	--	63.7k
08/31/22 03:01	BRC Shop Price Index YoY	Aug	--	4.40%
09/01/22 12:30	**S&P Global/CIPS UK Manufacturing PMI**	**Aug F**	**--**	**46.0**

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
08/31/22 05:30	**China NBS Manufacturing PMI**	**Aug**	**49.5**	**49.0**
08/31/22 05:30	**China NBS Non-manufacturing PMI**	**Aug**	**52.6**	**53.8**
08/31/22 16:00	**India GDP YoY**	**2Q**	**15.70%**	**4.10%**
09/01/22 05:45	**Caixin China PMI Mfg**	**Aug**	**50.1**	**50.4**
09/01/22 09:00	**S&P Global India PMI Mfg**	**Aug**	**--**	**56.4**

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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