The Weekly Market View

November 22 2020

ADCB ASSET MANAGEMENT LIMITED

Consolidation after two weeks of fireworks

With weekly jobless claims rising for the first time in over a month, retail sales (excluding autos) missing expectations and growing at the slowest pace since April, as well as regional manufacturing gauges indicating a slowing expansion, we should perhaps not be too surprised that the benchmark 10 year Treasury bond receded to its lowest level in two weeks. Although we remain long duration, we would stress that the overall economic outlook remains mixed. It will remain so as long as the COVID19 infection rate continues to rise, and in spite of bright spots such as the US housing market. Equity markets registered positive gains for the third straight week and MSCI ACWI reached its all-time high on Monday. However, through the week, equity markets faced a tug of war between rapid increase in virus cases and continuing positive news around the vaccine. Nevertheless, the underlying rotation out of market leaders into laggards continued. EM outperformed DM. Within DM, UK outperformed. Yet, within the US, Nasdaq outperformed – this highlights the importance of maintaining exposure to new economy themes. With the virus continuing to spread and the uncertainty remaining around who gets a majority in the US Senate, we remain cautious near-term. However, we are constructive on the outlook over the 12-month horizon. Our equity strategy is to overweight US and UK, and underweight Eurozone and EM outside Asia. We are neutral Asia and prefer structural growth opportunities there. By sector we prefer IT and Communication services as long-term plays and energy as a cyclical play. We have also identified industry level opportunities to play the vaccine availability in the medium-term. Our preference is for large cap non-cyclical growth with focus on quality.

Luciano Jannelli, Ph.D., CFA
Head Investment Strategy
Tel: +971 (0)2 696 2340
luciano.jannelli@adcb.com

Kishore Muktinutalapati
Equity Strategist
Tel: +971 (0)2 696 2358
kishore.muktinutalapati@adcb.com

Prerana Seth
Fixed Income Strategist
Tel: +971 (0)2 696 2878
prerana.seth@adcb.com

Mohammed Al Hemeiri
Analyst
Tel: +971 (0)2 696 2236
mohammed.alhemeiri@adcb.com

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Economic normalization but no boom

In spite of last weeks' mixed data, we continue to believe that economic normalization firmly remains on the horizon for 2021. Our normalization scenario is confirmed by the continuing fall in US jobless claims, steady US industrial production, as well as a continuing very strong US housing market. The fact that we continue to receive very positive data on the vaccine front, also with regard to its efficacy versus the elderly cohorts of the population, is of course a necessary ingredient of the normalization story. Many observers have made the point that the 2020 COVID19 crisis will accelerate many of the structural trends that were already affecting the global economy and financial markets, such as de-globalization and the New Economy themes. Whilst we broadly agree with this view, it is worthwhile to point out, however, that the case for permanent damage to the global economy – in the sense of a serious hit to potential output - has been probably overstated. What is the meaning of these two arguments – acceleration of structural trends and resilience in potential output – taken together? To us the combination of the two arguments means that we will see a cyclical bounce back in 2020. We simply do not expect a bounce back to a booming economy, rather a return to the sluggish growth we were used to before the crisis. Whilst this is good news over a 12 month horizon, we still see some obstacles over a shorter horizon. Yes, growth should normalize and company earnings should rise, but over the next months we still have to deal not only with the raging pandemic in the US, Europe and many emerging markets. We will also have to do that in the midst of a not so smooth US power transition, with the ensuing continuing uncertainty for fiscal policy. Reasons to expect continuing volatility and to remain cautious in the short term abound.

Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	3,558	-0.8	10.1
Dow Jones	29,263	-0.7	2.5
Nasdaq	11,855	0.2	32.1
DAX	13,137	0.5	-0.8
Nikkei 225	25,728	0.6	7.9
FTSE 100	6,351	0.6	-15.8
Sensex	43,882	1.0	6.4
Hang Seng	26,452	1.1	-6.2
Regional Markets (Sunday to Thursday)			
ADX	4,914	1.2	-3.2
DFM	2,316	2.4	-16.2
Tadawul	8,578	1.7	2.3
DSM	10,108	-1.0	-3.0
MSM30	3,628	0.0	-8.9
BHSE	1,452	0.2	-9.8
KWSE	5,527	0.2	-12.0
MSCI			
MSCI World	2,546	0.4	7.7
MSCI EM	1,200	1.8	8.5

