The Weekly Market View

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Pushed higher by a probable pivot

Granted, Q3 corporate earnings season is shaping up to be stronger than expected. According to data from Refinitiv, amongst one-fifth of S&P 500 companies that have reported their earnings thus far this season, three-fourths have surprised positively. And of course, broader global economic data has been coming in better than expected – Citi Global Economic surprise index turned positive and expanded strongly over the past few days. Just over the past week – positive surprises on US industrial production, and European consumer confidence helped offset the concerns of still higher-than-expected inflation prints across the world. Yet, it is the Wall Street Journal article (Fed Set to Raise Rates by 0.75 Point and Debate Size of Future Hikes, October 21 2022) highlighting that the Fed officials might consider slowing rate increases from December that helped a sharp improvement in risk appetite on Friday last week. The article pointed out that "Some officials are signalling greater unease with big rate rises to fight inflation". This meant that at the margin, the probability of a pivot is rising. As a result, US equities rose sharply over the past week – both S&P 500 index and Nasdaq index edged c5% higher at the fastest rate since June. Dow Jones index posted its third consecutive week of gains. However, yields on 10Y UST notes rose to a 14-year high last week. Yields on 10Y German bonds hit the highest level in more than a decade as producer prices there rose c46% y-o-y during September. In general, Eurozone government bond yields rose ahead of the ECB policy meeting this week where the central bank is expected to hike its policy rate by 75bp. In the UK too, gilt yields rose sharply on political and policy uncertainty and the 40-year high inflation, as markets await BoE to begin its quantitative tightening. In Japan, as yields rose, BoJ initiated emergency bond-buying operations. Turning to currencies, broader USD weakened marginally allowing GBP, EUR, and JPY to recover some ground lost against the greenback. However, the focus was on USDJPY which last week breached the 150 mark for the first time since 1990 before falling sharply on the USD weakness.

Pivot-On, Pivot-Off

Over the next few weeks, we think markets are likely to trade around this point of a "possible pivot". There are likely to be weeks where markets believe that a pivot is coming (Pivot-On) and weeks where pivot appears to be distant (Pivot-Off). This is likely to create volatility. Nevertheless, as we witnessed last week, both stronger-than-expected earnings, and rising chances of a pivot are strong tailwinds for equity market performance. However, rising chances of a pivot is a fast-moving driver of equity returns compared with earnings which are slow-moving. As we discussed in our latest Quarterly Investment View document, "with the risk-free rates already pricing in the rise in policy rates, we believe they are closer to the peak of this cycle. If anything, risk-free rates should fall in case a global recession materialises. However, in that scenario the ERP is likely to rise (making it our bear-case). The extent of rise in ERP will depend on how deep and prolonged the recession is likely to be. In case of a mild recession, ERP rise is likely to just offset a fall in risk-free rate allowing the valuation multiples to largely remain unchanged at the current below-average levels. In case of a deeper recession (which is still unlikely in our view), ERP could rise rather sharply more than offsetting the favourable movement in risk-free rates. Our base-case still sees a soft landing where risk-free rates and ERP remain stable. Yet, our bull-case scenario sees a sharp fall in risk-free rates as central banks pivot, and ERP remains stable providing scope for valuations to expand at least marginally from the current levels". Against this broad range of outcomes, it is reasonable to expect volatility to stay elevated through this period of "pivot-on, pivot-off". Beyond that, if one considers a 12-month time frame, equity market sentiment is already weak, positioning is cautious, valuations are now more normal, and the recent performance is already reflecting a tighter monetary policy. In case the inflation cools rapidly (which we expect) and central banks pivot (which we also expect) – both paving a way for soft landing of the economy – equity market returns could be strong.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	3,753	4.7	-21.3
Dow Jones	31,083	4.9	-14.5
Nasdaq	10,860	5.2	-30.6
DAX	12,731	2.4	-19.9
Nikkei 225	26,891	-0.7	-6.6
FTSE 100	6,970	1.6	-5.6
Sensex	59,307	2.4	1.8
Hang Seng	16,211	-2.3	-30.7
Regional Markets			
ADX	10,114	3.5	19.2
DFM	3,399	0.7	6.3
Tadawul**	11,964	4.9	5.6
DSM**	12,657	0.2	8.9
MSM30**	4,453	-1.7	7.4
BHSE**	1,867	-0.1	3.9
KWSE**	7,247	4.5	2.9
MSCI			
MSCI World	2,462	3.6	-23.8
MSCI EM	865	0.2	-29.8

