

The Weekly Market View

January 16 2023

Good start to the year!

Global financial markets have kick-started the year on a positive note with the first two weeks of 2023 broadly being risk-on dominant. Last week's much-awaited inflation print further boosted the risk-on rally. US December Inflation print matched expectations, but continued its downward trend. Headline CPI fell 0.1% m-o-m in December with the y-o-y rate declining to 6.5% from 7.1% in November. Core CPI rose 0.3% m-o-m, with the y-o-y rate falling to 5.7% from 6.0%. The slowdown in inflation was mainly led by food and energy prices while core shelter costs (lagged component) continued to rise. Evidence of cooling inflation led to markets slashing their expectations of 50bp rate hike at the February Fed meeting with a 97% probability of a 25bp rate hike. Other economic releases out of the US continued to signal resilience of the economy. The University of Michigan Consumer sentiment was stronger than expected while short-term inflation expectations declined to 4% from 4.4%. Across the Atlantic, preliminary estimates showed that German economy posted a milder slowdown than expected. In the UK, GDP data indicated that the UK economy dodged an economic contraction in November. Lastly, in Asia, wholesale price inflation in Japan accelerated more than expected in December ahead of the BoJ meeting this week. In China, exports declined while consumer price inflation rose in December.

Global equities markets rallied for the second week in a row, posting weekly gain of c3.2%. EM equities outperformed DM peers. Within DM, Europe outperformed while Japan underperformed. In fixed income, the 10yr UST yield declined on the soft inflation print. With the decline in UST yields and evidence of easing inflation, the dollar index suffered further decline. Gold prices rose for the fourth consecutive week on dovish Fed bets and weaker dollar bias. Oil prices jumped, recording the largest weekly gain since October 2021 on improved prospects of China recovery.

"Bond markets: New year, new me"

The first two weeks of January 2023 and the year appear to be a drastic contrast to the way 2022 ended for the fixed income asset class. Positive returns have been evident across the board, with US corporate credit leading the gains. With the first two weeks gains of c3%, Bloomberg Global Aggregate bond index is now on track to record the best January monthly performance in the history of the index. While overall, the fixed income rally appears to be broad-based so far this year. However, digging deeper into the sector-wise segregation of the US IG, a shift in preferences for long-duration sectors (utilities) is evident- which have outperformed short-duration sectors (financials). In US IG, we prefer long-duration sectors including utilities and transportation for 2023 but in the short-term, financials- short-duration sector- still look attractive in terms of valuation. Furthermore, during periods of increased market volatility- short-duration sectors (US IG financials) appear to be an effective bet. In addition, we prefer short/intermediate IG bonds versus long IG given the latter is trading rich compared to former. Overall, we continue to hold a neutral stance on US IG and underweight on US HY. US corporate spreads are still not properly pricing in the recession risk in the US. As a result, there is scope for further corporate spread widening especially in the event of upward spike in recession probabilities. This, however, is not the case in European corporate credit. European IG spreads are already pricing in the recession risk in the region. In addition, European IG spreads are trading at a wide differential versus US IG spreads. As a result, we hold a more positive outlook on European IG corporate vs US IG corporate. We will look to add more exposure to US corporate credit once the recession risks begin to subside. For details on our asset allocation outlook, please see our latest ADCB Quarterly Investment View Outlook 2023.

Global markets' performance snapshot*

Index Snapshot (World Indices)*			
Index	Latest	Weekly %	YTD %
S&P 500	3,999	2.67	4.16
Dow Jones	34,303	2.00	3.49
Nasdaq	11,079	4.82	5.85
DAX	15,087	3.26	8.35
Nikkei 225	26,120	0.56	-0.92
FTSE 100	7,844	1.88	5.26
Sensex	60,261	0.60	-0.95
Hang Seng	24,209	3.56	10.67
Regional Markets			
ADX	10,211	0.13	-0.01
DFM	3,324	0.65	-0.36
Tadawul**	10,744	2.02	2.37
DSM**	10,990	-1.39	2.62
MSM30**	4,879	0.23	0.22
BHSE**	1,890	-0.11	-0.17
KWSE**	7,131	0.13	-2.44
MSCI			
MSCI World	2,736	3.24	5.11
MSCI EM	1,030	4.16	7.68

Source: Bloomberg, and ADCB Asset Management

Notes: *Data as of January 13 2023 unless stated otherwise; **Data as of January 12 2023.

