

## Doves can be hard too (sometimes)

Last week evidenced a dramatic shift in the US Federal Reserve (Fed) policy. While forecasting slower growth, the Fed indicated more patience in its approach. The fresh release of the dot plot indicated no interest rate hikes this year – implying significant dovish shift from the dot plot in December which then predicted two hikes for 2019. Also the Fed announced that it is likely to halt shrinking its balance sheet in September. Bank of England too left its rates unchanged amidst the Brexit chaos. Markets also felt the economic weakness from the preliminary PMI data for March. All these acted as essential ingredients to the soup of 'economic recession fears' and the 3M-10Y segment of the US yield curve inverted for the first time since 2007. As a result, the week ended with a risk-off mood. Equities registered losses. US 10Y treasury yields fell dramatically. Yields on German 10Y bunds turned negative. Yield on 10Y government bonds in Japan and Switzerland slipped further into the negative territory. US dollar appreciated against the Euro and the pound sterling but depreciated against the Japanese yen – a classic risk-off move. Precious metals gained. Contributing to the risk-off sentiment further were the developments in Brexit where the European Commission indicated its willingness to allow a short extension of the 29 March deadline. This has allowed for the anti-Brexit movement to pick up quite strongly. On trade, news emerged that China was walking back on some of its promises made earlier, putting a trade deal in question. This was followed by comments from the US President Donald Trump that tariffs on Chinese goods are likely to stay for substantial time. In general on trade, a weak sentiment prevailed especially following a profit warning from the US multinational parcels company FedEx.

## A recession or a softpatch?

A key question for investors looking ahead is whether what we are experiencing now is a recession or a soft patch. In our view, yield curve slope is "an indicator" of future recessions and not "the indicator". On the positive side of the economy, we see that US economic growth remaining on track with the PMIs still pointing to an expanding economy. Especially the strength in services sector is more than offsetting the weakness in the manufacturing sector – this is the case not only in the US but also across the globe. Further in the US, financial conditions are lot more benign and, critically consumer spending is less leveraged than it was in 2000 and 2008. Also, with the potential for monetary and fiscal conditions to get easier in China and the Europe, a recession looks unlikely in our view. Even if one believed that the US yield curve slope is the most important indicator here, we are still a year away from a potential recession based on past experience. All this makes us believe that we are likely to see a soft patch and that an outright recession is not imminent. However, the financial markets could come under pressure in the near-term. From an equity strategy view point, at this stage in the cycle, we think the sector selection is more important (than the country selection) in driving excess returns. Here, we position cautiously with overweight in communication services, consumer staples, energy and healthcare. The latter three have delivered, in the past, strong outperformance in the 12month period subsequent to the peak in interest rates in the US.

In terms of data releases next week, new home sales in the US, industrial production in Japan and IFO expectations survey in Germany are important. Progress on Brexit talks and US-China trade negotiations will be monitored closely.

## Past week global markets' performance

### Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,800.7	-0.8	11.7
Dow Jones	25,502.3	-1.3	9.3
Nasdaq	7,642.7	-0.6	15.2
DAX	11,364.2	-2.8	7.6
Nikkei 225	21,627.3	0.8	8.1
FTSE 100	7,207.6	-0.3	7.1
Sensex	38,164.6	0.4	5.8
Hang Seng	29,113.4	0.3	12.6

### Regional Markets (Sunday to Thursday)

Index	Latest	Weekly Chg %	YTD %
ADX	5127.5	3.0	4.3
DFM	2628.7	2.0	3.9
Tadaw ul	8708.7	1.7	11.3
DSM	9953.7	0.9	-3.4
MSM30	4152.7	1.6	-4.0
BHSE	1426.2	1.2	6.7
KWSE	5519.0	3.1	8.7
MSCI			
MSCI World	2,094.8	-0.7	11.2
MSCI EM	1,059.6	0.2	9.7

### Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	67.0	-0.2	24.6
Nymex WTI USD/bbl	59.0	0.9	30.0
Gold USD/t oz	1313.7	0.9	2.5
Silver USD/t oz	15.4	0.9	-0.4
Platinum USD/t oz	847.2	1.9	6.5
Copper USD/MT	6375.0	-0.5	6.9
Aluminium	1888	0.7	3.6
Currencies			
EUR USD	1.1302	-0.2	-1.3
GBP USD	1.3209	-0.6	3.6
USD JPY	109.92	-1.4	0.2
CHF USD	0.9936	-0.8	-1.1
Rates			
USD Libor 3m	2.6099	-0.6	-7.0
USD Libor 12m	2.7870	-1.9	-7.3
UAE Eibor 3m	2.7405	-0.9	-3.4
UAE Eibor 12m	3.2190	3.4	-9.9
US 3m Bills	2.4424	0.3	3.7
US 10yr Treasury	2.4390	-5.7	-9.1

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## Summary market outlook

### Global Yields

Fed indication that policy rate has almost peaked and string of soft economic data dragged that US 10Y yield below 2.5%. However, we expect the 10Y 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

The VIX index jumped higher in reaction to the equity market correction. 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

All GCC markets performed well in the week ended 21 March. Kuwait and UAE outperformed. 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 came under pressure as recession risks resurfaced. German equities underperformed the most. On the other hand, Japan equities performed well despite the strength in Japanese yen. 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 on the back of dollar weakness and correction in risk-assets. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.

### Energy

Oil prices ended the week mostly flat – stuck between supply positives and demand negatives. 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 ended the week mixed, with Copper underperforming. We do not recommend industrial metals exposure as China reigns in demand.

## Currencies

### EURUSD

The euro weakened versus the greenback. We expect the euro to remain stable with USD to lose some strength in 2019.

#### Critical levels



### GBPUSD

The pound was also under pressure as the Brexit uncertainty weighed. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD

#### Critical levels



### USDJPY

The yen appreciated as global risk assets corrected. However, BoJ yield curve targeting should put continuing downward pressure on the yen.

#### Critical levels



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

# The Weekly Market View

March 25 2019

## Forthcoming important economic data

### United States

	Indicator	Period	Expected	Prior	Comments
03/25/2019	Chicago Fed Nat Activity Index	Feb	-0.38	-0.43	
03/26/2019	Housing Starts	Feb	1215K	1230K	
03/27/2019	MBA Mortgage Applications	22-Mar	--	1.60%	
03/28/2019	GDP Annualized QoQ	4Q F	2.30%	2.60%	Focus will be on the 4Q GDP print.
03/28/2019	Initial Jobless Claims	23-Mar	222K	221K	
03/29/2019	New Home Sales	Feb	619K	607K	
03/29/2019	U. of Mich. Sentiment	Mar F	97.8	97.8	

### Japan

	Indicator	Period	Expected	Prior	Comments
03/25/2019	All Industry Activity Index MoM	Jan	-0.40%	-0.40%	
03/29/2019	Jobless Rate	Feb	2.50%	2.50%	Industrial production and inflation release will be important.
03/29/2019	CPI Ex-Fresh Food YoY	Mar	1.10%	1.10%	
03/29/2019	Industrial Production MoM	Feb P	1.30%	-3.40%	

### Eurozone

	Indicator	Period	Expected	Prior	Comments
03/25/2019	IFO Expectations (GE)	Mar	94	93.8	Eurozone CPI and German IFO survey will be closely tracked by the market.
03/28/2019	CPI YoY	Mar P	1.50%	1.50%	
03/29/2019	Retail Sales YoY	Feb	2.20%	2.60%	

### United Kingdom

	Indicator	Period	Expected	Prior	Comments
03/28/2019	Nationwide House PX MoM	Mar	0.00%	-0.10%	GDP releases will be the main focus.
03/29/2019	GDP QoQ	4Q F	0.20%	0.20%	
03/29/2019	GDP YoY	4Q F	1.30%	1.30%	

### 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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