The Weekly Market View

May 30 2022

ADCB ASSET MANAGEMENT LIMITED

Breaking a seven-week losing streak

Last week saw markets 'feel' the peak hawkishness of the Fed. Signs of peaking inflation (smaller-than-expected rise in core-PCE index and falling consumer inflation expectations) allowed markets to focus on softening growth (weaker PMIs, falling home sales, depressed consumer sentiment, and corporate earnings disappointments). Also, FOMC meeting minutes released last week showed a broader agreement amongst policy makers for a 50bps rate hike for the next two Fed meetings. This has helped market price out the possibility of larger rate hikes and gave them the near-term visibility of the interest rate path ahead.

10Y UST yields fell further last week as evidence of slowing growth and moderating inflation emerged. The USD edged lower for second-straight week as expectations for US Federal Reserve interest rate hikes were pared. EUR/USD reached a four-week high on broader USD weakness before retreating marginally towards end of the week. GBP/USD, helped by a large UK government spending package to support households, rose for the second consecutive week close to a 4-week high. USD/JPY declined for the third consecutive week despite the improvement in risk-appetite as UST yields fell. Global equities ended their 7-week losing streak and recorded their best weekly performance since mid-March. DM equities significantly outperformed their EM counterparts. Within DM, US equities outperformed strongly. S&P 500 index rose c7%, the best weekly performance since mid-November 2020. Sector wise, all 11 global GICS equity sectors posted gains last week. VIX index, a measure of implied volatility in equities, fell sharply over the past week alongside the decline in the VVIX (volatility of the VIX index). SKEW index, a measure of tail risks remained fairly contained. Turning to commodities, gold prices, propped up by a pullback in the dollar and US Treasury yields, edged up for a second consecutive week. Oil prices rose for the fifth consecutive week as improving demand and tightening supplies helped.

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Wearing a contrarian's hat

High and rising inflation, slowing growth, lingering virus, rise of geopolitical risks, and central bank tightening have all created headwinds to financial markets over the past several months. After a volatile five-month period, we might be close to or even at the point of maximum pressure on financial markets where a range of headwinds 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. This process is likely to be gradual and spread over a period rather than achieving relief overnight. However, contrarian investors might like to position ahead of the rest. We think it is time for contrarian investors to look at each of the macro drivers and think what could go right from here. To start with the immediate relief could come from easing of COVID-19 restrictions and policy easing in China. Markets are likely to reassess the outlook for not only the Chinese economy and assets but also of the global trade and supply side bottlenecks. Further, moderating inflation should help improve the risk appetite. Environments of high but falling inflation are more favourable than those of high and rising inflation. While there is uncertainty about the trajectory of inflation, we do expect the inflation trends in the near future to turn pro-risk at the margin. On growth, while we are watchful of downside risks to the global economy, we are not worried about a recession at this stage. Our base-case scenario with higher probability sees an asynchronous mid-cycle slowdown of the global economy and the worst-case scenario with lower probability sees a recession. As markets navigate risks around growth and inflation, perceptions about the monetary policy are likely to remain fluid and at the fore. Here, markets have priced in hawkish extreme despite uncertainty about the neutral rate. As inflation cools and growth slows, markets are likely to reconsider their hawkish bets. On geopolitical front, any improvement in the Russia-Ukraine situation is likely to be near-term positive for risk-assets. Yet, we see the recent rise in geopolitical risks as one episode in the long-term trend of this deglobalizing world.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	4,158	6.6	-12.8
Dow Jones	33,213	6.2	-8.6
Nasdaq	12,131	6.8	-22.5
DAX	14,462	3.4	-9.0
Nikkei 225	26,782	0.2	-7.0
FTSE 100	7,585	2.7	2.7
Sensex	54,885	1.0	-5.8
Hang Seng	20,697	-0.1	-11.5
Regional Markets			
ADX	9,689	-2.5	14.1
DFM	3,295	-2.9	3.1
Tadawul**	12,530	1.6	10.6
DSM**	12,829	0.7	10.4
MSM30**	4,107	-0.8	-1.0
BHSE**	1,894	-0.6	5.4
KWSE**	7,632	-2.2	8.4
MSCI			
MSCI World	2,803	5.5	-13.3
MSCI EM	1,043	0.8	-15.3

