The Weekly Market View

February 07 2023

ADCB ASSET MANAGEMENT LIMITED

Hello, February!

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

Kishore Muktinutalapati
Head - Investment Strategy
Tel: +971 (0)2 696 2358
kishore.muktinutalapati@adcb.com

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

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Last week markets digested the monetary policy decisions from three key central banks and range of economic data. All three central banks- the Fed, the ECB and the BoE raised policy rates by 25bp, 50bp and 50bp respectively as expected. The Fed acknowledged the signs of slowing inflation but cautioned of a still tight labor market. US January labor market report released later showed that the economy added 517k jobs in January 2023, more than double the consensus forecast and marked the largest gain in six months. The unemployment rate fell to 3.4%- the lowest level since 1961 while labor participation rate increased. Most importantly, average hourly earnings growth slowed again in January, rising by 4.4% yoy, down from 4.8% yoy in December. In another data surprise, the ISM Services Index jumped back into expansion territory in January. This was in stark contrast to the deceleration seen in the ISM Manufacturing Index that fell deep into the contraction zone. In Europe, the ECB signaled another rate hike in March, after raising interest rates by 50bp last week, stressing on the continuation of the hiking cycle while the BoE signaled that policy rates may have peaked. Meanwhile, headline Eurozone inflation came in softer than expected but core inflation remained sticky. Further, latest 4Q22 GDP print showed that the Eurozone economy expanded unexpectedly.

Global equities posted weekly gains despite coming under pressure on Friday, 3rd February on the back of the strong jobs report. EM equities recorded losses, underperforming DM peers. In fixed income, the 10Y UST yields dropped mid-week in reaction to the Fed rate hike but later edged higher post the strong payrolls report. The USD rebounded, recording weekly gains for the first time in four weeks. Oil prices declined over the week on skepticism over China growth momentum and reports of rising US crude oil inventories.

"Fast and furious" rally

The first month of the year proved to be quite strong for the global fixed income markets. Positive returns have been evident across various asset classes. Global Aggregate bond index rose by 3.3% in January. Global HY was the top performer, recording monthly returns of 4.2%. Global Corporate IG slightly lagging, gaining 4%. In fact, US IG bonds posted their best January monthly performance since 1975. US Treasuries rose 2.5%, led by long-term US Treasuries. In EM, LCY bonds were the best performers, adding gains of 4.1%. EM USD sovereign recorded returns of c3.4%. Some of the recent rally in fixed income assets is justified considering the valuations, the fundamentals and the Fed hinting at slower rate hikes. However, in case of the risky portion of the fixed income- January rally looks a bit overstretched. USD corporate spread tightening looks excessive given the concerns of growth slowdown which have not died down completely and still remain despite the increased soft landing prospects. More importantly, the rebound in EM bond has been sharp too on the improved prospects of the growth outlook, weakening USD and China re-opening. The January rally has led to tightening of the Markit EM 5yr CDS spread which is fully accounting for the positive EM economic surprises. In fact, the Markit EM 5yr CDS spread is now back at levels just before the start of the Russia-Ukraine crisis. The concerning bit is that the strong EM bond rally has been led by EM HY sovereigns- particularly those EM countries which had suffered significant losses last year due to the weak economic fundamentals. In fact, EM USD HY sovereign countries have outperformed the EM USD sovereign bond index. Weak EM economies (Pakistan, Ghana, Argentina) have recorded the largest tightening of 5yr sovereign CDS spread year-to-date. We believe the recent rally in the EM USD HY space is not sustainable. Global growth prospects may have improved but we are still not out of the woods when it comes to slowdown risks and the possibility of tightening of US financial conditions. Therefore, we continue to stick to our quality preference within our fixed income asset allocation i.e. Neutral on DM IG and EM USD sovereign and underweight on DM HY. For details, see our 2023 Outlook: Peaks and valleys, January 2023.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	4,136	1.62	7.73
Dow Jones	33,926	-0.15	2.35
Nasdaq	12,007	3.31	14.72
DAX	15,476	2.15	11.15
Nikkei 225	27,509	0.46	6.54
FTSE 100	7,902	1.76	6.04
Sensex	60,842	2.55	0.00
Hang Seng	24,209	-4.53	7.00
Regional Markets			
ADX	9,931	1.99	-2.74
DFM	3,383	1.61	1.40
Tadawul**	10,702	-1.11	0.76
DSM**	10,698	-3.71	-0.25
MSM30**	4,720	-0.67	-2.40
BHSE**	1,921	-0.33	2.15
KWSE**	7,330	0.26	0.61
MSCI			
MSCI World	2,821	1.25	8.38
MSCI EM	1,039	-1.19	8.61

