The Weekly Market View

January 30 2023

ADCB ASSET MANAGEMENT LIMITED

Back in "Goldilocks" world

Last week's market performance proved that good news on the economy is good- when backed by evidence of slowing inflation. The 4Q22 GDP showed that the US economy expanded at an annualized rate of 2.9%, lower than the previous quarter but yet beating consensus expectations. The Fed's preferred inflation measure, the core PCE price index rose at the slowest pace in 14 months in December, but still above the Fed's 2% long-term inflation target. On the other hand, leading economic indicators-soft surveys gave a contrasting result. US flash PMI composite signaled that economic activity slightly improved but remained in the contractionary territory while input prices unexpectedly jumped in January. Across the Atlantic, latest January flash PMI confirmed the rising possibility of Eurozone dodging a recession this year. The Euro area composite flash PMI increased to 50.2 in January, beating consensus expectations with the services sector moving to expansionary territory. Consumer confidence in the region also improved. On the other hand, UK flash composite PMI decelerated deeper into the contractionary zone, outlining the weakening economic outlook. Moving to earning releases, 89 of the S&P 500 companies have reported their Q4 22 earnings result so far (as of 27th January 2023). According to latest data (as of 27th January 2023) from Factset, 69% of the companies have exceeded earnings estimates, behind the 10-year average of 73%. Despite the subdued earnings outlook, global financial markets recorded a positive weekly performance, boosted by the increased soft-landing prospects. MSCI All country world index rose by c2.2%, taking the YTD returns to c7%. In fixed income, UST yields ended the week slightly higher on the back of upbeat US GDP print. European bond yields rallied more-with the ECB commentary signaling no slowdown in rate hikes. In currencies, USD ended the week flat ahead of the central bank meetings this week. In commodities, oil prices declined over the week despite improving China outlook and prospects of a softer global economic slowdown. Gold prices also ended the week unchanged.

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A lot can change in a month

Global financial markets had a positive strong start to the year with various asset classes recording positive performance. Winners of 2022 have become losers while losers of 2022 are turning out to the winners in the first month of 2023. The USD- one of the best performing assets of 2022- continued its losing stride since November 2022. The fall in the USD has been rapid and while one may expect that the slide has been purely on account of the interest-rate differentials, this has not been entirely the case. The ease in interest rate volatility has certainly helped in the continuation of the USD weakness. However, as we had outlined, it is the growth differential which has started to take the centre-stage as the key driver for the USD weakness. Latest economic activity indicators signalled that US activity momentum has been deteriorating versus the global activity trend. Even, the 12-month recession probability of Eurozone has declined over the month, now matching with that of the US as economic outlook improved in the Eurozone. Finally, latest Citi Economic surprise index shows that the US economic surprises are in the negative territory compared to Eurozone, China and even Emerging Markets. We believe the growth differential factor should still remain influential, but however, in the event of increased hard landing prospects (not our base case scenario), risk-off sentiment could reignite the USD rally. On the other hand, we believe that the recent yen rally still has legs. The yen has appreciated by c13.8% since decade level low recorded in October 2022, but remains cheap in real terms. In addition to the weak USD prospects, tightening of interest rate differentials and prospect of diverging central bank policy (prospects of the Fed backing away from rate hikes and the BoJ embracing a hawkish stance) should continue to support yen rally. In fixed income, the recent rally of European IG is justified due to the decline in recession probabilities. However, US corporate bond rally appears excessive especially given the backdrop of subdued earnings outlook. We maintain our preference for EUR IG over US IG. For details, see our 2023 Outlook: Peaks and valleys, January 2023.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	4,071	2.47	6.02
Dow Jones	33,978	1.81	2.51
Nasdaq	11,622	4.32	11.04
DAX	15,150	0.77	8.81
Nikkei 225	27,383	3.12	5.29
FTSE 100	7,765	-0.07	4.21
Sensex	59,331	-2.13	-2.48
Hang Seng	24,209	2.92	13.22
Regional Markets			
ADX	9,738	-4.41	-4.64
DFM	3,329	-0.70	-0.21
Tadawul**	10,822	1.31	3.45
DSM**	11,110	2.77	4.42
MSM30**	4,751	-0.98	-1.95
BHSE**	1,928	0.02	1.82
KWSE**	7,311	0.75	0.54
MSCI			
MSCI World	2,786	2.22	7.04
MSCI EM	1,051	1.44	9.91

