The Weekly Market View

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When you are atop the wall (of worry)

Stock markets are famous for their ability to climb walls of worry. What happens once top of such walls are reached? Market behaviour since mid-February has given us some context. MSCI ACWI has fallen by c4% since 15 February driven by a 5% fall in valuations offset partly by a 1% rise in earnings. However, the real action was beneath the surface. Sectors like consumer discretionary and IT which have seen their valuations expand significantly over the last 11 months have come under most pressure since mid-February while energy stocks that traded on relatively depressed valuations outperformed the most.

Last week (Mar 1 – Mar 5) showed similar trends. Fiscal support package in the US advanced and the visibility on economic re-opening improved (thanks to increased vaccine availability). Economic data continued to be strong – especially in the US where the manufacturing sector and the job mark surprised positively. UST yields continued to climb on positive growth outlook and Fed Chair Jay Powell's comment which pointed to satisfaction with the current levels of bond yields. With UST yields rising sharply further, equity volatility increased too. Global equities ended the week flat but were volatile through the week. Thanks to rising yield differentials and better data in the US, greenback strengthened – especially against the euro and the yen. Strong USD took some shine off precious metals too. However, oil prices rose thanks to OPEC+ which refused to increase its production.

The signal and the noise

Recent rise in real yields in bond markets has created jitters in equity markets. We believe that this is an episode of repricing of risk and note that almost all such episodes are associated with a short-term rise in volatility. On the more fundamental impact of rising bond yields on equities, if history is any guide, bond yields need to be much higher than the current levels and be consistently rising in order for them to have a meaningfully negative impact on equities. Our analysis using US data since 1871 suggests that equity returns over the subsequent 12 months are the lowest when long-term bond yields are above 3% and rising. In such cases, equity markets moved higher over the following year only 54% of time (hit-ratio) and returned 2% on an average. However, when bond yields were above 3% but falling, equity returns over the subsequent year were strong at c12% on an average and the hit-ratio was 77%. When bond yields levelled between 2% and 3%, equities posted gains over the subsequent year 80% of the time and returned 13% on an average. When bond yields were between 1% and 2%, average equity returns of the following 12 months were even stronger at 17% with an improved hit-ratio of 85%. On the outlook for bond yields itself, we believe that current levels of UST yields are pricing in the prospect of higher inflation and that long-term UST yields will remain capped as the US Fed is likely to remain undeterred by the reflation trade (see Global Fixed Income Outlook 2021, February 17 2021). On inflation, while in the near-term base-effects point to higher inflation, for the long-term with humility we say that the outlook is rather uncertain. Much depends on the consumer behaviour in the future. As for the fiscal support packages and their impact on the economic outlook, multipliers are difficult to estimate. Further, the weak link between unemployment rate and inflation makes it even harder for someone to say with conviction what the inflation rate will likely be. So, to that extent, we consider inflation to be the 'wildcard'. Accordingly, for the near-term, we have hedged our overweight in high-duration US equities with overweight in the UK and some beta-normalisation trades which are low-duration (see Global Equity Outlook 2021: The unabnormal, January 19 2021).

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Global markets' performance snapshot

Index Snapshot (World Indices)			
Index	**Latest**	**Weekly %**	**YTD %**
S&P 500	3,842	0.8	2.3
Dow Jones	31,496	1.8	2.9
Nasdaq	12,920	-2.1	0.2
DAX	13,921	1.0	1.5
Nikkei 225	28,864	-0.4	5.2
FTSE 100	6,631	2.3	2.6
Sensex	50,405	2.7	5.6
Hang Seng	29,098	0.4	6.9
Regional Markets (Sunday to Thursday)			
ADX	5,693	1.2	12.8
DFM	2,569	1.7	3.1
Tadawul	9,242	0.5	6.4
DSM	10,004	-1.2	-4.1
MSM30	3,653	1.4	-0.2
BHSE	1,473	0.6	-1.1
KWSE	5,653	0.1	1.9
MSCI			
MSCI World	2,729	0.1	1.4
MSCI EM	1,339	0.0	3.7

