The Weekly Market View

December 20 2020

ASSET MANAGEMENT LIMITED

A good jab

With COVID-19 vaccinations now in progress in the US, and one more vaccine candidate approved over the past week, outlook for the health situation seems to have improved at the margin. Also, last week saw some optimism on the next round of fiscal support package in the US. Further, during the FOMC meeting, the US Fed left the rates and the bond buying unchanged but slightly raised its economic outlook. On the other side of the Atlantic, with both EU and UK leaders walking that extra mile, EU-UK trade negotiations were kept alive. Elsewhere, the Bank of England and the Bank of Japan maintained their accommodative tone. All this has helped equity markets ignore the rapid rise in COVID-19 cases and some well-expected soft patches in the economic data. For instance, in the US, both the retail sales and jobless claims data surprised to the downside. Of course, industrial production and manufacturing PMI data were positive in both the US and the Eurozone. China data was rather mixed – with industrial production and fixed asset investment remaining strong but retail sales for November disappointing slightly. Global equities (MSCI ACWI) reached a new all-time high on Thursday before falling on Friday. For the week, equity markets performed strongly taking their year-to-date gains to over 13%. DM outperformed EM during the past week. European equities outperformed thanks to the strong performance of German equities. UK large caps lost in local currency terms but gained strongly in USD terms. In the US, Nasdaq (our preferred way to play new economy themes) outperformed. For the summary on performances of other asset classes, see page 2.

2020

As we approach the end of the year 2020, it is not unreasonable to have mixed feelings. On the one hand, this year proved to be the year of great disruption to our lives and on the other hand, financial market returns were rather strong. Taking a look at 2020 in the rare view mirror, we think the biggest paradox for most market participants has been the apparent disconnect between the state of the economy and strong equity market returns. We learnt three things in this context. First, perhaps, the market consensus was too bearish on the economy and thus the relatively resilient economy surprised on the upside. As such, some of the fears associated with structural and cyclical damage to the economy have not come true. Second, the policy was accommodative. Whilst the monetary policy actions ensured that financial conditions turned easier after tightening in Q1, fiscal policy turned more supportive helping personal incomes. Third (this is our favourite learning), equity market is not the economy. Compositions of the equity market and the economy varied significantly across the board. Those markets where the 'new economy' segments (technology and pharma) had a higher representation, did very well, thanks to the tailwinds from the pandemic.

Looking ahead, we retain a constructive 12-month view on equities although we are watchful of the near-term risks (rampant virus, Georgia senate run-off and technical overbought conditions). 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.

This is our last weekly publication for the year; we will resume on January 3 2021. Meanwhile, you can read our latest research here. We wish you happy holidays.

Kishore Muktinutalapati
Equity Strategist
Tel: +971 (0)2 696 2358
kishore.muktinutalapati@adcb.com

Prerana Seth
Fixed Income Strategist
Tel: +971 (0)2 696 2878
prerana.seth@adcb.com

Mohammed Al Hemeiri
Analyst
Tel: +971 (0)2 696 2236
mohammed.alhemeiri@adcb.com

Luciano Jannelli, Ph.D., CFA
Head Investment Strategy
Tel: +971 (0)2 696 2340
luciano.jannelli@adcb.com

Visit Investment Strategy Webpage to read our other reports

Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	3,709	1.3	14.8
Dow Jones	30,179	0.4	5.7
Nasdaq	12,756	3.1	42.2
DAX	13,631	3.9	2.9
Nikkei 225	26,763	0.4	13.1
FTSE 100	6,529	-0.3	-13.4
Sensex	46,961	1.9	13.8
Hang Seng	26,499	0.0	-6.0
Regional Markets (Sunday to Thursday)			
ADX	5,135	0.5	1.2
DFM	2,550	0.1	-7.8
Tadawul	8,712	0.8	3.8
DSM*	10,479	0.3	0.5
MSM30	3,613	0.2	-9.3
BHSE**	1,493	0.2	-7.3
KWSE	5,642	1.5	-10.2
MSCI			
MSCI World	2,666	1.7	13.1
MSCI EM	1,268	0.9	13.8

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	52.3	4.6	-20.8
WTI USD/bbl	49.1	5.4	-19.6
Gold USD/t oz	1,881.4	2.3	24.0
Silver USD/t oz	25.8	7.8	44.6
Platinum USD/t oz	1,042.3	2.9	7.8
Copper USD/MT	7,964.0	2.9	29.4
Alluminium	2,050.5	2.1	14.6
Currencies			
EUR USD	1.23	1.2	9.3
GBP USD	1.35	2.3	2.0
USD JPY	103.30	-0.7	5.1
CHF USD	0.88	-0.7	9.4
Rates			
USD Libor 3m	0.24	10.2	-87.5
USD Libor 12m	0.33	-0.6	-83.3
UAE Eibor 3m	0.43	-6.0	-80.4
UAE Eibor 12m	0.82	7.2	-64.4
US 3m Bills	0.08	28.0	-94.7
US 10yr Treasury	0.95	5.6	-50.7

