The Weekly Market View

June 20 2022

بنك أبوظبي التجاري ADCB
ASSET MANAGEMENT LIMITED

Fast and furious Fed

Market sell-off deepened, receiving no respite even with the latest Fed rate hike being largely priced in. The Fed's largest rate hike of 75bp since 1994 and resolve to bring down inflation pressures raised recession fear. The Fed signalled more sizeable rate hikes in the upcoming meetings and upgraded the projection for Fed fund rate to end-2022 at 3.375%. The initial reaction of the markets to the Fed's latest move was somewhat positive as the markets welcomed the Fed's strong stance in combating inflation. However, concerns that an aggressive and restrictive Fed policy could arrest growth led to slowdown fears. Disappointing economic data supported these concerns. Key housing data reports signalled the pressure building on the housing sector with the mortgage rates jumping to the highest level since 2008. Retails sales declined, surprising on the downside, signalling that rising inflation pressures were impacting consumer demand. Outside US, the ECB held an emergency meeting as rise in periphery bond yields fuelled concerns of a repeat of debt crisis. The ECB signalled that it would make targeted adjustments to the reinvestment of the PEPP to avoid market fragmentation. In the UK, the BoE raised interest rates for the fifth time in a row. UK GDP contracted by 0.3% in April. In Japan, the BoJ maintained its yield curve control policy.

Global stocks registered their third weekly decline. EM and DM equities both posted losses, but the former outperformed the latter. In DM, UK and European equities outperformed their peers while Japanese equities underperformed. In the US, the S&P 500 posted its worst weekly performance since 2020, entering into a bear market. Inflation fears during the beginning of the week pushed the 10yr UST yield to 3.34%, the highest level since 2011. However, recession concerns post the Fed meeting caused the 10yr UST yield to decline, but still ending the week higher. The 10-2yr UST curve flattened while the 30-5yr curve moved further into negative territory. Global corporate bonds recorded losses. In Eurozone, periphery bond yields declined after the ECB's surprise meeting. In commodities, oil prices declined on recession fears with Brent crude recording its first weekly decline in nine weeks. Gold prices also dropped on the back of rising UST yields and stronger dollar. The dollar reached near its two-decade high on Fed's aggressive stance.

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Bond market implications

The UST yield curve has flattened recently with certain parts of the yield curve inverting. Short-term bond yields have been rising at a faster rate compared to long-dated bond yields with the former pricing in the larger Fed rate hikes. The short-term rates had jumped to 3.4% level going into the Fed meeting. Hence, the short-term rates declined in reaction to the Fed's bumper move of 75bp. Whilst we believe that the market is fully pricing in the projected Fed rate hikes this year, evidence of a sticky and persistent inflation remains a challenge to predict on the Fed's reaction function. It is still early to justify that the markets may be pricing in too much. The market expectation of peak Fed fund rate stands at around 3.6%. If market is correct in pricing the peak rate, there is still scope for long-term bond yields to rise. However, we believe that long-term bond yields are unlikely to jump at the same rate/magnitude as during the first half of the year. This underscores our recent increase in allocation to US Treasuries. The current flatness of the yield curve (inversion in some cases) suggests that the market anticipates an economic downturn caused by the Fed rate hikes. However, the negative impact of the restrictive monetary policy could take time to manifest. As long as inflation is sticky and triggers an aggressive Fed response, we expect bond markets to remain volatile. As a result, we continue to stick to our short-duration stance.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	3,675	-5.8	-22.9
Dow Jones	29,889	-4.8	-17.7
Nasdaq	10,798	-4.8	-31.0
DAX	13,126	-4.6	-17.4
Nikkei 225	25,963	-6.7	-11.3
FTSE 100^	7,533	-4.1	-5.0
Sensex	51,360	-5.4	-11.8
Hang Seng	24,209	-3.4	-9.6
Regional Markets			
ADX	9,457	-1.8	11.4
DFM	3,262	-3.4	2.1
Tadawul**	11,824	-6.2	0.2
DSM**	12,562	-4.1	4.2
MSM30**	4,123	-0.3	-0.2
BHSE**	1,852	-1.7	1.9
KWSE**	7,414	-2.6	1.9
MSCI			
MSCI World	2,491	-5.9	-23.1
MSCI EM	1,008	-4.7	-18.5

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	113.1	-7.3	45.1
Nymex WTI USD/bbl	109.6	-9.2	45.2
Gold USD/t oz	1,839.4	-1.7	0.8
Silver USD/t oz	21.7	-1.0	-6.8
Platinum USD/t oz	934.0	-4.5	-3.2
Copper USD/MT^	9,455.0	-4.6	-6.1
Alluminium^	2,703.0	-6.7	-11.4
Currencies			
EUR USD	1.05	-0.2	-7.5
GBP USD	1.22	-0.6	-9.6
USD JPY	135.02	0.5	14.6
USD CHF	0.97	-1.8	5.6
Rates	**Latest**	**Weekly (bp)**	**YTD(bp)**
USD Libor 3m^	1.63	-11.9	141.7
USD Libor 12m^	2.78	-23.0	219.2
UAE Eibor 3m	1.75	38.1	138.8
UAE Eibor 12m	3.28	65.5	254.3
US 3m Bills	1.56	26.3	153.4
US 10yr Treasury	3.23	7.0	171.6

Notes: *Data as of June 17 2022 unless stated otherwise; **Data as of June 16 2022

