The Weekly Market View

March 28 2021

بنك أبوظبي التجاري ADCB

ASSET MANAGEMENT LIMITED

Waiting to be redirected

No, we are not talking about the disabled cargo ship that caused the closure of the Suez Canal putting supply chains under stress. We are talking about financial markets that have had a volatile month in March and are now perhaps waiting for a clear direction. Last week, realised volatility in equity markets rose while the implied volatility fell to its lowest level in more than a year. Spot markets are taking a while to digest a range of developments (US-China talks, vaccine rollout progress in the US and lack of it resulting in extended lockdowns in Europe, rising tensions over vaccine supplies, concerns about the safety of AstraZeneca's vaccine, etc.) and a raft of data (weak home sales and business investments data for February in the US, improving March PMIs across the board, more-than-expected fall in jobless claims and tamed inflation data in the US, etc.). Against this backdrop, global equities delivered marginal gains over the past week. EMs, led down by BRICs, underperformed DMs significantly. US equities outperformed the most. 10Y UST yields retreated below 1.7%. Gold prices slipped marginally last week while Brent crude prices moved sideways. Industrial metal price movements were mixed against as the USD emerged stronger. Indeed, the DXY index rose 3.1% year-to-date to hit the highest level since November 2020 – thanks to widening growth and rate differentials of the US with the rest of the DM.

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Missing the forest for the trees

With (realised) volatility abound, it is quite easy for investors to miss the bigger picture. Recent rise in bond yields 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. Now the bigger picture: a faster-than-expected economic re-opening, thanks to quick vaccine distribution, is likely to provide the cyclical upswing. Ongoing fiscal policy support, especially in the US, is likely to support growth across the world. These developments have in fact already triggered upward revisions to global economic growth projections. All this should aid the ongoing corporate earnings recovery. As we argued earlier, equity returns in 2021 are likely to be led by earnings growth. 2020 saw valuation multiples expand quite significantly. We expect valuations to fall slightly in 2021 but remain above historical average levels. 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. Also, the reason why interest rates are rising – is it because the real economic growth is accelerating or is it because inflation expectations are increasing or perhaps both – plays a key role in determining the equity reaction. Taking these together, we expect average returns from equities in 2021 and this is unusual because it follows two years of above-average returns (see Global Equity Outlook 2021: The unabnormal, January 19 2021). Inflation is a risk, but not a given. 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 beta-normalisation trades which are low-duration.

Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	3,975	1.6	5.8
Dow Jones	33,073	1.4	8.1
Nasdaq	13,139	-0.6	1.9
DAX	14,749	0.9	7.5
Nikkei 225	29,177	-2.1	6.3
FTSE 100	6,741	0.5	4.3
Sensex	49,009	-1.7	2.6
Hang Seng	28,336	-2.3	4.1
Regional Markets (Sunday to Thursday)			
ADX	5,727	-0.2	13.5
DFM	2,496	-4.2	0.1
Tadawul	9,418	-0.7	8.4
DSM	10,168	-1.3	-2.6
MSM30	3,678	-2.0	0.5
BHSE	1,464	0.3	-1.7
KWSE	5,771	-0.5	4.1
MSCI			
MSCI World	2,815	0.7	4.6
MSCI EM	1,307	-2.2	1.3

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	64.6	0.1	24.7
WTI USD/bbl	61.0	-0.7	25.7
Gold USD/t oz	1,732.5	-0.7	-8.7
Silver USD/t oz	25.1	-4.5	-5.1
Platinum USD/t oz	1,188.6	-0.8	10.9
Copper USD/MT	8,929.0	-1.2	15.3
Alluminium	2,284.0	1.6	15.4
Currencies			
EUR USD	1.18	-0.9	-3.5
GBP USD	1.38	-0.6	0.9
USD JPY	109.64	0.7	-5.8
CHF USD	0.94	1.1	-5.7
Rates			
USD Libor 3m	0.19	-2.0	-19.0
USD Libor 12m	0.28	1.6	-17.9
UAE Eibor 3m	0.39	7.5	-23.4
UAE Eibor 12m	0.67	14.7	3.0
US 3m Bills	0.02	700.0	-73.9
US 10yr Treasury	1.68	-2.6	83.5

Summary market outlook

Global Yields	10yr USTs retreated below 1.7%, declining during much of the week but later slightly rising on upbeat weekly jobless claims data. US credit partially recovered previous week losses with UST yields stabilizing. In Europe, core and peripheral bond yields edged lower on concerns of slow vaccine roll-out and extension of restrictions. We expect UST yields to remain volatile in the near term but prefer medium to long-term USTs due to Fed's status quo on monetary policy.
Stress and Risk Indicators	Last week the VIX index fell below the 20 level to its lowest since February 2020. Whilst we are unlikely to see the VIX 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	MSCI GCC index outperformed EM but underperformed broader equity benchmarks over the week. For regional markets, falling oil prices and rising COVID-19 cases in Europe, created headwinds. Within the region Dubai market fell the most, as a few stocks there traded 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 delivered marginal gains over the week. EMs, led down by BRICs, underperformed DMs significantly. US outperformed the most. Sector wise, real estate, consumer staples, utilities and IT outperformed while communication services and consumer discretionary underperformed. 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	Gold prices slipped marginally last week. Silver prices registered larger fall as stronger USD proved to be a headwind. We remain overweight gold as a hedge against potential risks on the horizon.
Energy	Oil prices moved sideways over the past week following a rollercoaster week. On the demand side, extended lockdowns in Europe exerted a drag. On the supply side, the jam in the Suez Canal and higher than expected US crude inventories were key influences. Stronger USD was negative too. Market could also wait out for signals from the 15th OPEC+ meeting on April 1st. Overall, we believe that oil prices are likely to remain sustained as the market is roughly balanced.
Industrial Metals	Industrial metal price movements were rather mixed against the backdrop of stronger USD. Copper prices fell but aluminium prices rose strongly last week. We do not recommend industrial metals exposure over the long run as China structurally reigns in demand.
Currencies	
EURUSD	With US growth outlook improving while Europe continues to face extended lockdowns, EURUSD fell further to its lowest level since early November 2020. We expect movements in major currencies to be influenced by how the re-opening of the economies unfolds.
Critical levels	R2 1.2414 · R1 1.2104 · S1 1.1623 · S2 1.1452
GBPUSD	GBP fell against the USD (but rose against the EUR). We expect the cable to be driven by how the “re-opening” plays out over the near-term and therefore to some extent further decouple from the EUR.
Critical levels	R2 1.4466 · R1 1.4127 · S1 1.3560 · S2 1.3332
USDJPY	Widening US-Japan rate differential pushed the USDJPY to the highest level since June last year. As such, we believe that BoJ yield curve targeting should put continuing downward pressure on the yen.
Critical levels	R2 113.07 · R1 111.36 · S1 106.42 · S2 103.19

