The Weekly Market View

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بنك أبوظبي التجاري
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Show me the stimulus

Equity markets seem to have tracked the news around the next round of potential economic stimulus in the US. A gridlock (between the Whitehouse, the Democratic-led house of representatives and the Republican-led Senate) regarding the stimulus in the context of the upcoming elections is determining the equity market course, in our view. Owing to this situation, equity markets in aggregate posted their second consecutive week of losses, albeit marginal. EM equities outperformed DM equities – thanks to strong performance from smaller EMs. US equities broke their three-week winning streak. German equities underperformed on concerns of rising virus cases impacting the recovery. UK equities ended the week rather flat in USD terms. In the commodity space, precious metals prices rose over the week on weaker USD, although gold was flat. Oil prices fell on concerns that new COVID-19 infection waves in Europe and the US could dampen demand over the coming winter. The surge in supply from Libya added to concerns about the oil price. Industrial metals showed mixed performance with copper prices rising and aluminium prices softening. Within FX, EUR appreciated against the USD in line with expectations for a global cyclical rebound. Expectations of a Brexit deal supported cable strength at the beginning of the week, but gains came down with renewed no deal talks. JPY appreciated against the USD on weakness in the broader green back. Turning to rates, US Treasury (UST) yields jumped to four month high, boosted by the hopes of near-term stimulus. The UST curve steepened significantly as a result of the rise in long-term UST yields. In Europe, German bunds tracked the rise in UST yields and retraced from their 6-month low, despite virus concerns and weak composite PMI reading. UK gilt yields edged higher with the resumption in formal Brexit talks and announcement of more job support.

Show me the earnings

Equity market valuations have re-rated quite significantly across the board and contributed positively to price returns so far this year. For the context, MSCI ACWI is currently trading on a Bloomberg estimated 12month forward P/E of 23.1x after having started the year at 17.7x and having subsequently troughed at 12.6x on 23rd March. We expect the policy to remain supportive for equity valuations in the medium term. However, looking ahead, earnings are likely to take over as the primary driver of equity market returns. Here, Q3 earnings season which is underway is likely to provide the much-needed visibility on the corporate earnings trajectory. So far this year, earnings downgrades have been pronounced across all major global regions and sectors. For instance, rolling 12 month forward earnings for MSCI ACWI have fallen 26% since the beginning of this year – with estimates for 2020e and 2021e falling 28% and 16% respectively. Amongst regions – Asia ex Japan and US are relative outperformers with their 12month forward earnings level falling 19% and 21% year-to-date. Earnings estimates for EM-ex-Asia (-55%) and UK (-45%) were cut the most. Amongst sectors, IT (-1%), Healthcare (-4%), Utilities (-8%) and Consumer staples (-9%) outperformed in terms of earnings revisions while Energy (-92%), Consumer Discretionary (-48%), Industrials (-45%) and Financials (-31%) underperformed the most. Recent weeks, however, have seen upgrades to earnings in certain sectors. Overall, we believe that the earnings downgrades are largely behind us and looking ahead, when a vaccine is found, earnings revisions are likely to broaden out across sectors. Especially sectors with high COVID-beta – like consumer cyclicals and industrials – are likely to see strong earnings upgrades. For our analysis on COVID-beta, see The Equity Strategist: COVID-19 induced changes to market sensitivities present opportunities, September 21 2020.

Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	3,465	-0.5	7.3
Dow Jones	28,336	-0.9	-0.7
Nasdaq	11,548	-1.1	28.7
DAX	12,646	-2.0	-4.6
Nikkei 225	23,517	0.5	-0.6
FTSE 100	5,860	-1.0	-22.3
Sensex	40,686	1.8	-1.4
Hang Seng	24,919	2.2	-11.6
Regional Markets (Sunday to Thursday)			
ADX	4,557	0.1	-10.2
DFM	2,186	-0.4	-21.0
Tadawul	8,505	-0.6	1.4
DSM	9,958	-0.4	-4.5
MSM30	3,557	-1.0	-10.6
BHSE	1,448	-2.1	-10.1
KWSE	5,618	-2.0	-10.6
MSCI			
MSCI World	2,431	-0.4	3.1
MSCI EM	1,136	1.1	2.0

