The Weekly Market View

May 17 2022

ADCB ASSET MANAGEMENT LIMITED

The Multiverse of Bearishness

Over the recent months, the universes of persistently high inflation, slowing growth, lingering virus, rising geopolitical risks, and central bank tightening have all collided causing a great deal of chaos in financial markets. As we know, financial markets are notoriously famous for their inability to focus on more than one risk at a time. Therefore, when confounded by a range of risks, financial markets tend to become volatile purely reflecting the uncertainty. During such periods, the bearish sentiment dominates even the relatively strong fundamental picture. And it is easy to be bearish at a time when asset prices are falling. This further exacerbates the weakness in financial markets. This has been the story so far this year, when investors had to navigate the multiverse of bearishness. For instance, the four-week average of net bullish readings on American Association of Individual Investor (AAII) survey has recently dropped to levels only seen during the peak of recession fears in the past.

Last week simply saw an extension of the trend of recent weeks. Global equities fell for the sixth consecutive week – making it the longest weekly losing streak since the middle of 2008. MSCI ACWI index fell 2% over the past week taking the year-to-date declines to more than 16%. DM equities outperformed EM equities over the past week. Within DM, UK, Europe-ex-UK, and Japan outperformed US equities in USD terms. EMs in LatAm outperformed broadly. Among global sectors, consumer staples, communication services, and health care outperformed while materials, IT, and real estate sector underperformed. VIX index remained volatile through the week but ended the week lower after having risen strongly so far this year. Yields on US treasuries remained volatile around the CPI data release in the US. However, for the week as a whole, yields on 10Y USTs fell sharply below the 3% level. Corporate bond spreads widened on risk-off. Broader USD strength persisted but last week saw USD fall against the JPY on weaker risk sentiment. Gold prices fell for the fourth consecutive week on broader USD strength. Oil prices stayed flat due to the uncertainty around a potential EU ban on Russian oil. Industrial metal prices fell on stronger USD, broader risk-off, and growth concerns in China.

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The point of maximum pressure

We might be approaching the point of maximum pressure on financial markets where the range of headwinds (high inflation, slowing growth, lingering virus, rising geopolitical risks, and central bank tightening) are all blowing at their maximum speed. Looking ahead, we should expect the headwinds to abate and provide the much-needed relief for financial markets. However, this process is likely to be gradual and spread over a period rather than achieving relief overnight. Sequencing of abating headwinds will determine the speed and nature of market performances looking ahead. Immediate relief can be got from falling COVID-19 cases in China. Over the course of next two months, the focus is likely to remain on persistent inflation across the board. Beyond that, the focus is likely to shift from inflation firmly to growth. Here, while we are watchful of downside risks to global economic growth, we are not worried about a recession at this stage. As markets navigate risks around growth and inflation, perceptions about the monetary policy are likely to remain fluid and at the fore. We see the recent rise in geopolitical risks as one episode in the long-term trend of deglobalizing world. Yet, any improvement in the Russia-Ukraine situation is likely to be near-term positive for risk-assets.

In summary, peak recession fears, peak inflation, peak COVID-19 cases in China, peak hawkishness in monetary policy, and potential peak in Russia sanctions are the precursors of a strong risk asset rally. However, these are likely to play over different time frames and influence performance of various assets in distinct ways. **We see near-term opportunities in sovereign bonds and gold; and in equities over the 6 to 12-month time frame.** For our positioning see Q2 2022 Outlook: Watchful, not worried, April 2022.

Global markets' performance snapshot*

Index Snapshot (World Indices)*			
Index	**Latest**	**Weekly %**	**YTD %**
S&P 500	4,024	-2.4	-15.6
Dow Jones	32,197	-2.1	-11.4
Nasdaq	11,805	-2.8	-24.5
DAX	14,028	2.6	-11.7
Nikkei 225	26,428	-2.1	-8.2
FTSE 100	7,418	0.4	0.5
Sensex	52,794	-3.7	-9.4
Hang Seng	19,899	-0.5	-15.0
Regional Markets			
ADX	9,493	-5.8	11.8
DFM	3,419	-7.5	7.0
Tadawul**	12,835	-7.1	13.3
DSM**	13,144	-3.0	13.1
MSM30**	4,146	-0.2	0.0
BHSE**	1,960	-4.1	9.0
KWSE**	7,869	-6.4	11.7
MSCI			
MSCI World	2,701	-2.2	-16.4
MSCI EM	1,005	-2.6	-18.5