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	79.9	-7.75	-6.74
Nymex WTI USD/bbl	73.4	-7.89	-8.42
Gold USD/t oz	1,865.0	-3.27	2.71
Silver USD/t oz	22.4	-5.30	-6.44
Platinum USD/t oz	976.8	-3.84	-9.00
Copper USD/MT	9,060.0	-3.05	8.02
Alluminium	2,538.0	-2.29	8.02
Currencies			
EUR USD	1.08	-0.67	0.84
GBP USD	1.21	-2.63	-0.20
USD JPY	131.19	1.01	0.55
USD CHF	0.93	0.55	0.11
Rates	**Latest**	**Weekly (bp)**	**YTD(bp)**
USD Libor 3m	4.83	0.88	462.50
USD Libor 12m	5.25	-6.50	466.80
UAE Eibor 3m	4.74	-2.48	437.94
UAE Eibor 12m	4.90	-5.96	415.69
US 3m Bills	4.64	-2.85	460.56
US 10yr Treasury	3.52	2.11	201.45

Source: Bloomberg, and ADCB Asset Management
Notes: *Data as of February 3 2023 unless stated otherwise; **Data as of February 2 2023

Summary market outlook

Global Yields	10Y UST yield declined mid-week on the Fed signaling slower rate hikes but ended the week marginally higher on the back of strong payrolls report. 10Y German bund yields recorded marginal declines despite the ECB hinting at staying the course of raising rates. 10Y UK Gilt yields declined the most as the BoE signaled the peak in rates. Bond yields and prices are inversely correlated. i.e. yields rise when prices fall and vice versa. Overall, we recommend adding duration on USTs (7-10Y segment) as growth slowdown occurs and recession fears rise.
Stress and Risk Indicators	Volatility declined last week on expectations of slower central bank rate hikes. Both VIX and MOVE indices eased over the week. However, SKEW index, a measure of tail risks jumped. We expect financial market volatility to stay elevated as the monetary policy normalizes and markets weigh recession probabilities.
Equity Markets	
Local Equity Markets	MSCI GCC index recorded marginal losses, underperforming global equities last week. Barring Abu Dhabi, Dubai and Kuwait, all other GCC equity markets recorded losses. 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 several years are all balanced by lack of structural growth plays in the equity market indices.
Global Equity Markets	Global equities posted gains on the back of the risk-on sentiment. EMs posted weekly losses, underperforming DM peers. Within the developed world, US outperformed the most while Japan underperformed. We are moderately overweight US, UK, and Asia Pacific; underweight Eurozone and EMs outside Asia. By sector we prefer healthcare, and industrials. 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	Nasdaq-100 index gained 3.34% over the week while HK tech index lost 3.93% over the week. Within technology, we prefer non-cyclical growth over cyclical growth (tech hardware, semiconductors etc.) over a 12-month horizon.
Commodities	
Precious Metals	Gold prices declined on the back of rebound in the USD strength. Silver and platinum prices continued to decline. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Oil prices declined over the week on scepticism over the China growth momentum and reports of rising US crude inventories. 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 recorded weekly losses on China growth scepticism and rebound in the USD. Another commodity super-cycle is difficult, yet demand for commodities linked to “green infrastructure” is likely to sustain.

Currencies

EURUSD	EUR depreciated versus the USD. We expect euro to stabilize and record a better performance in 2023 compared to 2022.
GBPUSD	GBP weakened against the USD with the BoE hinting at a peak in rates. We expect GBP to weaken against EUR and stay flat versus the USD.
USDJPY	JPY depreciated against the USD with the rise in UST yields and rebound in the USD strength. JPY is likely to strengthen in 2023 as interest rate differentials tighten, and as broad USD weakens.