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	85.3	8.54	-1.30
Nymex WTI USD/bbl	79.9	8.26	-1.02
Gold USD/t oz	1,920.2	2.92	5.57
Silver USD/t oz	24.3	1.82	2.03
Platinum USD/t oz	1,069.2	-2.30	-0.04
Copper USD/MT	9,107.0	8.90	8.58
Alluminium	2,566.8	13.27	9.25
Currencies			
EUR USD	1.08	1.75	1.50
GBP USD	1.22	1.11	1.61
USD JPY	127.87	-3.19	-2.93
USD CHF	0.93	-0.11	-0.20
Rates			
USD Libor 3m	4.79	-1.74	458.33
USD Libor 12m	5.36	-20.19	477.39
UAE Eibor 3m	4.52	0.84	415.61
UAE Eibor 12m	5.01	3.88	426.83
US 3m Bills	4.57	-0.58	454.28
US 10yr Treasury	3.50	-5.45	199.34

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Summary market outlook

Global Yields

The 10Y UST yields declined over the week on signs of inflation cooling and less hawkish Fed expectations. European bond yields also edged lower with ease in inflation expectations. On the other hand, 10Y JGB bond yields jumped in anticipation of a hawkish BoJ policy response at the upcoming meeting this week. 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/recession fears rise.

Stress and Risk Indicators

VIX index, a measure of implied volatility in equities, declined over the week. VVIX, a measure of volatility in the VIX, rose over the week. SKEW index, a measure of tail risks, rose too. MOVE index, a measure of implied volatility in bonds, declined during the week in line with lower bond yields. We expect financial market volatility to stay elevated as the monetary policy normalizes.

Equity Markets

Local Equity Markets

GCC equities recorded positive performance, helped by the sharp jump in oil prices. Within the region, Saudi Arabia, Dubai, Oman, Abu Dhabi and Kuwait recorded gains with Saudi Arabia outperforming the most. Qatar, and Bahrain posted 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 rose strongly over the past week – MSCI All Country World index rose more than 3% in USD terms. Within DM, Europe 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 c4.8% over the week while HK tech index rose by c2.7%. Within technology, we prefer non-cyclical growth over cyclical growth (tech hardware, semiconductors etc.) over a 12-month horizon.

Commodities

Precious Metals

Gold prices rose over the week on signs of inflation slowing and broad dollar weakness. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.

Energy

Oil prices increased on an improved outlook for growing demand from China. 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 increased sharply, helped by weaker USD and optimism about China. Another commodity super-cycle is difficult, yet demand for commodities linked to “green infrastructure” is likely to sustain.

Currencies

EURUSD

EUR reached a nine-month high against the USD with the weak dollar bias gaining momentum. We expect euro to stabilize and record a better performance in 2023 compared to 2022.

Critical levels



GBPUSD

GBPUSD rallied on the back of broad dollar weakness. We expect GBP to weaken against EUR and stay flat versus the USD.

Critical levels



USDJPY

USDJPY declined sharply with the 10yr JGB yield jumping past the 50bp ceiling imposed through the yield curve control policy. JPY is likely to strengthen in 2023 amidst tightening of interest rate differentials, and most importantly prospects of broad USD weakness

Critical levels



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Forthcoming important economic data/events

United States



Date & Time (GST)	Indicator	Period	Expected	Prior
01/17/23 17:30	Empire Manufacturing	Jan	-7.5	-11.2
01/18/23 16:00	MBA Mortgage Applications	13-Jan	--	1.20%
01/18/23 17:30	Retail Sales Advance MoM	Dec	-0.80%	-0.60%
01/18/23 17:30	Retail Sales Ex Auto MoM	Dec	-0.40%	-0.20%
01/18/23 17:30	PPI Final Demand MoM	Dec	0.00%	0.30%
01/18/23 17:30	PPI Ex Food and Energy YoY	Dec	5.40%	6.20%
01/18/23 18:15	Industrial Production MoM	Dec	0.00%	-0.20%
01/18/23 18:15	Capacity Utilization	Dec	79.60%	79.70%
01/18/23 19:00	NAHB Housing Market Index	Jan	31	31
01/18/23 23:00	Federal Reserve Releases Beige Book			
01/19/23 17:30	Building Permits	Dec	1370k	1342k
01/19/23 17:30	Housing Starts	Dec	1350k	1427k
01/19/23 17:30	Philadelphia Fed Business Outlook	Jan	-10.8	-13.8
01/19/23 17:30	Initial Jobless Claims	14-Jan	--	--
01/19/23 17:30	Continuing Claims	7-Jan	--	--
01/20/23 19:00	Existing Home Sales	Dec	3.96m	4.09m

