The Weekly Market View

February 28 2022

ADCB Asset Management Limited

Puttin' in a risk-premium

Financial markets were whipsawed for yet another week as geopolitical risks dominated the headlines. A sharp escalation in the Russia-Ukraine stand-off quickly spiralled into what is arguably the "biggest military conflict in Europe since the second world war" and caught many investors including us by surprise. What was initially seen as a "peacekeeping mission" by the Russian troops in Ukraine quickly turned into a full-scale invasion and this resulted in a range of punitive sanctions on Russia by the West. Financial markets were hit by volatility as they tried quantifying the associated risk premium against the barrage of headlines. However, towards end of last week, markets turned risk-on as some of the worst fears of broader confrontation between the west and Russia faded (this seems to have changed with more sanctions imposed over the weekend). Elsewhere economic data across major developed markets was strong. February flash PMIs came better than expected – especially the service sector expansion was notable.

UST 10Y yields were volatile last week as investors digested the news on Russia/Ukraine, growth data, and potential monetary policy implications; Friday's rally pushed the benchmark yield slightly higher for the week. VIX index rose through the initial days of the week but fell subsequently. Equity markets had a volatile week with acute losses followed by a recovery. MSCI ACWI benchmark ended the week 0.6% lower. DMs outperformed EMs. US equities not only outperformed but also posted gains. Within DM, Europe ex UK and Japanese equities underperformed the most in USD terms. EM equity benchmarks were lead down by acute weakness in Russian equities with MSCI Russia index falling c33% in USD terms just over the past week. Gold prices slipped as risk-appetite returned in the latter part of last week. Oil prices rose last week after falling over the previous week for the first time in eight. Both Brent crude and WTI ended the week below the USD100/bbl mark as fears of sanctions on Russian oil did not materialise. EUR lost against the USD in first half of the week but recovered later. EUR appreciated to its two week high against the GBP.

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Near-term implications of the Russia-Ukraine conflict

In the near-term, should the geopolitical risks materially intensify from here, risk assets could see further downside. Equally, as the geopolitical tensions abate, financial markets could see a tactical bounce over the next weeks to months. It is indeed difficult to time the turn in the market sentiment. Yet most geopolitical risk-off events of the past (outside the world wars) provided a good buying opportunity with most risk assets recording a robust performance over the subsequent 12 months. Of course, this time around, there are additional drivers including the concerns about a tighter monetary policy that put any durable bounce into question. Yet, looking at recent market performances, and putting them against the historical templates of escalating geopolitical tensions, once the geopolitical risks peak, one should expect a move higher in equities led by cyclical segments including emerging markets and Eurozone equities by geography, and information technology, consumer discretionary, industrials, and materials by sectors. Rise of geopolitical risks in commodity exporting countries has always embedded a premium into the commodity prices, which remained high even during the normalization phase. Oil, industrial metals, and food commodities have all been in focus over the recent weeks. Here, we think oil prices have already embedded a significant risk premium and could be vulnerable to any increase in supplies by the OPEC members or the return of the US shale production. Equally should additional sanctions target Russian energy exports, oil prices could rise sharply too. Food prices could remain elevated through the spring months of the Northern hemisphere on unfavourable weather and potential disruptions to supplies from Russia and Ukraine. FX trends showed a mixed picture in the past episodes of rising geopolitical tensions. However, given the current situation, it may not be unreasonable to expect the EUR to recover against the US dollar in the near-term, in case risks begin to subside.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	4,385	0.8	-8.0
Dow Jones	34,059	-0.1	-6.3
Nasdaq	13,695	1.1	-12.5
DAX	14,567	-3.2	-8.3
Nikkei 225	26,477	-2.4	-8.0
FTSE 100	7,489	-0.3	1.4
Sensex	55,859	-3.4	-4.1
Hang Seng	22,767	-6.4	-2.7
Regional Markets			
ADX	9,123	-0.4	7.5
DFM	3,312	-0.4	3.6
Tadawul**	12,298	-1.3	8.5
DSM**	12,639	-0.2	8.8
MSM30**	4,037	-1.3	-2.7
BHSE**	1,944	0.7	8.2
KWSE**	7,638	0.9	8.4
MSCI			
MSCI World	2,980	-0.1	-7.8
MSCI EM	1,172	-4.9	-4.9