Critical levels	R2	R1	S1	S2
EURUSD	1.1114	1.0954	1.0714	1.0634
GBPUSD	1.2543	1.2299	1.1930	1.1805
USDJPY	133.27	132.23	129.12	127.05

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
02/07/23 17:30	Trade Balance	Dec	-$68.5b	-$61.5b
02/08/23 16:00	**MBA Mortgage Applications**	**3-Feb**	**--**	**-9.00%**
02/08/23 19:00	Wholesale Inventories MoM	Dec F	0.10%	0.10%
02/09/23 17:30	Initial Jobless Claims	4-Feb	190k	183k
02/09/23 17:30	Continuing Claims	28-Jan	1660k	1655k
02/10/23 19:00	**U. of Mich. Sentiment**	**Feb P**	**65**	**64.9**
02/10/23 19:00	U. of Mich. Current Conditions	Feb P	68	68.4
02/10/23 19:00	**U. of Mich. 1 Yr Inflation**	**Feb P**	**4.00%**	**3.90%**
02/10/23 19:00	**U. of Mich. 5-10 Yr Inflation**	**Feb P**	**2.90%**	**2.90%**

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
02/08/23 03:50	BoP Current Account Balance	Dec	Â¥112.0b	Â¥1803.6b
02/08/23 03:50	BoP Current Account Adjusted	Dec	Â¥1236.3b	Â¥1918.5b
02/08/23 09:00	**Eco Watchers Survey Current SA**	**Jan**	**48.2**	**47.9**
02/08/23 09:00	**Eco Watchers Survey Outlook SA**	**Jan**	**47.6**	**47**
02/09/23 03:50	Money Stock M3 YoY	Jan	--	2.50%
02/09/23 10:00	**Machine Tool Orders YoY**	**Jan P**	**--**	**0.90%**

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
02/07/23 11:00	**Germany Industrial Production WDA YoY**	**Dec**	**-1.60%**	**-0.40%**
02/07/23 11:45	**France Trade Balance**	**Dec**	**-12000m**	**-13766m**
02/07/23 11:45	France Current Account Balance	Dec	--	-6.8b

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
02/09/23 04:01	RICS House Price Balance	Jan	-45%	-42%
02/10/23 11:00	**Industrial Production YoY**	**Dec**	**-5.20%**	**-5.10%**
02/10/23 11:00	Manufacturing Production MoM	Dec	-0.20%	-0.50%
02/10/23 11:00	Index of Services 3M/3M	Dec	0.10%	-0.10%
02/10/23 11:00	**GDP QoQ**	**4Q P**	**0.00%**	**-0.30%**
02/10/23 11:00	**GDP YoY**	**4Q P**	**0.40%**	**1.90%**
02/10/23 11:00	Private Consumption QoQ	4Q P	-0.10%	-1.10%
02/10/23 11:00	Government Spending QoQ	4Q P	0.40%	0.50%
02/10/23 11:00	Exports QoQ	4Q P	-0.60%	8.90%
02/10/23 11:00	Imports QoQ	4Q P	-0.40%	-3.60%
02/09/23 04:01	RICS House Price Balance	Jan	-45%	-42%

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
02/08/23 08:30	**India RBI Repurchase Rate**	**8-Feb**	**6.50%**	**6.25%**
02/08/23 08:30	**India RBI Cash Reserve Ratio**	**8-Feb**	**4.50%**	**--**
02/09/23-02/15/23	Aggregate Financing CNY	Jan	5400.0b	1310.0b
02/09/23-02/15/23	Money Supply M2 YoY	Jan	11.60%	11.80%
02/09/23-02/15/23	Money Supply M1 YoY	Jan	4.70%	3.70%
02/10/23 05:30	CPI YoY	Jan	2.20%	1.80%
02/10/23 05:30	PPI YoY	Jan	-0.50%	-0.70%
02/10/23	**China BoP Current Account Balance**	**4Q P**	**--**	**$144.3b**
02/10/23 16:00	**India Industrial Production YoY**	**Dec**	**5.00%**	**7.10%**

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