

The Weekly Market View

May 01 2023

Mixed end to April

Market sentiment was mixed last week amidst the busy corporate earnings, mixed economic data releases, Fed black-out period, lingering debt ceiling concerns and renewed concerns of the banking sector crisis with First Republic bank facing collapse. Advanced estimate of US 1Q 23 GDP came in at 1.1% q-o-q, lower than expectations and slowing from 2.6% q-o-q growth in 4Q 22. However, the breakdown of the sub components pointed to resilience with the slowdown in business investment and inventories weighing on the overall growth but consumption, government spending and net exports contributing positively. The Fed's preferred core PCE rose 4.6% yoy in March, slightly lower than 4.7% yoy growth in February. Eurozone advanced estimate of 1Q23 GDP showed that the region grew by 0.1%, below expectations with German economy stagnating over the period. Inflation in Germany slowed while picked up in France and Spain. In Asia, the Bank of Japan kept the monetary policy unchanged with the new Governor Kazuo Ueda keeping the yield curve control policy framework intact. However, the central bank made upwards revision to the inflation forecasts and announced that it will conduct a broad review of the monetary policy. Global equities recorded flat performance as the positive sentiment on strong corporate earnings was offset by the soft economic data. US equities outperformed, helped by the upbeat technology sector earnings. Banking sector concerns resurfaced with reports of the FDIC taking the First Republic Bank into receivership. UST yields declined on soft economic data and dovish BoJ policy bias. The USD weakened over the week despite the banking sector concerns.

EM debt- Out of the woods yet?

EM USD sovereigns have recorded positive gains of 2.1% in 1Q23, but underperformed the broader fixed income peers. Decline in UST yields, weak dollar bias and most importantly China-reopening optimism have proved to be the tailwinds for the asset class so far this year. EM economic outlook has also improved relative to DM. According to the Citi growth surprise index, economic data in the EM has surprised more on the upside relative to DM. EM composite PMIs have relatively improved. Having said that, EM debt valuations are almost pricing in the positive growth momentum. Average EM 5yr CDS spread has tightened with the positive growth surprises. Valuations are still attractive versus the EM LCY and US HY. However, we believe that EM bonds could still face some headwinds in the near term. Besides the idiosyncratic domestic issues, external headwinds remain for EM USD bonds particularly in terms of their vulnerability to the US financial conditions and correlation with the MOVE Index. While the IMF still expects the EM growth to outperform DM growth, the fund has downgraded the EM growth outlook in its latest April outlook and has also cautioned on the rising risk of debt distress in the weak EM economies. The IMF also estimates that 56% of low-income EM countries are already in debt distress or at high risk of it, while 25% of EM economies are estimated to be at high risk. We maintain our neutral stance on EM USD sovereign and emphasize on quality bias within the asset class, preferring countries backed by strong fundamentals- this includes high quality GCC sovereigns and Oman. The relative outperformance of EM USD IG versus EM USD HY in 1Q23 underlines the importance of sticking with quality names given the backdrop of high global bond market volatility.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	4,169	0.87	8.59
Dow Jones	34,098	0.86	2.87
Nasdaq	12,227	1.28	16.82
DAX	15,922	0.26	14.36
Nikkei 225	28,856	1.02	11.35
FTSE 100	7,871	-0.55	5.62
Sensex	61,112	2.44	0.45
Hang Seng	24,209	-0.90	0.57

Regional Markets

ADX	9,789	1.61	-4.13
DFM	3,545	2.13	6.26
Tadawul**	11,271	0.96	7.91
DSM**	10,145	2.17	-4.68
MSM30**	4,735	-0.19	-2.87
BHSE**	1,895	0.38	0.48
KWSE**	7,163	0.09	-2.05

MSCI

MSCI World	2,836	0.46	8.96
MSCI EM	977	-0.38	2.16

Source: Bloomberg, and ADCB Asset Management

Notes: *Data as of April 28 2023 unless stated otherwise; **Data as of April 27 2023.

