The Weekly Market View

March 28 2022

ADCB ASSET MANAGEMENT LIMITED

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Bond market making headlines

Concerns over the continued tensions between Russia-Ukraine, rising inflation and signs of aggressive Fed triggered a sell-off in the global bond markets while equity markets were relatively unscathed. The week started with the Fed Chair Jay Powell at the National Association for Business Economics striking a hawkish tone, indicating that the central bank could deliver a rate hike of more than 25bp if required to combat inflation. Amidst the hawkish narrative, there were no signs of de-escalation in the Russia-Ukraine war tensions which entered its second month. Economic data was relatively light last week. On the positive side, preliminary results of the manufacturing and services PMI surveys came in stronger than expected. Weekly initial jobless claims declined more than market expectations, dropping to the lowest level since 1969. On the negative front, pending home sales disappointed and latest University of Michigan consumer sentiment saw a downward revision in the final numbers. Risk assets managed to stage a rally for the second consecutive week despite the prevailing uncertainties over war, inflation and central bank tightening. DM stocks outperformed EM peers. In the DM, Japanese equities were the best performers on expectations that the BoJ will add stimulus to stick to an accommodative monetary policy. European equities underperformed the most on the back of its proximity to the Russia-Ukraine war. The sell-off in the bond market aggravated with the Bloomberg Global Aggregate bond index on course to the worst quarterly loss since 1980s. UST yields rose across the curve, but led by short-end yields leading to a further flattening of the UST yield curve. Certain segments of the yield curve also ended close to the inversion zone. European bond yields edged higher with 10yr German bund yield jumping to the highest level since 2018. Corporate credit and EM debt remained under pressure. Gold prices rose due to escalating Russia-Ukraine tensions. The US dollar rallied reacting to hawkish Fed narrative. Oil prices recorded gains on the back of the EU's proposed ban on Russian oil with China lockdown worries failing to have much of an impact.

History doesn't repeat, but often rhymes

With the focus on the yield inversions and recession risks, we break down the yield inversions during the previous Fed tightening cycles. There are various segments of the curve to monitor the signs of possible economic downturn- most used is the 10-2yr UST yield inversion. The Fed, however is looking at the extreme short-end of the yield curve. While the 10-2yr UST yield curve has flattened significantly, the 10yr-3month yield curve has been steepening. Typically, in previous downturns, the 10yr-3month yield curve lagged the 10-2yr UST yield curve, but followed the flattening/steepening trend. However, this time looks different with opposite trends seen between the two. Blame it on the long-term bond yields which remain depressed compared to the inflation/growth narrative. Long-terms yields, a function of expected short-term rates and inflation risk premium, have lagged the trend in the economic activity and inflation. The culprit is the third component- the term premium- which captures the safe-haven demand for USTs and the Fed's bond purchases. The 10yr term premium has remained suppressed, unlike the previous Fed tightening cycles but with the Fed's incoming quantitative tightening, this could change. Further rise in term premium levels mean that the peak in long-term UST yields is yet to come. Looking at the previous four Fed tightening cycles, the 10yr UST typically rose during the 12 months after the first Fed rate hike, 9 months after in case of 1994 tightening, 7 months after in case of 1998 tightening and 12 months after in case of 2015 tightening. The only exception was the 2004 tightening where 10yr yields declined post the first rate hike. If 10yr UST yields continue to rise in the near-term with short-term rates fully pricing in the Fed's rate projections, the 10-2yr yield curve could avoid an inversion, similar to 1994 tightening cycle. We continue to monitor the yield curve movements to assess when it could be appropriate to increase duration. But given the current bond market volatility, we remain underweight on bonds and retain a short-duration stance.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	4,543	1.8	-4.7
Dow Jones	34,861	0.3	-4.1
Nasdaq	14,169	2.0	-9.4
DAX	14,306	-0.7	-9.9
Nikkei 225	27,987	4.9	-2.8
FTSE 100	7,483	1.1	1.3
Sensex	57,362	-0.9	-1.5
Hang Seng	24,209	-0.0	-7.2
Regional Markets			
ADX	9,769	1.7	15.1
DFM	3,412	1.9	6.8
Tadawul**	13,000	1.4	15.2
DSM**	13,731	1.7	18.1
MSM30**	4,277	-0.8	3.6
BHSE**	2,080	3.4	15.8
KWSE**	8,117	2.2	15.2
MSCI			
MSCI World	3,049	1.3	-5.7
MSCI EM	1,125	0.2	-8.7

