The Weekly Market View

March 27 2023

بنك أبوظبي التجاري ADCB

ASSET MANAGEMENT LIMITED

Choppiness

Last week focus was on the central bank policy meetings amidst the flare-up in banking stress and recession concerns. As anticipated, the Fed raised policy rates by 25bp to 4.75%-5.00%, keeping the terminal rate unchanged at 5.125% with one more rate hike of 25bp penciled in for May. The key notable changes were 1) the upward revision in the Fed fund rate projections for 2024 to 4.3% from 4.1% previously 2) downward revisions in real GDP forecasts for 2023 and 2024. Fed Chair Jay Powell acknowledged the banking sector crisis, stating that tighter credit conditions could weigh on the economic outlook but mentioned it had no plans to cut rates this year. Amidst the ongoing banking stress concerns, another important market mover was the Treasury Secretary Janet Yellen's reassurance that the US Treasury will be ready to action to safeguard deposits in a testimony to congress. Moving to central bank policy meetings, the Bank of England also raised rates by 25bp following official data indicating that UK inflation surprised on the upside. Lastly, economic data signaled that economic activity remained resilient despite the banking turmoil. Preliminary figures of PMI composite surveys coming out of the US, Europe and the UK were upbeat. With much to digest from ongoing banking stress concerns to central bank raising policy rates, last week proved to be another choppy week for global markets. However, global equities managed to record positive gains. Bond yields dropped- led by the short-end rates with markets pricing in rate cuts in the second half of the year. The USD weakened against major currencies. Oil prices recorded weekly gains while gold prices posted marginal decline over the week.

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Overdone

Amidst the flare-up in banking stress and dovish central bank expectations, DM bond yields have declined over the past three weeks- led by the US Treasuries. The 2yr UST yield has dropped to the lowest level in six months as rates markets price an end to the Fed tightening cycle with the rate cuts (almost 100bp) being priced in the second half of the year. This is despite the Fed assuring that no rate cuts are planned for this year. With the short-end USTs leading the decline in yields- the UST yield curve has bull steepened over the past few weeks. In fact, the 30-5yr UST yield curve has moved back into the positive territory. Such steepening moves typically coincide when the Fed hits the pause button. While we agree we are now in the last leg of the central bank tightening cycle, we do think that some of the rate cut expectations that markets have priced in recently look overdone. We believe that the bond markets have moved way ahead and the recent bond market performance (particularly at the short-end) looks stretched given the wide divergence of the market rate expectations and the Fed projections. Moreover, growth concerns may have amplified during the banking turmoil but do not match with the current economic reality. Recession probabilities over the next 12 months have remained stable and not moved higher despite the global slowdown concerns. In addition- soft and frequent indicators including the recent PMI surveys only point to economic resilience. As such, we believe that the banking sector crisis will remain contained and more importantly, growth expectations are unlikely to materially deteriorate in the near term. We expect bond markets to underperform and expect recent bull steepening trend to reverse. As a result, we recommend going underweight on bonds and overweight on equities with the scope for improvement in risk appetite to benefit the latter (Tactical Asset Allocation: Barbell-ing into a measured risk environment). We maintain our preference for 7-10yr USTs. Historical precedents show that intermediate-term bonds tend to outperform after the last Fed rate hike in the tightening cycle.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	3,971	1.39	3.42
Dow Jones	32,238	1.18	-2.74
Nasdaq	11,824	1.66	12.97
DAX	14,957	1.28	7.42
Nikkei 225	27,385	0.19	4.95
FTSE 100	7,405	0.95	-0.62
Sensex	57,527	-0.80	-5.45
Hang Seng	24,209	2.03	0.68
Regional Markets			
ADX	9,503	-1.53	-6.94
DFM	3,349	0.01	0.40
Tadawul**	10,446	4.71	-0.31
DSM**	10,006	0.97	-6.32
MSM30**	4,871	-0.34	0.28
BHSE**	1,899	0.08	0.17
KWSE**	7,051	0.07	-3.31
MSCI			
MSCI World	2,693	1.37	3.45
MSCI EM	972	2.17	1.65