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

Forthcoming important economic data/events

United States

	Indicator	Period	Expected	Prior	Comments
03/30/21	**Conf. Board Consumer Confidence**	**Mar**	**96.8**	**91.3**	Job market data for March will be the highlight for this week. Consensus expectations are for the ADP employment to increase by 550k, nonfarm payrolls to register a rise of 643k and the unemployment rate to fall to 6.0%. However, much of the focus will be on the sector composition of these numbers especially the services segments. Average hourly earnings are expected to moderate further to 4.5% in March from 5.3% in February. CB consumer confidence and ISM releases are important too.
03/31/21	MBA Mortgage Applications	26-Mar	--	-2.50%	
03/31/21	**ADP Employment Change**	**Mar**	**550k**	**117k**	
03/31/21	MNI Chicago PMI	Mar	60.0	59.5	
03/31/21	Pending Home Sales MoM	Feb	-2.90%	-2.80%	
04/01/21	**Initial Jobless Claims**	**27-Mar**	**680k**	**684k**	
04/01/21	Continuing Claims	20-Mar	3,775k	3,870k	
04/01/21	Construction Spending MoM	Feb	-1.00%	1.70%	
04/01/21	**ISM Manufacturing**	**Mar**	**61.4**	**60.8**	
04/02/21	**Change in Nonfarm Payrolls**	**Mar**	**643k**	**379k**	
04/02/21	**Unemployment Rate**	**Mar**	**6.00%**	**6.20%**	
04/02/21	**Average Hourly Earnings YoY**	**Mar**	**4.50%**	**5.30%**	

Japan

	Indicator	Period	Expected	Prior	Comments
03/30/21	**Jobless Rate**	**Feb**	**3.00%**	**2.90%**	Industrial production numbers are expected to show smaller contraction in March on y-o-y basis compared to February. However, on a sequential basis, the drag from limited vehicle production due to shortage of semiconductors is likely to show up in the numbers.
03/30/21	**Retail Sales YoY**	**Feb**	**-2.80%**	**-2.40%**	
03/31/21	**Industrial Production YoY**	**Feb P**	**-2.00%**	**-5.20%**	
04/01/21	Tankan Large Mfg Index	1Q	-1	-10	
04/01/21	Tankan Large Non-Mfg Index	1Q	-5	-5	
04/01/21	Jibun Bank Japan PMI Mfg	Mar F	--	52	

Eurozone

	Indicator	Period	Expected	Prior	Comments
03/30/21	**Eurozone Consumer Confidence**	**Mar F**	**--**	**-10.8**	Consensus expectations are for the March headline CPI to edge higher y-o-y on base effect of energy prices but the core CPI y-o-y growth to remain unchanged from February. Consumer and economic confidence measures alongside PMIs will be watched closely.
03/30/21	**Eurozone Economic Confidence**	**Mar**	**96.0**	**93.4**	
03/31/21	DE unemployment change (000's)	Mar	-1.0k	9.0k	
03/31/21	**Eurozone CPI Estimate YoY**	**Mar**	**1.40%**	**0.90%**	
03/31/21	**Eurozone CPI Core YoY**	**Mar P**	**1.10%**	**1.10%**	
04/01/21	Markit Eurozone Manufacturing PMI	Mar F	62.4	62.4	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
03/29/21	Mortgage Approvals	Feb	95.0k	99.0k	Nationwide house prices dipped in January but rose unexpectedly by 6.9% y-o-y in February. Market consensus estimates a rise in house prices in March.
03/31/21	**Nationwide House Px NSA YoY**	**Mar**	**6.40%**	**6.90%**	
03/31/21	**GDP YoY**	**4Q F**	**-7.80%**	**-7.80%**	
04/01/21	Markit UK PMI Manufacturing SA	Mar F	57.9	57.9	

China and India

	Indicator	Period	Expected	Prior	Comments
03/31/21	**China NBS Non-manufacturing PMI**	**Mar**	**52.3**	**51.4**	China PMI data (both NBS and Caixin) will be closely watched. Both measures are expected to point to a strengthening economy.
03/31/21	**China NBS Manufacturing PMI**	**Mar**	**51.2**	**50.6**	
04/01/21	Caixin China PMI Mfg	Mar	51.3	50.9	

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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