The Weekly Market View

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بنك أبوظبي التجاري
ADCB
ASSET MANAGEMENT LIMITED

2022 – a year not to forget

Slowing growth, persistent inflation, rising interest rates, elevated geopolitical risks have all caused acute volatility in financial markets. Global growth slowed materially in 2022 after having recovered nicely in 2021 from the pandemic related disruption. Inflation proved less transitory in part due to Russia's invasion of Ukraine and the prolonged conflict that followed. As well lingering virus and China's zero COVID policy meant persistent supply-side bottlenecks and resultant inflation. As a result, central banks around the world raced to raise interest rates to quell multi-decade high inflation despite slowing growth. Against this backdrop, global stocks and bonds lost more than USD30trn during 2022. More concerning were the sharply higher correlations across assets with most assets falling and rising simultaneously. This posed challenges to diversification from an asset allocator's point of view. Rise in risk-free rates meant bouts of sell-off that saw most assets lose value in tandem. As a result, the 60/40 portfolio that invests 60% in equities and 40% in bonds just had its worst year in many decades. The US 10-year government bond yield, a global benchmark for long-term borrowing costs, has shot up to 3.8% by end-2022 from about 1.5% at the end of 2021 — the biggest annual increase at least since 1960s. Staying with fixed income, global aggregate bond index lost 16% of its value during 2022 with both sovereigns and investment grade credit losing 17% each, and high-yield credit losing 13%. Global inflation linked bonds fell 23% despite the elevated inflation as interest rates increased. Turning to equities, the broad MSCI All Country World index of developed and emerging market equities has shed a fifth of its value in 2022, the biggest decline since 2008. Developed market equities lost 19% while emerging market equity losses touched 22%. Within developed equity markets, UK, Canada, and Japan outperformed in USD terms. In the emerging markets space, Latin American and GCC markets held up relatively well. Amongst sectors, energy equities not only outperformed but also posted significant positive gains over the year. Elsewhere, defensive sectors including utilities, health care, and consumer staples outperformed, albeit posted losses. Long-duration sectors including communication services, consumer discretionary, and IT were severely negatively impacted by rising interest rates. Commodities had a relatively strong year with aggregate commodity index rising 14% during 2022. However, looking inside this performance, two points can be made. First, most of the commodity price strength came in the first half of the year. Second, looking at sub-groups, prices of energy and agricultural commodities rose while prices of industrial and precious metals fell. In the currencies space, the USD strength was dominant through to Q4'22 after which the greenback strength abated. However, for the entire year, most currencies lost against the USD. Also, according to Financial Times data, the value of the cryptocurrency market has tumbled by USD1.7tn since the start of 2022. In summary, while 2022 was a difficult year in financial markets, we think it offered great learning to all market participants and is a year not to forget. More importantly, what happened in 2022 sets the stage for market trends in this new year.

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2023 – the year of peaks and valleys

From a top-down view point, we think 2023 will be defined by peaks in inflation, interest rates, and USD; and troughs in global growth, corporate earnings, and investor sentiment. Whilst these developments are all favourable for the performance of risk assets, ambiguity around achieving these is likely to be the key source of volatility; add to that the uncertainty around the timing of hitting these peaks and valleys. We expect volatility to be higher during Q1'23 as markets digest information regarding whether the inflation has peaked, and whether the central banks can pivot. Also Q4'22 corporate earnings reporting season that is to start relatively soon will not only provide information on the outlook for earnings but also likely to drive up volatility. However, beyond Q1, risk assets could perform well as recession fears abate. Our base-case scenario sees the global economy experiencing an asynchronous mid-cycle slowdown and not a recession.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	3,840	-0.1	-19.4
Dow Jones	33,147	-0.2	-8.8
Nasdaq	10,466	-0.3	-33.1
DAX	13,924	-0.1	-12.4
Nikkei 225	26,095	-0.5	-9.4
FTSE 100	7,452	-0.3	0.9
Sensex	60,841	1.7	4.4
Hang Seng	19,781	1.0	-15.5
Regional Markets			
ADX	10,211	-0.9	20.3
DFM	3,336	0.6	4.4
Tadawul**	10,478	2.4	-7.5
DSM**	10,681	-2.2	-8.1
MSM30**	4,857	0.6	17.1
BHSE**	1,895	1.9	5.5
KWSE**	7,292	1.6	3.5
MSCI			
MSCI World	2,603	-0.1	-19.5
MSCI EM	956	0.2	-22.4

