The Weekly Market View

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Taking a pause after a strong start into the new year

2021's second trading week took a pause as US and European equities corrected, although not after the S&P500 hitting a record high on Thursday. Market concerns have been most likely driven by concerns about the COVID19 emergency not yet being behind us. Indeed, last week saw almost all European governments extending restrictive measures well through the next 2 to 3 months. These decisions appeared to be associated to the difficulties of Pfizer in keeping up sufficient provision for the inoculation of a meaningful part of the population in reasonably fast times. The Pfizer-BioNTech vaccine is the most used in Europe. Very disappointing US retail sales and increasing US jobless claims (the highest weekly figure since August) might also have contributed to some profit taking. Developed markets underperformed emerging markets. Within the developed world, weakness was observed in the US and in Europe. Japanese equities alongside other Asian markets delivered gains for the week. GCC equity markets posted gains and also outperformed broader developed market and emerging market indices. Not surprisingly, as concerns rose about the sustainability of growth, US 10 year treasury yields receded for the first time after their very significant ramp-up in the first ten days of the year. Likewise the US dollar rose and energy and industrial metal prices came somewhat under pressure. Gold, however, failed to shine and came under pressure. The VIX Index also rose meaningfully over the last two days of the week, but was largely flat over the whole week.

Short-term volatility is inevitable even if the overall picture is not that dark

Short-term volatility is inevitable as we enter the earnings season whilst markets are technically overbought, having rallied since early November. This was also clear from that fact that on Friday US bank shares fell in spite of reporting better than expected fourth quarter results, and reversing some of their 2020 pandemic crisis provisions. Concerns about social media companies having accumulated excessive power, after the removal or suspension of President Trump's accounts, has negatively impacted the Communication Services sector. It needs to be said, however, that the overall 2021 recovery scenario remains intact. President's Biden 1.9 trillion stimulus package is merely aiming at immediate cyclical relief. Before the winter is over, he is likely to propose an additional package, of at least similar size, this time targeting more structural spending, such as green infrastructure. Significant US spending would normally be associated with a further weakening of the US dollar, a further rise in US yields, and non-US equities outperforming. Whilst this will likely be the case, the length and the extent, of US dollar weakness, rising yields, and US stocks underperforming, might disappoint as COVID19 has globally exacerbated the displacement of many old economy sectors, and we remain in a world of excess supply over savings. Nonetheless, for now the recovery story – and associated investment implications – is here to stay as can be seen also from the better than expected 2020 performance of the German economy, resilient industrial production in the US and strong Chinese export data. In sum, the 2021 outlook remains constructive, but volatile.

Global markets' performance snapshot

Index	Latest	Weekly %	YTD %
S&P 500	3,768	-1.5	0.3
Dow Jones	30,814	-0.9	0.7
Nasdaq	12,999	-1.5	0.9
DAX	13,788	-1.9	0.5
Nikkei 225	28,457	1.4	3.9
FTSE 100	6,736	-2.0	4.3
Sensex	49,035	0.5	2.7
Hang Seng	28,574	2.5	4.9
Regional Markets (Sunday to Thursday)			
ADX	5,267	2.0	4.4
DFM	2,702	2.9	8.4
Tadawul	8,899	1.8	2.4
DSM	10,914	2.2	4.6
MSM30	3,639	-1.6	-0.5
BHSE	1,459	0.6	-2.0
KWSE	5,656	2.2	2.0
MSCI			
MSCI World	2,738	-1.4	0.9
MSCI EM	1,371	0.3	5.2

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	55.1	-1.6	6.4
Nymex WTI USD/bbl	52.4	0.2	7.9
Gold USD/t oz	1,828.5	-1.1	-3.7
Silver USD/t oz	24.8	-2.6	-6.2
Platinum USD/t oz	1,075.2	0.6	0.3
Copper USD/MT	8,002.5	-2.0	3.1
Alluminium	2,004.8	-1.4	0.6
Currencies			
EUR USD	1.21	-1.1	-1.1
GBP USD	1.36	0.2	-0.6
USD JPY	103.85	-0.1	0.6
CHF USD	0.89	0.6	-0.7
Rates			
USD Libor 3m	0.23	0.6	-5.3
USD Libor 12m	0.33	-1.2	-4.7
UAE Eibor 3m	0.40	-6.8	-22.9
UAE Eibor 12m	0.55	-3.5	-15.5
US 3m Bills	0.08	7.1	30.5
US 10yr Treasury	1.08	-2.9	18.6