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	119.4	6.1	53.6
WTI USD/bbl	115.1	1.6	53.0
Gold USD/t oz	1,852.2	0.5	1.6
Silver USD/t oz	22.1	1.4	-5.2
Platinum USD/t oz	955.0	-0.5	-0.4
Copper USD/MT	9,453.5	0.0	-3.0
Alluminium	2,844.0	-3.1	1.4
Currencies			
EUR USD	1.07	1.6	-5.6
GBP USD	1.26	1.0	-6.7
USD JPY	127.13	-0.6	10.5
USD CHF	0.96	-1.9	4.9
Rates	**Latest**	**Weekly (bp)**	**YTD (bp)**
USD Libor 3m	1.57	6.8	136.6
USD Libor 12m	2.68	-4.8	209.8
UAE Eibor 3m	1.63	7.0	126.5
UAE Eibor 12m	2.55	-3.7	181.0
US 3m Bills	1.06	5.0	100.0
US 10yr Treasury	2.76	-4.1	125.9

Notes: *Data as of May 27 2022 unless stated otherwise; **Data as of May 26 2022

Summary market outlook

Global Yields	10Y UST yields fell further as evidence of slowing growth and moderating inflation emerged. Core Eurozone bond yields fluctuated but ended the week slightly higher on ECB President's remarks about the possibility of positive rates in the EU by the year-end. However, Eurozone bonds found support from the weaker-than-expected PMI data. UK gilt yields broadly tracked core markets, while peripheral Eurozone bonds yields fell. The yield on the 10Y JGBs fell too. 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, a measure of implied volatility in equities, fell sharply over the past week alongside the decline in the VVIX (volatility of the VIX index). SKEW index, a measure of tail risks remained fairly contained. MOVE index, which measures volatility in bond prices fell further over the past week. 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 equities in aggregate ended the week flat and underperformed global equity benchmarks despite the rise in oil prices over the week. Within the region, weakness in Abu Dhabi, Dubai, and Kuwaiti equities was offset by some strength in Saudi equities. UAE equities performed poorly in the first half of the week but performed strongly in the later part. 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 ended their 7-week losing streak and recorded their best weekly performance since mid-March. DM equities significantly outperformed their EM counterparts. Within DM, US equities outperformed strongly. S&P 500 index rose c7%, the best weekly performance since mid-November 2020. Other DM regions posted gains too. Sector wise, all 11 global GICS sectors posted gains last week. Consumer discretionary, IT, and energy outperformed while communication services, healthcare, and utilities 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	Nasdaq-100 rose c7% over the week while HK tech index fell 2%. Within technology, we prefer non-cyclical growth over cyclical growth (tech hardware, semiconductors etc.) over a 12-month horizon.
Commodities	
Precious Metals	Gold prices, propped up by a pullback in the dollar and US Treasury yields, edged up for a second consecutive week. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Oil prices rose for the fifth consecutive week as improving demand and tightening supplies helped. 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 price gains were mixed (copper prices stayed flat while aluminium prices fell) last week after having risen strongly the previous week. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain.
Currencies	
EURUSD	EUR/USD reached a four-week high on broader USD weakness before retreating marginally towards end of the week. We expect ECB policy divergence to play a major role in the performance of the euro.
Critical levels	R2 1.0902 · R1 1.0818 · S1 1.0598 · S2 1.0462
GBPUSD	GBP/USD, helped by a large UK government spending package to support households, rose for the second consecutive week close to a 4-week high. We expect GBP to weaken against USD and stay flat versus the EUR.
Critical levels	R2 1.2785 · R1 1.2708 · S1 1.2513 · S2 1.2395
USDJPY	USD/JPY declined for the third consecutive week despite the improvement in risk-appetite as UST yields fell. Over the near to medium-term, BoJ's yield curve targeting should put downward pressure on JPY.
Critical levels	R2 128.90 · R1 128.00 · S1 126.28 · S2 125.46