Japan



Date & Time (GST)	Indicator	Period	Expected	Prior
01/17/23 08:30	Tertiary Industry Index MoM	Nov	--	0.20%
01/18/23 03:50	Core Machine Orders MoM	Nov	--	5.40%
01/18/23 08:30	Industrial Production MoM	Nov F	--	-0.10%
01/18/23 08:30	Capacity Utilization MoM	Nov	--	2.20%
01/18/23	BOJ Policy Balance Rate	18-Jan	--	-0.10%
01/19/23 03:50	Trade Balance	Dec	--	-¥2027.4b
01/19/23 03:50	Exports YoY	Dec	--	20.00%
01/19/23 03:50	Imports YoY	Dec	--	30.30%
01/20/23 03:30	Natl CPI YoY	Dec	--	3.80%
01/20/23 03:30	Natl CPI Ex Fresh Food, Energy YoY	Dec	--	2.80%

Eurozone



Date & Time (GST)	Indicator	Period	Expected	Prior
01/16/23-01/17/23	Germany Wholesale Price Index YoY	Dec	--	14.90%
01/17/23 11:00	Germany CPI YoY	Dec F	8.60%	8.60%
01/17/23 11:00	Germany CPI Core YoY	Dec F	9.60%	9.60%
01/18/23 14:00	Eurozone CPI YoY	Dec F	9.20%	9.20%
01/18/23 14:00	Eurozone CPI Core YoY	Dec F	5.20%	5.20%
01/19/23 13:00	Eurozone ECB Current Account SA	Nov	--	-0.4b
01/20/23 11:00	Germany PPI YoY	Dec	20.70%	28.20%
01/20/23	France Retail Sales SA YoY	Dec	--	-3.10%

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United Kingdom



Date & Time (GST)	Indicator	Period	Expected	Prior
01/17/23 11:00	Jobless Claims Change	Dec	--	30.5k
01/17/23 11:00	Average Weekly Earnings 3M/YoY	Nov	--	6.10%
01/17/23 11:00	ILO Unemployment Rate 3Mths	Nov	3.70%	3.70%
01/18/23 11:00	CPI YoY	Dec	10.60%	10.70%
01/18/23 11:00	CPI Core YoY	Dec	--	6.30%
01/18/23 11:00	RPI YoY	Dec	--	14.00%
01/19/23 04:01	RICS House Price Balance	Dec	--	-25%
01/19/23 13:30	BoE Liabilities/Credit Conditions Surveys			
01/20/23 04:01	GfK Consumer Confidence	Jan	--	-42
01/20/23 11:00	Retail Sales Inc Auto Fuel MoM	Dec	--	-0.40%
01/20/23 11:00	Retail Sales Ex Auto Fuel YoY	Dec	--	-5.90%

China and India



Date & Time (GST)	Indicator	Period	Expected	Prior
01/16/23 10:30	India Wholesale Prices YoY	Dec	5.60%	5.85%
01/16/23 15:30	India Exports YoY	Dec	--	0.60%
01/16/23 15:30	India Imports YoY	Dec	--	5.40%
01/16/23 15:30	India Trade Balance	Dec	-\$23325.0m	-\$23892.8m
01/17/23 06:00	China Industrial Production YTD YoY	Dec	3.80%	3.80%
01/17/23 06:00	China Retail Sales YTD YoY	Dec	-0.70%	-0.10%
01/17/23 06:00	China Fixed Assets Ex Rural YTD YoY	Dec	5.00%	5.30%
01/17/23 06:00	China Property Investment YTD YoY	Dec	-9.90%	-9.80%
01/17/23 06:00	China Surveyed Jobless Rate	Dec	5.80%	5.70%
01/17/23 06:00	China GDP YoY	4Q	1.70%	3.90%
01/17/23 06:00	China GDP YTD YoY	4Q	2.70%	3.00%
01/20/23 05:30	China 5-Year Loan Prime Rate	20-Jan	4.25%	4.30%
01/20/23 05:30	China 1-Year Loan Prime Rate	20-Jan	3.65%	3.65%

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