The Weekly Market View

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ADCB ASSET MANAGEMENT LIMITED

Lifted by the new economy

One clear message from the markets last week was regarding the continuing rise of the influence of the new economy themes. On the one hand, in the US which ended up outperforming other developed markets, Nasdaq, a new economy index rose 4%. More concentrated Nasdaq-100 delivered c5% returns over the week. NYSE FANG+ index, a much more concerted play on US big-tech rose c12%. On the other hand Chinese equity markets had their best week in several years thanks to a strong outperformance from technology/new economy stocks. For instance ChiNext index, a platform for enterprises engaged in independent innovation in China, rose 13% during the week. Elsewhere most other markets remained volatile but ended the week with positive returns. Causing this volatility was the situation with COVID-19 – with the US continuing to register increased number of infections and posing a challenge to the reopening prospects. Some respite came in the form of news around treatment/vaccine and better than expected economic data through the week. However, bond markets continued to trade on a cautious note with the UST 10Y yield briefly touching its lowest level since mid-April and core Eurozone bond yields falling. US treasury department's issuance of 10Y and 30Y bonds (with total issuance of bonds and notes amounting to USD94bn this week) attracted strong demand. As a result 5s30s curve flattened dramatically on Thursday. In commodities, oil prices were mixed – brent prices rose over the week while WTI prices fell marginally. For US crude, distillate stockpiles reaching the highest level since January 1983 but gasoline inventories declining by the most since March highlighted the divergence in the recovery of trucking and other industrial activity and individual consumption. Against the backdrop of economic uncertainty and USD weakness, precious metal prices rose with gold prices hitting a nine year high. Industrial metals gained too in line with the optimism around Chinese equity markets. In the FX space, USD weakened in a rather volatile week.

New economy and the Matthew effect

From an equity strategy view point, we continue to like the new economy themes. We think investors should align their strategic portfolios to reflect the rising importance of this segment (see Thematic thinking and portfolio tweaking, April 14 2020). Given the strong performance of the new economy indices so far this year (Nasdaq-100 index is up 24%, while NYSE FANG+ index and ChiNext index are both up c54%), market participants have started drawing parallels to the dot-com bubble. We think such parallels are not justified. Of course, these new economy segments registered strong performances in recent years and the COVID-19 crisis has provided further tailwinds, thus brining into consideration, the Matthew effect (the rich getting richer). In our opinion, investors sceptical about these market segments might be missing a point or two. To start with, the new economy sector, the core of disruption, is becoming strategically important and therefore, equity markets can continue to reward these sectors with higher multiples and higher representation in the overall market, for a long time. In this context, it is worth looking at the index composition of the US equity benchmarks back in 1900 where the rail sector (the 'new economy' then) was c60% of the index (according the DMS database) while the sector was only 10% of the GDP (according to St. Louis Fed). Also, whilst Nasdaq is tech-heavy, it is not entirely tech. For instance Nasdaq-100 index is 56% tech today, compared with c75% just before the dot-com bubble. Further, valuations of new economy themes now are nowhere near the valuations of the dot-com bubble era. If anything, fundamentals of Nasdaq aggregate, with better balance sheets and higher profitability, are much better now than in late 1990s. Also, as we highlighted in our note Rip Van Winkle wakes up, November 24 2019, it is very hard to argue that the current level of tech-exuberance is as high as it was in the 1990s for three reasons. First, IPO volumes currently are not as high as they were twenty years ago indicating no tech-exuberance that resulted eventually in the dot-com bubble. Second, any build-up of exuberance in the new-tech companies has been tamed by the prospects of regulatory tightening. Third, the rise of technology this time around is helped by strong end-user consumption trends, especially aided by millennial and digital native cohorts. Internet, one of the enablers of the new economy saw a strong adoption/penetration across the world over the last twenty years. Number of internet users in the world has grown 1187% since 2000 bringing the penetration rate to c60%. At the same time, the concept of the new digital economy has much further room to run. For instance, based on a PEW survey, many Americans are still unfamiliar with the vocabulary of the new digital economy. 61% of Americans have never heard of the term "crowdfunding", 73% are not familiar with the term "sharing economy" and 89% are not familiar with the term "gig economy". All in all, on a strategic basis, we remain focussed on the new economy themes. Of course, the sector could experience some turbulence near term with increasing prospects of regulatory tightening (especially with US Presidential elections later this year). However, we think long-term investors will be better-off staying focussed.

