The Weekly Market View
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ADCB ASSET MANAGEMENT LIMITED

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Inflation rumination

Inflation has been the primary focus of markets last week. US CPI data for June showed that inflation quickened at its fastest pace since 1981. Headline CPI rose 1.3% m-o-m in June, with the y-o-y rate rising to 9.1% from 8.6%. Core CPI rose 0.7% m-o-m in June (above the consensus expectations for a 0.5% rise), with the y-o-y rate falling to 5.9% from 6.0%. CPI data showed broader increase in inflation across core, food, and energy segments. A 7.5% m-o-m rise in energy prices was notable. Food prices rose too. This has immediately resulted in markets pricing in significant chances (c50% at some point) for a 100bp hike in Fed policy rate this month. This has caused the inversion in the 10Y2Y segment to deepen to levels last seen in 2000 and the slope of 10Y3M segment fell considerably (albeit remaining positive). Concerns of a recession increased as a result. Adding to these growth concerns was weaker-than-expected data from China where Q2 GDP came at +0.4% compared to consensus estimates of a +1.2%. Of course, better than expected China's retail sales in June was a positive. However, data and developments on Thursday and Friday cheered markets. Fears of a 1ppt hike in Fed funds rate were calmed by remarks from Fed officials, which indicated an interest rate increase of 75bp is likely in the cards. Economic data released on Friday surprised to the upside, with stronger-than-expected retail sales (US June retail sales rose 1% m-o-m vs. economists' forecasts for a 0.8% rise), an uptick in consumer sentiment, lower inflation expectations and cooling import prices. Financial markets experienced volatility – falling through initial days and recovering subsequently. The dollar index, which measures the USD against six others, scored up its third straight week of gains as the growing threat of recession pushed investors into the safe-haven asset. MSCI ACWI fell 1.6% over the week. Within equities defensive segments outperformed cyclicals. Prices of gold, silver, and platinum all fell over the week on broader USD strength and increased concerns that central banks might tighten too much to counter the rampant inflation. Brent crude prices fell to levels last seen before Russia's invasion of Ukraine. Copper fell to the lowest level since 2020 amid deepening recession concerns.

Yearning for earnings

So far this year the price action in equities has been driven by shrinking valuation multiples, while earnings growth remained intact. Despite the rising cost pressures, Q1 reported corporate earnings came much better than expected. Yet, some corporates have guided to lower earnings for Q2. This puts the emphasis clearly on the Q2 earnings season which is well underway. In the US, of course early stages of the reporting season, according to Refinitiv, of the 35 companies in the S&P 500 that have reported earnings to date for 22Q2, 80.0% have reported earnings above analyst estimates. This compares to a long-term average of 66.1% and prior four quarter average of 80.6%. 68.6% of companies have reported Q2'22 revenues above analyst expectations. This compares with a long-term average of 61.8% and an average over the past four quarters of 78.5%. As it stands, expectations for both sales growth and margins are relatively stable for developed market corporates. For instance, for S&P 500 companies, I/B/E/S consensus expects a y-o-y growth in Q2'22 earnings to be 5.6% and growth in revenue to be 10.8%. Earnings growth expectations were edged down from 6.8% since the start of this quarter. This is in line with the guidance and preannouncements. According to Refinitiv, there have been 78 negative (45 in Q2'21) EPS preannouncements issued by S&P 500 corporations compared to 45 positive (63 in Q2'21) EPS preannouncements for Q2'22. Estimates of net income margins in emerging markets have fallen sharply over the recent months while those in developed world remained close to peak levels. In our base-case scenario which does not see a recession, earnings can hold up relatively well. However, in the event our worst-case scenario of a recession materializes, sales growth is likely to slow markedly, and margins are likely to contract sharply. For detailed discussion and our positioning see Q3 2022 Outlook: Delayed, not derailed, July 2022.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	3,863	-0.9	-19.0
Dow Jones	31,288	-0.2	-13.9
Nasdaq	11,452	-1.6	-26.8
DAX	12,865	-1.2	-19.0
Nikkei 225	26,788	1.0	-7.0
FTSE 100	7,159	-0.5	-3.1
Sensex	53,761	-1.3	-7.7
Hang Seng	20,298	-6.6	-13.3
Regional Markets			
ADX	9,250	0.3	9.0
DFM	3,160	1.7	-1.1
Tadawul**	11,163	-2.2	-1.5
DSM**	11,868	-1.8	2.1
MSM30**	4,141	0.6	-0.1
BHSE**	1,850	-1.2	2.9
KWSE**	7,360	-0.5	4.5
MSCI			
MSCI World	2,569	-1.3	-20.5
MSCI EM	962	-3.8	-21.9

