The Weekly Market View

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ADCB ASSET MANAGEMENT LIMITED

Kishore Muktinutalapati
Equity Strategist
Tel: +971 (0)2 696 2358
kishore.muktinutalapati@adcb.com

Luciano Jannelli, Ph.D., CFA
Head Investment Strategy
Tel: +971 (0)2 696 2340
luciano.jannelli@adcb.com

Prerana Seth
Fixed Income Strategist
Tel: +971 (0)2 696 2878
prerana.seth@adcb.com

Mohammed Al Hemeiri
Analyst
Tel: +971 (0)2 696 2236
mohammed.alhemeiri@adcb.com

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Vroom… vroom…

The sound of the US fiscal engine was heard loud. Financial markets reacted to the optimism surrounding substantial new stimulus, especially as Joe Biden was inaugurated as the 46th President of the US and Janet Yellen's appointment as the Treasury Secretary progressed. Both Mr. Biden and Mrs. Yellen are in favour of 'acting big' when it comes to providing additional stimulus to the US economy. In line with this, USD weakened against other major currencies. For industrial commodities and oil, positive effect from USD weakness was offset by concerns of extended lockdowns in Europe. For precious metals both a weaker USD and virus/vaccine/lockdown concerns provided tail winds. UST yields continued to stabilise from the high levels since March 2020. However, upbeat business activity and home sales data avoided putting downward pressure on yields. In Europe, core yields rose after the ECB stated that it may not purchase as much as indicated in the emergency bond buying programme while gilt yields jumped on optimistic growth outlook by the BoE. Turning to equities, global corporate earnings engine seems to be revving up too. Thanks to the better-than-expected earnings season thus far and rising stimulus hopes, equity markets posted strong gains over the past week. EM outperformed DM thanks to strong performance from tech-heavy China and Taiwan. Within DM, US equities outperformed. Very broadly, structural growth 'new economy' themes outperformed cyclical 'rate sensitive' segments of the market over the past week. Looking ahead, technically overbought conditions could present a near-term speed bump for equity investors.

Reading the tea leaves for 2021 (and beyond)

We expect average returns from equities in 2021 – this is unusual because it follows two years of above-average returns. Returns on equities this year should be led by earnings growth. However, we expect valuations to fall slightly but remain above historical average levels – this should offset the strong earnings growth. We expect policy – both monetary and fiscal – to remain accommodative, cushioning the downside for valuations. Yet, risks are that policymakers miss market expectations, and induce volatility into financial markets. 2020 saw correlations across equity regions and sectors rise strongly, creating challenges for diversification. This calls for investors to be selective and nimbler, and to focus on thematic investments in 2021. For investors with longer horizons, compelling opportunities exist in some structural growth sectors as developed market economies 'build back better' in the post-COVID-19 world. We see 2021 as a year of two halves. As we move from the 'rebound' phase in H1 to the 'recovery' phase in H2, growth and inflation are expected to moderate. We expect the recovery to be led by services and consumers in H2 2021. Based on this, different equity styles can be in vogue in each of the two halves. For example, cyclicals, cheap surface valuation stocks, small caps, commodity-oriented markets like UK, EM LatAm and EM EMEA, and cyclical sectors like energy, financials and materials could do well in the first half. In the second half, however, structural growth, better ROE/ROA, quality (earnings visibility), large cap segments could start to outperform.

Beyond 2021, we expect equity returns to moderate over next several years. In fact, strong performance of equities in 2020 increases the chances that returns on equities moderate even more in 2020s. Whilst the outlook for inflation remains uncertain, higher inflation is the biggest risk to our equity positioning. For details see The Equity Strategist: Global Equity Outlook 2021: The unabnormal, January 19 2021.

Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	3,841	1.9	2.3
Dow Jones	30,997	0.6	1.3
Nasdaq	13,543	4.2	5.1
DAX	13,874	0.6	1.1
Nikkei 225	28,631	0.4	4.3
FTSE 100	6,695	-0.6	3.6
Sensex	48,879	-0.3	2.4
Hang Seng	29,448	3.1	8.1
Regional Markets (Sunday to Thursday)			
ADX	5,611	6.5	11.2
DFM	2,736	1.2	9.8
Tadawul	8,876	-0.2	2.2
DSM	10,736	-1.6	2.9
MSM30	3,748	3.0	2.4
BHSE	1,453	-0.5	-2.5
KWSE	5,687	0.5	2.5
MSCI			
MSCI World	2,756	1.5	2.4
MSCI EM	1,393	2.6	7.9

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	55.4	0.6	7.0
WTI USD/bbl	52.3	-0.2	7.7
Gold USD/t oz	1,855.6	1.5	-2.3
Silver USD/t oz	25.5	2.9	-3.4
Platinum USD/t oz	1,103.2	2.6	2.9
Copper USD/MT	7,872.0	-1.3	1.7
Alluminium	1,986.8	-0.2	0.4
Currencies			
EUR USD	1.22	0.7	-0.4
GBP USD	1.37	0.7	0.1
USD JPY	103.78	-0.1	-0.5
CHF USD	0.89	-0.6	-0.0
Rates			
USD Libor 3m	0.22	-2.5	-8.7
USD Libor 12m	0.32	-2.2	-7.8
UAE Eibor 3m	0.36	-9.5	-30.2
UAE Eibor 12m	0.53	-3.7	-18.7
US 3m Bills	0.07	-6.7	21.8
US 10yr Treasury	1.09	0.2	18.9

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Summary market outlook

Global Yields	UST yields continued to stabilise from the high levels since March 2020. However, upbeat business activity and home sales data avoided putting downward pressure on yields. In Europe, core yields rose after the ECB stated that it may not purchase as much as indicated in the emergency bond buying programme while gilt yields jumped on optimistic growth outlook by the BoE. We maintain our overweight stance on long-dated USTs as Fed's status quo on monetary policy will prevent yields to rise significantly from current levels.
Stress and Risk Indicators	The VIX was facing downward pressure for most of the week as markets were relieved by the US transition of power which ultimately happened without any more hick-ups or incidents. The VIX has actually been flat over the last months. The fact that the VIX has not come down to its pre-pandemic levels suggests that markets are still positioning for more volatility.
Equity Markets	
Local Equity Markets	MSCI GCC index ended the week flat as strong gains in UAE equities were offset by losses in Saudi Arabia and Qatar. UAE equities posted a strong weekly gain with MSCI UAE rising more than 5% thanks to strong performances from telecoms (on news about rising foreign ownership limit), real estate and banks. 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 gained over the past week driven by hopes of substantial additional stimulus in the US as well as by the better-than-expected earnings season thus far. EM outperformed DM thanks to strong performance from tech-heavy China and Taiwan. Within DM, US equities outperformed. Very broadly, structural growth 'new economy' themes outperformed cyclical 'rate sensitive' segments of the market. We are constructive on the outlook over the 12-month horizon but we remain watchful of near-term risks including technically 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 were marginally up in line with US dollar weakness. We remain overweight gold as a risk hedge against ongoing political risks.
Energy	Oil prices tried to stage a rally in the middle of the week on hopes that US fiscal stimulus would push global growth over and on top of the "vaccine normalization" process. Gains were however undone at the end of the weeks as Europe talked of extending lockdowns, and the US dollar recovered somewhat.
Industrial Metals	Like oil, some industrial metals tried to stage a recovery in the middle of the week only to see it undone by the end. The cyclical outlook for industrial metals might slightly improve, but we do not recommend industrial metals exposure as China structurally reigns in demand.
Currencies	
EURUSD	The EUR appreciated against the USD on the back of US fiscal stimulus hopes. We expect the euro to remain stable.
Critical levels	R2 1.2486 · R1 1.2329 · S1 1.2034 · S2 1.1896
GBPUSD	The GBP appreciated against the USD on the back of US fiscal stimulus hopes. We expect cable to be stable with Pound sterling likely to follow the euro rather than USD.
Critical levels	R2 1.4098 · R1 1.3892 · S1 1.3334 · S2 1.2982
USDJPY	JPY was flat against the USD. Barring any global risk-off moves, BoJ yield curve targeting should put continuing downward pressure on the yen.
Critical levels	R2 105.40 · R1 104.59 · S1 102.78 · S2 101.78