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	85.9	2.4	10.5
WTI USD/bbl	80.3	0.9	6.7
Gold USD/t oz	1,815.6	0.7	-0.4
Silver USD/t oz	23.8	-0.2	2.0
Platinum USD/t oz	1,065.0	8.2	11.1
Copper USD/MT	8,364.8	0.4	-14.1
Alluminium	2,349.5	-0.6	-16.3
Currencies			
EUR USD	1.07	0.8	-5.9
GBP USD	1.21	0.3	-10.6
USD JPY	131.13	-1.3	13.9
USD CHF	0.92	-1.0	1.3
Rates	**Latest**	**Weekly (bp)**	**YTD (bp)**
USD Libor 3m	4.77	4.1	455.8
USD Libor 12m	5.48	3.8	489.9
UAE Eibor 3m	4.31	-45.7	394.5
UAE Eibor 12m	5.04	-8.5	430.2
US 3m Bills	4.30	7.0	424.0
US 10yr Treasury	3.83	8.4	233.4

Source: Bloomberg, and ADCB Asset Management
Notes: *Data as of December 30 2022 unless stated otherwise; **Data as of December 29 2022.

Summary market outlook

Global Yields	Yields moved sharply higher through 2022. The US 10-year government bond yield, a global benchmark for long-term borrowing costs, has shot up to 3.8% by end-2022 from about 1.5% at the end of 2021. Bond yields and prices are inversely correlated. i.e. yields rise when prices fall and vice versa. Global aggregate bond index lost 16% of its value during 2022 with both sovereigns and investment grade credit losing 17% each, and high-yield credit losing 13%. Overall, we recommend adding duration on USTs (7-10Y segment) as growth slowdown/recession fears rise.
Stress and Risk Indicators	Volatility in bonds, and currencies – a result of higher macro uncertainty during 2022 – fed into risk assets. Especially volatility in bonds rose to levels last seen during the pandemic related sell-off in 2020. While equity volatility (VIX index) rose during 2022, it was fairly contained in relation to volatility in bonds. We expect financial market volatility to stay elevated as the monetary policy normalizes.
Equity Markets	
Local Equity Markets	Despite posting marginal losses GCC equities managed to outperform global equities during 2022. Higher oil prices, disciplined fiscal outlays, controlled inflation and strong growth have all helped. Within the region, Abu Dhabi and Oman stocks posted strong positive returns while Saudi and Qatar equities registered 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 lost c20% during 2022. UK, Canada, and Japan were the major regions that outperformed during 2022 in USD terms. Amongst sectors, energy equities not only outperformed but also posted significant positive gains over the year. Elsewhere, defensive sectors including utilities, health care, and consumer staples outperformed, albeit posted losses. We are moderately overweight US, UK, and Asia Pacific; underweight Eurozone and EMs outside Asia. By sector we prefer healthcare, industrials, and communication services. 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	Long-duration sectors including communication services, consumer discretionary, and IT were severely negatively impacted by rising interest rates during 2022. Within the technology sector, we prefer non-cyclical growth over cyclical growth (tech hardware, semiconductors etc.) over a 12-month horizon.
Commodities	
Precious Metals	Gold prices remained largely unchanged through 2022. Silver prices rose marginally, while platinum prices increased. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Energy prices rose strongly in 2022 thanks to disruptions caused by the Russia's invasion of Ukraine, disciplined OPEC+, and some weather related disruptions. 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 prices fell sharply during 2022 on weak demand outlook. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain.
Currencies	
EURUSD	EUR lost significant ground against the USD in first three quarters of the year but rose strongly in Q4. We expect ECB policy divergence and growth differentials to play a major role in the performance of the euro.
Critical levels	R2 1.0728 · R1 1.0715 · S1 1.0684 · S2 1.0666
GBPUSD	GBP fell sharply against the USD on weakening UK economy, persistent inflation, and on controversial plans for larger fiscal deficit. We expect GBP to weaken against USD and stay flat versus the EUR.
Critical levels	R2 1.2117 · R1 1.2098 · S1 1.2062 · S2 1.2045
USDJPY	USDJPY rose sharply on widening yield differentials between USTs and JGBs, and also on higher oil prices. BoJ policy remains odd-one out and is likely to keep JPY under pressure.
Critical levels	R2 131.18 · R1 131.05 · S1 130.78 · S2 130.64