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	75.0	2.77	-12.71
Nymex WTI USD/bbl	69.3	3.78	-13.71
Gold USD/t oz	1,978.2	-0.56	8.45
Silver USD/t oz	23.2	2.77	-3.03
Platinum USD/t oz	984.3	0.55	-8.38
Copper USD/MT	8,927.0	3.55	6.44
Alluminium	2,306.8	2.80	-1.82
Currencies			
EUR USD	1.08	0.84	0.51
GBP USD	1.22	0.49	1.24
USD JPY	130.73	-0.85	-0.30
Rates	**Latest**	**Weekly (bp)**	**YTD(bp)**
SOFR	4.80	25.00	50.00
USD Libor 3m	5.13	13.53	36.64
USD Libor 12m	5.11	7.27	-37.53
UAE Eibor 3m	5.04	16.84	72.36
UAE Eibor 12m	4.81	-19.00	-29.60
US 3m Bills	4.61	27.71	26.98
US 10yr Treasury	3.38	-5.24	-49.86

Source: Bloomberg, and ADCB Asset Management
Notes: *Data as of March 24 2023 unless stated otherwise; **Data as of March 23 2023.

Summary market outlook

Global Yields	Bond yields fell across the maturities of the USTs as markets boosted their rate cut expectations. Yields on both 10Y and 2Y USTs fell but the 10Y-2Y yield curve steepened significantly but remained inverted. In Eurozone, 10Y German bund yields rose over the week. Yields on 10Y UK gilts ended the week unchanged despite the BoE rate hike. Yield on 10Y JGBs declined. Bond yields and prices are inversely correlated. i.e. yields rise when prices fall and vice versa. Overall, we maintain our slight duration exposure with preference for USTs (7-10Y segment).
Stress and Risk Indicators	VIX index (implied volatility in equities) declined over the week after rising previous two weeks. MOVE Index (measure of bond volatility) stabilized over the week. We expect financial market volatility to stay elevated as the monetary policy normalizes and markets weigh recession probabilities.
Equity Markets	
Local Equity Markets	GCC equities recorded mostly positive gains. Barring Abu Dhabi and Oman, all other GCC equity markets recorded gains. Saudi Arabia outperformed the most. 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 several years are all balanced by lack of structural growth plays in the equity market indices.
Global Equity Markets	Global equities rose strongly over the past week – MSCI All Country World index rose more than 1% in USD terms. Within DM, US outperformed the most while Japan underperformed. We are moderately overweight US, UK, and Asia Pacific; underweight Eurozone and EMs outside Asia. By sector we prefer healthcare, and industrials. Our strategic preference is for large cap non-cyclical growth with focus on quality. Our other high conviction ideas include clean energy themes (for medium to long-term); aerospace & defence, food security, energy security, and cybersecurity as plays on rising geopolitical tensions and deglobalization; and consumer services, airlines, and hotels, restaurants & leisure as plays on re-opening.
Technology Segments	Nasdaq-100 index rose c1.97% while HK tech index rose more than 5% last week. Within technology, we prefer non-cyclical growth over cyclical growth (tech hardware, semiconductors etc.) over a 12-month horizon.
Commodities	
Precious Metals	Gold prices ended the week flat while silver and platinum prices rose. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Crude oil prices rebounded with banking crisis concerns stabilizing from the previous week. Overall, over the medium-term we believe that oil prices will remain sustained as the market balances into the new normal.
Industrial Metals	Copper and aluminium prices rose sharply over the week. Another commodity super-cycle is difficult, yet demand for commodities linked to “green infrastructure” is likely to sustain.
Currencies	
EURUSD	EUR/USD ended the week higher as the USD weakened after the Fed delivered a dovish hike. We expect euro to stabilize and record a better performance in 2023 compared to 2022.
Critical levels	R2 1.1073 · R1 1.0916 · S1 1.0617 · S2 1.0475
GBPUSD	GBP/USD edged higher, driven mainly by US dollar weakness. We expect GBP to weaken against EUR and stay flat versus the USD.
Critical levels	R2 1.2429 · R1 1.2331 · S1 1.2148 · S2 1.2063
USDJPY	Yen strengthened against the USD on safe-haven demand amidst growth slowdown concerns and declining UST yields. Yen is likely to strengthen in 2023 as interest rate differentials tighten, and as broad USD weakens.
Critical levels	R2 134.48 · R1 132.60 · S1 129.24 · S2 127.76

