The Weekly Market View

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بنك أبوظبي التجاري
ADCB
ASSET MANAGEMENT LIMITED

Overtrained markets face hurdles

Financial markets, after a strong month in January (60/40 portfolio of stocks and bonds posted its best monthly gain since 1991), are now facing hawkish central banks, mixed economic and corporate news flow, and rising geopolitical risks. Last week saw a lineup of Fed speakers trying to convince markets that more rate hikes are likely to come. Several ECB policymakers reasserted their hawkish stance in the wake of the most recent rate-setting meeting, warning against complacency in the fight against inflation. Swedish central bank hiked rates more than forecast. Reserve Bank of Australia raised rates as expected, revised up inflation forecasts and indicated that more rate hikes might be needed. Last week's economic data releases showed a mixed picture. In the US, the UMich survey-based measures showed price expectations over the coming year rose to 4.2% from 3.9% but remained well below levels seen in the first half of last year. Yet, the overall UMich sentiment index was better than expected. Also, revisions to US CPI data showed consumer prices rose in December instead of falling as previously estimated. On the other side of the Atlantic, inflation in Germany slowed by more than expected, hitting a five-month low of 9.2% in January. German industrial orders rose more than expected while industrial production fell more than expected. The UK avoided a recession last year, despite a sharp economic contraction in December. Further to the east, Chinese CPI rose more than expected but PPI fell more than expected. Geopolitical tensions between the US and China rose after the US shot down the Chinese balloon.

Will the US default this time?

In our 2023 annual outlook, we identified the US debt ceiling related issues as a key political risk. Subsequently, on 19th January the US actually hit its debt limit and the implications of this might be felt quite broadly by summer this year. The congress failing to act on time could cause the US to default and this is the key risk. While episodes of a last-minute deal avoiding a default are not new, we think the odds that a potential US default could occur are higher this time around. History is full of episodes (78 times since 1960) where once the debt limit was reached, congress acted to raise the ceiling – thereby taking off some of the really bad outcomes like a US default. However, in most cases, it was not without a great drama that a potential deal was reached in the congress. This time too we do expect a long drama to play out before the US debt limit is relaxed. Yet, there are some aspects indicating that the chances of a US debt limit deal being not reached in time are higher than usual. Most of these are political. Think about the Republican hardliners and the divided house of representatives, the issues become clear. On the Republican side, Speaker Kevin McCarthy signaled that he and his fellow Republicans would seek to use the debt limit standoff to enact spending cuts and reduce the national debt. On the democratic side, President Joe Biden has repeatedly said that he will refuse to negotiate over the debt limit, and that Congress must vote to raise it with no strings attached. These stances indicate that both parties are incentivized to push the negotiations till the last minute. This risks a repeat of 2011 when the debt impasse resulted in the US credit rating being downgraded and markets experiencing increased volatility. We define this as our worst-case scenario but with higher probability than usual. Looking at the performances 6 months prior to the event to 6 months after the event of the US rating downgrade in 2011, bonds outperformed equities. Within US bonds, investment grade outperformed both sovereigns, and high yield credit. Within US treasuries, yields on short-dated paper rose as the X-date approached while the yields on long-term bonds fell. Turning to equities, US outperformed international markets. Sectoral equity performances showed preference for a defensive tilt. In summary, US debt ceiling debates are likely to heat up as summer approaches. We are working with a base case that an eventual deal will be reached just in time to avoid a US default. Chances that a deal may not come in time and the US defaults on its obligations are higher than usual. From investors' perspective, sticking with quality segments across assets over the next 6 months is the most prudent thing to do.

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Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	4,090	-1.1	6.5
Dow Jones	33,869	-0.2	2.2
Nasdaq	11,718	-2.4	12.0
DAX	15,308	-1.1	9.9
Nikkei 225	27,671	0.6	6.0
FTSE 100	7,882	-0.2	5.8
Sensex	60,683	-0.3	-0.3
Hang Seng	21,190	-2.2	7.1
Regional Markets			
ADX	10,023	0.9	-1.8
DFM	3,454	2.1	3.5
Tadawul**	10,412	-1.4	-1.3
DSM**	10,424	-2.2	-2.4
MSM30**	4,769	0.6	-2.1
BHSE**	1,937	0.1	2.2
KWSE**	7,340	0.0	0.7
MSCI			
MSCI World	2,784	-1.3	7.0
MSCI EM	1,014	-2.4	6.0