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	101.2	-5.5	30.1
WTI USD/bbl	97.6	-6.9	29.8
Gold USD/t oz	1,705.3	-2.3	-6.4
Silver USD/t oz	18.7	-3.1	-19.7
Platinum USD/t oz	851.0	-3.2	-11.3
Copper USD/MT	7,178.3	-7.9	-26.3
Alluminium	2,326.2	-4.1	-17.1
Currencies			
EUR USD	1.01	-0.9	-11.3
GBP USD	1.19	-1.5	-12.4
USD JPY	138.55	1.8	20.4
USD CHF	0.98	0.0	7.0
Rates	**Latest**	**Weekly (bp)**	**YTD (bp)**
USD Libor 3m	2.74	31.7	253.1
USD Libor 12m	3.98	33.3	339.5
UAE Eibor 3m	2.22	23.2	185.3
UAE Eibor 12m	3.49	24.6	275.3
US 3m Bills	2.29	38.0	223.0
US 10yr Treasury	2.93	-17.1	143.1

Notes: *Data as of July 15 2022 unless stated otherwise; **Data as of July 14 2022

Summary market outlook

Global Yields	Yield on 10Y USTs fell during the week while yield on 3M T-bills and 2Y USTs rose. Bond yields and prices are inversely correlated. i.e. when bond yields fall, prices rise and vice versa. This has caused the 10Y-2Y yield differential to turn negative and to fall to the lowest since 2000. While the 10Y-3M spread is still positive, last week saw a significant flattening in that segment. This yield curve dynamic has increased recession fears. Core Eurozone bond yields fell on intensifying growth concerns. Yields on UK gilts fell too. Yields on Italian government debt rose on rise in political risks. Yields on 10Y JGBs fell marginally. Overall, we recommend adding duration on USTs (we now focus on the 7-10Y segment) as growth slowdown/recession fears rise.
Stress and Risk Indicators	VIX index, a measure of implied volatility in equities, rose during the initial part of the week but reversed over the second half. VVIX, a measure of volatility in the VIX, rose reflecting the sharp moves in VIX. SKEW index, a measure of tail risks, rose through the week but remained close to one-year lows. MOVE index, a measure of implied volatility in bonds, fell from levels last seen only during the peak of the pandemic in Q1 2020. We expect financial market volatility to stay elevated as the monetary policy normalizes.
Equity Markets	
Local Equity Markets	GCC equity markets fell but outperformed their EM peers. With exception of UAE and Oman, all GCC markets posted losses last week. In fact with the recent weakness in regional markets, equities in Saudi Arabia, Dubai, and Oman erased their year-to-date 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 years are all balanced by lack of structural growth plays in the equity markets.
Global Equity Markets	MSCI ACWI fell 1.6% over the week. By sector defensive segments outperformed cyclicals. We are moderately overweight US, UK, and Asia Pacific; underweight Eurozone and EMs outside Asia. By sector we prefer healthcare, industrials, and communication services. 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	HK tech index lost c8% on weaker China data and SAMR fines on tech giants. Within technology, we prefer non-cyclical growth over cyclical growth (tech hardware, semiconductors etc.) over a 12-month horizon.
Commodities	
Precious Metals	Prices of gold, silver, and platinum all fell over the week on broader USD strength and increased concerns that central banks might tighten too much to counter the rampant inflation. Yet, we are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	On Thursday, Brent crude prices fell to levels last seen before Russia's invasion of Ukraine. President Biden's visit to Saudi Arabia, and Nord Stream 1 pipeline are major drivers of energy prices over the next week. Overall, over the medium-term we believe that oil prices will remain sustained as the market balances into the new normal.
Industrial Metals	Copper and aluminium prices fell sharply over the week on increased recession fears and data disappointment in China. Copper capped its worst weekly decline in a year, at one point dropping to the lowest level since 2020 amid deepening recession concerns. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain.
Currencies	
EURUSD	EUR fell below parity against the USD before rising back, but ended the week lower against the greenback. We expect ECB policy divergence to play a major role in the performance of the euro.
Critical levels	R2 1.0304 · R1 1.0192 · S1 0.9960 · S2 0.9840
GBPUSD	Political risks, uncertainty facing BoE, EUR weakness and USD strength have all caused the GBP/USD to fall to the lowest level since March 2020. We expect GBP to weaken against USD and stay flat versus the EUR.
Critical levels	R2 1.2161 · R1 1.2008 · S1 1.1731 · S2 1.1607
USDJPY	USDJPY rose as higher-than-expected US CPI inflation resulted in increased bets on Fed tightening. BoJ policy remains odd-one out and is likely to cause JPY weakness.
Critical levels	R2 141.43 · R1 140.00 · S1 136.53 · S2 134.49