Global Commodities, Currencies and Rates*			
Commodity	**Latest**	**Weekly %**	**YTD %**
Brent USD/bbl	111.6	-0.8	43.4
WTI USD/bbl	110.5	0.7	46.9
Gold USD/t oz	1,815.2	-3.8	-0.4
Silver USD/t oz	21.0	-6.5	-9.8
Platinum USD/t oz	943.0	-2.4	-1.7
Copper USD/MT	9,184.6	-2.4	-5.7
Alluminium	2,760.5	-1.8	-1.6
Currencies			
EUR USD	1.04	-1.3	-8.4
GBP USD	1.23	-0.6	-9.4
USD JPY	129.21	-1.0	12.3
USD CHF	1.00	1.3	9.8
Rates	**Latest**	**Weekly (bp)**	**YTD (bp)**
USD Libor 3m	1.41	0.9	120.2
USD Libor 12m	2.63	-6.5	204.7
UAE Eibor 3m	1.40	0.8	103.6
UAE Eibor 12m	2.62	-0.3	188.3
US 3m Bills	1.01	17.0	95.0
US 10yr Treasury	2.94	-18.1	144.5

Notes: *Data as of May 13 2022 unless stated otherwise; **Data as of May 12 2022

Summary market outlook

Global Yields	Yields on US treasuries remained volatile around the US CPI data release. However, for the week as a whole, yields on 10Y USTs fell sharply below the 3% level. Corporate bond spreads widened on risk-off sentiment. Weakness in high-yield credit was also in line with this narrative. Core Eurozone government bond yields fell amid a broad developed market bond rally led by USTs. Peripheral Eurozone and UK government bond yields moved in tandem with yields in core markets. Yields on 10Y JGBs remained unchanged over the week. 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 lower after having risen strongly so far this year. SKEW index, a measure of tail risks continued to decline. We expect financial market volatility to stay elevated through this year as the pandemic era policy accommodation is withdrawn.
Equity Markets	
Local Equity Markets	GCC equity markets ended the week sharply lower (MSCI GCC index lost c8% for the week), reversing a small portion of their year-to-date outperformance. MSCI UAE index fell sharply for the week but rebounded on Friday to end the week c9% down. Saudi equities too posted losses to the tune of c7% for the week. Kuwaiti equities lost 6% while Qatari equities fell 3%. 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 sixth consecutive week – making it the longest weekly losing streak since the middle of 2008. MSCI ACWI index fell 2.2% over the past week taking the year-to-date declines to more than 16%. DM equities outperformed EM equities over the past week. Within DM, UK, Europe-ex-UK, and Japan outperformed US equities in USD terms. EMs in LatAm outperformed broadly. Among global sectors, consumer staples, communication services, and health care outperformed while materials, IT, and real estate sector underperformed. 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 deglobalization; and consumer services, airlines, and hotels, restaurants & leisure as plays on re-opening.
Technology Segments	US tech equities came under further pressure while Chinese tech ended the week flat. Within technology, we prefer non-cyclical growth over cyclical growth (tech hardware, semiconductors etc.) over a 12-month horizon.
Commodities	
Precious Metals	Gold prices fell for the fourth consecutive week on broader USD strength. Silver and platinum also saw price declines. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Oil prices stayed flat due to the uncertainty around a potential EU ban on Russian oil. Disciplined OPEC+ production and the demand concerns from China lockdowns counter-balanced each other. 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 fell on stronger USD, broader 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 fell last week after having remained stable the previous week as risk-off sentiment dominated. We expect ECB policy divergence to play a major role in the performance of the euro.
Critical levels	R2 1.0695 · R1 1.0553 · S1 1.0310 · S2 1.0209
GBPUSD	GBP weakened against the USD as risk-off sentiment persisted through much of the past week. However, GBP appreciated against the EUR. We expect GBP to weaken against USD and stay flat versus the EUR.
Critical levels	R2 1.2525 · R1 1.2393 · S1 1.2143 · S2 1.2025
USDJPY	USD/JPY fell from its recent twenty-year high as UST yields edged lower. Further, risk-off sentiment helped the JPY. Over the near to medium-term, BoJ’s yield curve targeting should put downward pressure on JPY.
Critical levels	R2 133.19 · R1 131.20 · S1 127.37 · S2 125.53