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	117.3	11.8	51.1
Nymex WTI USD/bbl	110.5	8.8	47.1
Gold USD/t oz	1,947.1	1.9	6.4
Silver USD/t oz	25.2	2.3	8.2
Platinum USD/t oz	1,002.3	-2.1	3.5
Copper USD/MT	10,280.0	0.3	6.1
Alluminium	3,604.3	6.8	28.6
Currencies			
EUR USD	1.10	-0.6	-3.7
GBP USD	1.32	0.0	-2.8
USD JPY	122.92	2.4	6.4
USD CHF	0.93	-0.2	2.2
Rates	**Latest**	**Weekly (bp)**	**YTD(bp)**
USD Libor 3m	0.98	4.9	77.3
USD Libor 12m	2.09	30.2	150.6
UAE Eibor 3m	1.01	-0.1	64.7
UAE Eibor 12m	2.04	23.9	130.4
US 3m Bills	0.48	11.2	17.3
US 10yr Treasury	2.50	32.4	96.3

Notes: *Data as of March 25 2022 unless stated otherwise; **Data as of March 24 2022

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Summary market outlook

Global Yields	UST yields rose across the curve on the hawkish Fed bias. The 10-2yr yield curve flattened further, inching closer to inversion. Core Eurozone bond yields jumped, tracking the movement in UST yields and upbeat PMI preliminary survey results. Periphery bond yields and UK gilt yields also edged higher. Overall, we recommend a lower duration stance (5Y USTs) in anticipation of interest rate volatility in the near term.
Stress and Risk Indicators	VIX index fell while MOVE index rose during the week. SKEW index ended the week higher. We expect financial market volatility to stay elevated through this year as the pandemic era policy accommodation is withdrawn.
Equity Markets	
Local Equity Markets	GCC stock markets recorded positive gains. Bahrain, Kuwait, and UAE led the outperformance while Oman posted losses. 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 gains during the week, digesting continued concerns on war, inflation and Fed tightening. DM stocks outperformed EM peers. Within DM, Japanese equities were the best performer, boosted by expectations of economic stimulus measures. European equities underperformed the most with no signs of de-escalation in the Russia-Ukraine tensions. We are moderately overweight US, UK, and Asia Pacific; underweight Eurozone and EMs outside Asia. By sector we prefer industrials, IT, and communication services. Our strategic preference is for large cap non-cyclical growth with focus on quality. 'Build back better' themes including green recovery, digitalization and health care innovation are likely to do well. Yet, in the very near-term, as the new wave of COVID-19 fear subsides, we see opportunities in cyclicals, value, small caps, and re-opening sectors.
Technology Segments	Nasdaq-100 index posted a gain of c2% for the week. Hang Seng Tech index dropped by c2.5%
Commodities	
Precious Metals	Gold prices jumped on the back of escalating Russia-Ukraine tensions. Silver prices rose while platinum prices declined. We keep our overweight in gold as a hedge against potential inflation and geopolitical risks.
Energy	Oil prices rebounded, gaining c11% over the week as supply concerns aggravated with the EU's proposal of banning Russian oil. Attacks on Saudi oil production sites also supported the rally in oil prices. Overall, over the medium-term we believe that oil prices will remain sustained as the market balances into the new normal.
Industrial Metals	Copper prices ended flat while aluminium prices jumped over the week. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain.
Currencies	
EURUSD	The EUR/USD hit a two-week low as Fed's hawkish bias triggered a dollar rally. We expect ECB policy divergence to play a major role in the performance of the euro.
Critical levels	R2 1.1013 · R1 1.0988 · S1 1.0941 · S2 1.0919
GBPUSD	The pound sterling depreciated against the US dollar on the back of broad dollar strength. We expect the GBP to be driven by how the BoE policy evolves over the near-term and to decouple from the EUR.
Critical levels	R2 1.3228 · R1 1.3189 · S1 1.3121 · S2 1.3092
USDJPY	The yen weakened against the US dollar on BoJ stimulus expectations. Over the medium-term, BoJ's yield curve targeting should put downward pressure on JPY.
Critical levels	R2 124.10 · R1 123.65 · S1 122.36 · S2 121.52

