The Weekly Market View

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Boomerang week

Another volatile week for the risk assets with financial markets witnessing a few days of Boomerang rally last week. The main headwind for the markets was the hawkish tone by the Fed at the central bank's first meeting of the year. While no official policy changes were announced, the Fed signalled that they are ready to start raising interest rates soon. More importantly, in a move away from the gradual tightening policy, Fed Chair Jay Powell cautioned that "this time is different" from the previous rate hike cycle of 2015 and expressed his willingness to move "sooner" and "faster". Markets also digested mixed earning reports with Q4 earning season reporting a lower beat ratio. In economic data, US economy grew at 6.9% yoy in 4Q 2021, beating market expectation and annually grew at 5.7% in 2021, the fastest rate since 1984. However, more recent surveys of manufacturing and services revealed that the economic activity rose at the slowest rate in almost 18 months. There were also downward revisions made for the University of Michigan's January consumer sentiment survey. In Europe, Germany reported a larger than expected growth contraction in 4Q 2021 while France and Spain posted upbeat growth numbers for 4Q 2021.

Global equities ended the week in the negative territory, adding to the year-to-date losses. EM equities underperformed DM peers. In DM, Japanese stocks were the worst performers. US stocks managed to record a positive return, making them the best performer. Fixed income markets digested another week of sell-off. UST yields rose across the curve with the yield curve flattening to the tightest level since the early months of the pandemic. US corporate bonds sold-off while EM bonds were the worst performers. The dollar rallied on the back of hawkish Fed tone. As a result, precious metals came under pressure with gold prices declining by more than 2%. Crude oil prices extended their gains with Brent Crude reaching the USD90/bbl. level., highest since 2014.

Worst start to the year for EM bonds

It has been a volatile start to the year for fixed income assets- on the back of repricing of more aggressive Fed policy. EM bonds have led the underperformance- recording the worst start to the year. In fact, compared to previous periods of similar volatility trigger of hawkish Fed policy- EM USD bonds have registered the largest losses in the month of January so far. The country-wise breakdown indicates that the underperformance was mainly led by the countries facing idiosyncratic fundamental issues (Argentina) and geopolitical factors (Russia) with these issues only exacerbated amidst the rise in external risks. EM bonds, particularly USD sovereign, have been more vulnerable to interest rate volatility due to the increase in duration (highest duration versus EM local currency and EM USD corporate bonds). Historical precedents indicate that tightening of US financial conditions pose more risks for EM bonds relative to the Fed rate hikes. With Fed policy uncertainty to continue over the coming months, possibly building pressure on financial conditions, it is prudent to stay neutral on EM USD sovereign bonds. However, the recent underperformance is unlikely to continue going into Fed tightening cycle. EM bond spreads tend to widen before the beginning of the Fed tightening cycle but start to roll-over going in to the tightening cycle. Valuations have become more attractive versus US HY and EM LCY. But, we wait to upgrade our neutral stance as volatility is likely to remain. Separately, investor interest has started to move to the east as China differentiates itself with a loose monetary policy stance. Asia IG bonds have outperformed their US counterpart YTD. We continue to recommend an overweight stance on Asia IG. Meanwhile, the sell-off in Asia HY has stabilised but risks remain with upcoming debt maturities in China real estate sector.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	4,432	0.8	-7.0
Dow Jones	34,725	1.3	-4.4
Nasdaq	13,771	0.0	-12.0
DAX	15,319	-1.8	-3.6
Nikkei 225	26,717	-2.9	-5.9
FTSE 100	7,466	-0.4	1.1
Sensex	57,200	-3.1	-0.6
Hang Seng	24,209	-5.7	2.1
Regional Markets			
ADX	8,766	0.7	3.1
DFM	3,220	0.3	0.2
Tadawul**	12,179	-0.9	8.9
DSM**	12,509	-0.0	7.3
MSM30**	4,171	-1.5	0.3
BHSE**	1,808	-0.3	0.9
KWSE**	7,327	-0.5	4.4
MSCI			
MSCI World	2,955	-0.6	-7.0
MSCI EM	1,192	-4.3	-3.3

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	90.0	2.4	17.1
Nymex WTI USD/bbl	86.8	2.0	16.8
Gold USD/t oz	1,791.5	-2.4	-2.3
Silver USD/t oz	22.5	-7.5	-4.4
Platinum USD/t oz	1,013.5	-1.9	4.5
Copper USD/MT	9,678.0	-2.9	-0.1
Alluminium	3,103.5	1.7	10.7
Currencies			
EUR USD	1.12	-1.7	-1.8
GBP USD	1.34	-1.1	-0.9
USD JPY	115.26	1.4	0.4
USD CHF	0.93	2.1	2.0
Rates	**Latest**	**Weekly (bp)**	**YTD(bp)**
USD Libor 3m	0.32	5.9	10.7
USD Libor 12m	0.95	14.9	36.5
UAE Eibor 3m	0.45	4.1	9.0
UAE Eibor 12m	0.96	8.5	21.6
US 3m Bills	0.18	1.5	14.5
US 10yr Treasury	1.77	1.1	25.9

Notes: *Data as of January 28 2022 unless stated otherwise; **Data as of January 27 2022

