The Weekly Market View

January 17 2022

ADCB ASSET MANAGEMENT LIMITED

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Tough beginnings

Risk sentiment was mixed during the second week of the year as markets dealt with continued inflation and policy uncertainty. Market expectations of a more aggressive tightening aggravated after the recent CPI print reached the highest level in forty years while the Fed Chair Jay Powell advocated a strong hawkish stance at his confirmation hearing. US December CPI rose by 7% yoy, the strongest since 1982 while core CPI rose by 8.3%, the largest gain since 1991. While inflation surged, other economic data was subdued amidst the concerns over the Omicron variant. US retail sales witnessed a decline of 1.9% yoy in December. Preliminary numbers for University of Michigan's index of consumer spending dropped to new pandemic low while inflation expectations edged higher- indicating that rising inflation had started to weigh on the consumer sentiment.

Global stocks ended the second week on a mixed note. EM equities outperformed DM stocks. In developed markets, Japanese equities (in local currency terms) underperformed the most. US equities recorded the second consecutive week of loss with NASDAQ underperforming the most. In the bond markets, the 10yr UST yield jumped to 1.8% during the beginning of last week, but later ended the week at 1.78% despite the strong inflation print. The yield curve flattened on the back of increased market pricing of Fed rate hikes. Markets are now pricing in 90% probability of four Fed rate hikes this year. Core Eurozone bond yields tracked the movement in UST yields. US IG bonds remained under pressure while US HY recovered from the previous week's loss. In currencies- the clear trend was that of dollar weakness. In commodities, oil prices posted second consecutive week of gain, boosted by the supply constraint concerns amidst reports of production shortfall by OPEC+ countries. Gold prices posted weekly gain- helped by the dollar weakness and subdued retail sales and consumer sentiment print. Industrial metals recorded positive gains.

US credit and policy uncertainty

Policy uncertainty is the biggest risk for the fixed income assets in 2022. DM corporate bonds outperformed DM sovereign bonds in 2021. Global HY bonds were the best performers with US HY bonds recording over 5% return in 2021. However, given the tight valuations and upcoming policy risk- repeat of 2021 rally looks quite challenging. Corporate bond spreads have been relatively tight despite the jump in bond market volatility. While search for carry could continue to attract inflows into US HY- tight spreads limit the possibility of further price appreciation. In the event of deep flattening of the UST yield curve- triggered by aggressive Fed tightening expectations- corporate spreads could start coming under pressure. As a result, it is prudent to have a selective approach when investing in USD credit. There are selective opportunities in USD credit by ratings and sectors. In US IG, in terms of ratings, we prefer AAA and AA. The BBB/A and A/AA yield spread have significantly tightened while the AA/AAA yield has cheapened. In terms of sector, with the US IG being duration heavy, we prefer sectors with lower duration and attractive yields- this includes energy, financials and capital goods. In US HY, BB is preferred over single B and CCC with the latter more vulnerable to an aggressive Fed policy. Sector wise- energy sector will be the main driver but spreads look rich- relatively financials and communications are two sectors trading attractive. For more details about our asset allocation strategies, please read our latest Quarterly Investment View, January 2022.

Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	4,663	-0.3	-2.2
Dow Jones	35,912	-0.9	-1.2
Nasdaq	14,894	-0.3	-4.8
DAX	15,883	-0.4	-0.0
Nikkei 225	28,124	-1.2	-1.6
FTSE 100	7,543	0.8	2.1
Sensex	61,235	2.5	5.1
Hang Seng	24,209	3.8	3.5
Regional Markets (Sunday to Thursday)			
ADX	8,426	0.4	-0.7
DFM	3,215	0.6	0.2
Tadawul	12,079	5.7	7.3
DSM	12,318	3.0	6.9
MSM30	4,267	1.9	2.7
BHSE	1,804	0.9	1.0
KWSE	7,390	4.1	4.9
MSCI			
MSCI World	3,182	-0.1	-1.8
MSCI EM	1,263	2.6	2.1

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	86.1	5.3	11.0
Nymex WTI USD/bbl	83.8	6.2	12.1
Gold USD/t oz	1,817.9	1.2	-0.5
Silver USD/t oz	23.0	2.7	-1.3
Platinum USD/t oz	974.5	1.3	0.6
Copper USD/MT	9,900.0	3.0	2.1
Alluminium	2,976.3	2.4	6.2
Currencies			
EUR USD	1.14	0.4	0.4
GBP USD	1.37	0.6	1.0
USD JPY	114.19	-1.2	-0.5
USD CHF	0.91	-0.5	0.2
Rates	**Latest**	**Weekly**	**YTD(bp)**
USD Libor 3m	0.24	0.5	3.2
USD Libor 12m	0.73	6.4	14.3
UAE Eibor 3m	0.40	2.0	3.4
UAE Eibor 12m	0.80	-8.0	5.8
US 3m Bills	0.11	2.0	8.1
US 10yr Treasury	1.78	2.2	27.4