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
05/17/22 16:30	**Retail Sales Advance MoM**	**Apr**	**1.00%**	**0.50%**
05/17/22 17:15	**Industrial Production MoM**	**Apr**	**0.40%**	**0.90%**
05/17/22 17:15	Capacity Utilization	Apr	78.50%	78.30%
05/17/22 18:00	**NAHB Housing Market Index**	**May**	**75**	**77**
05/18/22 15:00	**MBA Mortgage Applications**	**13- May**	**--**	**2.00%**
05/18/22 16:30	Building Permits	Apr	1,810K	1,873K
05/18/22 16:30	Housing Starts	Apr	1,763K	1,793K
05/19/22 16:30	**Philadelphia Fed business outlook**	**May**	**15.4**	**17.6**
05/19/22 16:30	**Initial Jobless Claims**	**14- May**	**--**	**--**

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
05/16/22 03:50	**PPI YoY**	**Apr**	**9.40%**	**9.50%**
05/16/22 10:00	Machine Tool Orders YoY	Apr P	--	30.00%
05/17/22 08:30	Tertiary Industry Index MoM	Mar	0.80%	-1.30%
05/18/22 03:50	**GDP Annualized SA QoQ**	**1Q P**	**-1.80%**	**4.60%**
05/18/22 08:30	Industrial Production YoY	Mar F	--	-1.70%
05/18/22 08:30	Capacity Utilization MoM	Mar	--	1.50%
05/19/22 03:50	**Exports YoY**	**Apr**	**13.90%**	**14.70%**
05/19/22 03:50	**Imports YoY**	**Apr**	**35.00%**	**31.20%**
05/20/22 03:30	**Natl CPI YoY**	**Apr**	**2.50%**	**1.20%**
05/20/22 03:30	**Natl CPI Ex Fresh Food YoY**	**Apr**	**2.10%**	**0.80%**

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
05/16/22 10:00	Germany Wholesale Price Index YoY	Apr	--	103
05/16/22 16:30	**Germany Manufacturing Sales MoM**	**May**	**-43**	**-41**
05/17/22 13:00	**Eurozone GDP**	**1Q P**	**5.00%**	**5.00%**
05/18/22 13:00	**Eurozone CPI YoY**	**Apr F**	**--**	**7.40%**
05/19/22 12:00	**Eurozone ECB Current Account SA**	**Apr**	**--**	**22.60%**
05/20/22 10:00	**Eurozone PPI YoY**	**Apr F**	**4.80%**	**4.80%**
05/20/22 18:00	Eurozone Consumer Confidence	Mar	--	2.00%

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
05/16/22 03:01	Rightmove House Prices MoM	May	--	1.60%
05/17/22 10:00	Average Weekly Earnings 3M/YoY	Mar	5.40%	5.40%
05/17/22 10:00	**ILO Unemployment Rate 3Mths**	**Mar**	**3.80%**	**3.80%**
05/18/22 10:00	**CPI YoY**	**Apr**	**9.10%**	**7.00%**
05/18/22 10:00	RPI YoY	Apr	11.00%	9.00%
05/20/22 03:01	GfK Consumer Confidence	May	-39	-38
05/20/22 10:00	Retail Sales Inc Auto Fuel MoM	Apr	-0.30%	-1.40%
05/20/22 10:00	Retail Sales Ex Auto Fuel YoY	Apr	-8.30%	-0.60%

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
05/16/22 05:20	China 1-Yr Medium-Term Lending Facility Rate	15- May	2.85%	2.85%
05/16/22 6:00	**China Fixed Assets Ex Rural YTD YoY**	**Apr**	**7.00%**	**9.30%**
05/16/22 6:00	**China Industrial Production YTD YoY**	**Apr**	**5.00%**	**6.50%**
05/16/22 6:00	**China Retail Sales YTD YoY**	**Apr**	**1.20%**	**3.30%**
05/16/22 6:00	**China Property Investment YTD YoY**	**Apr**	**-1.50%**	**0.70%**
05/16/22 6:00	China Surveyed Jobless Rate	Apr	6.00%	5.80%
05/17/22 10:30	**India Wholesale Prices YoY**	**Apr**	**14.99%**	**14.55%**
05/18/22 13:00	**India RBI Meeting Minutes**			
05/20/22 05:15	China 1-Year Loan Prime Rate	20- May	3.65%	3.70%
05/20/22 05:15	China 5-Year Loan Prime Rate	20- May	4.60%	4.60%

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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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