The Weekly Market View

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بنك أبوظبي التجاري ADCB

ASSET MANAGEMENT LIMITED

Good riddance of the excesses

Fed's continued accommodation, IMF's upbeat assessment of the global economy and a strong corporate earnings season in progress, were all put to one side. Instead, a lot of market attention was turned to the retail investor participation in the markets and the short-squeeze in a couple of stocks. Against this backdrop, equity markets paid more attention to technically overbought conditions in the asset class. Rampant virus (and vaccine worries) added more concerns. We have been highlighting these two areas as risks for equity markets in the near-term, our regular readers would remember. As such, VIX index rose sharply on Wednesday recording the highest daily percentage rise in three years, and is now flirting with the levels it experienced last October in the run-up to the US elections. Last week MSCI ACWI index fell 3.6% – the most since October 2020. From its all-time high reached on 21 January, MSCI ACWI is now down by 4.0%. DMs outperformed EMs over the past week. Asian markets – Taiwan, South Korea and India – were a drag on EM performance. Sector-wise, defensives (real estate, consumer staples and utilities) outperformed cyclicals (energy, materials and consumer discretionary) – although all 11 GICS sectors ended lower. Interestingly, all factors (large/mid/small, growth/value, quality etc.) experienced similar losses – falling more than 3% over the week. Elsewhere, UST yields dropped slightly amidst the risk-off sentiment while the Fed reiterated its accommodative monetary policy stance. US corporate bonds, especially high yield bonds came under pressure with the sell-off in equities. USD strengthened, precious metals edged somewhat down, industrial metals remained under pressure, yet oil prices were remarkably stable.

One step back, two steps forward

Technically overbought conditions (indicated by bullish sentiment, strong inflows, increased positioning, higher SKEW, and rising VIX etc.) and rampant virus (increasing case count with slower vaccine rollout) were indeed presenting risks and pointing to the possibility of a healthy market correction in equities in the near-term. We would argue that such a correction is needed for markets to resume their grind higher over the rest of this year. As such, we see pull backs in equity markets as potential opportunities to reposition. Looking ahead, as some of the excesses are worked through, fundamental picture for equities becomes clearer and is driven by strong earnings rebound/recovery. As we argued in our recent report (The Equity Strategist: Global Equity Outlook 2021: The unabnormal, January 19 2021), equity returns in 2021 should be led by earnings growth offsetting a small contraction in valuations. I/B/E/S consensus forecasts a 29% growth in earnings for MSCI ACWI this year. We see upside risks here. Q4 earnings season in progress has thus far been strong both in the US (80% earnings beats) and in Europe (67% earnings beats).

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.

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Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	3,714	-3.3	-1.1
Dow Jones	29,983	-3.3	-2.0
Nasdaq	13,071	-3.5	1.4
DAX	13,433	-3.2	-2.1
Nikkei 225	27,663	-3.4	0.8
FTSE 100	6,407	-4.3	-0.8
Sensex	46,286	-5.3	-3.1
Hang Seng	28,284	-4.0	3.9
Regional Markets (Sunday to Thursday)			
ADX	5,642	0.5	11.8
DFM	2,697	-1.4	8.2
Tadawul	8,807	-0.8	1.4
DSM	10,545	-1.8	1.0
MSM30	3,649	-2.6	-0.3
BHSE	1,457	0.3	-2.2
KWSE	5,748	1.1	3.6
MSCI			
MSCI World	2,662	-3.4	-1.1
MSCI EM	1,330	-4.5	3.0

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	55.9	0.8	6.3
WTI USD/bbl	52.2	-0.1	7.6
Gold USD/t oz	1,847.7	-0.4	-2.7
Silver USD/t oz	27.0	5.9	2.2
Platinum USD/t oz	1,078.0	-2.3	0.6
Copper USD/MT	7,877.0	0.1	1.8
Alluminium	1,972.9	-0.7	-0.3
Currencies			
EUR USD	1.21	-0.3	-0.7
GBP USD	1.37	0.2	0.3
USD JPY	104.68	0.9	-1.4
CHF USD	0.89	0.5	-0.6
Rates			
USD Libor 3m	0.21	-4.8	-14.0
USD Libor 12m	0.31	-0.5	-9.1
UAE Eibor 3m	0.40	12.2	-21.7
UAE Eibor 12m	0.54	2.0	-17.0
US 3m Bills	0.05	-32.1	-17.3
US 10yr Treasury	1.07	-1.8	16.7