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
01/26/21	**Conf. Board Consumer Confidence**	**Jan**	**89.0**	**88.6**	A good mixture of hard and soft data will indicate the state of the economy that President Biden has inherited. Market expects the US economy to have expanded by 4.2% q-o-q in Q4 (compared with a 33.4% rise in Q3). FOMC is expected to hold interest rates unchanged. However, the focus will be on the current economic assessment and the outlook for the asset purchase program. Personal income/spending and consumer sentiment surveys (Conference board and UMich) will also gain attention this week.
01/26/21	Richmond Fed Manufact. Index	Jan	17	19	
01/27/21	MBA Mortgage Applications	22-Jan	--	-1.90%	
01/27/21	Durable Goods Orders	Dec P	1.00%	1.00%	
01/27/21	**FOMC Rate Decision**	**27-Jan**	**0.00%-0.25%**	**0.00%-0.25%**	
01/28/21	**GDP Annualized QoQ**	**4Q A**	**4.20%**	**33.40%**	
01/28/21	**Initial Jobless Claims**	**23-Jan**	**880k**	**900k**	
01/28/21	New Home Sales	Dec	860k	841k	
01/29/21	**Personal Income**	**Dec**	**0.10%**	**-1.10%**	
01/29/21	**Personal Spending**	**Dec**	**-0.40%**	**-0.40%**	
01/29/21	MNI Chicago PMI	Jan	58.0	59.5	
01/29/21	**U. of Mich. Sentiment**	**Jan F**	**79.2**	**79.2**	

Japan

	Indicator	Period	Expected	Prior	Comments
01/28/21	**Retail Sales YoY**	**Dec**	**-0.50%**	**0.70%**	Retail sales are expected to have contracted in December after having risen in the two prior months. Industrial production is expected to have improved last month thanks to low inventories and strong shipments.
01/29/21	Tokyo CPI YoY	Jan	-0.90%	-1.30%	
01/29/21	Jobless Rate	Dec	3.00%	2.90%	
01/29/21	**Industrial Production YoY**	**Dec P**	**-3.20%**	**-3.90%**	
01/29/21	Housing Starts YoY	Dec	-3.80%	-3.70%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
01/25/21	**DE IFO Business Climate**	**Jan**	**91.4**	**92.1**	Flash GDP numbers for Q4 are expected to show the effect of lockdowns in that quarter. For example, market expects the German economic rebound to have stalled in Q3. Business climate, consumer confidence and broader economic confidence are important in assessing the outlook.
01/27/21	DE GfK Consumer Confidence	Feb	-7.9	-7.3	
01/27/21	FR Consumer Confidence	Jan	94	95	
01/28/21	**EZ Consumer Confidence**	**Jan F**	**--**	**-15.5**	
01/28/21	EZ Economic Confidence	Jan	89.5	90.4	
01/28/21	**DE CPI YoY**	**Jan P**	**0.70%**	**-0.30%**	
01/29/21	**DE GDP SA QoQ**	**4Q P**	**0.00%**	**8.50%**	
01/29/21	EZ M3 Money Supply YoY	Dec	11.10%	11.00%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
01/26/21	Jobless Claims Change	Dec	--	64.3k	Unemployment rate for November will be in focus given the extension of Job Retention Scheme to counter national lockdown.
01/26/21	**ILO Unemployment Rate 3Mths**	**Nov**	**5.10%**	**4.90%**	
01/28-02/03	Nationwide House Px NSA YoY	Jan	6.90%	7.30%	

China and India

	Indicator	Period	Expected	Prior	Comments
01/27/21	CN Industrial Profits YoY	Dec	--	15.50%	Data on industrial profits in China and infrastructure industries in India will be watched ahead of the PMI releases next week.
01/29/21	IN Eight Infrastructure Industries	Dec	--	-2.60%	
01/29/21	IN GDP Annual Estimate YoY	2020	-7.20%	-7.70%	

بنك أبوظبي التجاري ADCB
ASSET MANAGEMENT LIMITED

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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