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Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	3,185	1.8	-1.4
Dow Jones	26,075	1.0	-8.6
Nasdaq	10,617	4.0	18.3
DAX	12,634	0.8	-4.6
Nikkei 225	22,291	-0.1	-5.8
FTSE 100	6,095	-1.0	-19.2
Sensex	36,594	1.6	-11.3
Hang Seng	25,727	1.4	-8.7
Regional Markets (Sunday to Thursday)			
ADX	4,295	-0.4	-15.4
DFM	2,082	1.0	-24.7
Tadawul	7,417	1.4	-11.6
DSM	9,316	1.1	-10.6
MSM30	3,494	-0.5	-12.2
BHSE	1,286	0.9	-20.1
KWSE	5,131	0.1	-18.3
MSCI			
MSCI World	2,241	1.5	-4.2
MSCI EM	1,080	3.5	-4.1

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	43.2	1.0	-34.5
WTI USD/bbl	40.6	-0.2	-33.6
Gold USD/t oz	1,798.7	1.3	18.5
Silver USD/t oz	18.7	3.9	4.9
Platinum USD/t oz	827.5	2.1	-14.4
Copper USD/MT	6,322.5	5.0	2.7
Alluminium	1,659.8	4.7	-7.2
Currencies			
EUR USD	1.13	0.5	0.8
GBP USD	1.26	1.1	-4.8
USD JPY	106.93	-0.5	1.6
CHF USD	0.94	-0.5	2.7
Rates			
USD Libor 3m	0.27	-3.5	-86.0
USD Libor 12m	0.48	-4.3	-75.7
UAE Eibor 3m	0.64	-15.0	-70.9
UAE Eibor 12m	1.19	-14.4	-47.9
US 3m Bills	0.12	-9.0	-91.9
US 10yr Treasury	0.64	-3.7	-66.4

Summary market outlook

Global Yields	Bond markets continued to trade on a cautious note with the UST 10Y yield briefly touching its lowest level since mid-April and core Eurozone bond yields falling. US treasury department's issuance of 10Y and 30Y bonds (with total issuance of bonds and notes amounting to USD94bn this week) attracted strong demand. As a result 5s30s curve flattened dramatically on Thursday. We recommend increasing duration on US treasuries with long-term rates likely to remain pressed low on Fed's QE and low growth and inflation environment.
Stress and Risk Indicators	VIX had a rather volatile week and ended only marginally lower. The key point is that despite falling in recent months, VIX still remains high compared with levels observed in recent years. As such, we believe that volatility will likely stay elevated given the range of risks on the horizon. This entire episode of the coronavirus would be a part of our 'high volatility' narrative for 2020 and our risk-barbell positioning.
Equity Markets	
Local Equity Markets	GCC equity markets, facing issues of both COVID-19 economic disruptions (to both internal and external sectors) and weaker oil prices, continue to lag global equities. Last week too, though GCC markets were broadly higher, magnitude of rises were rather small. Saudi Arabia, helped by banks and petrochemicals, ended the week being the best regional performer. We remain neutral on GCC equities given stable to higher oil prices and potential for revival in credit growth following the interest rate cuts.
Global Equity Markets	One clear message from the markets last week was regarding the continuing rise of the influence of the new economy themes. On the one hand, in the US which ended up outperforming other developed markets, Nasdaq which is an index of our preferred new economy theme rose 4%. More concentrated Nasdaq-100 delivered c5% returns over the week. NYSE FANG+ index a more concerted play on US big-tech rose c12%. On the other hand Chinese equity markets had their best week in several years thanks to a strong outperformance from technology/new economy stocks. For instance ChiNext index, a platform for enterprises engaged in independent innovation in China, rose 13%. Elsewhere most other markets remained volatile but ended the week largely with positive returns. Overall, we remain neutral on equities with an overweight on US and underweight EU and EM outside Asia. By sector we prefer IT and Communication services. Our preference is for large cap non-cyclical growth with focus of quality.
Commodities	
Precious Metals	Against the backdrop of economic uncertainty, precious metal prices rose with gold prices hitting a nine year high. We remain overweight gold as a risk hedge against ongoing political risks.
Energy	Oil prices were mixed – brent prices rose over the week while WTI prices fell marginally. For US crude, distillate stockpiles reaching the highest level since January 1983 but gasoline inventories declining by the most since March highlighted the divergence in the recovery of trucking and other industrial activity and individual consumption. Overall, we believe that oil prices are likely to remain sustained as the market is roughly balanced.
Industrial Metals	Industrial metal prices gained too in line with the optimism around Chinese equity markets. Yet, we do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	EUR appreciated against the USD on improved risk sentiment and on falling real rate differentials. We expect the euro to remain stable.
GBPUSD	Announcement of an additional GBP30bn to support employment (in addition to GBP133bn of support already announced) helped improve the sentiment towards GBP. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.
USDJPY	Thanks to broader USD weakness, JPY gained some ground against the greenback. BoJ yield curve targeting should put continuing downward pressure on the yen.