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	41.8	-2.7	-36.7
WTI USD/bbl	39.9	-2.5	-34.7
Gold USD/t oz	1,902.1	0.1	25.4
Silver USD/t oz	24.6	1.9	37.8
Platinum USD/t oz	905.0	4.6	-6.4
Copper USD/MT	6,879.5	2.3	11.8
Alluminium	1,837.0	-1.2	2.7
Currencies			
EUR USD	1.19	1.2	5.8
GBP USD	1.30	1.0	-1.6
USD JPY	104.71	-0.7	3.7
CHF USD	0.90	-1.1	6.9
Rates			
USD Libor 3m	0.21	-1.7	-88.7
USD Libor 12m	0.34	0.0	-83.2
UAE Eibor 3m	0.45	3.7	-79.6
UAE Eibor 12m	0.81	-2.0	-64.6
US 3m Bills	0.09	-5.6	-94.4
US 10yr Treasury	0.84	13.1	-56.0

Summary market outlook

Global Yields	US Treasury (UST) yields jumped to four month high, boosted by the hopes of near-term stimulus. The UST curve steepened significantly as a result of the rise in long-term UST yields. In Europe, German bunds tracked the rise in UST yields and retraced from their 6-month low, despite virus concerns and weak composite PMI reading. UK gilt yields edged higher with the resumption in formal Brexit talks and announcement of more job support. We maintain on overweight stance on long-term USTs with the Fed's QE acting as a backstop and expect rise in inflation expectations to adjust with the realized inflation levels.
Stress and Risk Indicators	The VIX ended up flat after rising in the first half of the week, indicating that markets do not see an increase in the risk that the flare-up in contagions across Europe and the United States will lead to a renewed economic slowdown. Also, the stable VIX level means that markets are not discounting a contested US election. We nonetheless believe that volatility will likely stay elevated given the range of risks on the horizon.
Equity Markets	
Local Equity Markets	GCC equity markets continued to underperform the broader EM space. With the exception of Saudi Arabia, all other equity markets underperformed broader equities quite significantly on a year-to-date basis. Kuwaiti equities underperformed last week. Worth noting that Kuwait equity market outperformed broader GCC equity index in the 12 months prior to COVID-19 related sell-off but underperformed since. Our equity strategy is to remain neutral on GCC equities. 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 in aggregate posted their second consecutive week of losses, albeit marginal. EM equities outperformed DM equities – thanks to strong performance from smaller EMs. US equities broke their three-week winning streak. German equities underperformed on concerns of rising virus cases impacting the recovery. UK equities ended the week rather flat in USD terms. Whilst we are cautious near-term, we are constructive on equities over a 12 month time frame. We are overweight US and underweight EU and EM outside Asia. By sector we prefer IT and Communication services. Our preference is for large cap non-cyclical growth with focus of quality.
Commodities	
Precious Metals	Precious metals prices rose over the week on weaker USD, although gold was flat. We remain overweight gold as a risk hedge against ongoing political risks.
Energy	Oil prices fell on concerns that new COVID-19 infection waves in Europe and the US could dampen demand over the coming winter. The surge in supply from Libya added to concerns about the oil price. Overall, we believe that oil prices are likely to remain sustained as the market is roughly balanced.
Industrial Metals	Industrial metals showed mixed performance with copper prices rising and aluminium prices softening. The cyclical outlook for industrial metals might slightly improve, but we do not recommend industrial metals exposure as China structurally reigns in demand.
Currencies	
EURUSD	EUR appreciated against the USD in line with expectations for a global cyclical rebound. We expect the euro to remain stable.
Critical levels	R2 1.2079 · R1 1.1969 · S1 1.1681 · S2 1.1503
GBPUSD	Expectations of a Brexit deal supported cable strength at the beginning of the week, but gains came down with renewed no deal talks. We expect cable to be stable with Pound sterling likely to follow the euro rather than USD.
Critical levels	R2 1.3465 · R1 1.3253 · S1 1.2752 · S2 1.2463
USDJPY	JPY appreciated against the USD on weakness in the broader green back. BoJ yield curve targeting should put continuing downward pressure on the yen.
Critical levels	R2 107.14 · R1 105.93 · S1 103.75 · S2 102.78