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
05/31/22 17:00	FHFA House Price Index MoM	Mar	2.00%	2.10%
05/31/22 18:00	**Conf. Board Consumer Confidence**	**May**	**104.0**	**107.3**
06/01/22 15:00	MBA Mortgage Applications	27- May	--	-1.20%
06/01/22 17:45	**S&P Global US Manufacturing PMI**	**May F**	**--**	**57.5**
06/01/22 18:00	**ISM Manufacturing**	**May**	**55.0**	**55.4**
06/01/22 22:00	**Federal Reserve Releases Beige Book**			
06/02/22 16:30	**Initial Jobless Claims**	**28- May**	**--**	**--**
06/02/22 16:30	**Continuing Claims**	**21- May**	**--**	**--**
06/02/22 18:00	Factory Orders	Apr	0.90%	2.20%
06/02/22 18:00	Durable Goods Orders	Apr F	--	0.40%
06/03/22 16:30	**Change in Nonfarm Payrolls**	**May**	**350K**	**428K**
06/03/22 16:30	**Unemployment Rate**	**May**	**3.50%**	**3.60%**
06/03/22 16:30	**Average Hourly Earnings YoY**	**May**	**5.20%**	**5.50%**
06/03/22 16:30	Labor Force Participation Rate	May	--	62.60%
06/03/22 17:45	**S&P Global US Services PMI**	**May F**	**--**	**53.5**
06/03/22 18:00	ISM Services Index	May	57.0	57.1

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
05/30/22 10:00	**Machine Tool Orders YoY**	**Apr F**	**--**	**25.00%**
05/31/22 03:30	Jobless Rate	Apr	2.60%	2.60%
05/31/22 03:50	Retail Sales YoY	Apr	2.60%	0.90%
05/31/22 03:50	**Industrial Production MoM**	**Apr P**	**-0.40%**	**0.30%**
05/31/22 09:00	Annualized Housing Starts	Apr	0.885m	0.927m
06/01/22 04:30	**Jibun Bank Japan PMI Mfg**	**May F**	**--**	**53.2**
06/02/22 03:50	**Monetary Base YoY**	**May**	**--**	**6.60%**
06/03/22 04:30	**Jibun Bank Japan PMI Services**	**May F**	**--**	**51.7**

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
05/30/22 13:00	Eurozone Consumer Confidence	May F	--	-21.1
05/30/22 16:00	**Germany CPI YoY**	**May P**	**--**	**7.40%**
05/31/22 10:45	**France CPI YoY**	**May P**	**--**	**4.80%**
05/31/22 13:00	**Eurozone CPI YoY**	**May P**	**3.60%**	**3.50%**
06/01/22 10:00	**Eurozone S&P Global Manufacturing PMI**	**May F**	**--**	**54.4**
06/02/22 13:00	Eurozone PPI YoY	Apr	36.80%	
06/03/22 10:00	Germany Exports SA MoM	Apr	--	-3.30%
06/03/22 12:00	**Eurozone S&P Global Services PMI**	**May F**	**--**	**56.3**
06/03/22 06/02	Eurozone Retail Sales YoY	Apr	--	0.80%

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
05/31/22 12:30	Mortgage Approvals	Apr	--	70.7K
05/31/22 12:30	M4 Money Supply YoY	Apr	--	5.40%
06/01/22 10:00	Nationwide House Px NSA YoY	May	12.10%	3.80%
06/01/22 12:30	**S&P Global/CIPS UK Manufacturing PMI**	**May F**	**--**	**54.6**

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
05/31/22 05:30	**China Manufacturing PMI**	**May**	**48.9**	**47.4**
05/31/22 05:30	China non-manufacturing PMI	May	46.2	41.9
05/31/22 16:00	**India GDP**	**1Q**	**3.9%**	**5.4%**
06/01/22 05:45	China Caixin PMI Mfg	May	49.6	46.0
06/01/22 09:00	**India S&P Global PMI Mfg**	**May**	**--**	**54.7**
06:03/2209:00	**India S&P Global PMI Services**	**May**	**--**	**57.9**

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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