# The Weekly Market View

May 09 2022

ADCB ASSET MANAGEMENT LIMITED

## Topsy-turvy

Financial markets remained volatile in the week when central banks were in full action to fight inflation that has proved less transitory than initially assumed. Last week The Reserve Bank of Australia (RBA) not only raised interest rates for the first time in 11 years, but also surprised with a bigger than expected hike. In the US, the Fed raised its interest rates by 50bp and announced that the balance sheet runoff will begin at a pace of USD47.5bn (USD30bn treasuries and USD17.5bn mortgages) on June 1, and will rise the pace of runoff over three months to a total of USD90bn (USD60bn treasuries and USD30bn mortgages). However, the Fed Chair Jerome Powell clearly indicated that the Committee was not actively considering a 75bps rate hike. In the UK, the BoE hiked Bank Rate by 25bps to 1.00%, with three members voting for a larger 50bps move. BoE's projections for inflation were raised significantly while growth estimates were marked down to indicate an output loss next year. Norway's central bank, Norges Bank, kept rates on hold last week after hiking them by a 25bps to 0.75% in March but indicated a faster rate hiking path ahead. In emerging markets, Brazil's central bank raised the Selic rate by 100bp to 12.75%, in line with market expectations and indicated another rate hike in June after having raised interest rates 10 times over the past 15 months. However, Reserve Bank of India surprised the markets by raising the repo rate by 40bp to 4.4% and the CRR by 50bp to 4.5% in an off-cycle meeting and indicated more rate hikes. Elsewhere in emerging markets, central banks of Czech Republic, Chile, and Poland all increased their policy rates last week.

10Y UST yields rose above 3% level for the first time since late-2018. VIX index remained volatile through the week but ended the week higher and above the 30 mark. Global equities fell for the fifth consecutive week taking the year-to-date losses to c15%. US equities suffered their worst streak of weekly losses in a decade. Broader USD was volatile but ended the week stronger. Gold and silver prices fell on rising UST yields and stronger USD. Oil prices rose last week as potential EU ban on Russian oil and disciplined OPEC+ production outweighed the demand concerns from China lockdowns.


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## Sell in May and go away?

Thanks to a range of crosscurrents, (see The Weekly Market View, April 18 2022) financial market returns remained weak and the sentiment has been fragile in recent months. VIX index and MOVE index, measures of implied volatility in equities and bonds respectively have risen so far this year. Equity risk sentiment as measured by the share of bullish readings in the weekly survey conducted by the American Association of Individual Investors hit a 30-year low recently. Put call volumes have risen too. Against this backdrop, investors are left to wonder if they should 'sell in May and go away' as the traditional seasonality would suggest. We think long-term investors in risk assets should instead 'stay in May, but not re-risk right away'. We believe that the monetary policy across the globe is just normalizing and calls for 'restrictive' monetary policy are likely to fade over next couple of months as growth is likely to slow and inflation is likely to fall. As such, monetary policy expectations need to adjust as the growth-inflation mix evolves – something we said is key to watch this year (see 2022 Outlook: Catch'22, January 2022). In absence of a recession, H2'22 is likely to provide a good opportunity to add back risk.

However, over the near-term markets are likely to remain volatile as repricing of growth and inflation occurs. The focus so far has been on higher inflation and will likely move to slowing growth over the remainder of the year. As such, we think near-term financial market performances are likely to be driven by concerns about slower global growth and rising risks of a recession. Here, while we are not worried about an outright recession, we remain watchful of slowing growth (see Q2 2022 Outlook: Watchful, not worried, April 2022). In summary, market volatility is likely to remain elevated in the near-term but better times could arrive later in the year. We think long-term investors should stay invested but not add to risk positions right away.

## Global markets' performance snapshot*

**Index Snapshot (World Indices)***

| Index | Latest | Weekly % | YTD % |
|---|---|---|---|
| S&P 500 | 4,123 | -0.2 | -13.5 |
| Dow Jones | 32,899 | -0.2 | -9.5 |
| Nasdaq | 12,145 | -1.5 | -22.4 |
| DAX | 13,674 | -3.0 | -13.9 |
| Nikkei 225 | 27,004 | 0.6 | -6.2 |
| FTSE 100 | 7,388 | -2.1 | 0.0 |
| Sensex | 54,836 | -3.9 | -5.9 |
| Hang Seng | 20,002 | -5.2 | -14.5 |
| **Regional Markets** | | | |
| ADX | 10,073 | -0.1 | 18.7 |
| DFM | 3,695 | -0.7 | 15.6 |
| Tadawul** | 13,734 | 0.0 | 21.2 |
| DSM** | 13,591 | 0.0 | 17.0 |
| MSM30** | 4,158 | 0.0 | 0.3 |
| BHSE** | 2,054 | -0.1 | 14.3 |
| KWSE** | 8,460 | 1.2 | 20.1 |
| **MSCI** | | | |
| MSCI World | 2,762 | -1.2 | -14.5 |
| MSCI EM | 1,032 | -4.2 | -16.3 |