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	93.5	2.0	20.2
WTI USD/bbl	85.1	-0.7	13.1
Gold USD/t oz	1,642.4	-0.3	-9.9
Silver USD/t oz	19.1	4.6	-17.9
Platinum USD/t oz	905.0	-0.7	-5.6
Copper USD/MT	7,719.2	0.9	-20.8
Alluminium	2,188.5	-5.1	-22.0
Currencies			
EUR USD	0.99	1.5	-13.3
GBP USD	1.13	1.2	-16.5
USD JPY	147.66	-0.7	28.3
USD CHF	1.00	-0.7	9.4
Rates	**Latest**	**Weekly (bp)**	**YTD (bp)**
USD Libor 3m	4.32	13.1	411.5
USD Libor 12m	5.42	13.8	483.8
UAE Eibor 3m	4.09	30.8	372.1
UAE Eibor 12m	4.71	16.2	396.8
US 3m Bills	3.90	25.0	384.0
US 10yr Treasury	4.21	20.6	271.3

Source: Bloomberg | Notes: *Data as of October 21 2022 unless stated otherwise; **Data as of October 20 2022.

Summary market outlook

Global Yields	Yields on 10Y UST notes rose to a 14-year high last week. Yields on 10Y German bonds hit the highest level in more than a decade as producer prices there rose c46% y-o-y during September. In general Eurozone government bond yields rose ahead of the ECB policy meeting this week where the central bank is expected to hike its policy rate by c75bp. In the UK too, gilt-yields rose sharply on political and policy uncertainty and the 40-year high inflation, as markets await BoE to begin its quantitative tightening. In Japan, as yields rose, BoJ initiated emergency bond-buying operations. 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, fell below the 30-mark. VVIX, a measure of volatility in VIX ended the week sharply lower. SKEW index, a measure of tail risks, dropped further over the week. MOVE index, which measures implied volatility in bonds, rose further towards levels last seen during the peak of the market sell-off in early-2020. We expect financial market volatility to stay elevated as the monetary policy normalizes.
Equity Markets	
Local Equity Markets	GCC markets managed to post strong gains over the past week but underperformed US equity market. Within the region, Saudi Arabian, Kuwaiti, and Abu Dhabi equities performed strongly. 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 rose strongly over the past week – MSCI All Country World index rose more than 3% in USD terms. Within DM, US outperformed the most and Japan underperformed. Sector wise, global cyclical sectors including energy, IT, and consumer discretionary outperformed while more defensive segments including consumer staples, real estate, health care, 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 index gained c6% while HK tech index lost c3% over the past week. 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 prices, held between rising rates and weaker USD, ended the week largely flat. Silver prices rose sharply though. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Brent prices rose on weaker USD and stronger Chinese demand expectations. WTI prices fell on rising US rig count which hit the highest since March 2020. Overall, over the medium-term we believe that oil prices will remain sustained as the market balances into the new normal.
Industrial Metals	Copper prices rose marginally while alluminium prices fell on concerns of oversupply. Another commodity super-cycle is difficult, yet demand for commodities linked to “green infrastructure” is likely to sustain.
Currencies	
EURUSD	EUR rose against the USD in the week before the ECB policy meeting. Broader USD weakness helped. We expect ECB policy divergence and growth differentials to play a major role in the performance of the euro.
Critical levels	R2 0.9985 · R1 0.9924 · S1 0.9753 · S2 0.9643
GBPUSD	GBP/USD rose as UK political and policy risks were outweighed by weakening USD which was prompted by expectations for slower Fed rate hikes. We expect GBP to weaken against USD and stay flat versus the EUR.
Critical levels	R2 1.1646 · R1 1.1474 · S1 1.1096 · S2 1.0890
USDJPY	Weakness in the USD and official purchases of JPY by the policy makers helped JPY gain ground against the USD. BoJ policy remains odd-one out and is likely to keep JPY under pressure.
Critical levels	R2 154.33 · R1 150.99 · S1 145.27 · S2 142.89