Critical levels	R2	R1	S1	S2
EURUSD	1.1600	1.1450	1.1122	1.0944
GBPUSD	1.3123	1.2873	1.2312	1.2001
USDJPY	111.40	109.16	105.38	103.84

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
07/14/2020	NFIB Small Business Optimism	Jun	98.0	94.4	Job market related data (hourly earnings and claims), inflation, small business optimism, housing data and consumer sentiment – will all help in assessing the recovery following the COVID-19 induced economic disruptions.
07/14/2020	Real Avg. Hourly Earning YoY	Jun	--	6.50%	
07/14/2020	CPI YoY	Jun	0.60%	0.10%	
07/15/2020	Industrial Production MoM	Jun	4.30%	1.40%	
07/16/2020	Philadelphia Fed Business Outlook	Jul	19.1	27.5	
07/16/2020	Initial Jobless Claims	11-Jul	1,250k	1,314k	
07/16/2020	Continuing Claims	4-Jul	17,550k	18,062k	
07/16/2020	NAHB Housing Market Index	Jul	60	58	
07/17/2020	Housing Starts	Jun	1,178k	974k	
07/17/2020	UMich. Sentiment	Jul P	79.0	78.1	

Japan

	Indicator	Period	Expected	Prior	Comments
07/14/2020	Industrial Production YoY	May F	--	-25.90%	Nationwide department sales data for June will indicate if the recovery is continuing following the data point's bottom in April.
07/15/2020	BOJ Policy Balance Rate	15-Jul	--	-0.10%	
07/15/2020	BOJ 10-Yr Yield Target	15-Jul	--	0.00%	
07/17/2020	Nationwide Dept. Sales YoY	Jun	--	-65.60%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
07/14/2020	Industrial Production WDA YoY	May	-19.50%	-28.00%	German ZEW survey along with some hard data on Eurozone industrial production, car registrations, construction and inflation will give us a holistic picture of the recovery in Eurozone economy. ECB meeting and Special European Council will be important events to watch.
07/14/2020	ZEW Survey Expectations	Jul	--	58.6	
07/16/2020	EU27 New Car Registrations	Jun	--	-52.30%	
07/16/2020	ECB Main Refinancing Rate	16-Jul	0.00%	0.00%	
07/17/2020	Construction Output YoY	May	--	-28.40%	
07/17/2020	CPI YoY	Jun F	0.30%	0.10%	
	Special European Council	17,18-Jul			

United Kingdom

	Indicator	Period	Expected	Prior	Comments
07/14/2020	Industrial Production YoY	May	-20.40%	-24.40%	GDP is expected to expand in May after having contracted substantially in April. Industrial production and job market data are important indicators too.
07/14/2020	Monthly GDP (MoM)	May	5.0%	-20.4%	
07/15/2020	CPI YoY	Jun	0.50%	0.50%	
07/16/2020	Jobless Claims Change	Jun	--	528.9k	
07/16/2020	ILO Unemployment Rate 3Mths	May	4.20%	3.90%	

China and India

	Indicator	Period	Expected	Prior	Comments
07/13/2020	India CPI YoY	Jun	5.32%	--	China's Q2 GDP will be very important as consensus expects a modest recovery. China's IP and retail sales will be important in understanding the performance of manufacturing and consumer sectors. India and China will both report their June trade data this week. India inflation data will be closely watched too.
07/14/2020	China Exports YoY	Jun	-2.00%	-3.30%	
07/14/2020	China Imports YoY	Jun	-9.00%	-16.70%	
07/15/2020	India Exports YoY	Jun	--	-36.50%	
07/15/2020	India Imports YoY	Jun	--	-51.10%	
07/16/2020	China Industrial Production YoY	Jun	4.80%	4.40%	
07/16/2020	China GDP YoY	2Q	2.20%	-6.80%	
07/16/2020	China Retail Sales YoY	Jun	0.50%	-2.80%	

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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