

The Weekly Market View

October 17 2022

Rough ride

Markets witnessed another turbulent week, driven by the rise in global bond volatility and higher bond yields with evidence of persistent inflation supporting the Fed's rate hike path. The key highlight of the week was the September US inflation print which signalled that price pressures continued to be sticky, persistent and broad-based in nature. Headline CPI rose by 0.4% m-o-m in September while core CPI increased by 0.6% m-o-m, both beating market expectation. Core CPI increased by 6.6% y-o-y, above market expectations and at the fastest pace since 1980s. Meanwhile, US retail sales were flat in September, showing signs of resilience in consumer spending. Similarly, the preliminary University of Michigan Consumer Sentiment Index for October indicated that sentiment improved more than expected while short-term (1yr) and long-term (5-10yr) inflation expectations ticked higher. Elsewhere, in the UK, continued chaos forced the new UK Prime Minister Liz Truss to consider a U-turn on the tax cut plan. This came at a time when data showed that the UK economy contracted in August while the BoE indicated that it will not provide further support by not extending the bond-buying purchases beyond the deadline of 14th October. Meanwhile, global recession concerns rose with the IMF warning of a difficult time ahead for the global economy with growth in more than one third of the countries globally to contract over next year. Global equities recorded weekly decline while the MSCI ACWI Index dropping by c1.7%. EM stocks underperformed DM peers. In the DM, UK equities underperformed while European equities outperformed. In the US, NASDAQ Index fell by c3.1%. The S&P 500 Index declined by c1.5% and recorded its largest intraday move since March 2020, on 13th October. In fixed income, UST yields rose across the curve with the 2yr UST yield touching the highest level since 2007 while the 10yr UST yield breached the 4% level for the first time since 2007. But, bond yields in Eurozone ended flat and UK bond yields dropped on hopes of reversal of the proposed unfunded tax cut plan. In commodities, oil prices declined on concerns of global economic slowdown. Gold prices dropped on hawkish Fed worries and the USD strength gaining momentum again after a brief pause. Overall, the dollar index rose but the GBP strengthened versus the USD.

Quality is key

Bond market volatility has now reached near the levels seen during the Covid-19 sell-off which had triggered an emergency Fed response then. As we currently face a different backdrop in terms of higher inflation pressures and the Fed's goal to tackle these pressures, rise in UST volatility is unlikely to warrant a Fed emergency response. Also, US financial conditions have not deteriorated to the same extent yet. However, stress is building in global bond markets with DM bond market liquidity conditions having worsened since the pandemic, led by the UK. The IMF warning of a global slowdown over next year has further raised global recession concerns. During periods of heightened bond market volatility and recession concerns, it is not surprising to witness sudden and frequent flare-up of hot spots in corporate and sovereign credits (**Credit hot spots: assessing contagion and spillover risks**). While these concerns are likely to be more idiosyncratic and less likely to be systemic in nature in our view, frequent occurrences explain our preference for quality assets at this juncture. US financial conditions, strong USD bias and surge in UST volatility do not bode well for EM USD bonds. This is particularly the case for EMs with weak external positioning, grappling with high external debt, high short-term debt (% of reserves) and low FX reserve adequacy ratios. These weak EMs will remain the most vulnerable to the external volatility as they deal with their domestic issues. Egypt is one such example and ranks poor amongst the EMs in terms of its external positioning. Any possible improvement in these weak markets is now conditional of an IMF bailout. We continue to advocate a neutral stance on EM USD bonds with a preference for better-quality EM sovereigns (high-quality GCC + Oman). We remain underweight EMs outside Asia in the equity context. From a cross-asset perspective, we also reiterate our quality-tilt (**Quarterly Investment View, October 2022**)

