The Weekly Market View

July 25 2021

بنك أبوظبي التجاري
ADCB
ASSET MANAGEMENT LIMITED

Growth scare overdone

In our recently weekly (The Weekly Market View, July 11 2021), we argued that two "deltas" – first the rapid spread of COVID-19 Delta variant and second the slowing economic growth momentum – are influencing market performances. Early part of last week saw both forces coalescing to create a "growth scare". Long-term Government bond yields fell sharply with the yield on 10Y US treasuries falling below 1.2%, to the lowest level since February. VIX, a measure of implied volatility rose sharply at the start of the week coinciding with a sharp drop in equity prices. However, later in the week, risk appetite recovered as central banks assured easier monetary policy for the foreseeable future. In the US, president Joe Biden is expected to reappoint Jay Powell as chair of the Federal Reserve, suggesting policy continuity (and perhaps also easy policy). In Europe, ECB reaffirmed its commitment to keeping Eurozone interest rates at record lows. Further, a strong earnings season in progress seemed to have helped in the return of risk appetite in the latter part of the week. For the context, according to FactSet data, of the 120 S&P 500 companies that have reported their Q2 earnings thus far, 88% have beaten analysts' estimates. As a result, global equities ended the week higher despite the sharp rise in volatility at the start of the week. MSCI ACWI index rose 1% moving closer to the all-time highs reached mid-July. Sector wise, IT, communication services, and health care outperformed. Energy, real estate, and utilities underperformed. USD strength was noticeable – broader USD index rose for the second consecutive week, extending gains from its recent lows of late-May. Amongst commodities, crude oil prices rose as concerns of fading demand due to spread of COVID-19 Delta variant were offset by hopes for tighter supply. Precious metal prices fell as risk appetite recovered in the latter part of the week.

Kishore Muktinutalapati
Equity Strategist
Tel: +971 (0)2 696 2358
kishore.muktinutalapati@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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Peak growth ain't contraction

Markets are staring at peak growth, peak inflation and peak policy support materializing this summer. However, we would point out that growth is expected to normalize from extremely strong levels and peak growth doesn't mean contraction, but rather only slower growth. Inflation too is likely to remain healthy after moderating from multi-year highs. Potential policy normalization – especially on the monetary side – should be natural given the strong rebound/recovery in the economy. Even corporate earnings growth is expected to moderate beyond Q2 this year. For instance, based on I/B/E/S data, earnings growth for S&P 500 companies in aggregate is expected to be 78% y-o-y in Q2 and this growth is expected to cool down to a 27% y-o-y in Q3. This trend extends beyond this year and beyond the US. For the context, data from FactSet shows that for MSCI ACWI, earnings growth is expected to be c41% during 2021, cooling down to c10% in 2022. Sales growth for MSCI ACWI is expected to slow down from 13% this year to c5% next year. Whilst, the slowdown is remarkable, worth noting that growth rates for 2022 are still attractive and have upside, in our view. Therefore, medium-term to long-term investors are better served by staying invested in equities. Instead of looking at the slowdown in headline growth, investors should focus on opportunities and risks beneath the surface. For example, weaker growth bodes well for structural growth themes which boast growth in plenty. Also, peak growth will mean fading tail winds for economic-sensitive sectors, peak inflation could take the gas of some of the value sector engines. For details on allocation, see our recent investment strategy outlook note Quarterly Investment View, July 2021.

Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	4,412	2.0	17.5
Dow Jones	35,062	1.1	14.6
Nasdaq	14,837	2.8	15.1
DAX	15,669	0.8	14.2
Nikkei 225	27,548	-1.6	0.4
FTSE 100	7,028	0.3	8.8
Sensex	52,976	-0.3	10.9
Hang Seng	27,322	-2.4	0.3
Regional Markets (data as of 18 July)			
ADX	7,065	-0.1	40.0
DFM	2,744	0.0	10.1
Tadawul	10,795	0.0	24.2
DSM	10,696	0.0	2.5
MSM30	4,075	0.0	11.4
BHSE	1,579	0.1	6.0
KWSE	6,397	0.0	15.3
MSCI			
MSCI World	3,072	1.6	14.2
MSCI EM	1,311	-2.1	1.6