**Global Commodities, Currencies and Rates***

| Commodity | Latest | Weekly % | YTD % |
|---|---|---|---|
| Brent USD/bbl | 112.4 | 2.8 | 44.5 |
| WTI USD/bbl | 109.8 | 4.9 | 46.0 |
| Gold USD/t oz | 1,885.9 | -1.2 | 3.5 |
| Silver USD/t oz | 22.5 | -2.8 | -3.5 |
| Platinum USD/t oz | 966.0 | 3.7 | 0.7 |
| Copper USD/MT | 9,411.0 | -3.7 | -3.4 |
| Alluminium | 2,810.0 | -7.3 | 0.1 |
| **Currencies** | | | |
| EUR USD | 1.06 | 0.1 | -7.2 |
| GBP USD | 1.23 | -1.9 | -8.8 |
| USD JPY | 130.58 | 0.6 | 13.4 |
| USD CHF | 0.99 | 1.6 | 8.4 |
| **Rates** | **Latest** | **Weekly (bp)** | **YTD (bp)** |
| USD Libor 3m | 1.40 | 6.7 | 119.3 |
| USD Libor 12m | 2.69 | 6.6 | 211.2 |
| UAE Eibor 3m | 1.39 | 5.9 | 102.8 |
| UAE Eibor 12m | 2.63 | 13.1 | 188.6 |
| US 3m Bills | 0.84 | 1.0 | 78.0 |
| US 10yr Treasury | 3.13 | 24.0 | 162.7 |

Notes: *Data as of May 06 2022 unless stated otherwise; **Data as of May 05 2022

**Summary market outlook**

| | |
|---|---|
| Global Yields | 10Y UST yields rose above 3% level for the first time since late-2018. UST yield curve continued to steepen over the recent weeks as long-term inflation expectations increased. The Fed's decision to raise US interest rates by 50bps and the announcement regarding normalisation of Fed balance sheet from June perhaps contributed further to the rise in yields. Core and peripheral Eurozone government bond yields rose mostly in tandem with UST yields. UK gilt yields fell after the Bank of England raised rates but cut its forecast for economic growth. Yields on 10Y JGBs rose in line with the movement in other major bond markets. Overall, we recommend a lower duration stance (5Y USTs) on the back of higher interest rate volatility in the near term. |
| Stress and Risk Indicators | VIX index remained volatile through the week but ended the week higher and above the 30 mark. SKEW index, a measure of tail risks continued to fall though. We expect financial market volatility to stay elevated through this year as the pandemic era policy accommodation is withdrawn. |
| **Equity Markets** | |
| Local Equity Markets | Equity markets in the GCC remained closed for Eid holidays for most part of the last week. UAE equity markets ended the holiday-shortened week lower. Year-to-date, all stock markets in the region have outperformed strongly in line with rising oil prices. IPOs and reform momentum have added to the positive sentiment in recent months too. 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 years are all balanced by lack of structural growth plays in the equity markets. |
| Global Equity Markets | Global equities fell for the fifth consecutive week taking the year-to-date losses to c15%. US equities suffered their worst streak of weekly losses in a decade. Last week, Japan and US outperformed while the UK and Eurozone underperformed. Sector wise, energy, utilities, and communication services outperformed but consumer sectors (both discretionary and staples), and real estate underperformed the most. We are moderately overweight US, UK, and Asia Pacific; underweight Eurozone and EMs outside Asia. By sector we prefer healthcare, industrials, and communication services. 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 deglobalisation; and consumer services, airlines, and hotels, restaurants & leisure as plays on re-opening. |
| Technology Segments | Technology segments came under pressure as long-term bond yields continued to rise. Within technology, we prefer non-cyclical growth over cyclical growth (tech hardware, semiconductors etc) over a 12-month horizon. |
| **Commodities** | |
| Precious Metals | Gold and silver prices fell on rising UST yields and a stronger USD. However, platinum prices managed to gain over the week. We are overweight gold as a hedge against potential inflation, growth and geopolitical risks. |
| Energy | Oil prices rose last week as the potential EU ban on Russian oil and disciplined OPEC+ production outweighed the demand concerns from China lockdowns. 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 edged lower on risk-off and growth concerns in China. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain. |
| **Currencies** | |
| EURUSD | EUR/USD snapped four consecutive weeks of losses and ended last week marginally higher despite the broader USD strength. We expect ECB policy divergence to play a major role in the performance of the euro. |
| Critical levels | R2 1.0718 · R1 1.0634 · S1 1.0559 · S2 1.0475 |
| GBPUSD | GBP fell sharply following the BoE rate decision to hike the Bank Rate by 25bps to 1.00%. BoE forecasts also showed significantly lower GDP growth and significantly higher inflation in 2023 and 2024. We expect GBP to weaken against USD and stay flat versus the EUR. |
| Critical levels | R2 1.2783 · R1 1.2565 · S1 1.2203 · S2 1.2059 |
| USDJPY | USD/JPY continued to hover around the twenty-year high on widening yield differentials between the US and Japan. Over the near to medium-term, BoJ's yield curve targeting should put downward pressure on JPY. |
| Critical levels | R2 132.18 · R1 131.37 · S1 129.19 · S2 127.82 |