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	86.4	8.1	0.6
WTI USD/bbl	79.7	8.6	-0.7
Gold USD/t oz	1,860.1	-0.6	2.5
Silver USD/t oz	22.0	-2.0	-7.6
Platinum USD/t oz	966.0	-3.9	-6.3
Copper USD/MT	8,828.8	-1.4	5.6
Alluminium	2,404.7	-5.1	2.4
Currencies			
EUR USD	1.07	-1.1	-0.3
GBP USD	1.21	0.0	-0.3
USD JPY	131.43	0.2	0.2
USD CHF	0.92	-0.2	-0.1
Rates	**Latest**	**Weekly (bp)**	**YTD (bp)**
USD Libor 3m	4.87	3.8	10.5
USD Libor 12m	5.46	20.5	-2.6
UAE Eibor 3m	4.88	13.6	57.0
UAE Eibor 12m	4.95	5.6	-9.0
US 3m Bills	4.66	9.0	36.0
US 10yr Treasury	3.76	23.0	-7.0

Source: Bloomberg, and ADCB Asset Management
Notes: *Data as of February 10 2023 unless stated otherwise; **Data as of February 09 2023

Summary market outlook

Global Yields	Yields moved broadly higher. The yield 10Y USTs hit a more than one-month high on hawkish commentary from Fed officials and stronger January payrolls report. Further, the 10Y-2Y curve inversion hit its deepest level since 1981. Yield on 10Y German bund posted its biggest weekly rise this year as ECB policymakers warned about inflation. Yields on 10Y JGBs remained broadly unchanged. 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	Cross-asset volatility rose sharply. VIX index, a measure of implied volatility in equities jumped 12% last week. MOVE index, a measure of implied volatility in bonds rose c11%. Our measure of FX volatility rose 17%. We expect financial market volatility to stay elevated as the monetary policy normalizes and markets weigh recession probabilities.
Equity Markets	
Local Equity Markets	In spite of the rise in oil prices, GCC equities posted losses and underperformed global equities. Underperformance was led by Saudi Arabian and Qatari equities. UAE markets outperformed other regional markets last week. 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 losses last week taking the year-to-date gains to just below 7%. Both DM and EM aggregates lost value but the former outperformed the latter. Within DM, Japan and UK outperformed the most while Europe-ex-UK underperformed. US stocks recorded their biggest weekly decline in two months. Sector wise, with the only exception of energy sector, all other 10 GICS sectors posted losses over the past week. 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 fell c2% on rise in UST yields. HK tech underperformed as geopolitical risks between the US and China resurfaced. 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 marginally on USD strength. Silver and platinum prices fell sharply as the USD strength dominated. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Oil prices rose sharply over the past week following Russia’s announcement that it would cut about 5% of its monthly oil output in response to a price cap imposed by western nations. 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 fell on stronger USD and weaker sentiment. Another commodity super-cycle is difficult, yet demand for commodities linked to “green infrastructure” is likely to sustain.
Currencies	
EURUSD	EUR/USD fell as the broader USD posted second weekly rise, a run it has not seen since October. We expect euro to stabilize and record a better performance in 2023 compared to 2022.
Critical levels	R2 1.0855 · R1 1.0767 · S1 1.0628 · S2 1.0577
GBPUSD	GBP/USD stayed flat despite the USD strength as good news of the UK avoiding a recession helped the local currency. We expect GBP to weaken against EUR and stay flat versus the USD.
Critical levels	R2 1.2305 · R1 1.2184 · S1 1.1951 · S2 1.1839
USDJPY	JPY stayed resilient on news of the likely appointment of academic Kazuo Ueda as the next BoJ governor. JPY is likely to strengthen in 2023 as interest rate differentials tighten, and as broad USD weakens.
Critical levels	R2 134.44 · R1 132.90 · S1 129.81 · S2 128.26