Global Commodities, Currencies and Rates			
Commodity	**Latest**	**Weekly %**	**YTD %**
Brent USD/bbl	69.4	4.9	33.9
WTI USD/bbl	66.1	7.5	36.2
Gold USD/t oz	1,700.6	-1.9	-10.4
Silver USD/t oz	25.2	-5.3	-4.4
Platinum USD/t oz	1,132.8	-5.0	5.7
Copper USD/MT	9,021.5	-1.6	16.5
Alluminium	2,152.8	1.0	8.8
Currencies			
EUR USD	1.19	-1.3	-2.5
GBP USD	1.38	-0.7	1.3
USD JPY	108.31	1.6	-4.7
CHF USD	0.93	2.3	-4.7
Rates			
USD Libor 3m	0.18	-6.8	-26.4
USD Libor 12m	0.28	0.0	-17.0
UAE Eibor 3m	0.33	6.5	-35.4
UAE Eibor 12m	0.61	1.0	-6.3
US 3m Bills	0.03	-23.1	-56.6
US 10yr Treasury	1.57	11.5	71.5

Summary market outlook

Global Yields	UST yields continued to climb on positive growth outlook and Fed Chair Jay Powell's comment which pointed to satisfaction with the current levels of bond yields. Investment grade and high yield bonds remained under pressure amidst rising UST yields. In Europe, core bond yields jumped on lack of ECB action to arrest the rise in yields. We expect UST yields to remain volatile in the near term but we still prefer medium to long-term part of the curve as Fed's status quo on monetary policy will act as a cap on yields.
Stress and Risk Indicators	VIX index was at best volatile during the week and was closely tied to volatility in bond markets. Whilst we are unlikely to see the index reach highs it scaled about a year ago, we think it will not fall back to the pre-pandemic levels of mid-teens before the virus comes fully under control.
Equity Markets	
Local Equity Markets	GCC equities were broadly flat during the week and performed in line with other markets. UAE equity markets outperformed (thanks to strong performance from real estate stocks) and Qatar underperformed (due to some stocks trading ex-dividend). We remain neutral GCC equities within our global equity framework. Stable to higher oil prices, potential for revival in growth and scope for reversing the underperformance of 2020 are all balanced by lack of structural growth plays in the equity market.
Global Equity Markets	Global equities ended the week flat but were volatile throughout. EM performed in line with DM. Within DM, Canada and UK outperformed the most while Europe ex UK and Japan underperformed. Amongst EMs, regions outside Asia outperformed. Sector wise, energy and financials delivered positive returns and outperformed while IT, consumer discretionary, real estate and healthcare underperformed the most. Our equity strategy is to overweight US and UK, and underweight Eurozone and EM outside Asia. We are neutral Asia and prefer structural growth opportunities there. By sector we prefer IT and communication services as long-term plays and energy as a cyclical play. We have also identified industry level opportunities to play the vaccine availability in the medium-term. 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.
Commodities	
Precious Metals	Stronger USD and normalising real yields took some shine off precious metals. Gold prices fell by c18% from their peak in early August. Yet, we remain overweight gold as a hedge against potential risks on the horizon.
Energy	Thanks to OPEC+ which refused to increase its production, oil prices rose strongly over the week despite headwinds from the stronger USD. Overall, we believe that oil prices are likely to remain sustained as the market is roughly balanced.
Industrial Metals	Copper prices fell marginally after a strong run-up. Stronger USD presented some headwinds too. We do not recommend industrial metals exposure as China structurally reigns in demand.
Currencies	
EURUSD	EUR/USD had its worst week since October. Widening yield differentials with the US, better economic data and re-opening prospects elsewhere kept the EUR under pressure. We expect the euro to remain stable.
Critical levels	R2 1.2366 · R1 1.2141 · S1 1.1792 · S2 1.1668
GBPUSD	GBP performed strongly against the USD during the first couple of days of the week but fell subsequently to end the week lower. We expect the cable to be driven by how the "reopening" plays out over the near-term.
Critical levels	R2 1.4552 · R1 1.4196 · S1 1.3526 · S2 1.3212
USDJPY	USD/JPY had its best week since May 2020 driven by rising yield differentials. As such, we believe that BoJ yield curve targeting should put continuing downward pressure on the yen.
Critical levels	R2 111.92 · R1 110.11 · S1 105.03 · S2 101.76

