

# The Weekly Market View

May 23 2022

## No respite

No signs of relief for the global risk assets as concerns rose over the possible impact of inflation pressure building on consumer demand. Two of the major US retailers reported disappointing earnings, dragged by the lower profit margins, exacerbating inflation fears. In addition, hawkish comments by Fed Chair Jay Powell aggravated expectations of "whatever it takes" Fed response to tame inflation. Economic data was mixed but failed to indicate clear signs of an economic downturn. Retail sales rose better than expected. Industrial production and manufacturing production beat expectations. On the other hand, weekly jobless claims rose more than expectation while housing data disappointed. In the UK, inflation jumped to the highest level in 40 years. Japan recorded a growth contraction in 1Q 2022, lagging DM peers.

Global equities declined for the seventh consecutive week. MSCI ACWI index declined by c2% over the past week. EM equities outperformed DM equities. Within DM, US equities underperformed the most with the S&P 500 briefly entering the bear market territory after declining by c20% since its January intraday peak. On the other hand, Japanese equities recorded positive returns, making it the best performer. UK and Europe-ex UK were mostly unchanged but outperformed US equities. The 10yr UST yields declined on disappointing manufacturing data while the yield curve flattened with Fed Chair Jay Powell's hawkish commentary. European bond yields rose over the week, led by the periphery bond yields. US IG and EM USD debt recorded gains while US HY posted losses. Oil prices jumped for the fourth week in a row, helped by China's plans of a tentative re-opening and reports of low US inventories. Gold prices rose over the week on the back of a weaker USD bias. Industrial metal prices jumped on weaker USD sentiment and China re-opening plans. The USD weakened against the major currencies, recording its first weekly loss in almost two months.

## Time to add duration?

The 10yr UST yields have failed to sustain at levels above 3% despite the lingering inflation and Fed policy concerns. In fact, we believe that the case for adding duration is building. Firstly, the upward trend in the 10yr UST yields does not look sustainable amidst the continuous rise in US recession probabilities. Historical precedents indicate that the recent positive correlation between the movement in UST yields and recession probabilities has been rare. Secondly, the 10yr UST yields/5yr5yr US forward rates have more than accounted for the Fed's long-term neutral rate with the difference between the two trading near the highest level since 2012. The long-term yields, hence are almost pricing in the expectation of the Fed moving past the neutral rate. Thirdly, the volatility in the bond market has declined over the past few weeks. Lastly, inflation expectations have eased across the 2yr, 5yr and 10yr maturity segments, signalling that inflation peak may have already happened. **We maintain our overweight position on USTs- after having increased our allocation recently and monitoring the above drivers to eventually add duration.** Separately, we do not anticipate a repeat of the 1Q 22 sell-off in fixed income credit, particularly in case of US IG and EM USD debt. EM USD debt aggregate and US IG have declined to near levels seen during the Covid-19 sell-off. China debt sell-off and rising UST yields were key drivers for EM USD debt underperformance. While China debt troubles are unlikely to vanish anytime soon, the turn-around in the China credit impulse is a supportive factor for EM debt. In USD credit, long-duration characteristics and narrow spread buffer were responsible for the US IG underperformance while US HY tracked the stock market performance. However, signs of rising liquidity risks in US HY are emerging with the decline in new issuances, posing risks for the refinancing needs of lower-quality corporates. In fact, the underperformance of CCC bonds vs BB bonds is underway, in a reversal to the trend seen in 1Q22. **We remain neutral on US IG and EM USD debt and underweight (off-benchmark) on US HY.** 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	3,901	-3.0	-18.1
Dow Jones	31,262	-2.9	-14.0
Nasdaq	11,355	-3.8	-27.4
DAX	13,982	-0.3	-12.0
Nikkei 225	26,739	1.2	-6.7
FTSE 100	7,390	-0.4	0.1
Sensex	54,326	2.9	-6.7
Hang Seng	24,209	4.1	-12.5
Regional Markets			
ADX	9,934	4.6	17.0
DFM	3,393	-0.7	6.2
Tadawul**	12,428	-3.2	9.3
DSM**	12,730	-3.1	9.6
MSM30**	4,157	0.3	0.3
BHSE**	1,922	-1.9	6.0
KWSE**	7,830	-0.5	10.8
MSCI			
MSCI World	2,652	-1.7	-17.8
MSCI EM	1,015	3.1	-16.0