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
10/26/20	New Home Sales	Sep	1,025k	1,011k	US GDP is expected to have risen strongly during Q3 – at a rate of 31.8% annualized, a postwar record. Consumption, investment and inventories should have all contributed positively. However, worth remembering that this rebound follows a sharp contraction in economic activity during Q2. Nevertheless, the focus will still be on the recent high frequency data. Consumer confidence, personal income and spending and initial jobless claims will all be important to watch in this context. We will be keenly watching consumption trends in the US.
10/27/20	Durable Goods Orders	Sep P	0.50%	0.50%	
10/27/20	**Conf. Board Consumer Confidence**	**Oct**	**101.9**	**101.8**	
10/28/20	MBA Mortgage Applications	23-Oct	--	-0.60%	
10/29/20	**Initial Jobless Claims**	**24-Oct**	**780k**	**787k**	
10/29/20	Continuing Claims	17-Oct	7,800k	8,373k	
10/29/20	**GDP Annualized (QoQ)**	**3Q A**	**31.80%**	**-31.40%**	
10/29/20	**Personal Consumption**	**3Q A**	**38.70%**	**-33.20%**	
10/29/20	Pending Home Sales (MoM)	Sep	3.00%	8.80%	
10/30/20	Personal Income	Sep	0.30%	-2.70%	
10/30/20	**Personal Spending**	**Sep**	**1.00%**	**1.00%**	
10/30/20	U. of Mich. Sentiment	Oct F	81.2	81.2	

Japan

	Indicator	Period	Expected	Prior	Comments
10/29/20	Retail Sales (YoY)	Sep	-7.60%	-1.90%	Markets are not expecting further action from the BoJ. Whilst the worst of the economic contraction could be behind us, rebound and recovery are likely to be slow as can be seen by the still weak industrial production.
10/29/20	**BOJ Policy Balance Rate**	**29-Oct**	**--**	**-0.10%**	
10/30/20	Tokyo CPI (YoY)	Oct	-0.10%	0.20%	
10/30/20	Jobless Rate	Sep	3.10%	3.00%	
10/30/20	**Industrial Production (YoY)**	**Sep P**	**-9.80%**	**-13.80%**	

Eurozone

	Indicator	Period	Expected	Prior	Comments
10/26/20	**Germany IFO Business Climate**	**Oct**	**93.0**	**93.4**	Q3 GDP for the region is expected to show a strong rebound after a sizable fall in Q2. However, some high frequency data is likely to point to moderating growth given the recent rise in virus cases in the region. For example, market expects the German IFO Business climate reading to fall for the first time since April and some moderation in Eurozone economic confidence.
10/29/20	Eurozone Economic Confidence	Oct	89.6	91.1	
10/29/20	Eurozone Industrial Confidence	Oct	-10.9	-11.1	
10/29/20	Eurozone Services Confidence	Oct	-14.2	-11.1	
10/29/20	Eurozone Consumer Confidence	Oct F	--	-15.5	
10/29/20	**ECB Main Refinancing Rate**	**29-Oct**	**0.00%**	**0.00%**	
10/30/20	Eurozone Unemployment Rate	Sep	8.20%	8.10%	
10/30/20	**Eurozone GDP SA (QoQ)**	**3Q A**	**9.50%**	**-11.80%**	
10/30/20	**Eurozone CPI (MoM)**	**Oct P**	**0.10%**	**0.10%**	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
10/28 - 11/03	**Nationwide House Px NSA (YoY)**	**Oct**	**5.20%**	**5.00%**	House prices are expected to rise further in October – thanks to the pent-up demand and stamp duty holiday.
10/29/20	Mortgage Approvals	Sep	76.1k	84.7k	
10/29/20	M4 Money Supply (YoY)	Sep	--	12.10%	

China and India

	Indicator	Period	Expected	Prior	Comments
10/27/20	China Industrial Profits (YoY)	Sep	--	19.1%	China PMI data is expected to show continued strong rebound/recovery.
10/31/20	**China Manufacturing PMI**	**Oct**	**51.5**	**51.5**	
10/31/20	**China Non-manufacturing PMI**	**Oct**	**56.1**	**55.9**	

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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