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
03/28/22 16:30	Wholesale Inventories MoM	Feb P	1.20%	0.80%
03/29/22 17:00	FHFA House Price Index MoM	Jan	1.30%	1.20%
03/29/22 18:00	Conf. Board Consumer Confidence	Mar	107	110.5
03/30/22 15:00	MBA Mortgage Applications	25- Mar	--	-8.10%
03/30/22 16:30	**GDP Annualized QoQ**	**4Q T**	**7.00%**	**7.00%**
03/31/22 16:30	Personal Income	Feb	0.50%	0.00%
03/31/22 16:30	Personal Spending	Feb	0.50%	2.10%
03/31/22 16:30	PCE Deflator YoY	Feb	6.40%	6.10%
03/31/22 16:30	PCE Core Deflator YoY	Feb	5.50%	5.20%
03/31/22 16:30	**Initial Jobless Claims**	**26- Mar**	**200K**	**187K**
03/31/22 16:30	**Continuing Claims**	**19- Mar**	**1350K**	**1350K**
04/01/22 16:30	**Change in Nonfarm Payrolls**	**Mar**	**490K**	**678K**
04/01/22 16:30	**Unemployment Rate**	**Mar**	**3.70%**	**3.80%**
04/01/22 16:30	**Average Hourly Earnings YoY**	**Mar**	**5.50%**	**5.10%**
04/01/22 16:30	Labor Force Participation Rate	Mar	62.40%	62.30%
04/01/22 18:00	**ISM Manufacturing**	**Mar**	**59**	**58.6**
04/04/22 18:00	Factory Orders	Feb	-0.50%	1.40%
04/04/22 18:00	Durable Goods Orders	Feb P	--	-2.20%

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
03/29/22 03:30	Jobless Rate	Feb	2.80%	2.80%
03/30/22 03:50	Retail Sales YoY	Feb	-0.30%	1.60%
03/31/22 03:50	Industrial Production MoM	Feb P	0.50%	-0.80%
04/01/22 04:30	**Jibun Bank Japan PMI Mfg**	**Mar F**	**--**	**53.2**

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
03/29/22 10:45	France Consumer Confidence	Mar	94	98
03/30/22 16:00	**Germany CPI YoY**	**Mar P**	**6.20%**	**5.10%**
03/31/22 10:45	France PPI YoY	Feb	--	22.20%
03/31/22 16:30	**Eurozone GDP YoY**	**Jan**	**3.70%**	**3.90%**
04/01/2022 12:00	**S&P Global Eurozone Manufacturing PMI**	**Mar F**		**57**
4/1/2022 13:00	**Eurozone CPI Estimate YoY**	**Mar**		**5.80%**

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
03/29/22 12:30	Mortgage Approvals	Feb	74.9K	74.0K
03/29/22 12:30	M4 Money Supply YoY	Feb	--	5.70%
03/31/22 10:00	**Nationwide House Px NSA YoY**	**Mar**	**13.40%**	**12.60%**
03/31/22 10:00	**GDP QoQ**	**4Q F**	**1.00%**	**1.00%**
03/31/22 10:00	**GDP YoY**	**4Q F**	**6.50%**	**6.50%**
03/31/22 10:00	Exports QoQ	4Q F	4.90%	4.90%
03/31/22 10:00	Imports QoQ	4Q F	-1.50%	-1.50%

China and India

Date & Time (GST)	**Indicator**	**Period**	**Expected**	**Prior**
03/31/22 05:30	**China Manufacturing PMI**	**Mar**	**49.8**	**50.2**
03/31/22	India BoP Current Account Balance	4Q	-$23.70b	-$9.58b
04/01/22 05:45	**China Caixin PMI Mfg**	**Mar**	**49.9**	**50.4**

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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