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Summary market outlook

Global Yields	The 10yr UST yields rose to 1.8% during the start of the week but later ended at 1.78%. The yield curve flattened as markets priced in four rate hikes this year. Core Eurozone bond yields tracked the movement in UST yields. US IG spread widened during the week. EM bonds recorded losses despite dollar weakness. 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 jumped during the week but ended the week almost unchanged. We think the VIX index is unlikely to fall back to the pre-pandemic levels until the virus comes fully under control.
Equity Markets	
Local Equity Markets	GCC equities recorded strong gains- driven by higher oil prices and positive start of the earning season. Saudi stocks were the best performers with the Tadawul index reaching record high. On the other hand, UAE stocks posted positive gains but underperformed its peers. We stay neutral GCC equities within our global equity framework. Stable to higher oil prices, potential for revival in growth and scope for reversing the underperformance of 2020 are all balanced by lack of structural growth plays in the equity markets.
Global Equity Markets	Global equities ended the second week unchanged. EM equities recorded positive returns, outperforming DM stocks. Within DM- Japanese equities (in local currency terms) underperformed the most while UK equites outperformed. US equities recorded their second consecutive week of decline with Dow Jones underperforming the most. Sector wise, energy outperformed while real estate, utilities and health care underperformed. From a strategy view point, 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 registered its third consecutive week of negative returns. On the other hand, HK tech index posted strong gains.
Commodities	
Precious Metals	Gold prices advanced during the week, helped by the weak dollar bias. We keep our overweight in gold as a hedge against potential risks on the horizon.
Energy	Oil prices recorded another week of solid gains, boosted by supply constraints amidst reports of production shortfall by OPEC+ 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 metals surged on the back of concerns over supply-side bottlenecks. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain.
Currencies	
EURUSD	EUR appreciated against the USD due to broad dollar weakness and relaxation of restrictions in the Eurozone. We expect ECB policy divergence to play a major role in the performance of the euro.
Critical levels	R2 1.1591 · R1 1.1501 · S1 1.1303 · S2 1.1195
GBPUSD	The pound sterling strengthened against the USD, driven by increased expectation of BoE rate hikes. 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 1.3868 · R1 1.3772 · S1 1.3556 · S2 1.3436
USDJPY	Japanese yen rose versus the USD. Over the medium-term, BoJ's yield curve targeting should put downward pressure on JPY.
Critical levels	R2 116.87 · R1 115.53 · S1 113.17 · S2 112.15

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
01/17/22	Trade Balance	Nov	20.5b	19.8b	Initial Jobless claims, MBA Mortgage Applications, and PMI will be important. Also, focus will be on the housing data.
01/18/22	NAHB Housing Market Index	Jan	84	84	
01/19/22	MBA Mortgage Applications	14- Jan	--	1.40%	
01/19/22	Housing Starts	Dec	1650K	1679K	
01/19/22	Housing Starts MoM	Dec	-1.70%	11.80%	
01/20/22	Initial Jobless Claims	15- Jan	220K	230K	
01/20/22	Existing Home Sales MoM	Dec	-0.80%	1.90%	
01/24/22	Markit Manufacturing PMI	Jan P	--	57.7	

Japan

	Indicator	Period	Expected	Prior	Comments
01/17/22	Tertiary Industry Index MoM	Nov	1.00%	1.50%	All eyes will be on BoJ MPC meeting.
01/18/22	Industrial Production YoY	Nov F	--	7.20%	
01/20/22	BoJ MPC meeting	18- Jan	-0.10%	-0.10%	
01/20/22	Trade Balance	Dec	-¥786.4b	-¥954.8b	
01/21/22	Exports YoY	Dec	16.00%	20.50%	
01/21/22	Natl CPI YoY	Dec	0.90%	0.60%	
01/21/22	Natl CPI Ex Fresh Food, Energy YoY	Dec	-0.60%	-0.60%	
01/24/22	Jibun Bank PMI Mfg	Jan P	--	54.3	

Eurozone

	Indicator	Period	Expected	Prior	Comments
01/19/22	Germany CPI YoY	Dec F	5.30%	5.30%	Inflation, PMI and Retail Sales will be important.
01/19/22	ECB Current Account SA	Nov	--	18.1b	
01/20/22	PPI YoY	Dec	19.20%	19.20%	
01/21/22	Retail Sales MoM	Nov	1.20%	1.60%	
01/24/22	Markit Manufacturing PMI	Jan P	--	58	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
01/17/22	Right move House Prices MoM	Jan	0.30%	-0.70%	Attention will be on CPI and retail sales.
01/19/22	CPI YoY	Dec	5.20%	5.10%	
01/21/22	Retail Sales Inc Auto Fuel MoM	Dec	-0.60%	1.40%	
01/21/22	Retail Sales Ex Auto Fuel YoY	Dec	1.10%	2.70%	
01/24/22	Markit PMI Manufacturing SA	Jan P	--	57.9	

China and India

	Indicator	Period	Expected	Prior	Comments
01/17/22	China Industrial Production YoY	Dec	3.70%	3.80%	China 4Q GDP declined by 4% but came in above market expectation. Retail sales missed expectations. The PBOC cut its policy rate for the first time since April 2020.
01/17/22	China GDP YoY	4Q	3.30%	4.90%	
01/17/22	China Retail Sales YoY	Dec	3.80%	3.90%	
01/20/22	China 1-Year Loan Prime Rate	20- Jan	3.80%	3.80%	
01/20/22	China 5-Year Loan Prime Rate	20- Jan	4.65%	4.65%	

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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