

The Weekly Market View

March 18 2019

A rising tide lifts all boats ...

A risk-on week saw all equity markets perform strongly. Despite a mixed picture of the global macro-economic conditions, optimism around trade talks between the US and China, rising expectations of the Chinese stimulus and UK parliament voting in favour of delaying Brexit have all boosted the risk-morale of the investor community. S&P 500 registered its best weekly performance since November. Within the US equity market, technology sector performed quite strongly. VIX, a measure of stress hit a five month low. Despite the acute weakness in Boeing's shares, Dow Jones industrial average performed quite strongly. Equity markets outside the US performed strongly too. Germany, Japan and UK saw their respective stock markets rise by more than 1.7%. Very broadly, equities in developed markets outperformed their counterparts in the emerging world. However, equity markets in India and Brazil recorded a market leading performance. In India, the general elections schedule was announced and the markets started to assign a higher possibility of a win for BJP-led coalition. In Brazil, markets started to appreciate the scope of pension reforms submitted by Bolsonaro administration to the congress. UST yields fell below 2.6% on lower-than-expected inflation print. Sovereign yields in Europe rose modestly. The euro and pound sterling appreciated against the USD due to positive developments regarding UK leaving the EU. Oil prices rose strongly last week taking their year-to-date gains to more than 25% on expectations of a more balanced market looking ahead. Most metals strengthened on USD weakness.

... but, are all boats created equal?

Risk assets, especially equities have already performed quite strongly so far this year with MSCI all country world index returning more than 10%. This strong performance comes against a backdrop of a ten year bull run in world equities led by the US. Looking ahead, in our view, it is sensible to be selective and to stick with quality given this late phase of the cycle. Also it is worth asking if it is the time to consider leadership changes in the equity market. While performance of both Chinese and European equities has been strong so far this year compared with that in the past year, we think it is still early to call for a rotation out of US into either of these markets. Especially thinking about the risk-return trade-off, we still find equities in the US more attractive compared to their counterparts in both China and Europe. However, we do believe that there will be an inflection point later this year when moving out of US equities makes sense – but it is not now, in our view. For detailed discussion on our equity strategy, see our investment strategy note [The Equity Strategist: Which market will pick up the leadership baton from the US? 13 March 2019](#).

In terms of data releases, next week is likely to be busy with the preliminary PMI readings for March from across the globe. In the US, factory orders for February, Philadelphia Fed outlook and existing homes sales during February are likely to be watched. However, the focus will be on the FOMC meeting. Markets are expecting no change in rates and any disappointment here is unlikely; but any communication regarding the timing of concluding the balance sheet reduction will be in focus. In the UK, job market data, inflation and retail sales along with the Bank of England decision will be closely watched.

Past week global markets' performance

Index Snapshot (World Indices)			
Index	Latest	Weekly Chg %	YTD %
S&P 500	2,822.5	2.9	12.6
Dow Jones	25,848.9	1.6	10.8
Nasdaq	7,688.5	3.8	15.9
DAX	11,685.7	2.0	10.7
Nikkei 225	21,450.9	2.0	7.2
FTSE 100	7,228.3	1.7	7.4
Sensex	38,024.3	3.7	5.4
Hang Seng	29012.3	2.8	12.3
Regional Markets (Sunday to Thursday)			
ADX	4997.6	2.6	1.7
DFM	2574.2	-0.2	1.8
Tadaw ul	8582.9	1.4	9.7
DSM	9970.6	2.1	-3.2
MSM30	4074.98	-0.4	-5.8
BHSE	1409.1	0.2	5.4
KWSE	5346.8	1.1	5.3
MSCI			
MSCI World	2,108.8	2.8	11.9
MSCI EM	1,057.3	2.6	9.5

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	67.2	2.2	24.8
Nymex WTI USD/bbl	58.5	4.4	28.9
Gold USD/t oz	1302.4	0.3	1.6
Silver USD/t oz	15.3	-0.3	-1.3
Platinum USD/t oz	831.8	1.7	4.6
Copper USD/MT	6410.0	0.2	7.5
Alluminium	1875	1.6	2.9
Currencies			
EUR USD	1.1326	0.8	-1.1
GBP USD	1.3290	2.1	4.3
USD JPY	111.48	0.3	1.6
CHF USD	1.0021	-0.6	-1.9
Rates			
USD Libor 3m	2.6253	1.1	-6.5
USD Libor 12m	2.8405	-0.8	-5.5
UAE Eibor 3m	2.8125	6.2	-0.9
UAE Eibor 12m	3.2210	-0.9	-9.9
US 3m Bills	2.4347	-0.2	3.4
US 10yr Treasury	2.5871	-1.6	-3.6

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Summary market outlook

Global Yields US treasury yields fell on softer inflation data. Sovereign yields in Europe rose modestly. We expect the 10-year US Treasury yield to remain range bound between 2.7% and 3.0%, in line with the Fed's indicated long-term neutral rate.