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	74.1	0.7	43.1
WTI USD/bbl	72.1	0.4	48.5
Gold USD/t oz	1,802.2	-0.5	-5.1
Silver USD/t oz	25.2	-1.9	-4.6
Platinum USD/t oz	1,063.5	-3.7	-0.8
Copper USD/MT	9,433.5	0.4	21.9
Alluminium	2,502.6	1.4	26.5
Currencies			
EUR USD	1.18	-0.3	-3.6
GBP USD	1.37	-0.1	0.6
USD JPY	110.55	0.4	7.1
CHF USD	0.92	0.0	-3.7
Rates			
USD Libor 3m	0.13	-6.7	-47.5
USD Libor 12m	0.24	0.8	-28.6
UAE Eibor 3m	0.35	-3.3	-32.2
UAE Eibor 12m	0.64	0.0	-1.6
US 3m Bills	0.04	0.0	-26.1
US 10yr Treasury	1.28	-1.1	39.8

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Summary market outlook

Global Yields	Start of the week saw 10Y UST yields drop below the 1.2% mark for the first time since February as the rapid spread of COVID-19 Delta variant raised concerns about growth outlook. Eurozone government bond yields fell on ECB message. Yield on 10Y JGBs fell too. UK gilt yields fluctuated last week, as risk appetite waned initially but recovered subsequently. Overall, we recommend a lower duration stance (5Y US Treasuries) in anticipation of interest rate volatility in the near term.
Stress and Risk Indicators	VIX rose sharply at the start of the week but fell subsequently. SKEW index remains at elevated levels. We think the VIX index is unlikely to fall back to the pre-pandemic levels until the virus comes fully under control.
Equity Markets	
Local Equity Markets	Most regional markets remained closed through the week for holidays. Year-to-date, MSCI GCC index returned c24% outperforming broader equity benchmarks (MSCI ACWI up c14% so far this year). Outperformance was more pronounced against EM indices (MSCI EM up c2% year-to-date). Within GCC, UAE and Saudi Arabia outperformed while Qatar and Kuwait underperformed. We remain neutral GCC equities within our global equity framework. Stable to higher oil prices, potential for revival in growth and scope for reversing the underperformance of 2020 are all balanced by lack of structural growth plays in the equity markets.
Global Equity Markets	Global equities ended the week higher despite the sharp rise in volatility at the start of the week. MSCI ACWI index rose 1% moving closer to the all-time highs reached mid-July. Sector wise, IT, communication services, and health care outperformed. Energy, real estate, and utilities underperformed. 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.
Technology Segments	Nasdaq-100 index rose c3% during the past week while NYSE FANG+ index rose 2%. However, HK Tech index, a gauge of Chinese technology equities fell c5% during the week taking the year-to-date losses to 14%. Yet, Chinese STAR50 index rose 2.5% over the past week. Overseas listed Chinese internet names suffered on the news that the government has issued guidelines to further reduce the burden of students, and tutoring companies will no longer be allowed to raise capital through IPOs.
Commodities	
Precious Metals	Gold prices fell marginally on USD strength. Silver and platinum prices saw more acute drops during the week. We keep our overweight in gold as a hedge against potential risks on the horizon.
Energy	Oil prices ended the week higher recovering from the steep slide at the start of the week. Concerns of fading demand due to spread of COVID-19 Delta variant were offset by hopes for tighter supply. Overall, we believe that oil prices will remain sustained as the market approaches a balance.
Industrial Metals	Copper prices rose as China's reserve release was smaller than expected. While another commodity super-cycle appears difficult, demand for commodities linked to environmental friendly green infrastructure is likely to sustain.
Currencies	
EURUSD	EUR fell against the USD for the second consecutive week to reach a fresh three-month low on dovish ECB. Re-opening is a positive for EUR while risk-off sentiment and the easier policy are moderately negative.
Critical levels	R2 1.2285 · R1 1.2028 · S1 1.1633 · S2 1.1495
GBPUSD	Cable was volatile through the week – fell initially on lower risk appetite, recovered later as risk returned – but ended the week marginally lower. We expect the cable to be driven by how the re-opening plays out over the near-term and to decouple from the EUR.
Critical levels	R2 1.4379 · R1 1.4063 · S1 1.3502 · S2 1.3257
USDJPY	USDJPY moved in line with the changes in risk appetite; USD ended the week marginally stronger. Over the medium-term, we believe that BoJ yield curve targeting should put downward pressure on JPY.
Critical levels	R2 113.02 · R1 111.78 · S1 109.19 · S2 107.84