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	86.7	-1.11	0.66
Nymex WTI USD/bbl	79.7	-2.00	-0.75
Gold USD/t oz	1,928.0	0.10	5.55
Silver USD/t oz	23.6	-1.37	-1.36
Platinum USD/t oz	1,015.7	-2.88	-5.15
Copper USD/MT	9,345.5	1.23	11.43
Alluminium	2,597.5	0.31	10.55
Currencies			
EUR USD	1.09	0.11	1.52
GBP USD	1.24	-0.12	2.56
USD JPY	129.88	0.22	-0.76
USD CHF	0.92	0.04	-0.34
Rates	**Latest**	**Weekly (bp)**	**YTD(bp)**
USD Libor 3m	4.83	0.97	461.62
USD Libor 12m	5.32	-3.12	473.30
UAE Eibor 3m	4.77	28.86	440.42
UAE Eibor 12m	4.96	-20.22	421.65
US 3m Bills	4.66	3.63	463.41
US 10yr Treasury	3.50	2.48	199.34

Source: Bloomberg, and ADCB Asset Management
Notes: *Data as of January 27 2023 unless stated otherwise; **Data as of January 26 2023

Summary market outlook

Global Yields	10Y UST yield ended the week marginally higher on the back of upbeat 4Q22 US GDP print. European bond yields rose more compared to the US peers as the ECB pointed to more interest rate hikes. 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 occurs and recession fears rise.
Stress and Risk Indicators	Volatility declined last week as prospects of softer economic slowdown improved with upbeat US GDP release. Both VIX and MOVE indices eased over the week. SKEW index, a measure of tail risks jumped. We expect financial market volatility to stay elevated as the monetary policy normalizes and markets weigh recession probabilities.
Equity Markets	
Local Equity Markets	MSCI GCC index posted marginal gains but underperformed global equities last week. Amongst major markets, Abu Dhabi, Oman and Dubai recorded losses while Qatar, Saudi and Kuwait registered weekly gains. 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 over the week, completely reversing last week's marginal loss and adding to YTD gains. MSCI ACWI has recorded positive returns of c7% since the start of the year. EMs recorded weekly gains, but underperformed DM peers. Within the developed world, Japan outperformed the most while UK 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 4.7% over the week while HK tech index rose 5.3% over the week. Within technology, we prefer non-cyclical growth over cyclical growth (tech hardware, semiconductors etc.) over a 12-month horizon.
Commodities	
Precious Metals	Gold prices ended the week flat. Silver and platinum prices continued to decline. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Oil prices declined over the week despite improving China demand outlook and increased prospects of a soft global economic slowdown. 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 continued to rise on improving Chinese demand outlook. USD weakness helped. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain.
Currencies	
EURUSD	EUR only marginally appreciated versus the USD. We expect euro to stabilize and record a better performance in 2023 compared to 2022.
Critical levels	R2 1.0971 · R1 1.0920 · S1 1.0826 · S2 1.0783
GBPUSD	GBP marginally weakened against the USD. We expect GBP to weaken against EUR and stay flat versus the USD.
Critical levels	R2 1.2549 · R1 1.2465 · S1 1.2281 · S2 1.2181
USDJPY	JPY rally hit a pause last week. JPY is likely to strengthen in 2023 as interest rate differentials tighten, and as broad USD weakens.
Critical levels	R2 132.10 · R1 130.99 · S1 128.90 · S2 127.92

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
01/31/2023 19:00	**Conf. Board Consumer Confidence**	**Jan**	**109.0**	**108.3**
02/01/2023 16:00	MBA Mortgage Applications	27-Jan	--	7.00%
02/01/2023 18:45	**S&P Global US Manufacturing PMI**	**Jan F**	**46.8**	**46.8**
02/01/2023 19:00	**ISM Manufacturing**	**Jan**	**48.0**	**48.4**
02/01/2023 23:00	**FOMC Rate Decision (Lower Bound)**	**1-Feb**	**4.50%**	**4.25%**
02/01/2023 23:00	**FOMC Rate Decision (Upper Bound)**	**1-Feb**	**4.75%**	**4.50%**
02/02/2023 17:30	Initial Jobless Claims	28-Jan	200k	186k
02/02/2023 17:30	Continuing Claims	21-Jan	1687k	1657k
02/02/2023 19:00	Factory Orders	Dec	1.20%	-1.80%
02/02/2023 19:00	Durable Goods Orders	Dec F	--	--
02/03/2023 17:30	**Change in Nonfarm Payrolls**	**Jan**	**185k**	**223k**
02/03/2023 17:30	**Unemployment Rate**	**Jan**	**3.60%**	**3.50%**
02/03/2023 17:30	**Average Hourly Earnings YoY**	**Jan**	**4.3%**	**4.60%**
02/03/2023 17:30	Labor Force Participation Rate	Jan	62.3%	62.30%
02/03/2023 18:45	S&P Global US Services PMI	Jan F	46.6	46.6
02/03/2023 19:00	**ISM Services Index**	**Jan**	**50.5**	**49.6**