Stress and Risk Indicators VIX hit a five month low. 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 markets were broadly higher tracking the oil prices and on broad risk-on sentiment. ADX was the best performer. 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 Global equities performed quite strongly with S&P 500 registering its best weekly performance since November. Strength in equity markets was broad based. Amongst emerging markets, India and Brazil outperformed. 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 ended the week with a modest gain on weaker USD. Platinum prices rose strongly too. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.

Energy Oil prices rose strongly as the focus shifted to a more balance market looking ahead. Overall, we think 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 on weaker USD but also on rising prospects for a Chinese stimulus. We do not recommend industrial metals exposure as China reigns in demand.

Currencies

EURUSD The euro strengthened versus the dollar, on positive developments on Brexit. Nevertheless, we expect the euro to remain under pressure due to the diverging monetary policies between the Fed and the ECB.

Critical levels **R2** 1.1419 **R1** 1.1373 **S1** 1.1251 **S2** 1.1175

GBPUSD The pound strengthened versus the greenback on positive developments on Brexit. Whilst we see the pound sterling at some point recovering with the UK staying in the EU in all but name, it will for now remain under pressure due to political uncertainty, economic weakness and Brexit negotiations.

Critical levels **R2** 1.3639 **R1** 1.3464 **S1** 1.3032 **S2** 1.2775

USDJPY The yen weakened against the dollar amidst the risk-on environment. We believe there will remain a bias for yen strength as emerging markets concerns will not abate soon.

Critical levels **R2** 112.44 **R1** 111.96 **S1** 110.94 **S2** 110.40

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

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Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
03/18/2019	NAHB Housing Market Index	Mar	63	62	
03/19/2019	Factory Orders	Jan	0.30%	0.10%	
03/19/2019	Durable Goods Orders	Jan F	0.40%	0.40%	
03/20/2019	MBA Mortgage Applications	15-Mar	--	2.30%	All eyes will be on the FOMC meeting this week. Focus will also be on the housing data and PMI releases.
03/20/2019	FOMC Meeting	20-Mar	No Change	-	
03/21/2019	Initial Jobless Claims	16-Mar	225K	229K	
03/22/2019	Markit Manufacturing PMI	Mar P	53.6	53	
03/22/2019	Wholesale Inventories MoM	Jan	0.10%	1.10%	
03/22/2019	Existing Home Sales MoM	Feb	3.20%	-1.20%	

Japan

	Indicator	Period	Expected	Prior	Comments
03/20/2019	Machine Tool Orders YoY	Feb F	--	-29.30%	
03/22/2019	Natl CPI YoY	Feb	0.30%	0.20%	PMI data and inflation release will be closely tracked by the market.
03/22/2019	Natl CPI Ex Fresh Food YoY	Feb	0.80%	0.80%	
03/22/2019	Nikkei PMI Mfg	Mar P	--	48.9	

Eurozone

	Indicator	Period	Expected	Prior	Comments
03/20/2019	PPI YoY (GE)	Feb	2.90%	2.60%	
03/21/2019	ECB Publishes Economic Bulletin				Focus will be on the ECB economic bulletin.
03/22/2019	ECB Current Account SA	Jan	--	16.2b	
03/22/2019	Markit Manufacturing PMI	Mar P	49.5	49.3	
03/22/2019	CPI YoY	Feb	1.40%	1.40%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
03/18/2019	Rightmove House Prices MoM	Mar	--	0.70%	
03/20/2019	CPI YoY	Feb	1.80%	1.80%	
03/20/2019	CPI Core YoY	Feb	1.90%	1.90%	Attention will be on the BOE MPC Meeting. Inflation and retail sales print will also be important.
03/20/2019	Retail Sales Ex Auto Fuel YoY	Feb	3.50%	4.10%	
03/21/2019	Retail Sales Inc Auto Fuel MoM	Feb	-0.40%	1.00%	
03/21/2019	BOE MPC Meeting	Mar	No Change	-	

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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