The Weekly Market View

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ASSET MANAGEMENT LIMITED

Vaccine hopes offset by US economic fears: a healthy pause and some healthy rotation in equity markets

Equity markets lost some ground for the week. In and by itself such development is not too troublesome for those – like us – who remain constructive over a one year horizon. For one thing, the main global market of reference – the S&P 500 is still below its all-time high and more or less at the same level of a month ago. Also of importance is the fact that we saw some rotation, with mid-sized capitalizations gaining ground versus large caps, value stocks gaining versus growth stocks, and energy companies recovering on technology companies. An equity market which pauses and in the process becomes more balanced – less concentrated – is a positive development.

What matters today is of course that the world's largest economies recover from the recession caused by COVID-19. Not surprisingly markets received a strong boost at the start of the week when both UK AstraZeneca and US Pfizer reported good news on the development of a potential vaccine. The losses in the latter part of the week can be attributed to various factors but should most likely be attributed to the uncertainty affecting the world's largest economy. The US uncertainty is currently coming on two fronts. First, there is the spike in recent infections which is now, sadly, also followed by a rise in deaths. Second, there is uncertainty about further fiscal stimulus with the Republican Party apparently unwilling to fund further unemployment benefits and the Republican Senate Majority Leader doubting that Congress and the White House will be able to reach a deal on an overall stimulus package over the next two weeks. Concerns about the US economy have further been exacerbated by weekly jobless claims increasing again compared to their earlier level.

It's a more balanced world too

The concerns of a renewed consumption slump in the US must be taken seriously. On the other hand, a total lockdown of the US economy seems to be unlikely. Critically, whilst economic growth concerns are a concern, they are less a concern for quality growth stocks, than cyclical and value stocks. It is through an overweight on the former that we maintain our neutral equity market exposure. These are the stocks that are likely to benefit from lower long-term yields and in this regard it is also important to point out that last week's lower US Treasury yields had more to do with Federal Reserve purchases than with a change in market mood on the economic outlook.

Having said so, we are now in the paradoxical situation in which the US struggles to develop a coherent fiscal (stimulus) policy, whilst the EU takes an astonishing step not only towards more fiscal stimulus towards its weaker periphery economies, but even towards a first common fiscal policy, and thus a possible prelude to a common European risk-free asset, a "EU Treasury". The jump in the euro versus the US dollar is for sure a reaction to these recent EU developments. But US dollar weakness is always a good sign for global growth too, as is reflected in the jump in business confidence in the EU.

In China the recovery is also confirmed. However, it looks like a recovery that does not have the same magnitude as we are used to with Chinese recoveries, with most companies still operating well below their capacity. The fact that the recovery is mainly in the "new economy" areas such as tech and healthcare, and less in traditional manufacturing keeps us cautious, or at least selective, when it comes to China.

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Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly	YTD %
S&P 500	3,216	-0.3	-0.5
Dow Jones	26,470	-0.8	-7.2
Nasdaq	10,363	-1.3	15.5
DAX	12,838	-0.6	-3.1
Nikkei 225	22,752	0.2	-3.8
FTSE 100	6,124	-2.6	-18.8
Sensex	38,129	3.0	-7.6
Hang Seng	24,705	-1.5	-12.4
Regional Markets (Sunday to Thursday)			
ADX	4,261	-0.3	-16.1
DFM	2,053	-0.0	-25.8
Tadawul	7,427	0.0	-11.5
DSM	9,368	0.6	-10.1
MSM30	3,564	3.3	-10.5
BHSE	1,285	-1.4	-20.2
KWSE	4,875	-3.4	-22.4
MSCI			
MSCI World	2,308	-0.1	-2.8
MSCI EM	1,078	0.5	-4.9

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly	YTD %
ICE Brent USD/bbl	43.3	0.5	-34.3
WTI USD/bbl	41.3	1.8	-32.3
Gold USD/t oz	1,902.0	5.1	25.4
Silver USD/t oz	22.8	17.8	27.5
Platinum USD/t oz	918.9	9.4	-4.9
Copper USD/MT	6,533.5	-0.7	4.2
Alluminium	1,678.5	2.1	-6.3
Currencies			
EUR USD	1.17	2.0	4.0
GBP USD	1.28	1.8	-3.5
USD JPY	106.14	-0.8	-2.3
CHF USD	0.92	-1.9	5.0
Rates			
USD Libor 3m	0.24	-9.9	-87.2
USD Libor 12m	0.46	-1.7	-76.9
UAE Eibor 3m	0.55	-4.8	-75.2
UAE Eibor 12m	1.10	-10.7	-51.9
US 3m Bills	0.10	0.0	-93.3
US 10yr Treasury	0.59	-6.0	-69.3