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	45.0	5.1	-31.9
WTI USD/bbl	42.2	5.0	-30.5
Gold USD/t oz	1,871.0	-1.0	23.3
Silver USD/t oz	24.2	-2.0	35.4
Platinum USD/t oz	950.4	6.3	-1.7
Copper USD/MT	7,028.0	3.6	16.6
Alluminium	1,988.1	3.7	11.1
Currencies			
EUR USD	1.19	0.2	5.7
GBP USD	1.33	0.7	0.1
USD JPY	103.86	-0.7	-4.6
CHF USD	0.91	-0.2	6.1
Rates			
USD Libor 3m	0.21	-4.2	-88.9
USD Libor 12m	0.34	-0.2	-83.0
UAE Eibor 3m	0.43	-5.0	-80.6
UAE Eibor 12m	0.80	0.4	-65.0
US 3m Bills	0.06	-24.2	-95.9
US 10yr Treasury	0.82	-8.0	-57.0

Summary market outlook

Global Yields	With weekly jobless claims rising for the first time in over a month, retail sales (excluding autos) missing expectations and growing at the slowest pace since April, as well as regional manufacturing gauges indicating a slowing expansion, we should perhaps not be too surprised that the benchmark 10 year Treasury bond receded to its lowest level in two weeks. Although we remain long duration, we would stress that the overall economic outlook remains mixed. It will remain so as long as the COVID19 infection rate continues to rise, and in spite of bright spots such as the housing market.
Stress and Risk Indicators	The VIX continued to hover around the same level as that of the prior weeks. It is worthwhile to note that the VIX is now, yes, at its minimum since the COVID-19 crisis erupted in February, yet still substantially above the pre-crisis level. We would suspect it to continue to stabilize over the next weeks and months, but to remain elevated at least as long as the US power transition is completed and some clarity emerges on US fiscal policy
Equity Markets	
Local Equity Markets	GCC equity markets group (as measured by the MSCI GCC index) posted its third consecutive week of gains. Optimism about a vaccine has helped improve the outlook for the region through higher oil prices and better prospects for tourism. Dubai outperformed its regional peers after having strongly underperformed through the course of the year. This is in line with the 'rotation' playing out globally. We remain neutral GCC equities within our global equity framework. Stable to higher oil prices, potential for revival in growth and recent underperformance are all balanced by lack of structural growth plays in the equity market.
Global Equity Markets	Equity markets registered positive gains for the third straight week and MSCI ACWI reached its all-time high on Monday. However, through the week, equity markets faced a tug of war between rapid increase in virus cases and continuing positive news around the vaccine. Nevertheless, the underlying rotation out of market leaders into laggards continued. EM outperformed DM. Within DM, UK outperformed. Yet, within the US, Nasdaq outperformed – this highlights the importance of maintaining exposure to new economy themes. With the virus continuing to spread and the uncertainty remaining around who gets a majority in the US Senate, we remain cautious near-term. However, we are constructive on the outlook over the 12-month horizon. Our equity strategy is to overweight US and UK, and underweight Eurozone and EM outside Asia. We are neutral Asia and prefer structural growth opportunities there. By sector we prefer IT and Communication services as long-term plays and energy as a cyclical play. We have also identified industry level opportunities to play the vaccine availability in the medium-term. Our preference is for large cap non-cyclical growth with focus on quality.
Commodities	
Precious Metals	Precious metals remained under pressure, with the exception of platinum. We remain overweight gold as a risk hedge against general risks, but we are not particularly bullish over the next weeks and months.
Energy	Oil prices strengthened further on hopes of normalization of the global economy. In spite of demand still remaining depressed for the months to come, we believe that oil prices are likely to remain sustained as the market is roughly balanced in terms of demand versus supply.
Industrial Metals	Industrial metals edged up slightly in line with USD weakness. The cyclical outlook for industrial metals looks now balanced. We do not recommend industrial metals exposure as China structurally reigns in demand.
Currencies	
EURUSD	The EUR gained mildly against the USD. We expect the EUR to remain stable, unless we will see significant surprises in terms of more fiscal policy from the US.
Critical levels	R2 1.1907 · R1 1.1882 · S1 1.1841 · S2 1.1825
GBPUSD	Cable was up, and the Pound Sterling also strengthened against the EUR. We see further Pound Sterling strength in line with our expectation that the EU and the UK will strike a deal for their future trade relationship.
Critical levels	R2 1.3323 · R1 1.3299 · S1 1.3249 · S2 1.3223
USDJPY	The JPY also strengthened on the USD in line with other currencies. The risk-on context is not favourable for the JPY, which will facilitate BoJ's intention to keep it weak if necessary through further yield curve targeting.
Critical levels	R2 104.03 · R1 103.95 · S1 103.74 · S2 103.61