Notes: *Data as of December 16 2020 **Data as of December 15 2020

Summary market outlook

Global Yields	US Treasury (USTs) yields moderately rose over the week, despite mixed economic data, as the Fed maintained the size of bond purchases. US IG spreads tightened over the week, receiving boost from year-end buying amidst subdued bond supply. In Europe, German bund yields edged higher with reports of upbeat PMI data. In UK, gilt yields jumped higher on improving prospects of UK and the EU reaching a deal, but dovish BoE and new lockdown concerns partially pared the early week rise in yields. We remain long duration on USTs as overall economic outlook remains mixed and is likely to remain so with rising COVID-19 infection rates. In US credit, we remain neutral on US IG and underweight on US HY, both trading at rich levels.
Stress and Risk Indicators	VIX index fell during the week as equity markets scaled new all-time highs. We expect the VIX index to continue to stabilize over the next weeks and months, but to remain at elevated levels at least as long as the US power transition is completed and some clarity emerges on US fiscal policy.
Equity Markets	
Local Equity Markets	All GCC markets ended the week with positive gains – thanks to stronger oil prices and general risk-on sentiment in the markets. Stock exchanges in Qatar and Bahrain had a shorter trading week due to the National day holidays in both countries. Kuwaiti equities outperformed over the week but continued to underperform on a year-to-date basis. We remain neutral GCC equities within our global equity framework. Stable to higher oil prices, potential for revival in growth and recent underperformance are all balanced by lack of structural growth plays in the equity market.
Global Equity Markets	Global equities (MSCI ACWI) reached a new all-time high on Thursday before slipping on Friday. For the week, equity markets performed strongly taking their year-to-date gains to over 13%. DM outperformed EM during the past week. European equities outperformed thanks to the strong performance of German equities. UK large caps lost in local currency terms but gained strongly in USD terms. In the US, Nasdaq (our preferred way to play new economy themes) outperformed. With the virus rampant and the uncertainty around who gets a majority in the US Senate persisting, we remain watchful of near-term risks especially given some slightly overbought conditions. However, we are constructive on the outlook over the 12-month horizon. 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 preference is for large cap non-cyclical growth with focus on quality.
Commodities	
Precious Metals	Precious metals gained on USD weakness. We remain overweight gold as a hedge against general risks, but we are not particularly bullish over the next weeks and months.
Energy	Oil prices rose for a seventh consecutive week to reach levels seen in late February. A weaker USD and improved outlook for the demand (when the supply is not an issue) helped oil prices. In our opinion, oil prices are likely to remain sustained as the market is roughly balanced in terms of demand versus supply.
Industrial Metals	Industrial metal prices rose further thanks to tailwinds from the USD weakness. Copper prices hit the highest level since 2013. Yet, we do not recommend industrial metals exposure as China structurally reigns in demand.
Currencies	
EURUSD	Broader USD weakness propelled the EUR-USD to the highest level since April 2018. We expect the EUR to remain stable, with some upward potential in case the US Congress strikes a deal on more fiscal stimulus.
Critical levels	R2 1.2619 · R1 1.2438 · S1 1.1911 · S2 1.1565
GBPUSD	Return of optimism regarding EU-UK talks and broader USD weakness meant cable strength. We still see the EU and the UK striking a deal, but admit that the chances have come down. This would be bad for the GBP.
Critical levels	R2 1.3936 · R1 1.3730 · S1 1.3212 · S2 1.2900
USDJPY	JPY gained some ground against the Greenback during the week. The risk-on context is not favourable for the JPY, which will facilitate BoJ's intention to keep it weak if necessary through further yield curve targeting.
Critical levels	R2 106.75 · R1 105.03 · S1 102.23 · S2 101.15

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
12/21/20	Chicago Fed Nat Activity Index	Nov	--	0.83	Third release of the US GDP is expected to confirm the prior releases. However, we remain focused on consumer data releases. For one thing, we expect a revival in the consumer confidence to lift economic growth next year. In terms of the soft data for December, Conference Board and University of Michigan surveys are vital – both are expected to show stable to better readings. On the hard data side, existing/new home sales, durable goods orders and personal income/spending for November are important – all are expected to have softened during November.
12/22/20	GDP Annualized QoQ	3Q T	33.10%	33.10%	
12/22/20	**Conf. Board Consumer Confidence**	**Dec**	**97.0**	**96.1**	
12/22/20	**Existing Home Sales MoM**	**Nov**	**-2.20%**	**4.30%**	
12/22/20	Richmond Fed Manufact. Index	Dec	12	15	
12/23/20	MBA Mortgage Applications	18-Dec	--	1.10%	
12/23/20	Initial Jobless Claims	19-Dec	875k	885k	
12/23/20	**Durable Goods Orders**	**Nov P**	**0.60%**	**1.30%**	
12/23/20	Continuing Claims	12-Dec	5,560k	5,508k	
12/23/20	**Personal Income**	**Nov**	**-0.20%**	**-0.70%**	
12/23/20	**Personal Spending**	**Nov**	**-0.20%**	**0.50%**	
12/23/20	FHFA House Price Index MoM	Oct	0.60%	1.70%	
12/23/20	**U. of Mich. Sentiment**	**Dec F**	**81.0**	**81.4**	
12/23/20	**New Home Sales MoM**	**Nov**	**-0.90%**	**-0.30%**	