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	79.5	-2.60	-7.15
Nymex WTI USD/bbl	76.8	-1.40	-5.05
Gold USD/t oz	1,990.0	0.35	8.66
Silver USD/t oz	25.1	-0.12	4.45
Platinum USD/t oz	1,078.3	-4.34	-0.27
Copper USD/MT	8,571.0	-2.78	2.19
Alluminium	2,372.0	-0.69	0.96

Currencies

EUR USD	1.10	0.30	2.82
GBP USD	1.26	1.09	3.96
USD JPY	136.30	1.60	4.21

Rates

	Latest	Weekly (bp)	YTD(bp)
SOFR	4.81	1.00	51.00
USD Libor 3m	5.30	4.40	53.19
USD Libor 12m	5.32	-8.76	-16.07
UAE Eibor 3m	4.99	-26.07	67.84
UAE Eibor 12m	5.23	10.45	12.33
US 3m Bills	5.03	1.30	68.73
US 10yr Treasury	3.42	-14.98	-45.28

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Summary market outlook

Global Yields

Bond yields declined across the DM sovereigns on soft economic data and dovish BoJ policy. UST yields dropped on the back of soft 1Q23 US GDP, renewed banking sector concerns and lingering debt ceiling concerns. However, Eurozone bond yields declined more than UST on the back of disappointing GDP data and lower German inflation print. 10yr JGB bond yields declined as the BoJ, under the new Governor Ueda kept the monetary policy unchanged. Global corporate IG and corporate HY recorded positive gains. 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 (measure of implied volatility in equities) dropped to the lowest level since November 2021. On the other hand, MOVE Index (measure of bond volatility) jumped last week. SKEW index (measure of tail risks) rose to its highest level since April 2022. 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 managed to deliver positive gains over the week. Qatar and Dubai stocks outperformed the most while Oman recorded declines and underperformed. 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 ended the week with flat gains. EM equities recorded losses, underperforming DM equities. Within DM, US outperformed while Europe and UK equities underperformed. We are overweight North America, and Asia Pacific ex Japan; underweight Europe 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 HK equities and Chinese hotels & leisure (beneficiaries of the post-pandemic reopening of the Chinese economy), Cybersecurity and Chinese Semiconductors (play on rising deglobalisation risks and national security prominence), and US Diversified banks over US Regional banks (Diversified banks in the US do not have same risks that regional banks carry).

Technology Segments

Nasdaq-100 index recorded gains of 1.9% while HK Tech lost 1.75%.

Commodities

Precious Metals

Gold prices ended the week flat ahead of the Fed meeting and weak dollar bias. Silver and platinum prices declined. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.

Energy

Crude oil prices recorded losses for the second week in a row on soft economic data and slowdown concerns. Overall, over the medium-term we believe that oil prices will remain sustained as the market balances into the new normal.

Industrial Metals

Industrial metal prices declined 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 flat despite the weak dollar bias as the German inflation surprised on the downside. We expect euro to stabilize and record a better performance in 2023 compared to 2022.

Critical levels



GBPUSD

GBP/USD moved higher on the back of weak dollar bias. We expect GBP to weaken against EUR and stay flat versus the USD.

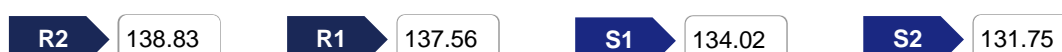
Critical levels



USDJPY

USD/JPY rose as the BoJ maintained its loose monetary policy bias and yield curve control framework. Yen is likely to strengthen in 2023 as interest rate differentials tighten, and as broad USD weakens.

