The Weekly Market View

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ADCB ASSET MANAGEMENT LIMITED

Narratives matter, but which one?

Equity and bond markets continue to present, to the investors, two conflicting narratives. Whilst global equities continue to grind higher taking an optimistic stance, global bond yields continue to move lower reflecting a rather weaker global economic outlook. These conflicting signals from equity and bond markets further intensified last week. Equity markets rose strongly. US equities continued to rise and indeed S&P500 is now on its way to record the best June since 1955. Thanks to strong performances from South Africa, China and Russia, emerging market equities outperformed last week. On the other end of the risk-spectrum bond markets rallied too. The US 10-year treasury yield dipped below 2.0% last week – the lowest level since November 2016. 10 year yields on other major sovereign bonds fell too – especially in Switzerland, Germany and Japan, long-term bond yields fell further into the negative territory. As a result, total value of negative yielding debt hit a record of cUSD13trn (for the context, it is equivalent to 15% of the world nominal GDP in 2018). US dollar lost value against other major currencies. Crude prices rose strongly on rising tensions in the Middle-East and due to a larger-than-expected fall in US inventories. Gold prices rose against the backdrop of weak USD and a bleak global economic outlook.

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You are what you believe

As we have been arguing, the current cycle is underwritten by policy support. Last week saw a rather accommodative stance from major central banks. US Federal Reserve in its FOMC meeting kept the target rate unchanged but had a cautious tone on the US growth outlook. The 'dot plot' was more dovish than expected. The European Central Bank and the Bank of Japan acknowledged the down-side risks to the global economy and also indicated possible additional stimulus. Weaker economic outlook but accommodative policy stance against the backdrop of the US-China stand-off on trade presents investors with an uncertain environment. In our view, to a large extent this uncertainty is reflected in the divergent signals that the bond market and the equity market are sending. In this environment, investors benefit by adopting a 'risk-barbell with quality focus': overweight US equities, cash, gold and US treasuries.

In our view, emerging markets equities are still not attractive. Of course, we cannot rule out a cyclical bounce for EM equities given accommodative monetary policy across the globe and depressed valuation of the asset class. However, in a strategic time frame, EM equities should still underperform DM equities. EM growth premium over DM, which has in the past driven the relative performance of EM equities, is still subdued. Further, EM equities tend to deliver best returns when the global economy is in a synchronous upturn, not in a synchronous downturn. Further domestic economic growth remains weak in EM. While the EM central banks have a bias towards easing, the banking lending conditions (as measured through the IIF Bank Lending Survey) continue to contract. This, in our view restricts the efficacy of easy monetary policy in reviving growth. Furthermore, building debt pile makes EMs more vulnerable in the long-run especially given the 'dollarization'. EM corporate profitability remains weak and the gap between EM and DM corporate profit margins, which was wide in the run-up to the Global financial crisis, is now almost negligible. Whilst EM equity valuations are cheap, we think, they are what they are for a reason. So, we underweight EM equities.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,950.5	2.2	17.7
Dow Jones	26,719.1	2.4	14.5
Nasdaq	8,031.7	3.0	21.0
DAX	12,339.9	2.0	16.9
Nikkei 225	21,258.6	0.7	6.2
FTSE 100	7,407.5	0.8	10.1
Sensex	39,194.5	-0.7	8.7
Hang Seng	28473.7	5.0	10.2
Regional Markets (Sunday to Thursday)			
ADX	4988.8	1.8	1.5
DFM	2639.8	1.7	4.3
Tadawul	8759.5	-0.2	11.9
DSM	10551.4	2.0	2.5
MSM30	3924.34	0.3	-9.2
BHSE	1455.9	0.4	8.9
KWSE	5799.3	-0.0	13.0
MSCI			
MSCI World	2,178.2	2.2	15.6
MSCI EM	1,053.2	3.8	9.1

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	65.2	5.1	21.2
Nymex WTI USD/bbl	57.4	9.4	26.5
Gold USD/t oz	1399.6	4.3	9.2
Silver USD/t oz	15.3	3.2	-0.9
Platinum USD/t oz	809.9	0.6	1.9
Copper USD/MT	5941.0	2.3	-0.4
Alluminium	1750.25	1.0	-4.0
Currencies			
EUR USD	1.1369	1.4	-0.7
GBP USD	1.2737	1.2	-0.1
USD JPY	107.32	-1.1	-2.2
CHF USD	0.9765	-2.3	0.6
Rates			
USD Libor 3m	2.3493	-2.2	-16.3
USD Libor 12m	2.2021	-2.0	-26.7
UAE Eibor 3m	2.6463	0.3	-6.7
UAE Eibor 12m	3.1001	2.1	-13.3
US 3m Bills	2.0997	-3.2	-10.8
US 10yr Treasury	2.0540	-1.3	-23.5