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Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
07/18/22 18:00	NAHB Housing Market Index	Jul	65.0	67.0
07/19/22 16:30	Housing Starts	Jun	1,580K	1,549K
07/19/22 16:30	Building Permits	Jun	1,650K	1,695K
07/20/22 15:00	**MBA Mortgage Applications**	**15- Jul**	**--**	**-1.70%**
07/20/22 18:00	Existing Home Sales	Jun	5.37m	5.41m
07/21/22 16:30	**Initial Jobless Claims**	**16- Jul**	**240K**	**244K**
07/21/22 16:30	**Continuing Claims**	**9- Jul**	**1343K**	**1331K**
07/22/22 17:45	**USS&P Global Manufacturing PMI**	**Jul P**	**52.0**	**52.7**
07/22/22 17:45	**US S&P Global Services PMI**	**Jul P**	**52.5**	**52.7**

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
07/21/22 03:50	Trade Balance	Jun	-¥1,530.0b	-¥2,384.7b
07/21/22 10:00	Machine Tool Orders YoY	Jun F	--	17.10%
07/21/22	**BOJ Policy Balance Rate**	**21- Jul**	**-0.10%**	**-0.10%**
07/21/22	**BOJ 10-yr yield target**	**21- Jul**	**0.00%**	**0.00%**
07/22/22 03:30	**Natl CPI YoY**	**Jun**	**2.40%**	**2.50%**
07/22/22 03:30	**Natl CPI Ex Fresh Food YoY**	**Jun**	**2.20%**	**2.10%**
07/22/22 04:30	**Japan Jibun Bank PMI Services**	**Jul P**	**--**	**54.0**
07/22/22 04:30	**Japan Jibun Bank PMI Mfg**	**Jul P**	**--**	**52.7**

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
07/19/22 13:00	**Eurozone CPI YoY**	**Jun F**	**8.60%**	**8.10%**
07/20/22 10:00	**Germany PPI YoY**	**Jun**	**33.70%**	**33.60%**
07/20/22 12:00	Eurozone ECB Current Account SA	May	--	-5.8b
07/20/22 18:00	Eurozone Consumer Confidence	Jul P	-24.7	-23.6
07/21/22 10:45	France Manufacturing Confidence	Jul	106	108
07/21/22 16:15	**Eurozone ECB Main Refinancing Rate**	**21- Jul**	**0.25%**	**0.00%**
07/21/22 16:15	**Eurozone ECB Marginal Lending Facility**	**21- Jul**	**0.50%**	**0.25%**
07/21/22 16:15	**Eurozone ECB Deposit Facility Rate**	**21- Jul**	**-0.25%**	**-0.50%**
07/22/22 12:00	**Eurozone S&P Global Manufacturing PMI**	**Jul P**	**51.0**	**52.1**
07/22/22 12:00	**Eurozone S&P Global Services PMI**	**Jul P**	**52.0**	**53.0**

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
07/18/22 03:01	Rightmove House Prices MoM	Jul	--	0.30%
07/19/22 10:00	Jobless Claims Change	Jun	--	-19.7K
07/19/22 10:00	**Average weekly earnings**	**May**	**6.70%**	**6.80%**
07/19/22 10:00	**ILO Unemployment Rate 3Mths**	**May**	**3.80%**	**3.80%**
07/20/22 10:00	**CPI YoY**	**Jun**	**9.30%**	**9.10%**
07/20/22 10:00	RPI YoY	Jun	11.80%	11.70%
07/22/22 03:01	**GfK Consumer Confidence**	**Jul**	**-42.0**	**-41.0**
07/22/22 10:00	Retail Sales Inc Auto Fuel MoM	Jun	-0.20%	-0.50%
07/22/22 10:00	**Retail Sales Ex Auto Fuel YoY**	**Jun**	**-5.90%**	**-5.70%**
07/22/22 12:30	**UK S&P Global/CIPS Manufacturing PMI**	**Jul P**	**52.0**	**52.8**
07/22/2212:30	**UK S&P Global/CIPS Services PMI**	**Jul P**	**53.1**	**54.3**

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
07/20/22 05:15	**1-Year Loan Prime Rate**	**20- Jul**	**3.70%**	**3.70%**
07/20/22 05:15	**5-Year Loan Prime Rate**	**20- Jul**	**4.45%**	**4.45%**

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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