Global markets' performance snapshot*

Index Snapshot (World Indices)*			
Index	Latest	Weekly %	YTD %
S&P 500	3,583	-1.55	-24.82
Dow Jones	29,635	1.15	-18.45
Nasdaq	10,321	-3.11	-34.03
DAX	12,438	1.34	-21.70
Nikkei 225	27,091	-0.09	-7.25
FTSE 100	6,859	-1.89	-7.12
Sensex	57,920	-0.47	-0.57
Hang Seng	24,209	-6.50	-30.07
Regional Markets			
ADX	9,776	-1.31	15.17
DFM	3,377	0.11	5.65
Tadawul**	11,422	-2.86	1.10
DSM**	12,718	-2.38	8.68
MSM30**	4,541	-0.35	9.70
BHSE**	1,868	-0.82	3.92
KWSE**	6,987	-2.69	-1.49
MSCI			
MSCI World	2,377	-1.70	-26.46
MSCI EM	863	-3.83	-29.93

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	91.6	-6.42	18.35
Nymex WTI USD/bbl	85.6	-7.59	14.31
Gold USD/t oz	1,644.5	-2.97	-9.81
Silver USD/t oz	18.3	-9.21	-21.02
Platinum USD/t oz	903.1	-1.50	-6.21
Copper USD/MT	7,688.0	1.49	-20.68
Alluminium	2,304.5	0.33	-17.78
Currencies			
EUR USD	0.97	-0.23	-14.27
GBP USD	1.12	0.78	-16.97
USD JPY	148.67	2.35	22.56
USD CHF	1.01	1.11	9.01
Rates			
	Latest	Weekly (bp)	YTD(bp)
USD Libor 3m	4.19	28.50	398.46
USD Libor 12m	5.28	28.69	470.00
UAE Eibor 3m	3.78	28.41	341.31
UAE Eibor 12m	4.55	14.00	380.54
US 3m Bills	3.70	36.63	366.71
US 10yr Treasury	4.02	13.70	250.83

Source: Bloomberg | Notes: *Data as of October 14 2022 unless stated otherwise; **Data as of October 13 2022.

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Summary market outlook

Global Yields

Strong US inflation print drove UST yields higher. The 10yr UST yields breached the 4% level for the first time since 2007. Meanwhile, European bonds were relative stable with the 10yr German bund yield ending the week unchanged. The 10yr UK gilt yield declined over the week on hopes of UK tax cut plan reversal. Bond yields and prices are inversely correlated. i.e. yields rise when prices fall and vice versa. Overall, we recommend adding duration on USTs (7-10Y segment) as growth slowdown/recession fears rise.

Stress and Risk Indicators

VIX index, a measure of implied volatility in equities, rose sharply last week remaining above the 30-level. VVIX, a measure of volatility in VIX ended the week unchanged. SKEW index, a measure of tail risks, dropped over the week. MOVE index, which measures implied volatility in bonds, jumped near the levels last seen during the Covid-19 sell-off. We expect financial market volatility to stay elevated as the monetary policy normalizes.

Equity Markets

Local Equity Markets

GCC equity markets recorded losses last week with the exception of Dubai. Within the region, Saudi stocks declined the most, making it the worst performer. 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 several years are all balanced by lack of structural growth plays in the equity markets.

Global Equity Markets

Global equities (as measured by MSCI ACWI) declined by c1.70%, adding to the year-to-date losses. EM underperformed DM. Within DM, UK equities underperformed the most while European equities recorded positive returns. In the US, NASDAQ fell by c3.1% while Dow Jones Index gained by c1.15%. 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 index fell by c3.5% over the past week. HK tech index declined by c10%. Within the technology sector, we prefer non-cyclical growth over cyclical growth (tech hardware, semiconductors etc.) over a 12-month horizon.

Commodities

Precious Metals

Gold, silver and platinum prices fell sharply on broader USD strength. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.

Energy

Oil prices declined over the week on stronger USD and global slowdown concerns. 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 aluminum prices rose over the week. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain.

Currencies

EURUSD

EUR/USD declined on broad USD strength. We expect ECB policy divergence and growth differentials to play a major role in the performance of the euro.