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
02/14/23 15:00	NFIB Small Business Optimism	Jan	--	89.8
02/14/23 17:30	**CPI YoY**	**Jan**	**6.20%**	**6.50%**
02/15/23 16:00	MBA Mortgage Applications	10-Feb	--	7.40%
02/15/23 17:30	Empire Manufacturing	Feb	-22.0	-32.9
02/15/23 17:30	**Retail Sales Advance MoM**	**Jan**	**2.00%**	**-1.10%**
02/15/23 17:30	**Retail Sales Ex Auto MoM**	**Jan**	**0.70%**	**-1.10%**
02/15/23 18:15	**Industrial Production MoM**	**Jan**	**0.70%**	**-0.70%**
02/15/23 18:15	Capacity Utilization	Jan	79.20%	78.80%
02/15/23 19:00	**NAHB Housing Market Index**	**Feb**	**35**	**35**
02/16/23 17:30	Building Permits	Jan	1,350k	1,330k
02/16/23 17:30	Housing Starts	Jan	1,363k	1,382k
02/16/23 17:30	**Initial Jobless Claims**	**11-Feb**	**--**	**--**
02/16/23 17:30	Continuing Claims	4-Feb	--	--
02/16/23 17:30	Philadelphia Fed Business Outlook	Feb	-7.4	-8.9
02/16/23 17:30	**PPI Final Demand MoM**	**Jan**	**0.40%**	**-0.50%**
02/16/23 17:30	**PPI Ex Food and Energy YoY**	**Jan**	**--**	**5.50%**

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
02/14/23 03:50	**GDP Annualized SA QoQ**	**4Q P**	**1.80%**	**-0.80%**
02/14/23 03:50	**GDP SA QoQ**	**4Q P**	**0.50%**	**-0.20%**
02/14/23 03:50	**GDP Deflator YoY**	**4Q P**	**1.10%**	**-0.30%**
02/14/23 08:30	**Industrial Production MoM**	**Dec F**	**--**	**-0.10%**
02/14/23 08:30	Capacity Utilization MoM	Dec	--	-1.40%
02/15/23 08:30	Tertiary Industry Index MoM	Dec	0.10%	-0.20%
02/16/23 03:50	**Trade Balance Adjusted**	**Jan**	**-¥2,533.6b**	**-¥1,724.2b**
02/16/23 03:50	**Exports YoY**	**Jan**	**-2.50%**	**11.50%**
02/16/23 03:50	**Imports YoY**	**Jan**	**18.40%**	**20.60%**
02/16/23 03:50	Core Machine Orders MoM	Dec	2.80%	-8.30%
02/16/23-02/22/23	Nationwide Dept Sales YoY	Jan	--	4.00%

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
02/13/23-02/16/23	**Germany Wholesale Price Index YoY**	**Jan**	**--**	**12.80%**
02/14/23 14:00	**Eurozone GDP SA QoQ**	**4Q P**	**--**	**0.10%**
02/15/23 14:00	**Eurozone Industrial Production WDA YoY**	**Dec**	**--**	**2.00%**
02/16/23 13:00	**Eurozone ECB Publishes Economic Bulletin**			
02/17/23 13:00	Eurozone ECB Current Account SA	Dec	--	13.6b
02/17/23 11:45	**France CPI YoY**	**Jan F**	**--**	**6.00%**

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
02/14/23 11:00	**Jobless Claims Change**	**Jan**	**--**	**19.7k**
02/14/23 11:00	**Average Weekly Earnings 3M/YoY**	**Dec**	**--**	**6.40%**
02/14/23 11:00	**ILO Unemployment Rate 3Mths**	**Dec**	**--**	**3.70%**
02/15/23 11:00	**CPI YoY**	**Jan**	**--**	**10.50%**
02/15/23 11:00	**CPI Core YoY**	**Jan**	**--**	**6.30%**
02/15/23 11:00	RPI YoY	Jan	--	13.40%
02/15/23 13:30	House Price Index YoY	Dec	--	10.30%
02/17/23 11:00	**Retail Sales Ex Auto Fuel YoY**	**Jan**	**--**	**-6.10%**

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
02/10/23-02/15/23	China Aggregate Financing CNY	Jan	5,400.0b	1,310.0b
02/10/23-02/15/23	China Money Supply M2 YoY	Jan	11.70%	11.80%
02/10/23-02/15/23	China Money Supply M1 YoY	Jan	4.70%	3.70%
02/13/23 16:00	**India CPI YoY**	**Jan**	**5.94%**	**5.72%**
02/14/23 10:30	**India Wholesale Prices YoY**	**Jan**	**4.59%**	**4.95%**
02/15/23 05:20	**China 1-Yr Medium-Term Lending Facility Rate**	**15-Feb**	**2.75%**	**2.75%**

ADCB ASSET MANAGEMENT LIMITED

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