Japan

	Indicator	Period	Expected	Prior	Comments
12/22/20	Machine Tool Orders YoY	Nov F	--	8.00%	Consumer related data takes the center stage in Japan too. Both CPI and retail sales are expected to have softened. Housing starts are expected to have fallen in November vs. a year ago.
12/25/20	Tokyo CPI YoY	Dec	-0.80%	-0.70%	
12/25/20	Jobless Rate	Nov	3.10%	3.10%	
12/25/20	**Retail Sales YoY**	**Nov**	**1.70%**	**6.40%**	
12/25/20	**Housing Starts YoY**	**Nov**	**-4.80%**	**-8.30%**	

Eurozone

	Indicator	Period	Expected	Prior	Comments
12/21/20	**Consumer Confidence**	**Dec A**	**-17.3**	**-17.6**	EC consumer confidence measure is expected to improve at the margin in December after having fallen in previous two months.
12/22/20	DE GfK Consumer Confidence	Jan	-7.6	-6.7	
12/23/20	FR PPI YoY	Nov	--	-2.00%	
12/24/20	ECB Economic Bulletin				

United Kingdom

	Indicator	Period	Expected	Prior	Comments
12/22/20	**Public Sector Net Borrowing**	**Nov**	**£26.8b**	**£21.6b**	Final GDP print is expected to confirm previous releases. Current account deficit is expected to have widened significantly in Q3. Net borrowing by the public sector is expected to have increased during November.
12/22/20	GDP QoQ	3Q F	15.50%	15.50%	
12/22/20	Exports QoQ	3Q F	5.10%	5.10%	
12/22/20	Total Business Investment QoQ	3Q F	8.80%	8.80%	
12/22/20	**Current Account Deficit**	**3Q**	**£11.7b**	**£2.8b**	
12/22/20	Imports QoQ	3Q F	13.20%	13.20%	

China and India

	Indicator	Period	Expected	Prior	Comments
12/21/20	**CN 1-Year Loan Prime Rate**	**21-Dec**	**3.85%**	**3.85%**	Expectations are for no change in the policy rate in China. Instead, liquidity injections remain strong.
12/21/20	CN 5-Year Loan Prime Rate	21-Dec	4.65%	4.65%	
12/25/20	CN BoP Current Account Balance	3Q F	--	$94.2b	

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

Disclaimer

ADCB Asset Management Limited ("AAML"), is a member of ADCB Group, licensed by Financial Services Regulatory Authority in Abu Dhabi Global Markets under financial services permission number 170036.

This publication is intended for general information purposes only. It should not be construed as an offer, recommendation or solicitation to purchase or dispose of any securities or to enter in any transaction or adopt any hedging, trading or investment strategy. Neither this publication nor anything contained herein shall form the basis of any contract or commitment whatsoever. Distribution of this publication does not oblige ADCB Group to enter into any transaction.

The content of this publication should not be considered as legal, regulatory, credit, tax or accounting advice. Anyone proposing to rely on or use the information contained in the publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in this publication. Investment products are not available to US persons.

Information and opinions contained herein is are based on various sources, including but not limited to public information, annual reports and statistical data that AAML considers accurate and reliable. However, AAML makes no representation or warranty as to the accuracy or completeness of any statement made in or in connection with this publication and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this publication. This publication is intended for customers who are either retail or professional investors.

Charts, graphs and related data or information provided in this publication are intended to serve for illustrative purposes only. The information contained in this publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. All statements as to future matters are not guaranteed to be accurate. AAML expressly disclaims any obligation to update or revise any forward looking statement to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

ADCB Group does and may at any time solicit or provide commercial banking, investment banking, credit, advisory or other services to the companies covered in its publications. As a result, recipients of this publication should be aware that any or all of foregoing services may at time give rise to a conflict of interest that could affect the objectivity of this publication. Opinions expressed herein may differ from opinions expressed by other businesses or affiliates of ADCB Group.

Past performance does not guarantee future results. Investment products are not bank deposits and are not guaranteed by ADCB Group. They are subject to investment risk, including possible of loss of principal amount invested. This publication may not be reproduced or circulated without ADCB Group written authority. The manner of circulation and distribution may be restricted by law or regulation in certain jurisdictions. Persons who come into possession of this document are required to inform themselves of, and to observe such restrictions. Any unauthorized use, duplication, or disclosure of this document is prohibited by law and may result in prosecution.