## Forthcoming important economic data/events

### United States

| Date & Time (GST) | Indicator | Period | Expected | Prior |
|---|---|---|---|---|
| 05/09/22 18:00 | Wholesale Inventories MoM | Mar F | 2.30% | 2.30% |
| 05/10/22 14:00 | NFIB Small Business Optimism | Apr | -- | 93.2 |
| 05/11/22 15:00 | MBA Mortgage Applications | 6- May | -- | 2.50% |
| **05/11/22 16:30** | **CPI YoY** | **Apr** | **8.10%** | **8.50%** |
| **05/11/22 16:30** | **CPI Ex Food and Energy YoY** | **Apr** | **6.00%** | **6.50%** |
| 05/12/22 16:30 | PPI Ex Food and Energy YoY | Apr | 8.90% | 9.20% |
| 05/12/22 16:30 | PPI Final Demand MoM | Apr | 0.50% | 1.40% |
| **05/12/22 16:30** | **Initial Jobless Claims** | **7- May** | **190K** | **200K** |
| **05/12/22 16:30** | **Continuing Claims** | **30- Apr** | **1360K** | **1384K** |
| **05/13/22 18:00** | **U. of Mich. Sentiment** | **May P** | **63.8** | **65.2** |
| 05/13/22 18:00 | U. of Mich. 1 Yr Inflation | May P | 5.40% | 5.40% |
| 05/13/22 18:00 | U. of Mich. 5-10 Yr Inflation | May P | -- | 3.00% |

### Japan

| Date & Time (GST) | Indicator | Period | Expected | Prior |
|---|---|---|---|---|
| 05/09/22 03:30 | Labor Cash Earnings YoY | Mar | 1.00% | 1.20% |
| **05/09/22 04:30** | **Jibun Bank Japan PMI Services** | **Apr F** | **--** | **50.5** |
| 05/10/22 03:30 | Household Spending YoY | Mar | -3.30% | 1.10% |
| 05/12/22 03:50 | BoP Current Account Balance | Mar | ¥1,764.8b | ¥1,648.3b |
| 05/13/22 03:50 | Money Stock M2 YoY | Apr | 3.40% | 3.50% |

### Eurozone

| Date & Time (GST) | Indicator | Period | Expected | Prior |
|---|---|---|---|---|
| 05/10/22 | Bank of France Ind. Sentiment | Apr | -- | 103 |
| **05/10/22 13:00** | **Germany ZEW Survey Expectations** | **May** | **-43** | **-41** |
| **05/11/22 10:00** | **Germany CPI YoY** | **Apr F** | **--** | **7.40%** |
| **05/11/22** | **Germany Wholesale Price Index YoY** | **Apr** | **--** | **22.60%** |
| **05/13/22 10:45** | **France CPI YoY** | **Apr F** | **4.80%** | **4.80%** |
| **05/13/22 13:00** | **Eurozone Industrial Production WDA YoY** | **Mar** | **--** | **2.00%** |

### United Kingdom

| Date & Time (GST) | Indicator | Period | Expected | Prior |
|---|---|---|---|---|
| 05/10/22 03:01 | BRC Sales Like-For-Like YoY | Apr | -- | -0.40% |
| 05/12/22 03:01 | RICS House Price Balance | Apr | -- | 74% |
| **05/12/22 10:00** | **GDP YoY** | **1Q P** | **--** | **6.60%** |
| 05/12/22 10:00 | Construction Output YoY | Mar | -- | 6.10% |
| **05/12/22 10:00** | **Industrial Production MoM** | **Mar** | **--** | **-0.60%** |
| 05/12/22 10:00 | Manufacturing Production YoY | Mar | -- | 3.60% |
| 05/12/22 10:00 | Index of Services 3M/3M | Mar | -- | 0.80% |

### China and India

| Date & Time (GST) | **Indicator** | **Period** | **Expected** | **Prior** |
|---|---|---|---|---|
| **05/09/22** | **China Exports YoY** | **Apr** | **2.70%** | **14.70%** |
| **05/09/22** | **China Imports YoY** | **Apr** | **-3.40%** | **-0.10%** |
| **05/11/22 05:30** | **China PPI YoY** | **Apr** | **7.80%** | **8.30%** |
| **05/11/22 05:30** | **China CPI YoY** | **Apr** | **1.80%** | **1.50%** |
| 05/12/22 | India Industrial Production YoY | Mar | -- | 1.70% |
| **05/12/22** | **India CPI YoY** | **Apr** | **--** | **6.95%** |
| **05/13/22** | **China 1-Yr Medium-Term Lending Facility Rate** | **May** | **--** | **2.85%** |

## 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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