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

Forthcoming important economic data/events

United States

Date	Indicator	Period	Expected	Prior	Comments
03/08/21	Wholesale Inventories MoM	Jan F	1.30%	1.30%	CPI, arguably, is the most important data release this week. We do expect inflation to move higher over the next couple of months, thanks to base effects. However, against the backdrop of the recent sharp rise in bond yields, inflation data for February could have significant impact on markets in the near-term. Market consensus expects the CPI to have risen by 1.7% y-o-y during February. Small business optimism for February and consumer sentiment for March are other key releases.
03/09/21	NFIB Small Business Optimism	Feb	96.5	95.0	
03/10/21	MBA Mortgage Applications	5-Mar	--	0.50%	
03/10/21	**CPI YoY**	**Feb**	**1.70%**	**1.40%**	
03/10/21	**CPI Ex Food and Energy YoY**	**Feb**	**1.40%**	**1.40%**	
03/11/21	**Initial Jobless Claims**	**6-Mar**	**725k**	**745k**	
03/11/21	Continuing Claims	27-Feb	4,201k	4,295k	
03/11/21	JOLTS Job Openings	Jan	6,650	6,646	
03/11/21	Household Change in Net Worth	4Q	--	$3,817b	
03/12/21	PPI Final Demand MoM	Feb	0.40%	1.30%	
03/12/21	**U. of Mich. Sentiment**	**Mar P**	**78.0**	**76.8**	

Japan

Date	Indicator	Period	Expected	Prior	Comments
03/08/21	BoP Current Account Balance	Jan	¥1,253.4b	¥1,165.6b	Machine tool orders in Japan rose 9.7% in January - the third consecutive month of increase that followed almost two years of contraction. The question now is if February can extend January gains further.
03/09/21	Labor Cash Earnings YoY	Jan	-1.70%	-3.20%	
03/09/21	Money Stock M2 YoY	Feb	9.50%	9.40%	
03/09/21	**Machine Tool Orders YoY**	**Feb P**	**--**	**9.70%**	
03/11/21	PPI YoY	Feb	-0.70%	-1.60%	

Eurozone

Date	Indicator	Period	Expected	Prior	Comments
03/08/21	Germany IP WDA YoY	Jan	-3.70%	-1.00%	ECB is expected to keep rates on hold (refinancing rate at 0.0% and deposit rate at -0.5%) during its March meeting. However, focus will be on ECB's updated forecasts and also on its bond purchases given the recent rise in bond yields. Industrial production data for January is important too.
03/08/21	Eurozone Sentix Investor Conf.	Mar	1.4	-0.2	
03/08/21	Bank of France Ind. Sentiment	Feb	99	98	
03/09/21	OECD Interim Economic Outlook				
03/10/21	France IP YoY	Jan	-1.90%	-3.00%	
03/11/21	**ECB Main Refinancing Rate**	**11-Mar**	**0.00%**	**0.00%**	
03/12/21	**Eurozone IP WDA YoY**	**Jan**	**-2.10%**	**-0.80%**	

United Kingdom

Date	Indicator	Period	Expected	Prior	Comments
03/12/21	**Industrial Production YoY**	**Jan**	**-4.00%**	**-3.30%**	Data from UK this week is expected to give the first glimpse of the post-Brexit UK.
03/12/21	Manufacturing Production YoY	Jan	-3.70%	-2.50%	
03/12/21	Construction Output YoY	Jan	-4.80%	-3.90%	

China and India

Date	Indicator	Period	Expected	Prior	Comments
03/09-03/15/21	**China New Yuan Loans CNY**	**Feb**	**950.0b**	**3,580.0b**	CPI numbers out of China and India will be closely watched. Whilst in China, market expects CPI to remain in the deflationary zone, in India, CPI is expected to expand further in the inflationary zone. China PPI is expected to have expanded further during February.
03/10/21	**China CPI YoY**	**Feb**	**-0.30%**	**-0.30%**	
03/10/21	**China PPI YoY**	**Feb**	**1.40%**	**0.30%**	
03/12/21	**India CPI YoY**	**Feb**	**4.83%**	**4.06%**	
03/12/21	India Industrial Production YoY	Jan	1.00%	1.00%	
03/13-03/16/21	China 1-Yr MTLF	15-Mar	--	2.95%	

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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