Summary market outlook

Global Yields	Yields on all major sovereign long-term bonds fell. We expect the 10-year US Treasury yield to remain range-bound, in line with the Fed's indicated long-term neutral rate.
Stress and Risk Indicators	VIX remained low in absence of any surprises, and given the positive sentiment in the equity market. However, we believe that volatility is likely to stay elevated due to the fear of global growth slowdown and concerns around trade.
Equity Markets	
Local Equity Markets	GCC equity markets performed well, tracking the rise in oil prices. We remain neutral on GCC equities given the potential for further dollar strength and range-bound oil prices, but we maintain our overweight call on Saudi equities. We also prefer banks in the regional context.
Global Equity Markets	Equity markets rose strongly. US equities continued to perform strongly and indeed S&P500 is on its way to record the best June since 1955. Last week saw emerging market equities outperform thanks to strong performances from South Africa, China and Russia. Overall, we remain neutral on equities with an overweight on US and underweight EU and EM (but with selective exposure to India, Brazil and South Africa).
Commodities	
Precious Metals	Gold prices rose over the week thanks to weakness in US dollar. However, we remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices surged last week on rising tensions in the middle-east. Overall the oil price is likely to remain sustained as the market is roughly balanced and growth concerns appear now to be discounted.
Industrial Metals	Industrial metals performed well, with copper leading. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	The Euro strengthened versus the greenback as the ECB showed willingness to remain accommodative to address growth issues. We expect the euro to remain stable with USD to lose some strength in 2019.
Critical levels	R2 1.1438 · R1 1.1403 · S1 1.1309 · S2 1.2149
GBPUSD	The pound appreciated versus the dollar on broader US dollar weakness. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.
Critical levels	R2 1.2813 · R1 1.2775 · S1 1.2671 · S2 1.2605
USDJPY	Broader weakness in the US dollar meant Yen strength against the greenback. We think the BoJ yield curve targeting should put continuing downward pressure on the yen.
Critical levels	R2 108.06 · R1 107.69 · S1 107.00 · S2 106.68

Note: R2, R1, S2 and S1 refer to Bloomberg calculated weekly technical resistance and support levels.

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
06/24/2019	Chicago Fed Nat Activity Index	May	-0.05	-0.45	Focus will be on the 1Q GDP print. Also, MBA and durable goods will be important.
06/25/2019	New Home Sales MoM	May	1.80%	-6.90%	
06/26/2019	MBA Mortgage Applications	21-Jun	--	-3.40%	
06/26/2019	Durable Goods Orders	May P	0.00%	-2.10%	
06/26/2019	Wholesale Inventories MoM	May P	0.50%	0.80%	
06/27/2019	GDP Annualized QoQ	1Q T	3.20%	3.10%	
06/27/2019	Initial Jobless Claims	22-Jun	218K	216K	
06/28/2019	U. of Mich. Sentiment	Jun F	98	97.9	

Japan

	Indicator	Period	Expected	Prior	Comments
06/27/2019	Retail Sales YoY	May	1.20%	0.40%	Retail sales data and inflation release will be closely tracked by the market.
06/28/2019	Jobless Rate	May	2,40%	2.40%	
06/28/2019	CPI YoY	Jun	1.00%	1.10%	
06/28/2019	CPI Ex-Fresh Food, Energy YoY	Jun	0.80%	0.80%	
06/28/2019	Industrial Production MoM	May P	0.70%	0.60%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
06/24/2019	IFO Expectations	Jun	94.6	95.3	German IFO survey and CPI data will be important.
06/27/2019	CPI YoY (GE)	Jun P	1.40%	1.40%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
06/28/2019	GDP YoY	1Q F	1.80%	1.80%	Attention will be on the GDP data.
06/28/2019	Nationwide House PX MoM	Jun	0.20%	-0.20%	

China and India

	Indicator	Period	Expected	Prior	Comments
					No important data releases scheduled for the week.

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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