The Weekly Market View

February 17 2020

ADCB ASSET MANAGEMENT LIMITED

Not all nightmares come true

Markets after having dreamt the worst, have over the past two weeks come to a realisation that not all nightmares come true. Especially last week when China reported a sharp rise in the number of cases partly owing to broadening the definition of what constitutes a conformed case[1] and when one of the advisers to the World Health Organisation warned that two-thirds of the world's population could contract the disease[2], financial markets exhibited remarkable resilience. Equity markets registered gains with US outperforming other markets. Large cap growth stocks in the US led gains. Elsewhere, German DAX registered gains. Stocks in Hong Kong recovered some of their losses from previous weeks. Japanese equities posted losses on growth worries. Large cap stocks in the UK lost ground on strengthening GBP. Global bond yields ended the week almost flat as investors continued to assess the incoming reports on the spread of the virus even though virus concerns eased. The 10Y-2Y UST yield spread fell to its tightest level since end-November. US 30Y yields fell to a record-low of 2.061% at an auction on Thursday. In Europe, German bund yields rose in the first half of the week, but later declined on disappointing Europe GDP print, ending the week almost unchanged. On the other hand, 10Y UK gilt yield jumped by 7bps over the week as the appointment of new chancellor, raised the possibility of larger than expected fiscal stimulus. In the commodities space, oil prices recovered some of the losses they experienced during the previous weeks. Gold prices rose marginally extending their year-to-date gains while copper prices recouped some of their earlier losses. Amongst currencies, USD rose on a safe-haven bid. Data disappointments in Eurozone translated into weaker EUR against the greenback.

The new economy, stupid

From an equity strategy view point, we remain quite constructive on the US large cap growth segment (see our Quarterly Investment View, January 2020) and this has continued to do. We believe that large cap growth stocks in the US are well supported by strong structural trends of the 'new economy'. In our view, this 'new economy' is characterised by a paradigm shift in behavioural attributes of the underlying populations aided by the millennials taking over from baby boomers. In line with the preferences of the millennials, the world is becoming increasingly 'circular' and 'sharing'. Of course it is the technology that is facilitating this transition. Therefore, in our view, the consumer-facing technology platforms are a direct play on these structural trends. Millennials' preference for considering environmental, social and governance factors alongside financial factors when making investment decisions is taking ESG mainstream (see our The Equity Thematician: The rise of ESG – King Canute and the tide, February 13 2020). Thinking more near term, we do not see reasons for investors to turn more cautious. In the US, where we are overweight, earnings picture looks quite strong. Positioning into equities does not look overly stretched with share buybacks continuing to support prices. We have not seen much retail participation and no indication of a FOMO-triggered great rotation out of bonds into equities. Sentiment at best can be described as neutral (and not bullish). Valuations, though appear pricy on the surface, they are very well supported by easy policy. Further, equities look cheaper compared with bonds and the optionality for valuations to expand further is in an earnings rebound.

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Global markets' performance snaps

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	3,380	1.6	4.6
Dow Jones	29,398	1.0	3.0
Nasdaq	9,731	2.2	8.5
DAX	13,744	1.7	3.7
Nikkei 225	23,688	-0.6	0.1
FTSE 100	7,409	-0.8	-1.8
Sensex	41,258	0.3	0.0
Hang Seng	27,816	1.5	-1.3
Regional Markets (Sunday to Thursday)			
ADX	5,037	-1.0	-0.8
DFM	2,734	-1.3	-1.1
Tadawul	7,874	-2.2	-6.1
DSM	9,847	-3.5	-5.5
MSM30	4,128	0.0	3.7
BHSE	1,663	0.4	3.3
KWSE	6,209	-1.1	-1.2
MSCI			
MSCI World	2,430	1.1	3.1
MSCI EM	1,106	1.3	-0.7

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	57.3	5.2	-13.2
WTI USD/bbl	52.1	3.4	-14.8
Gold USD/t oz	1,584.1	0.9	4.0
Silver USD/t oz	17.7	0.2	-1.1
Platinum USD/t oz	965.7	-0.2	-0.9
Copper USD/MT	5,737.0	1.5	-6.8
Alluminium	1,696.8	-0.4	-5.2
Currencies			
EUR USD	1.08	-1.1	-3.5
GBP USD	1.30	1.2	-1.6
USD JPY	109.78	0.0	1.1
CHF USD	0.98	0.5	-1.6
Rates			
USD Libor 3m	1.69	-2.3	-11.4
USD Libor 12m	1.80	-2.0	-9.9
UAE Eibor 3m	1.98	0.7	-10.4
UAE Eibor 12m	2.32	0.8	1.5
US 3m Bills	1.57	2.2	1.6
US 10yr Treasury	1.58	0.1	-17.4

[1] https://edition.cnn.com/asia/live-news/coronavirus-outbreak-02-13-20-intl-hnk/index.html
[2] https://www.bloomberg.com/news/articles/2020-02-13/coronavirus-could-infect-two-thirds-of-globe-researcher-says