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
03/27/23 18:30	Dallas Fed Manf. Activity	Mar	-11	-13.5
03/28/23 16:30	Wholesale Inventories MoM	Feb P	--	-0.40%
03/28/23 18:00	**Conf. Board Consumer Confidence**	**Mar**	**101.5**	**102.9**
03/28/23 18:00	Richmond Fed Manufact. Index	Mar	-8	-16
03/29/23 15:00	MBA Mortgage Applications	24-Mar	--	3.00%
03/29/23 18:00	Pending Home Sales NSA YoY	Feb	--	-22.40%
03/30/23 16:30	Initial Jobless Claims	25-Mar	--	--
03/30/23 16:30	**GDP Annualized QoQ**	**4Q T**	**2.80%**	**2.70%**
03/30/23 16:30	**Continuing Claims**	**18-Mar**	**--**	**--**
03/30/23 16:30	**Personal Consumption**	**4Q T**	**--**	**1.40%**
03/31/23 16:30	**Personal Income**	**Feb**	**0.30%**	**0.60%**
03/31/23 16:30	**Personal Spending**	**Feb**	**0.30%**	**1.80%**
03/31/23 16:30	**PCE Deflator YoY**	**Feb**	**--**	**5.40%**
03/31/23 16:30	**PCE Core Deflator YoY**	**Feb**	**4.70%**	**4.70%**
03/31/23 18:00	**U. of Mich. Sentiment**	**Mar F**	**63.4**	**63.4**
03/31/23 18:00	U. of Mich. Current Conditions	Mar F	--	66.4
03/31/23 18:00	**U. of Mich. 1 Yr Inflation**	**Mar F**	**--**	**3.80%**
03/31/23 18:00	**U. of Mich. 5-10 Yr Inflation**	**Mar F**	**--**	**2.80%**

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
03/31/23 03:30	**Tokyo CPI YoY**	**Mar**	**3.30%**	**3.40%**
03/31/23 03:30	**Tokyo CPI Ex-Fresh Food YoY**	**Mar**	**3.30%**	**3.30%**
03/31/23 03:30	Jobless Rate	Feb	2.40%	2.40%
03/31/23 03:50	Retail Sales YoY	Feb	6.10%	6.30%
03/31/23 03:50	**Industrial Production MoM**	**Feb P**	**3.40%**	**-5.30%**
03/31/23 09:00	Housing Starts YoY	Feb	-0.10%	6.60%
03/31/23 09:00	Annualized Housing Starts	Feb	0.862m	0.893m

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
03/27/23 12:00	**Germany IFO Business Climate**	**Mar**	**--**	**91.1**
03/27/23 12:00	**Germany IFO Expectations**	**Mar**	**--**	**88.5**
03/27/23-04/02/23	Germany Retail Sales MoM	Feb	--	-0.30%
03/30/23 12:00	Eurozone ECB Publishes Economic Bulletin			
03/30/23 13:00	Eurozone Consumer Confidence	Mar F	--	--
03/30/23 13:00	Eurozone Economic Confidence	Mar	--	99.7
03/30/23 16:00	**Germany CPI YoY**	**Mar P**	**--**	**8.70%**
03/31/23 10:45	**France CPI YoY**	**Mar P**	**--**	**6.30%**
03/31/23 10:45	France PPI YoY	Feb	--	17.90%
03/31/23 13:00	Eurozone Unemployment Rate	Feb	--	6.70%
03/31/23 13:00	**Eurozone CPI YoY**	**Mar**	**--**	**8.50%**
03/31/23 13:00	**Eurozone CPI Core YoY**	**Mar P**	**--**	**5.60%**

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
03/28/23-04/03/23	**Nationwide House Px NSA YoY**	**Mar**	**--**	**-1.10%**
03/29/23 12:30	Net Consumer Credit	Feb	--	1.6b
03/29/23 12:30	Mortgage Approvals	Feb	--	39.6k
03/31/23 10:00	**GDP QoQ**	**4Q F**	**--**	**0.00%**
03/31/23 10:00	**GDP YoY**	**4Q F**	**--**	**0.40%**
03/31/23 10:00	Private Consumption QoQ	4Q F	--	0.10%
03/31/23 10:00	Government Spending QoQ	4Q F	--	0.80%
03/31/23 10:00	Exports QoQ	4Q F	--	-1.00%
03/31/23 10:00	Imports QoQ	4Q F	--	1.50%

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
03/15/23-03/31/23	**India BoP Current Account Balance**	**4Q**	**-$23.00b**	**-$36.40b**
03/27/23 05:30	China Industrial Profits YTD YoY	Feb	--	-4.00%
03/31/23 05:30	**China Manufacturing PMI**	**Mar**	**--**	**52.6**
03/31/23 05:30	**China Non-manufacturing PMI**	**Mar**	**--**	**56.3**
03/31/23	China BoP Current Account Balance	4Q F	--	$106.8b

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