Critical levels



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Forthcoming important economic data/events

United States



Date & Time (GST)	Indicator	Period	Expected	Prior
05/01/23 17:45	S&P Global US Manufacturing PMI	Apr F	--	50.4
05/01/23 18:00	Construction Spending MoM	Mar	0.20%	-0.10%
05/01/23 18:00	ISM Manufacturing	Apr	46.8	46.3
05/01/23 18:00	ISM New Orders	Apr	--	44.3
05/02/23 18:00	Factory Orders	Mar	0.60%	-0.70%
05/02/23 18:00	Durable Goods Orders	Mar F	--	3.20%
05/03/23 15:00	MBA Mortgage Applications	28-Apr	--	3.70%
05/03/23 17:45	S&P Global US Services PMI	Apr F	--	53.7
05/03/23 18:00	ISM Services Index	Apr	51.8	51.2
05/03/23 22:00	FOMC Rate Decision (Upper Bound)	3-May	5.25%	5.00%
05/03/23 22:00	FOMC Rate Decision (Lower Bound)	3-May	5.00%	4.75%
05/03/23 22:00	Interest on Reserve Balances Rate	4-May	--	4.90%
05/04/23 16:30	Trade Balance	Mar	-\$69.2b	-\$70.5b
05/04/23 16:30	Initial Jobless Claims	29-Apr	--	--
05/04/23 16:30	Continuing Claims	22-Apr	--	--
05/05/23 16:30	Change in Nonfarm Payrolls	Apr	175k	236k
05/05/23 16:30	Unemployment Rate	Apr	3.60%	3.50%
05/05/23 16:30	Average Hourly Earnings YoY	Apr	--	4.20%
05/05/23 16:30	Labor Force Participation Rate	Apr	--	62.60%

Japan



Date & Time (GST)	Indicator	Period	Expected	Prior
05/01/23 04:30	Jibun Bank Japan PMI Mfg	Apr F	--	49.5
05/01/23 09:00	Consumer Confidence Index	Apr	35	33.9
05/02/23 03:50	Monetary Base YoY	Apr	--	-1.00%

Eurozone



Date & Time (GST)	Indicator	Period	Expected	Prior
05/02/23 11:50	HCOB France Manufacturing PMI	Apr F	--	45.5
05/02/23 11:55	HCOB Germany Manufacturing PMI	Apr F	--	44
05/02/23 12:00	HCOB Eurozone Manufacturing PMI	Apr F	--	45.5
05/02/23 13:00	Eurozone CPI YoY	Apr	--	6.90%
05/02/23 13:00	Eurozone CPI Core YoY	Apr P	--	5.70%
05/03/23 13:00	Eurozone Unemployment Rate	Mar	--	6.60%
05/04/23 10:00	Germany Trade Balance SA	Mar	--	16.0b
05/04/23 13:00	Eurozone PPI YoY	Mar	--	13.20%
05/04/23 16:15	Eurozone ECB Main Refinancing Rate	4-May	--	3.50%
05/04/23 16:15	Eurozone ECB Marginal Lending Facility	4-May	--	3.75%
05/04/23 16:15	Eurozone ECB Deposit Facility Rate	4-May	--	3.00%
05/05/23 10:00	Germany Factory Orders WDA YoY	Mar	--	-5.70%
05/05/23 10:45	France Industrial Production YoY	Mar	--	1.30%
05/05/23 10:45	France Manufacturing Production YoY	Mar	--	2.20%
05/05/23 13:00	Eurozone Retail Sales YoY	Mar	--	-3.00%

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United Kingdom



Date & Time (GST)	Indicator	Period	Expected	Prior
05/02/23 10:00	Nationwide House Px NSA YoY	Apr	-3.80%	-3.10%
05/02/23 12:30	S&P Global/CIPS UK Manufacturing PMI	Apr F	--	46.6
05/04/23 12:00	New Car Registrations YoY	Apr	--	18.20%
05/04/23 12:30	Net Consumer Credit	Mar	--	1.4b
05/04/23 12:30	Mortgage Approvals	Mar	--	43.5k
05/04/23 12:30	S&P Global/CIPS UK Services PMI	Apr F	--	54.9
05/05/23 12:30	S&P Global/CIPS UK Construction PMI	Apr	--	50.7

China and India



Date & Time (GST)	Indicator	Period	Expected	Prior
05/03/23 09:00	India S&P Global PMI Services	Apr	--	57.8
05/04/23 05:45	China Caixin PMI Mfg	Apr	50.5	50
05/05/23 05:45	China Caixin PMI Services	Apr	57.7	57.8
05/07/23	China Foreign Reserves	Apr	--	\$3183.87b

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