Notes: \*Data as of May 20 2022 unless stated otherwise; \*\*Data as of May 19 2022

## Global Commodities, Currencies and Rates\*

Global Commodities, Currencies and Rates*			
Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	112.6	0.9	45.8
Nymex WTI USD/bbl	113.2	2.5	47.5
Gold USD/t oz	1,846.5	1.9	1.4
Silver USD/t oz	21.8	3.1	-6.2
Platinum USD/t oz	957.2	1.1	-0.4
Copper USD/MT	9,477.0	4.6	-2.2
Alluminium	2,940.5	6.5	4.9
Currencies			
EUR USD	1.06	1.5	-6.9
GBP USD	1.25	1.8	-7.3
USD JPY	127.88	-1.0	9.6
USD CHF	0.97	-2.7	6.1
Rates			
	Latest	Weekly (bp)	YTD(bp)
USD Libor 3m	1.51	6.3	129.7
USD Libor 12m	2.73	7.8	214.7
UAE Eibor 3m	1.56	15.9	119.5
UAE Eibor 12m	2.59	-3.5	184.8
US 3m Bills	1.01	6.6	97.8
US 10yr Treasury	2.78	-13.7	127.1

### Prerana Seth

Fixed Income Strategist  
Tel: +971 (0)2 696 2878  
[prerana.seth@adcb.com](mailto:prerana.seth@adcb.com)

### Kishore Muktinutalapati

Equity Strategist  
Tel: +971 (0)2 696 2358  
[kishore.muktinutalapati@adcb.com](mailto:kishore.muktinutalapati@adcb.com)

### Mohammed Al Hemeiri

Analyst  
Tel: +971 (0)2 696 2236  
[mohammed.alhemeiri@adcb.com](mailto:mohammed.alhemeiri@adcb.com)

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## Summary market outlook

### Global Yields

The 10yr UST yields declined on disappointing manufacturing data while the yield curve flattened with Fed Chair Jay Powell's hawkish commentary. European bond yields rose over the week, led by the periphery bond yields. US IG and EM USD debt recorded gains while US HY posted losses, tracking the equity market trend. 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, ending the week marginally higher. SKEW index, a measure of tail risks was mostly unchanged. We expect financial market volatility to stay elevated through this year as the pandemic era policy accommodation is withdrawn.

## Equity Markets

### Local Equity Markets

Gulf equity markets had a mixed week, despite the rise in oil prices. With the exception of Abu Dhabi and Oman, all regional markets posted losses. Saudi Arabia and Qatar equities underperformed 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 years are all balanced by lack of structural growth plays in the equity markets.

### Global Equity Markets

Global equities recorded losses for the seventh consecutive week. MSCI ACWI index declined by c2% over the past week. EM equities outperformed DM equities. Within DM, US equities underperformed the most with the S&P 500 briefly entering the bear market territory after declining by c20% since its January intraday peak. On the other hand, Japanese equities recorded positive returns, making it the best performer. UK and Europe-ex UK were mostly unchanged but outperformed US equities. 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 HK tech index jumped by c6%. Within technology, we prefer non-cyclical growth over cyclical growth (tech hardware, semiconductors etc.) over a 12-month horizon.

## Commodities

### Precious Metals

Gold prices jumped over the week on the back of USD weakness. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.

### Energy

Oil prices rose for the fourth time in a row, helped by the China's tentative re-opening plans and surprise drawdown in US inventories. 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 jumped on USD weakness and China re-opening. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain.

## Currencies

### EURUSD

EUR strengthened on the back of broad dollar weakness. We expect ECB policy divergence to play a major role in the performance of the euro.

### Critical levels



### GBPUSD

The GBP/USD pair recorded its first weekly gain in five weeks. We expect GBP to weaken against USD and stay flat versus the EUR.

### Critical levels



### USDJPY

JPY strengthened against the USD in line with the drop in long-term UST yields. Over the near to medium-term, Bo's yield curve targeting should put downward pressure on JPY.