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
07/26/21	New Home Sales	Jun	800k	769k	Focus will be on the Q2 GDP print. Markets expect a sequential annualized growth of 8.5% in Q2 (rising from 6.4% in Q1). Consumer spending is expected to have driven much of the strength in the economic activity. Staying with consumer spending, personal income and spending data for June are likely to provide some context of the most recent trends. Conference board consumer confidence and University of Michigan sentiment data for July should provide insight into how consumer activity is likely to play out in Q3. Elsewhere, durable goods orders and FHFA House price index are likely to provide a snapshot of industrial and housing sectors.
07/27/21	**Durable Goods Orders**	**Jun P**	**2.00%**	**2.30%**	
07/27/21	FHFA House Price Index MoM	May	1.60%	1.80%	
07/27/21	S&P CoreLogic CS 20-City YoY NSA	May	16.20%	14.88%	
07/27/21	**Conf. Board Consumer Confidence**	**Jul**	**124.0**	**127.3**	
07/28/21	MBA Mortgage Applications	23-Jul	--	-4.00%	
07/28/21	Wholesale Inventories MoM	Jun P	1.10%	1.30%	
07/28/21	**FOMC Rate Decision**	**28-Jul**	**0.00%-0.25%**	**0.00%-0.25%**	
07/29/21	Core PCE QoQ	2Q A	6.00%	2.50%	
07/29/21	Initial Jobless Claims	24-Jul	380k	419k	
07/29/21	Continuing Claims	17-Jul	3,192k	3,236k	
07/29/21	**GDP Annualized QoQ**	**2Q A**	**8.50%**	**6.40%**	
07/29/21	Pending Home Sales MoM	Jun	0.50%	8.00%	
07/30/21	**Personal Income**	**Jun**	**-0.40%**	**-2.00%**	
07/30/21	**Personal Spending**	**Jun**	**0.70%**	**0.00%**	
07/30/21	PCE Deflator YoY	Jun	4.00%	3.90%	
07/30/21	PCE Core Deflator YoY	Jun	3.70%	3.40%	
07/30/21	**U. of Mich. Sentiment**	**Jul F**	**80.8**	**80.8**	

Japan

	Indicator	Period	Expected	Prior	Comments
07/26/21	**Jibun Bank Japan PMI Mfg**	**Jul P**	**--**	**52.4**	Manufacturing and services PMIs are key data releases this week. Industrial production is expected to have moderated slightly in June as favourable base effects fade.
07/26/21	**Jibun Bank Japan PMI Services**	**Jul P**	**--**	**48.0**	
07/30/21	Jobless Rate	Jun	3.00%	3.00%	
07/30/21	Industrial Production YoY	Jun P	20.90%	21.10%	
07/30/21	Retail Sales YoY	Jun	0.20%	8.20%	

Eurozone

	Indicator	**Period**	**Expected**	**Prior**	Comments
07/26/21	**Germany IFO Business Climate**	**Jul**	**102.5**	**101.8**	Q2 GDP across Eurozone will be closely watched this week. Markets expect the economic output of the bloc to have expanded 13.2% y-o-y during the second quarter of the year after having shrunk marginally in the previous quarter. July CPI across the region will also be closely watched. Consumer confidence and unemployment data are important too.
07/28/21	Germany GfK Consumer Confidence	Aug	1.0	-0.3	
07/29/21	Germany Unemployment Change	Jul	-28.0k	-38.0k	
07/29/21	Eurozone Consumer Confidence	Jul F	--	-4.4	
07/29/21	Germany CPI YoY	Jul P	3.20%	2.30%	
07/30/21	**France GDP YoY**	**2Q P**	**17.50%**	**1.20%**	
07/30/21	France CPI YoY	Jul P	1.10%	1.50%	
07/30/21	**Germany GDP SA QoQ**	**2Q P**	**2.10%**	**-1.80%**	
07/30/21	Eurozone Unemployment Rate	Jun	7.90%	7.90%	
07/30/21	Eurozone CPI MoM	Jul P	-0.30%	0.30%	
07/30/21	**Eurozone GDP SA YoY**	**2Q A**	**13.20%**	**-1.30%**	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
07/28/21	**Nationwide House PX MoM**	**Jul**	**0.30%**	**0.70%**	Growth in house prices is expected to have moderated during July.
07/29/21	Mortgage Approvals	Jun	84.5k	87.5k	

China and India

	Indicator	Period	Expected	Prior	Comments
07/27/21	China Industrial Profits YoY	Jun	--	36.40%	China PMIs and industrial profits data will be closely watched.
07/31/21	**China Non-manufacturing PMI**	**Jul**	**--**	**53.5**	
07/31/21	**China Manufacturing PMI**	**Jul**	**50.8**	**50.9**	

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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