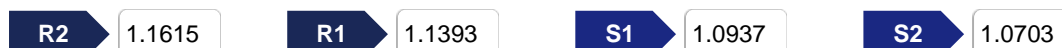
Critical levels



GBPUSD

GBP/USD rose above the 1.10 level on expectation that the unfunded tax cut plans could be reversed. We expect GBP to weaken against USD and stay flat versus the EUR.

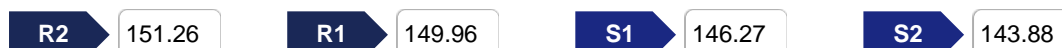
Critical levels



USDJPY

Japanese yen weakened against the dollar. BoJ policy remains odd-one out and is likely to keep JPY under pressure.

Critical levels



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Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
10/18/2022 17:15	Industrial Production MoM	Sep	-0.10%	-0.20%
10/18/2022 18:00	NAHB Housing Market Index	Oct	44	46
10/19/2022 16:30	Building Permits	Sep	1550k	1542k
10/19/2022 16:30	Building Permits MoM	Sep	0.50%	-8.50%
10/19/2022 16:30	Housing Starts	Sep	1488k	1575k
10/19/2022 16:30	Housing Starts MoM	Sep	-5.60%	12.20%
10/19/2022 22:00	Federal Reserve Releases Beige Book			
10/20/2022 16:30	Initial Jobless Claims	15-Oct	--	228k
10/20/2022 16:30	Continuing Claims	8-Oct	--	1368k
10/20/2022 18:00	Existing Home Sales	Sep	4.70m	4.80m
10/20/2022 18:00	Existing Home Sales MoM	1- Sep	-2.20%	-0.40%
10/20/2022 18:00	Leading Index	Sep	-0.30%	-0.30%

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
10/20/2022 03:50	Exports YoY	Sep	26.70%	22.00%
10/21/2022 03:30	Natl CPI YoY	Sep	2.90%	3.00%
10/21/2022 03:30	Natl CPI Ex Fresh Food YoY	Sep	3.00%	2.80%
10/21/2022 03:30	Natl CPI Ex Fresh Food, Energy YoY	Sep	1.80%	1.60%

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
10/18/2022 13:00	Eurozone ZEW Survey Expectations	Oct	--	-60.7
10/19/2022 13:00	Eurozone CPI YoY	Sep F	10.00%	9.10%
10/19/2022 13:00	Eurozone CPI MoM	Sep F	--	1.20%
10/19/2022 13:00	Eurozone CPI Core YoY	Sep F	4.80%	4.80%
10/20/2022 10:00	German PPI YoY	Sep	--	45.80%
10/21/2022 18:00	Eurozone Consumer Confidence	Oct P	-31.1	-28.8

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United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
10/19/2022 10:00	CPI MoM	Sep	0.30%	0.50%
10/19/2022 10:00	CPI YoY	Sep	9.90%	9.90%
10/19/2022 10:00	CPI Core YoY	Sep	--	6.30%
10/19/2022 10:00	RPI YoY	Sep	--	12.30%
10/21/2022 10:00	Retail Sales Ex Auto Fuel MoM	Sep	--	-1.60%
10/21/2022 10:00	Retail Sales Ex Auto Fuel YoY	Sep	--	-5.00%

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
10/18/2022 06:00	China Industrial Production YoY	Sep	4.90%	4.20%
10/18/2022 06:00	China GDP YoY	3Q	3.40%	0.40%
10/18/2022 06:00	China GDP SA QoQ	3Q	3.40%	-2.60%
10/18/2022 06:00	China Retail Sales YoY	Sep	3.50%	5.40%
10/18/2022 06:00	China Fixed Assets Ex Rural YTD YoY	Sep	6.00%	5.80%
10/20/2022 05:15	China 1-Year Loan Prime Rate	20-Oct	3.65%	3.65%
10/20/2022 05:15	China 5-Year Loan Prime Rate	20-Oct	4.30%	4.30%
10/14/2022 10/17	India Trade Balance	Sep	\$26600.0m	-\$27978.5m
10/14/2022 10/17	India Exports YoY	Sep	--	1.60%

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