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	97.9	4.7	25.9
WTI USD/bbl	91.6	0.6	21.8
Gold USD/t oz	1,887.3	-0.4	3.6
Silver USD/t oz	23.9	-0.2	2.8
Platinum USD/t oz	1,055.0	-3.3	10.0
Copper USD/MT	9,918.0	-0.9	1.8
Alluminium	3,386.5	2.7	20.7
Currencies			
EUR USD	1.13	-0.5	-0.9
GBP USD	1.34	-1.4	-0.9
USD JPY	115.58	0.5	0.4
USD CHF	0.93	0.4	1.4
Rates	**Latest**	**Weekly (bp)**	**YTD (bp)**
USD Libor 3m	0.52	4.3	31.4
USD Libor 12m	1.33	4.5	74.8
UAE Eibor 3m	0.55	-6.0	18.9
UAE Eibor 12m	1.45	12.8	70.8
US 3m Bills	0.29	-2.0	27.0
US 10yr Treasury	1.96	5.2	49.5

Notes: *Data as of February 25 2022 unless stated otherwise; **Data as of February 24 2022

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Summary market outlook

Global Yields	UST 10Y yields were volatile as investors digested the news on Russia/Ukraine, growth data, and potential monetary policy implications; Friday's rally pushed the benchmark yield slightly higher for the week. US investment grade bonds and high yield bonds traded lower for much of the week on risk-off. Core Eurozone bond yields fell after Russia's invasion of Ukraine drove a flight to safety. UK gilt and peripheral Eurozone bond yields also declined despite the strong PMI data. Yields on 10Y JGBs fell. Overall, we recommend a lower duration stance (5Y USTs) in anticipation of interest rate volatility in the near term.
Stress and Risk Indicators	VIX index rose through the initial days of the week but fell subsequently. 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 equity markets ended the week marginally lower despite the rise in oil prices. However, regional equity markets managed to outperform not only EM EMEA markets but also broader EMs. Saudi equities underperformed the most over the past week despite strong performance of the oil sector equities. 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	Equity markets had a volatile week with acute losses followed by a recovery. MSCI ACWI benchmark ended the week 0.6% lower. DMs outperformed EMs. US equities not only outperformed but also posted gains over the week. Within DM, Europe ex UK and Japanese equities underperformed the most in USD terms. EM equity benchmarks were lead down by acute weakness in Russian equities with MSCI Russia index falling c33% in USD terms just over the past week. Across global sectors, healthcare, utilities, and IT outperformed. 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 posted gains of more than 1% while HK tech index lost c7% on renewed concerns of a regulatory crackdown on Chinese tech. According to Bloomberg news, Chinese authorities asked SOEs and banks to report their exposure to Ant Group.
Commodities	
Precious Metals	Gold prices slipped below the USD1,900/oz. mark as risk-appetite returned in the latter part of last week. Platinum prices fell too. We keep our overweight in gold as a hedge against potential inflation and geopolitical risks.
Energy	Oil prices rose last week after falling over the previous week for the first time in eight. Both Brent crude and WTI ended the week below the USD100/bbl mark as fears of sanctions on Russian oil did not materialise. Overall, over the medium-term we believe that oil prices will remain sustained as the market balances into the new normal.
Industrial Metals	Copper prices fell while aluminium prices rose strongly on supply concerns. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain.
Currencies	
EURUSD	EUR lost against the USD in first half of the week but recovered later. EUR appreciated to its two-week high against the GBP. We expect ECB policy divergence to play a major role in the performance of the euro.
Critical levels	R2 1.1539 · R1 1.1403 · S1 1.1119 · S2 1.0971
GBPUSD	GBP/USD hit a two-month low on risk aversion before recovering on the last trading day of the week. 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 1.3806 · R1 1.3608 · S1 1.3242 · S2 1.3074
USDJPY	JPY depreciated against the USD last week after gaining over the previous weeks on risk-off. Over the medium-term, BoJ's yield curve targeting should put downward pressure on JPY.
Critical levels	R2 116.59 · R1 116.07 · S1 114.72 · S2 113.89