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Summary market outlook

Global Yields	US Treasury (USTs) yields receded mildly and stabilized at lower levels, after an impressive rise that lasted over the first 10 days of the year. Some upward pressure is still possible with inflation expectations on the rise with the new Administration's stimulus plans. It needs to be stressed, however, that the Fed is unlikely to raise rates anytime soon, as it rightly fears that most of the inflation rise is now materializing simply because of the low base. We remain in a world of excess supply, rather than excess demand, and monetary authorities will remain prudent before starting to raise rates.
Stress and Risk Indicators	The VIX Index rose at the end of the week as markets' concerns for growth normalization resurfaced. We expect the VIX index to see some continuing volatility, but then to stabilize over the next weeks and months.
Equity Markets	
Local Equity Markets	GCC equity markets posted gains and also outperformed broader developed market and emerging market indices. We remain neutral GCC equities within our global equity framework. Stable to higher oil prices, potential for revival in growth and recent underperformance are all balanced by lack of structural growth plays in the equity market.
Global Equity Markets	Equity markets ended the week lower as investors digested a range of developments relating to vaccine, virus, fiscal stimulus plans, weak data (retail and employment) and start of Q4 2020 earnings season. Developed markets underperformed emerging markets. Within the developed world, weakness was observed in the US and in Europe. Japanese equities alongside other Asian markets delivered gains for the week. We are constructive on the outlook over the 12-month horizon but we remain watchful of near-term risks including technical overbought conditions and rampant virus. Our equity strategy is to overweight US and UK, and underweight Eurozone and EM outside Asia. We are neutral Asia and prefer structural growth opportunities there. By sector we prefer IT and Communication services as long-term plays and energy as a cyclical play. We have also identified industry level opportunities to play the vaccine availability in the medium-term. 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.
Commodities	
Precious Metals	Precious metals suffered on USD strength. We remain overweight gold as a hedge against general risks, but we are not particularly bullish over the near-term.
Energy	Oil prices also suffered with USD strength, and in spite of the surprisingly large drawdown in US oil inventories. Oil prices are likely to remain sustained as the market is roughly balanced in terms of demand versus supply.
Industrial Metals	Industrial prices slipped too, and in spite of the surge in Chinese exports. We do not recommend industrial metals exposure as China structurally reigns in demand.
Currencies	
EURUSD	With many large European economies extending lockdown measures, and concerns about Pfizer's capacity to deliver a significant number of vaccine doses, the euro came under pressure towards the end of the week. US growth concerns were not helpful either. We expect the EUR to remain stable, with some upward pressure given the US Administration aggressive stimulus plans.
Critical levels	R2 1.2195 · R1 1.2138 · S1 1.2050 · S2 1.2019
GBPUSD	The GBP was largely flat against the USD. Looking ahead, GBP is likely to be influenced by global cyclical conditions – an improvement there would mean cable strength.
Critical levels	R2 1.3746 · R1 1.3668 · S1 1.3542 · S2 1.3494
USDJPY	JPY was also largely flat against the USD. The risk-off context is favourable for the JPY, which means some temporary difficulty for the BoJ in keeping it weak, if necessary through further yield curve targeting.
Critical levels	R2 104.08 · R1 103.97 · S1 103.68 · S2 103.5

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
01/20/21	**Joe Biden's inauguration**				The markets will be concerned to see in particular how the labor market further evolves, putting initial jobless claims in the spotlight. Housing starts and PMI data will also be of importance.
01/20/21	MBA Mortgage Applications	15-Jan	--	16.70%	
01/20/21	NAHB Housing Market Index	Jan	86	86	
01/21/21	Building Permits	Dec	1,603k	1,639k	
01/21/21	Philadelphia Fed Business Outlook	Jan	11.3	11.1	
01/21/21	**Initial Jobless Claims**	**16-Jan**	**923k**	**965k**	
01/21/21	**Housing Starts**	**Dec**	**1,560k**	**1,547k**	
01/22/21	**Markit US Manufacturing PMI**	**Jan P**	**56.5**	**57.1**	
01/22/21	**Markit US Services PMI**	**Jan P**	**53.4**	**54.8**	
01/22/21	Existing Home Sales	Dec	6.55m	6.69m	

Japan

	Indicator	Period	Expected	Prior	Comments
01/21/21	**Exports YoY**	**Dec**	**2.40%**	**-4.20%**	Inflation and PMI data to take the spotlight.
01/21/21	**Imports YoY**	**Dec**	**-14.00%**	**-11.10%**	
01/21/21	**BOJ Policy Balance Rate**	**21-Jan**	**--**	**-0.10%**	
01/22/21	**Natl CPI YoY**	**Dec**	**-1.30%**	**-0.90%**	
01/22/21	**Jibun Bank Japan PMI Mfg**	**Jan P**	**--**	**50.0**	
01/22/21	**Jibun Bank Japan PMI Services**	**Jan P**	**--**	**47.7**	
01/22/21	Nationwide Dept Sales YoY	Dec	--	-14.30%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
01/19/21	EU27 New Car Registrations	Dec	--	-12.00%	Markets will not want to see consumer confidence drop further than is already expected
01/20/21	**CPI YoY**	**Dec F**	**-0.30%**	**-0.30%**	
01/21/21	**ECB Main Refinancing Rate**	**21-Jan**	**0.00%**	**0.00%**	
01/21/21	**Consumer Confidence**	**Jan A**	**-15.0**	**-13.9**	
01/22/21	**Markit Eurozone Manuf. PMI**	**Jan P**	**54.5**	**55.2**	
01/22/21	**Markit Eurozone Services PMI**	**Jan P**	**44.5**	**46.4**	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
01/20/21	**CPI YoY**	**Dec**	**0.50%**	**0.30%**	Markets will not want to see business confidence drop further than is already expected
01/22/21	GfK Consumer Confidence	Jan	-30	-26	
01/22/21	Retail Sales Inc Auto Fuel YoY	Dec	4.00%	2.40%	
01/22/21	**Markit UK PMI Manufacturing SA**	**Jan P**	**53.3**	**57.5**	
01/22/21	**Markit/CIPS UK Services PMI**	**Jan P**	**45.0**	**49.4**	

China and India

	Indicator	Period	Expected	Prior	Comments
01/18/21	**China GDP YoY**	**4Q**	**6.20%**	**4.90%**	Markets are expecting the Chinese economy to continue to recover. They will be in particular looking for confirmation from the retail sales figures.
01/18/21	China Industrial Production YoY	Dec	6.90%	7.00%	
01/18/21	**China Retail Sales YoY**	**Dec**	**5.50%**	**5.00%**	
01/18/21	China Fixed Assets Ex Rural YTD YoY	Dec	3.20%	2.60%	
01/20/21	**1-Year Loan Prime Rate**	**20-Jan**	**3.85%**	**3.85%**	

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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