Note: R2, R1, S2 and S1 refer to Bloomberg calculated weekly technical resistance and support levels.

Forthcoming important economic data/events

United States

	Indicator	Period	Expected	Prior	Comments
11/23/20	Chicago Fed Nat Activity Index	Oct	0.27	0.27	With the COVID19 infection rates rising markets will be carefully watching the forward looking PMI indicators.
11/23/20	**Markit US Manufacturing PMI**	**Nov P**	**53.0**	**53.4**	
11/23/20	**Markit US Services PMI**	**Nov P**	**55.0**	**56.9**	
11/24/20	Conf. Board Consumer Confidence	Nov	97.9	100.9	
11/24/20	Richmond Fed Manuf. Index	Nov	21	29	
11/25/20	MBA Mortgage Applications	20-Nov	--	-0.30%	
11/25/20	Initial Jobless Claims	21-Nov	733k	742k	
11/25/20	Continuing Claims	14-Nov	6,010k	6,372k	
11/25/20	GDP Annualized QoQ	3Q S	33.10%	33.10%	
11/25/20	Durable Goods Orders	Oct P	0.90%	1.90%	
11/25/20	Personal Income	Oct	0.00%	0.90%	
11/25/20	U. of Mich. Sentiment	Nov F	77	77	
11/25/20	New Home Sales	Oct	973k	959k	
11/25/20	FOMC Meeting Minutes	5-Nov	--	--	

Japan

	Indicator	Period	Expected	Prior	Comments
11/26/20	Supermarket Sales YoY	Oct	--	-4.60%	No significant data from Japan this week.
11/26/20	Machine Tool Orders YoY	Oct F	--	-5.90%	
11/27/20	Tokyo CPI YoY	Nov	-0.50%	-0.30%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
11/23/20	**Markit Eurozone Manuf. PMI**	**Nov P**	**53.3**	**54.8**	The forward looking PMI indicators, as well as the German IFO Business Indicator, are expected to recede even if the COVID19 infection rates are giving their first signs of peaking. The lockdowns seem to exercise a major toll particularly on the service sector. Markets will be eager to see if there will be some positive surprises.
11/23/20	**Markit Eurozone Services PMI**	**Nov P**	**42.0**	**46.9**	
11/24/20	Germany IFO Business Climate	Nov	90.3	92.7	
11/26/20	ECB monetary policy account				
11/27/20	Economic Confidence	Nov	86.0	90.9	
11/27/20	Industrial Confidence	Nov	-10.7	-9.6	
11/27/20	Services Confidence	Nov	-15.0	-11.8	
11/27/20	Consumer Confidence	Nov F	--	-17.6	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
11/23/20	**Markit UK PMI Manufacturing SA**	**Nov P**	**50.5**	**53.7**	The situation in the UK is not significantly different from the EU with the PMIs being the most important data to watch.
11/23/20	**Markit/CIPS UK Services PMI**	**Nov P**	**42.8**	**51.4**	
11/28-12/03	Nationwide House Px NSA YoY	Nov	5.20%	5.80%	

China and India

	Indicator	Period	Expected	Prior	Comments
11/27/20	China Industrial Profits YoY	Oct	--	10.10%	Markets will be eager to gauge the extent of the bounce back of growth in India
11/27/20	India GDP YoY	3Q	-8.50%	-23.90%	

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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