Summary market outlook

Global Yields	UST yields jumped over the week was markets expected larger Fed rate hike going into the meeting. The 10yr UST yields briefly declined post the Fed meeting on recession fear, but still ended the week higher. In Eurozone, core bond yields were flat while periphery bond yields dropped in reaction to the ECB's surprise meeting. In Japan, 10yr JGB yields declined as the BoJ stuck to its yield curve control policy. Corporate bonds recorded losses with US HY underperforming US IG. Overall, we recommend a lower duration stance (5Y USTs) on the back of higher interest rate volatility in the near term.
Stress and Risk Indicators	VIX index (measuring implied volatility in equities) rose strongly over the week while SKEW index (a measure of tail risks) was mostly unchanged. MOVE index (a measure of bond market volatility) rose too reflecting the higher bond yields. We expect financial market volatility to stay elevated through as the monetary policy normalises.
Equity Markets	
Local Equity Markets	GCC equity markets registered weekly losses as oil prices declined sharply. Saudi stocks were the worst performer while Oman stocks outperformed the peers. 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	Global equities posted losses for the third consecutive week (MSCI ACWI index down in 18 out of 24 weeks so far this year) taking the year-to-date losses to c23%. Last week, EM outperformed DM. Amongst DMs, UK outperformed while Japan underperformed. 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	Nasdaq-100 declined by c5% while HK tech index lost c3% over the week. Within technology, we prefer non-cyclical growth over cyclical growth (tech hardware, semiconductors etc.) over a 12-month horizon.
Commodities	
Precious Metals	Gold prices dropped on the back of rising UST yields and USD strength. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Oil prices declined on demand concerns amidst rising recession fears. Brent Crude recorded the first weekly decline in nine weeks. Overall, over the medium-term we believe that oil prices will remain sustained as the market balances into the new normal.
Industrial Metals	Industrial metals posted weekly losses. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain.
Currencies	
EURUSD	The euro ended flat versus the dollar, despite the surprise ECB meeting. We expect ECB policy divergence to play a major role in the performance of the euro.
Critical levels	R2 1.0588 · R1 1.0553 · S1 1.0473 · S2 1.0428
GBPUSD	GBP/USD hovered near its lowest level since mid-May on broad USD strength and the risk-off mood in markets. We expect GBP to weaken against USD and stay flat versus the EUR.
Critical levels	R2 1.2282 · R1 1.2258 · S1 1.2205 · S2 1.2176
USDJPY	The yen depreciated versus the dollar as the divergence in the monetary policy stance of BoJ vs the Fed further widened. Over the near to medium-term, BoJ's yield curve targeting should put downward pressure on JPY.
Critical levels	R2 135.80 · R1 135.26 · S1 134.36 · S2 134.00

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
06/21/22 16:30	Chicago Fed Nat Activity Index	May	--	0.47
06/22/22 15:00	**MBA Mortgage Applications**	**17- Jun**	**--**	**6.60%**
06/23/22 16:30	**Initial Jobless Claims**	**18- Jun**	**--**	**--**
06/23/22 16:30	**Continuing Claims**	**11- Jun**	**--**	**--**
06/23/22 17:45	**S&P Global US Manufacturing PMI**	**Jun P**	**--**	**57**
06/23/22 17:45	S&P Global US Services PMI	Jun P	--	53.4
06/24/22 18:00	**U. of Mich. Sentiment**	**Jun F**	**50.2**	**50.2**
06/24/22 18:00	U. of Mich. 1 Yr Inflation	Jun F	--	5.40%
06/24/22 18:00	U. of Mich. 5-10 Yr Inflation	Jun F	--	3.30%
06/24/22 18:00	New Home Sales	May	625K	591K

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
06/22/22 10:00	Machine Tool Orders YoY	May F	--	23.70%
06/23/22 04:30	Jibun Bank Japan PMI Services	Jun P	--	52.6
06/23/22 04:30	**Jibun Bank Japan PMI Mfg**	**Jun P**	**--**	**53.3**
06/23/22 09:30	Nationwide Dept Sales YoY	May	--	19.00%
06/24/22 03:30	**Natl CPI YoY**	**May**	**2.50%**	**2.50%**
06/24/22 03:30	**Natl CPI Ex Fresh Food YoY**	**May**	**2.10%**	**2.10%**

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
06/20/22 10:00	**Germany PPI YoY**	**May**	**--**	**33.50%**
06/21/22 12:00	**Eurozone ECB Current Account SA**	**Apr**	**--**	**-1.6b**
06/22/22 18:00	Eurozone Consumer Confidence	Jun P	--	-21.1
06/23/22 10:45	**France Manufacturing Confidence**	**Jun**	**--**	**1-6**
06/23/22 12:00	**Eurozone ECB Publishes Economic Bulletin**			
06/23/22 12:00	**Eurozone S&P Global Manufacturing PMI**	**Jun P**	**--**	**54.6**
06/23/22 12:00	Eurozone S&P Global Services PMI	Jun P	--	56.1
06/24/22 12:00	**Germany IFO Expectations**	**Jun**	**--**	**86.9**

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
06/20/22 13:01	Right move House Prices MoM	Jun	--	2.10%
06/22/22 10:00	**CPI YoY**	**May**	**--**	**9.00%**
06/22/22 10:00	RPI YoY	May	11.10%	-0.2%
06/23/22 12:30	**S&P Global/CIPS UK Manufacturing PMI**	**Jun P**	**--**	**54.6**
06/23/22 12:30	**S&P Global/CIPS UK Services PMI**	**Jun P**	**--**	**53.4**
06/24/22 03:01	**GfK Consumer Confidence**	**Jun**	**--**	**-40**
06/24/22 10:00	Retail Sales Inc Auto Fuel MoM	May	-0.60%	1.40%
06/24/22 10:00	Retail Sales Ex Auto Fuel YoY	May	-5.00%	-6.10%

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China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
06/24/22	China BoP Current Account Balance	1Q F	--	$89.5b

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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