Summary market outlook

Global Yields	Global bond yields ended the week almost flat as investors continued to assess the incoming reports on the spread of the virus even though virus concerns eased. The 10Y-2Y UST yield spread fell to its tightest level since end-November. In Europe, German bund yields rose in the first half of the week, but later declined on disappointing Europe GDP print, ending the week almost unchanged. We believe the long-term US rates will remain in line with the Fed's target Fed fund rate and further curve steepening risks are rising.
Stress and Risk Indicators	VIX index fell as concerns around negative impact of coronavirus on equity markets eased. However, we believe that volatility will likely stay elevated given the range of risks on the horizon. This entire episode of the coronavirus would be a part of our 'high volatility' narrative for 2020 and our risk-barbell positioning.
Equity Markets	
Local Equity Markets	GCC equity markets posted sizable losses over the week despite a revival in oil prices. Smaller markets like Oman and Bahrain outperformed the other regional equity markets last week. We remain neutral on GCC equities given the potential for further dollar strength and range-bound oil prices, but we maintain our overweight call on Saudi equities. We also prefer banks in the regional context.
Global Equity Markets	Equity markets registered gains with US outperforming other markets. Large cap growth stocks in the US led gains. Elsewhere, German DAX registered gains. Stocks in Hong Kong recovered some of their losses from previous weeks. Japanese equities posted losses on growth worries. Large cap stocks in the UK lost ground on strengthening GBP. Overall, we remain neutral on equities with an overweight on US and underweight EU and EM.
Commodities	
Precious Metals	Gold prices increased further adding to their year-to-date gains. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices recovered some of their losses from the previous weeks. Last week, the International Energy Agency (IEA), indicated that it expects oil consumption to contract in Q1 2020 to its slowest annual rate since 2011. Overall, we believe that oil prices are likely to remain sustained as the market is roughly balanced.
Industrial Metals	Industrial metal prices stabilized last week, with copper prices recovering. We do not recommend industrial metals exposure as China reigns in demand.

Currencies								
EURUSD	Data disappointments in Eurozone translated into weaker EUR against the greenback. We expect the euro to remain stable.							
Critical levels	R2	1.0874	R1	1.0852	S1	1.0819	S2	1.0806
GBPUSD	GBP appreciated on expectations for more fiscal expansion under a new Chancellor of the Exchequer. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.							
Critical levels	R2	1.3099	R1	1.3073	S1	1.3011	S2	1.2975
USDJPY	JPY experienced two parallel and opposite influences – safe haven demand and weaker domestic growth – to remain unchanged against the USD last week. BoJ yield curve targeting should put continuing downward pressure on the yen.							
Critical levels	R2	110.01	R1	109.80	S1	109.59	S2	109.37

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

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
02/18/2020	NAHB Housing Market Index	Feb	75	75	Housing data and PMI releases will be important. Markets are also likely to pay attention to the FOMC meeting minutes.
02/19/2020	MBA Mortgage Applications	14- Feb		1.10%	
02/19/2020	Housing Starts MoM	Jan	-11.70%	16.90%	
02/19/2020	FOMC Meeting Minutes	29 –Jan			
02/20/2020	Initial Jobless Claims	15- Feb	210K	205K	
02/21/2020	Markit Manufacturing PMI	Feb P	51.5	51.9	
02/21/2020	Existing Home Sales	Jan	5.45m	5.54m	

Japan

	Indicator	Period	Expected	Prior	Comments
02/20/2020	Machine Tool Orders YoY	Jan F		-35.60%	PMI data, and inflation releases will be closely tracked by the market.
02/21/2020	Natl CPI YoY	Jan	0.70%	0.80%	
02/21/2020	Natl CPI Ex Fresh Food YoY	Jan	0.80%	0.70%	
02/21/2020	Jibun Bank PMI Mfg	Feb P		48.8	
02/21/2020	All Industry Activity Index MoM	Dec	0.30%	0.90%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
02/19/2020	ECB Current Account SA	Dec		33.9b	Flash manufacturing PMIs will be of prime importance.
02/20/2020	PPI YoY (GE)	Jan	-0.40%	-0.20%	
02/21/2020	Markit Manufacturing PMI	Feb P	47.4	47.9	
02/21/2020	CPI YoY	Jan	1.40%	1.40%	
02/21/2020	CPI Core YoY	Jan F	1.10%	1.10%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
02/19/2020	CPI YoY	Jan	1.60%	1.30%	Attention will be on CPI and retail sales.
02/19/2020	CPI Core YoY	Jan	1.50%	1.40%	
02/20/2020	Retail Sales Ex Auto Fuel YoY	Jan	0.50%	0.70%	
02/20/2020	Retail Sales Ex Auto Fuel YoY	Jan	0.70%	-0.60%	
02/21/2020	Markit PMI Manufacturing SA	Feb P	49.7	50	

China and India

	Indicator	Period	Expected	Prior	Comments
-	-	-	-	-	-

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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