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
01/03/23 18:45	**S&P Global US Manufacturing PMI**	**Dec F**	**46.2**	**46.2**
01/04/23 16:00	MBA Mortgage Applications	30- Dec	--	0.90%
01/04/23 19:00	**ISM Manufacturing**	**Dec**	**48.5**	**49.0**
01/04/23 23:00	**FOMC Meeting Minutes**	**14- Dec**	**--**	**--**
01/05/23 17:30	Trade Balance	Nov	-$72.0b	-$78.2b
01/05/23 17:30	Initial Jobless Claims	31- Dec	230K	225K
01/05/23 17:30	Continuing Claims	24- Dec	--	1,710K
01/05/23 18:45	S&P Global US Services PMI	Dec F	44.4	44.4
01/06/23 17:30	Change in Nonfarm Payrolls	Dec	200K	263K
01/06/23 17:30	**Unemployment Rate**	**Dec**	**3.70%**	**3.70%**
01/06/23 17:30	**Average Hourly Earnings YoY**	**Dec**	**5.00%**	**5.10%**
01/06/23 17:30	**Labor Force Participation Rate**	**Dec**	**6.20%**	**62.10%**
01/06/23 19:00	**ISM Services Index**	**Dec**	**55.0**	**56.5**
01/06/23 19:00	Factory Orders	Nov	-0.90%	1.00%
01/06/23 19:00	Durable Goods Orders	Nov F	--	-2.10%

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
01/04/23 04:30	**Jibun Bank Japan PMI Mfg**	**Dec F**	**--**	**48.8**
01/04/23 09:00	Vehicle Sales YoY	Dec	--	1.00%
01/05/23 03:50	Monetary Base YoY	Dec	-6.00%	-6.40%
01/06/23 03:50	Labor Cash Earnings YoY	Nov	1.70%	1.80%
01/06/23 04:30	**Jibun Bank Japan PMI Services**	**Dec F**	**--**	**51.7**

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
01/02/23 12:50	**France S&P Global Manufacturing PMI**	**Dec F**	**48.9**	**48.9**
01/02/23 12:55	**Germany S&P Global/BME Manufacturing PMI**	**Dec F**	**47.4**	**47.4**
01/02/23 13:00	**Eurozone S&P Global Manufacturing PMI**	**Dec F**	**47.8**	**47.8**
01/03/22 17:00	**Germany CPI YoY**	**Dec P**	**9.00%**	**10.00%**
01/04/23 11:45	**France CPI YoY**	**Dec P**	**6.30%**	**6.20%**
01/04/23 11:45	France Consumer Confidence	Dec	84	83
01/04/23 13:00	Eurozone S&P Global Services PMI	Dec F	49.1	49.1
01/06/23 11:00	Germany Retail Sales MoM	Nov	1.80%	-2.80%
01/06/23 14:00	Eurozone Consumer Confidence	Dec F	-22.2	-22.2
01/06/23 14:00	**Eurozone CPI YoY**	**Dec**	**9.50%**	**--**
01/06/23 14:00	**Eurozone CPI Core YoY**	**Dec P**	**5.00%**	**5.00%**
01/06/23 14:00	Eurozone Retail Sales MoM	Nov	0.50%	-1.80%
01/06/23 14:00	Eurozone Economic Confidence	Dec	94.5	93.7

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
01/03/23 13:30	**S&P Global/CIPS UK Manufacturing PMI**	**Dec F**	**44.7**	**44.7**
01/03/23 04:01	BRC Shop Price Index YoY	Dec	--	7.40%
01/04/23 13:30	Net Consumer Credit	Nov	1.0b	0.8b
01/04/23 13:30	Mortgage Approvals	Nov	53.0K	59.0K
01/05/23 13:30	**S&P Global/CIPS UK Services PMI**	**Dec F**	**50**	**50**

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
01/03/23 09:00	**China Caixin PMI Mfg**	**Dec**	**49**	**49.4**
01/04/23 16:00	India S&P Global PMI Services	Dec	--	56.4
01/05/23 05:45	China Caixin PMI Services	Dec	46.8	46.7
01/05/23 01/13	**China Exports YoY CNY**	**Dec**	**--**	**0.90%**
01/05/23 01/13	**China Imports YoY CNY**	**Dec**	**--**	**-1.10%**
01/05/23 01/13	China Trade Balance CNY	Dec	--	494.33b
01/06/23 16:00	India GDP Annual Estimate YoY	2023	6.80%	8.70%
01/07/23	China Foreign Reserves	Dec		$3,117.49b

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