### Critical levels



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## Forthcoming important economic data/events

### United States

Date & Time (GST)	Indicator	Period	Expected	Prior
05/23/22 16:30	Chicago Fed Nat Activity Index	Apr	--	0.44
<b>05/24/22 17:15</b>	<b>S&amp;P Global US Manufacturing PMI</b>	<b>May P</b>	<b>58</b>	<b>59.2</b>
<b>05/24/22 18:00</b>	<b>S&amp;P Global US Services PMI</b>	<b>May P</b>	<b>56</b>	<b>55.6</b>
05/24/22 15:00	New Home Sales	Apr	755K	763K
05/25/22 16:30	MBA Mortgage Applications	20- May	--	-11.00%
05/25/22 22:00	Durable Goods Orders	Apr P	0.60%	1.10%
<b>05/25/22 16:30</b>	<b>FOMC Meeting Minutes</b>	<b>4- May</b>	<b>--</b>	<b>--</b>
<b>05/26/22 16:30</b>	<b>GDP Annualized Qu</b>	<b>1Q S</b>	<b>-1.30%</b>	<b>-1.40%</b>
<b>05/26/22 16:30</b>	<b>Personal Consumption</b>	<b>1Q S</b>	<b>--</b>	<b>2.70%</b>
05/20/22 16:30	Initial Jobless Claims	21- May	--	--
05/20/22 16:30	Continuing Claims	14- May	--	--
05/20/22 18:00	Pending Home Sales Mom	Apr	-2.00%	-1.20%
<b>05/20/22 16:30</b>	<b>Personal Income</b>	<b>Apr</b>	<b>0.60%</b>	<b>0.50%</b>
<b>05/20/22 16:30</b>	<b>Personal Spending</b>	<b>Apr</b>	<b>0.60%</b>	<b>1.10%</b>
05/20/22 16:30	PCE Deflator YoY	Apr	--	6.60%
05/20/22 16:30	PCE Core Deflator YoY	Apr	4.90%	5.20%
<b>05/20/22 18:00</b>	<b>U. of Mich. Sentiment</b>	<b>May F</b>	<b>59.1</b>	<b>59.1</b>
05/20/22 18:00	U. of Mich. 1 Yr. Inflation	May F	--	5.40%
05/20/22 18:00	U. of Mich. 5-10 Yr. Inflation	May F	--	3.00%

### Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
<b>05/24/22 03:50</b>	<b>Jibing Bank Japan PMI Services</b>	<b>May P</b>	<b>--</b>	<b>50.7</b>
<b>05/24/22 10:00</b>	<b>Jibing Bank Japan PMI Mfg.</b>	<b>May P</b>	<b>--</b>	<b>53.5</b>
05/24/22 08:30	Tokyo Dept. Store Sales YoY	Apr	--	11.30%
<b>05/27/22 03:30</b>	<b>Natl CPI YoY</b>	<b>May</b>	<b>2.60%</b>	<b>2.50%</b>
<b>05/27/22 03:30</b>	<b>Natl CPI Ex Fresh Food YoY</b>	<b>May</b>	<b>2.00%</b>	<b>1.90%</b>

### Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
<b>05/23/22 12:00</b>	<b>Germany IFO Business Climate</b>	<b>Apr</b>	<b>--</b>	<b>103</b>
05/23/22 12:00	Germany IFO Expectations	May	-43	-41
<b>05/24/22 12:00</b>	<b>Eurozone S&amp;P Global Manufacturing PMI</b>	<b>1Q P</b>	<b>5.00%</b>	<b>5.00%</b>
<b>05/24/22 12:00</b>	<b>Eurozone S&amp;P Global Services PMI</b>	<b>Apr F</b>	<b>--</b>	<b>7.40%</b>
<b>05/25/22 10:00</b>	<b>Germany GfK Consumer Confidence</b>	<b>Apr</b>	<b>--</b>	<b>22.60%</b>
05/25/22 10:45	France Consumer Confidence	Apr F	4.80%	4.80%
05/27/22 12:00	Eurozone M3 Money Supply YoY	Mar	--	2.00%
05/27/22 06/02	Germany Retail Sales MoM			

### United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
05/23/22 03:01	Rightmove House Prices MoM	May	--	9.90%
<b>05/24/22 12:30</b>	<b>S&amp;P Global/CIPS UK Manufacturing PMI</b>	<b>May P</b>	<b>--</b>	<b>55.8</b>
<b>05/24/22 12:20</b>	<b>S&amp;P Global/CIPS UK Services PMI</b>	<b>May P</b>	<b>58.9</b>	<b>3.80%</b>
05/28/22 06/03	Nationwide House Px NSA YoY	May	--	12.10%

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China and India 

Date & Time (GST)	Indicator	Period	Expected	Prior
05/27/22 05:30	China Industrial Profits YTD YoY	Apr	--	8.50%

## 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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