Summary market outlook

Global Yields	UST yields dropped slightly amidst the risk off sentiment while the Fed reiterated its accommodative monetary policy stance. US corporate bonds, especially high yield bonds came under pressure with the sell-off in equities. 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	For the first time in three months the VIX shot up and is now flirting with the levels it experienced last October in the run-up to the US elections. Main concerns have probably been the volatility related to retail trading, as well as the concern that China might restrain credit. Volatility must also be seen in the light of the strong rally of the last months, and thus the inevitability of some profit taking.
Equity Markets	
Local Equity Markets	MSCI GCC index ended the week marginally lower, outperforming most global indices. Within the region, Kuwait and Abu Dhabi equities posted gains while Dubai equities posted losses for the first time in four weeks. Relatively resilient oil prices, and underperformance of the past year helped equity markets in the region stay buoyant over the past week. 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	During the past week, MSCI ACWI index fell 3.6% – the most since October 2020. From its all-time high reached on 21 January, MSCI ACWI has fallen by 4.0%. Last week, DMs outperformed EMs. Asian markets – Taiwan, South Korea and India – were a drag on EM performance. We are constructive on the outlook over the 12-month horizon and see pull backs in equity markets as potential opportunities to reposition into the asset class. 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 edged somewhat down as the US dollar strengthened. Silver proved the exception by shooting up at the end of the week. We remain overweight gold as a risk hedge against ongoing political risks.
Energy	Oil prices were remarkably stable given the concerns for China restraining credit, as well as for the EU vaccination program being further derailed. Overall, we believe that oil prices are likely to remain sustained as the market is roughly balanced.
Industrial Metals	Industrial metals remained under pressure with concerns China might restrain demand. Industrial metals have now recovered to their 2017 levels. We do not recommend industrial metals exposure as China structurally reigns in demand.
Currencies	
EURUSD	EUR came under pressure against the USD in line with an increased global risk-off sentiment. We expect the euro to remain stable.
Critical levels	R2 1.2475 · R1 1.2305 · S1 1.2010 · S2 1.1885
GBPUSD	Cable was remarkably resilient, perhaps also because the UK vaccination campaign remained on track. We expect Cable to be stable with Pound sterling likely to follow the euro rather than USD.
Critical levels	R2 1.4123 · R1 1.3915 · S1 1.3344 · S2 1.2981
USDJPY	JPY depreciated against the USD, suggesting that the risk-off mood was more related to developed markets than to emerging markets. BoJ yield curve targeting should put continuing downward pressure on the yen.
Critical levels	R2 106.42 · R1 105.55 · S1 103.20 · S2 101.72

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
02/01/21	Markit US Manufacturing PMI	Jan F	59.1	59.1	Markit PMIs and ISM indices are likely to set the tone for US economic data releases this week. ISM indices for both manufacturing and service sectors are expected to moderate slightly, yet to remain firmly in the expansionary territory. Data around the unemployment rate will be most closely watched. Whilst the market expects January unemployment to remain unchanged at 6.7%, details including permanent lay-offs and sectoral break-down are likely to be of most relevance. Other data including construction spending, factory orders and durable goods orders will be closely watched too.
02/01/21	Construction Spending MoM	Dec	0.80%	0.90%	
02/01/21	**ISM Manufacturing**	**Jan**	**60.0**	**60.7**	
02/03/21	MBA Mortgage Applications	29-Jan	--	-4.10%	
02/03/21	ADP Employment Change	Jan	50k	-123k	
02/03/21	Markit US Services PMI	Jan F	57.5	57.5	
02/03/21	**ISM Services Index**	**Jan**	**56.7**	**57.2**	
02/04/21	**Initial Jobless Claims**	**30-Jan**	**830k**	**847k**	
02/04/21	Continuing Claims	23-Jan	4,500k	4,771k	
02/04/21	Factory Orders	Dec	0.70%	1.00%	
02/04/21	Durable Goods Orders	Dec F	0.20%	0.20%	
02/05/21	**Change in Nonfarm Payrolls**	**Jan**	**50k**	**-140k**	
02/05/21	**Unemployment Rate**	**Jan**	**6.70%**	**6.70%**	
02/05/21	Trade Balance	Dec	-$65.7b	-$68.1b	

Japan

	Indicator	Period	Expected	Prior	Comments
02/01/21	**Jibun Bank Japan PMI Mfg**	**Jan F**	**--**	**49.7**	Markets are likely to keep an eye on the final print of PMIs – with both manufacturing and services sectors expected to have contracted during January.
02/02/21	Monetary Base YoY	Jan	--	18.30%	
02/03/21	**Jibun Bank Japan PMI Services**	**Jan F**	**--**	**45.7**	
02/05/21	Household Spending YoY	Dec	-2.00%	1.10%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
02/01/21	Markit Eurozone Manufacturing PMI	Jan F	54.7	54.7	Final PMIs for January are expected to confirm a resilient manufacturing sector and a weaker services sector in Eurozone. Q4 2020 GDP and January CPI are key data releases alongside December retail sales for the bloc.
02/01/21	**Unemployment Rate**	**Dec**	**8.30%**	**8.30%**	
02/02/21	**GDP SA QoQ**	**4Q A**	**-0.90%**	**12.50%**	
02/03/21	Markit Eurozone Services PMI	Jan F	45.0	45.0	
02/03/21	**CPI MoM**	**Jan P**	**-0.10%**	**0.30%**	
02/04/21	Retail Sales YoY	Dec	0.40%	-2.90%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
02/01/21	Markit UK PMI Manufacturing SA	Jan F	52.9	52.9	BoE meeting will be closely watched. Markets expect the central bank to hold Bank rate at 0.1% and the asset purchases target at GBP875bn.
02/02/21	**Nationwide House Px NSA YoY**	**Jan**	**6.90%**	**7.30%**	
02/03/21	Markit/CIPS UK Services PMI	Jan F	38.8	38.8	
02/04/21	**Bank of England Bank Rate**	**4-Feb**	**0.10%**	**0.10%**	

China and India

	Indicator	Period	Expected	Prior	Comments
02/01/21	**Caixin China PMI Mfg**	**Jan**	**52.6**	**53.0**	PMI data releases from China and India are likely to provide a snapshot of the two large emerging economies in January. In India, union budget and interest rate policy are likely to get most attention.
02/01/21	Markit India PMI Mfg	Jan	--	56.4	
02/01/21	**India Budget : FY2021-2022**				
02/03/21	**Caixin China PMI Services**	**Jan**	**55.5**	**56.3**	
02/03/21	Markit India PMI Services	Jan	--	52.3	
02/05/21	**RBI Repurchase Rate**	**5-Feb**	**4.00%**	**4.00%**	

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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