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
01/31/2023 03:30	**Jobless Rate**	**Dec**	**2.50%**	**2.50%**
01/31/2023 03:50	**Retail Sales YoY**	**Dec**	**3.00%**	**2.60%**
01/31/2023 03:50	**Industrial Production MoM**	**Dec P**	**-1.30%**	**0.20%**
01/31/2023 09:00	Annualized Housing Starts	Dec	0.850m	0.838m
02/01/2023 04:30	**Jibun Bank Japan PMI Mfg**	**Jan F**	**--**	**48.9**
02/02/2023 03:50	Monetary Base YoY	Jan	--	-6.10%
02/03/2023 04:30	Jibun Bank Japan PMI Services	Jan F	--	52.4

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
01/30/2023 02/02	Germany Retail Sales MoM	Dec	0.20%	1.10%
01/30/2023 14:00	Eurozone Consumer Confidence	Jan F	--	-20.9
01/31/2023 17:00	**Germany CPI YoY**	**Jan P**	**--**	**8.60%**
01/31/2023 11:45	France PPI YoY	Dec	--	21.50%
01/31/2023 11:45	**France CPI YoY**	**Jan P**	**--**	**5.90%**
02/01/2023 12:55	**Germany S&P Global/BME Manufacturing PMI**	**Jan F**	**--**	**47**
02/01/2023 12:50	**France S&P Global Manufacturing PMI**	**Jan F**	**--**	**50.8**
02/01/2023 13:00	**Eurozone S&P Global Manufacturing PMI**	**Jan F**	**48.8**	**48.8**
02/01/2023 14:00	**Eurozone CPI YoY**	**Jan**	**9.0%**	**9.20%**
02/01/2023 14:00	Eurozone CPI Core YoY	Jan P	5.1%	5.20%
02/02/2023 17:15	**Eurozone ECB Main Refinancing Rate**	**2-Feb**	**3.00%**	**2.50%**
02/02/2023 17:15	**Eurozone ECB Marginal Lending Facility**	**2-Feb**	**3.25%**	**2.75%**
02/02/2023 17:15	**Eurozone ECB Deposit Facility Rate**	**2-Feb**	**2.50%**	**2.00%**
02/03/2023 11:45	**France Industrial Production MoM**	**Dec**	**--**	**2.00%**
02/03/2023 14:00	Eurozone PPI YoY	Dec	22.4%	27.10%

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
01/31/2023 13:30	Net Consumer Credit	Dec	--	1.5b
01/31/2023 13:30	Mortgage Approvals	Dec	--	46.1k
02/01/2023 13:30	**S&P Global/CIPS UK Manufacturing PMI**	**Jan F**	**--**	**46.7**
02/02/2023 16:00	**Bank of England Bank Rate**	**2-Feb**	**4.00%**	**3.50%**
02/03/2023 13:30	**S&P Global/CIPS UK Services PMI**	**Jan F**	**--**	**48**

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
01/31/2023 05:30	China Industrial Profits YTD YoY	Dec	--	-3.60%
01/31/2023 05:30	**China Manufacturing PMI**	**Jan**	**49.9**	**47**
01/31/2023 05:30	**China Non-manufacturing PMI**	**Jan**	**51.5**	**41.6**
02/01/2023 05:45	China Caixin PMI Mfg	Jan	49.5	49
02/01/2023 09:00	**India S&P Global PMI Mfg**	**Jan**	**--**	**57.8**
02/03/2023 05:45	**China Caixin PMI Services**	**Jan**	**--**	**48**
02/03/2023 09:00	**India S&P Global PMI Services**	**Jan**	**--**	**58.5**

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