Summary market outlook

Global Yields	We have seen downward pressure on yields last week. US Treasury yields, especially the long end of the curve, came under pressure as the Fed signalled continuing purchases and also because of renewed concerns that an increase in infections would once more stall the economy. In fact, we saw a little increase in spreads too. Intra-European spreads on the other hand fell nicely because of the EU Council decision on the Recovery Fund. We continue to 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	The VIX ended marginally higher with end of the week volatility. We highlight 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	Regional equity markets registered mixed performance last week as investors digested earnings releases, virus updates, stimulus efforts from local governments and growth prospects. IMF's downbeat assessment of the economic outlook and significant downgrade of 2020 growth projections still weighs on the local markets. 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	US equities lost a little less than 1% over the week, keeping the S&P 500 index flat for the year. However, within the US, a rotation out of the structural growth stories (Nasdaq) into more cyclical depressed segments persists. Japanese equities gained slightly, however that must be seen against the Japanese market being closed on Thursday and Friday. European markets were down too, but Emerging markets managed to outperform US equity markets. 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	Precious metals gained further, extending their strong year-to-date gains. We remain overweight gold as a risk hedge against ongoing political risks.
Energy	Oil prices did not move much. Overall, we believe that oil prices are likely to remain sustained as the market is roughly balanced.
Industrial Metals	Industrial metal prices were mixed but tracked volatility in Chinese equity markets. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	EUR appreciated against the USD following the EU Council decision on the Recovery Fund. We expect the euro to remain stable.
Critical levels	R2 1.1709 · R1 1.1682 · S1 1.1605 · S2 1.1555
GBPUSD	Relatively strong UK retail sales and rumors about a final EU-UK trade deal bolstered the GBP. We expect the cable to be stable with pound sterling likely to follow the euro rather than USD.
Critical levels	R2 1.2859 · R1 1.2826 · S1 1.2739 · S2 1.2685
USDJPY	General USD weakness also resulted in losses against the JPY. BoJ yield curve targeting should however put continuing downward pressure on the yen.
Critical levels	R2 107.46 · R1 106.80 · S1 105.58 · S2 105.02

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
07/27/2020	Durable Goods Orders	Jun P	7.00	15.7	Fed meeting, GDP 2Q and Core PCE release will be the main focus. Initial Jobless Claims and sentiment index will also be important.
07/28/2020	Conf. Board Consumer Confidence	Jul	94.4	98.1	
07/29/2020	MBA Mortgage Applications	24-Jul	-	4.10	
07/29/2020	FOMC meeting	29-Jul	0-0.25%	0-0.25%	
07/30/2020	GDP Annualized QoQ	2Q A	-35%	-5%	
07/30/2020	Core PCE QoQ	2Q A	-0.9%	1.7%	
07/30/2020	Initial Jobless Claims	25-Jul	1450k	1416k	
07/31/2020	Univ. of Mich. Sentiment	Jul F	72.8	73.2	

Japan

	Indicator	Period	Expected	Prior	Comments
07/30/2020	Retail Sales YoY	Jun	-6.0%	-12.50%	Retail sales and industrial production release will be closely watched.
07/31/2020	Jobless Rate	Jun	3.0%	2.9%	
07/31/2020	Industrial Production YoY	Jun P	-19.10%	-26.30%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
07/27/2020	IFO Expectations (GE)	Jul	93.4	91.4	All eyes will be on the Eurozone GDP 2Q advance print. Germany IFO expectations will also be important.
07/30/2020	Eurozone Consumer Confidence	Jul F	-	-15	
07/31/2020	Eurozone GDP SA QoQ	2Q A	-12%	-3.6%	
07/31/2020	CPI Core YoY	Jul P	0.8%	0.8%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
07/29/2020	Consumer Credit YoY	Jul	-	-3.0%	Light week in terms of important data releases.
07/31/2020	Nationwide House PX MoM	Jul	-0.10%	-1.40%	

China and India

	Indicator	Period	Expected	Prior	Comments
07/31/2020	Manufacturing PMI (CH)	Jul	50.8	50.9	Focus will be on the official China Manufacturing and Non-manufacturing PMI.
07/31/2020	Non-manufacturing PMI (CH)	Jul	54.5	54.4	

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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