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

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Forthcoming important economic data/events

United States

	Indicator	Period	Expected	Prior
02/28/22	Wholesale Inventories MoM	Jan P	1.20%	2.2-%
03/01/22	**Markit US Manufacturing PMI**	**Feb F**	**57.5**	**57.5**
03/01/22	**ISM Manufacturing**	**Feb**	**58.0**	**57.6**
03/02/22	MBA Mortgage Applications	25- Feb	--	-13.10%
03/03/22	Initial Jobless Claims	26- Feb	225K	232K
03/03/22	Continuing Claims	19- Feb	1,400K	1,476K
03/03/22	**Markit US Services PMI**	**Feb F**	**56.7**	**56.7**
03/03/22	ISM Services Index	Feb	61.0	59.9
03/03/22	Factory Orders	Jan	0.50%	-0.40%
03/03/22	Durable Goods Orders	Jan F	--	1.60%
03/04/22	**Change in Nonfarm Payrolls**	**Feb**	**400K**	**467K**
03/04/22	**Unemployment Rate**	**Feb**	**3.90%**	**4.00%**
03/04/22	**Average Hourly Earnings YoY**	**Feb**	**5.80%**	**5.70%**
03/04/22	Labor Force Participation Rate	Feb	62.20%	62.20%

Japan

	Indicator	Period	Expected	Prior
02/28/22	Industrial Production MoM	Jan P	-0.70%	-1.00%
03/01/22	**Jibun Bank Japan PMI Mfg**	**Feb F**	**--**	**52.9**
03/01/22	Vehicle Sales YoY	Feb	--	-12.50%
03/02/22	Monetary Base YoY	Feb	--	8.40%
03/03/22	**Jibun Bank Japan PMI Services**	**Feb F**	**--**	**42.7**
03/03/22	Consumer Confidence Index	Feb	35.0	36.7
03/04/22	**Jobless Rate**	**Jan**	**2.70%**	**2.70%**

Eurozone

	Indicator	Period	Expected	Prior
03/01/22	**Eurozone Markit Manufacturing PMI**	**Feb F**	**58.4**	**58.4**
03/01/22	**Germany CPI YoY**	**Feb P**	**5.00%**	**4.90%**
03/03/22	**Eurozone Markit Services PMI**	**Feb F**	**55.8**	**55.8**
03/03/22	Eurozone PPI YoY	Jan	27.00%	26.20%
03/04/22	Germany Exports SA MoM	Jan	1.10%	0.90%
03/04/22	France Industrial Production YoY	Jan	-3.20%	-0.50%
03/04/22	**Eurozone Retail Sales MoM**	**Jan**	**1.50%**	**-3.00%**
03/07/22	Germany Factory Orders MoM	Jan	--	2.80%

United Kingdom

	Indicator	Period	Expected	Prior
03/01/22	Mortgage Approvals	Jan	72.0K	71.0K
03/01/22	**Markit UK PMI Manufacturing SA**	**Feb F**	**57.3**	**57.3**
03/02/22	Nationwide House Px NSA YoY	Feb	10.80%	11.20%
03/03/22	Markit/CIPS UK Services PMI	Feb F	60.8	60.8
03/04/22	**New Car Registrations YoY**	**Feb**	**--**	**27.50%**

China and India

	Indicator	Period	Expected	Prior
02/28/22	India GDP YoY	4Q	5.90%	8.40%
03/01/22	**Caixin China PMI Mfg**	**Feb**	**49.1**	**49.1**
03/02/22	**Markit India PMI Mfg**	**Feb**	**--**	**54.0**
03/03/22	**Caixin China PMI Services**	**Feb**	**50.8**	**51.4**
03/04/22	**Markit India PMI Services**	**Feb**	**--**	**51.5**

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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