Summary market outlook

Global Yields	UST yields rose across the curve with the yield curve flattening to the tightest level since the early months of the pandemic. US corporate bonds sold-off while EM bonds were the worst performers. Long-dated bond yields jumped in the UK and Europe, more than their UST counterparts on the back of inflation and monetary policy tightening concerns Overall, we recommend a lower duration stance (5Y USTs) in anticipation of interest rate volatility in the near term.
Stress and Risk Indicators	The CBOE VIX index touched its highest levels since the early months of the pandemic. 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	Gulf equity markets had a mixed week, despite the rise in oil prices. With the exception of Abu Dhabi and Dubai, all regional markets posted losses. Saudi Arabia and Oman equities underperformed the most. 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	Global equities ended the week lower. EMs posted losses of more than 4%, underperforming their DM peers significantly. Within DM, US outperformed while Japan was the worst performer. Sector wise, energy was the best performer. From a strategy viewpoint, 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	HK technology index declined by c8% over the week ahead of the Lunar New Year Holidays this week. Nasdaq-100 ended the week flat.
Commodities	
Precious Metals	Gold prices fell on the back of strong dollar bias and hawkish Fed. We keep our overweight in gold as a hedge against potential risks on the horizon.
Energy	Oil prices rose with the Brent crossing the USD90/bbl. level on the back of increased geopolitical tensions in the middle east. 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 ended mixed last week with copper prices declining while aluminium price added to their gains. Another commodity super-cycle is difficult, yet demand for commodities linked to “green infrastructure” is likely to sustain.
Currencies	
EURUSD	The EUR fell against the USD on the back of hawkish Fed bias. We expect ECB policy divergence to play a major role in the performance of the euro.
Critical levels	R2 1.1611 · R1 1.1477 · S1 1.1216 · S2 1.1089
GBPUSD	The cable weakened against the dollar with the Fed confirming 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 1.4068 · R1 1.3810 · S1 1.3234 · S2 1.2916
USDJPY	Japanese yen weakened against the dollar on the back of rising differentials in Fed and BoJ’s monetary policies. Over the medium-term, BoJ’s yield curve targeting should put downward pressure on JPY.
Critical levels	R2 117.60 · R1 115.64 · S1 112.43 · S2 111.18

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
02/01/22	**Markit US Manufacturing PMI**	**Jan F**	**-**	**55**
02/01/22	**ISM Manufacturing**	**Jan**	**58**	**58.7**
02/01/22	JOLTS Job Openings	Dec	-	10562K
02/02/22	MBA Mortgage Applications	28- Jan	-	-7.10%
02/02/22	ADP Employment Change	Jan	217K	807K
02/03/22	Initial Jobless Claims	29- Jan	-	-
02/03/22	Continuing Claims	22- Jan	-	-
02/03/22	**Markit US Services PMI**	**Jan F**	**-**	**50.9**
02/03/22	Durable Goods Orders	Dec F	-	-
02/04/22	**Change in Nonfarm Payrolls**	**Jan**	**193K**	**199K**
02/04/22	**Unemployment Rate**	**Jan**	**3.90%**	**3.90%**
02/04/22	**Average Hourly Earnings YoY**	**Jan**	**5.20%**	**4.70%**
02/04/22	**Labor Force Participation Rate**	**Jan**	**61.90%**	**61.90%**

Japan

	Indicator	Period	Expected	Prior
01/31/22	Consumer Confidence Index	Jan	36.1	39.1
02/01/22	**Jobless Rate**	**Dec**	**2.80%**	**2.80%**
02/01/22	**Jibun Bank Japan PMI Mfg**	**Jan F**	**-**	**54.6**
02/01/22	Vehicle Sales YoY	Jan	-	-10.20%
02/02/22	Monetary Base YoY	Jan	-	8.30%
02/03/22	Jibun Bank Japan PMI Services	Jan F	-	46.6

Eurozone

	Indicator	Period	Expected	Prior
01/31/22	**GDP SA QoQ**	**4Q A**	**-**	**2.20%**
01/31/22	**GDP SA YoY**	**4Q A**	**-**	**3.90%**
01/31/22	**Germany CPI YoY**	**Jan P**	**-**	**5.30%**
02/01/22	**Markit Eurozone Mfg. PMI**	**Jan F**	**-**	**59**
02/03/22	Markit Eurozone Services PMI	Jan F	-	51.2
02/03/22	PPI YoY	Dec	-	23.70%
02/03/22	**ECB MPC Meeting**	**3- Feb**	**No Change**	
02/04/22	Germany Factory Orders MoM	Dec	-	3.70%
02/04/22	Retail Sales MoM	Dec	-	1.00%
02/04/22	France Industrial Production MoM	Dec	-	-0.40%

United Kingdom

	Indicator	Period	Expected	Prior
02/01/22	Nationwide House Px NSA YoY	Jan	11.50%	10.40%
02/01/22	Mortgage Approvals	Dec	-	67.0K
02/01/22	**Markit UK PMI Manufacturing SA**	**Jan F**	**-**	**56.9**
02/03/22	**Markit/CIPS UK Services PMI**	**Jan F**	**-**	**53.3**
02/03/22	**BoE Meeting**	**3- Feb**	**No Change**	
02/04/22	New Car Registrations YoY	Jan	-	-18.20%

China and India

	Indicator	Period	Expected	Prior
02/01/22	**Markit India PMI Mfg**	**Jan**	**-**	**55.5**
02/03/22	Markit India PMI Services	Jan	-	55.5
02/07/22	**Caixin China PMI Services**	**Jan**	**49.9**	**53.1**
02/07/22	China Foreign Reserves	Jan	-	$3250.17b

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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