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
10/24/22 16:30	Chicago Fed Nat Activity Index	Sep	--	0
10/24/22 17:45	**S&P Global US Manufacturing PMI**	**Oct P**	**51.5**	**52.0**
10/24/22 17:45	**S&P Global US Services PMI**	**Oct P**	**--**	**49.3**
10/24/22 17:45	**S&P Global US Composite PMI**	**Oct P**	**--**	**49.5**
10/25/22 17:00	FHFA House Price Index MoM	Aug	-0.60%	-0.60%
10/25/22 17:00	S&P CoreLogic CS 20-City YoY NSA	Aug	14.00%	16.06%
10/25/22 18:00	**Conf. Board Consumer Confidence**	**Oct**	**105**	**108**
10/25/22 18:00	Richmond Fed Manufact. Index	Oct	--	0
10/26/22 15:00	MBA Mortgage Applications	21-Oct	--	-4.50%
10/26/22 16:30	Wholesale Inventories MoM	Sep P	1.10%	1.30%
10/26/22 16:30	Retail Inventories MoM	Sep	--	1.40%
10/26/22 18:00	New Home Sales	Sep	600k	685k
10/27/22 16:30	**GDP Annualized QoQ**	**3Q A**	**2.10%**	**-0.60%**
10/27/22 16:30	Durable Goods Orders	Sep P	0.60%	-0.20%
10/27/22 16:30	Personal Consumption	3Q A	0.80%	2.00%
10/27/22 16:30	GDP Price Index	3Q A	5.20%	9.00%
10/27/22 16:30	**Core PCE QoQ**	**3Q A**	**--**	**4.70%**
10/27/22 16:30	**Initial Jobless Claims**	**22-Oct**	**--**	**214k**
10/27/22 16:30	Continuing Claims	15-Oct	--	1,385k
10/27/22 19:00	Kansas City Fed Manf. Activity	Oct	--	1
10/28/22 16:30	**Personal Income**	**Sep**	**0.30%**	**0.30%**
10/28/22 16:30	**Personal Spending**	**Sep**	**0.40%**	**0.40%**
10/28/22 16:30	**PCE Deflator YoY**	**Sep**	**6.30%**	**6.20%**
10/28/22 16:30	**PCE Core Deflator YoY**	**Sep**	**5.20%**	**4.90%**
10/28/22 18:00	Pending Home Sales NSA YoY	Sep	--	-22.50%
10/28/22 18:00	**U. of Mich. Sentiment**	**Oct F**	**59.5**	**59.8**

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
10/25/22 09:30	Nationwide Dept Sales YoY	Sep	--	26.10%
10/25/22 10:00	Machine Tool Orders YoY	Sep F	--	4.30%
10/26/22 03:50	PPI Services YoY	Sep	--	1.90%
10/28/22 03:30	Tokyo CPI YoY	Oct	3.40%	2.80%
10/28/22 03:30	Tokyo CPI Ex-Fresh Food YoY	Oct	3.20%	2.80%
10/28/22 03:30	Jobless Rate	Sep	2.50%	2.50%
10/28/22 03:30	Job-To-Applicant Ratio	Sep	1.33	1.32
10/28/22	**BOJ Policy Balance Rate**	**28-Oct**	**-0.10%**	**-0.10%**
10/28/22	**BOJ 10-Yr Yield Target**	**28-Oct**	**0.00%**	**0.00%**

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
10/24/22 12:00	**S&P Global Eurozone Manufacturing PMI**	**Oct P**	**48.0**	**48.4**
10/24/22 12:00	**S&P Global Eurozone Services PMI**	**Oct P**	**48.5**	**48.8**
10/24/22 12:00	**S&P Global Eurozone Composite PMI**	**Oct P**	**47.5**	**48.1**
10/25/22 12:00	**Germany IFO Business Climate**	**Oct**	**83.8**	**84.3**
10/26/22 10:45	France Consumer Confidence	Oct	78	79
10/26/22 12:00	Eurozone M3 Money Supply YoY	Sep	--	6.10%
10/27/22 10:00	Germany GfK Consumer Confidence	Nov	-41.3	-42.5
10/27/22 16:15	**ECB Main Refinancing Rate**	**27-Oct**	**2.00%**	**1.25%**
10/27/22 16:15	**ECB Marginal Lending Facility**	**27-Oct**	**2.25%**	**1.50%**
10/27/22 16:15	**ECB Deposit Facility Rate**	**27-Oct**	**1.50%**	**0.75%**
10/27/22-11/02/22	Germany Retail Sales MoM	Sep	0.00%	-1.30%
10/28/22 09:30	**France GDP QoQ**	**3Q P**	**0.00%**	**0.50%**
10/28/22 10:45	**France CPI MoM**	**Oct P**	**--**	**-0.60%**
10/28/22 10:45	France PPI MoM	Sep	--	2.70%
10/28/22 12:00	**Germany GDP SA QoQ**	**3Q P**	**-0.10%**	**0.10%**
10/28/22 13:00	Eurozone Economic Confidence	Oct	--	93.7
10/28/22 13:00	Eurozone Industrial Confidence	Oct	--	-0.4
10/28/22 13:00	Eurozone Services Confidence	Oct	--	4.9
10/28/22 13:00	Eurozone Consumer Confidence	Oct F	--	--
10/28/22 16:00	**Germany CPI YoY**	**Oct P**	**10.10%**	**10.00%**

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
10/24/22 12:30	**S&P Global/CIPS UK Manufacturing PMI**	**Oct P**	**--**	**48.4**
10/24/22 12:30	**S&P Global/CIPS UK Services PMI**	**Oct P**	**--**	**50.0**
10/24/22 12:30	**S&P Global/CIPS UK Composite PMI**	**Oct P**	**--**	**49.1**
10/28/22-11/03/22	Nationwide House Px NSA YoY	Oct	--	9.50%

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
10/27/22 05:30	China Industrial Profits YoY	Sep	--	--

ASSET MANAGEMENT LIMITED

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