# The Weekly Market View

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بنك أبوظبي التجاري ADCB

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## No eeks and yikes

Markets were not spooked in the run up to the Halloween. After all, negative surprises from retail sales and fixed asset investments in China, contracting PMIs across US, UK and Eurozone, weakening consumer sentiment in the US (Conference Board consumer confidence index fell for the first time in three months), and disappointment in earnings from some large cap US companies had enough to boo the market. Yet markets seemed to focus on larger-than-expected Q3 GDP and personal spending in the US, and the positive surprise in Germany GDP data. Broadly the US earnings season is proving to be stronger than expected – with more than half of S&P 500 companies having reported their earnings thus far, the beat ratio is still running strong at 73%. However, it was the hopes for the Fed pivot that helped a strong rally in equities. While ECB raised its interest rates by 75bp, it sounded less hawkish regarding its future rate rises. Bank of Canada surprised markets last week by increasing the interest rate only by 50bp (a 75bp rise was broadly anticipated). Both these instances last week (alongside the act of Reserve Bank of Australia slowing rate rises earlier this month) increased hopes for a less hawkish stance from the Fed when they announce policy on November 2. Global equities (as measured by MSCI All Country World Index) rose for the second straight week and posted their strongest weekly gain in four months. Volatility indicators for both equities and bonds fell sharply. Yields on 10Y USTs fell over the past week which also saw the 10Y-3M portion of the yield curve invert for the first time since March 2020. European government bond yields softened as the ECB hiked its interest rates by 75bp but sounded relatively less hawkish. Weak PMIs helped the softness in yields. Broader USD weakened c1% over the past week. Gold prices fell marginally despite the USD weakness and a fall in UST yields. Oil prices, helped by both brightening demand outlook, and price-supportive supply-side developments, increased over the past week.

## Can equities rally into the year's end?

Following two weeks of impressive performance in equities (MSCI ACWI up 7% since October 12), investors have begun to wonder if stocks can rally into the year's end. Looking at the equity market performance of the last 10 months, two points can be made. First, there are fast-moving drivers and slow-moving drivers of equity returns. In our view, macro factors like inflation, interest rates, and recession probabilities have been the fast-moving drivers, while corporate earnings and structural trends have been the slow-moving ones. The macro drivers tend to influence equity market returns through changes in valuations and this can happen very quickly - even a small favourable change in fast-moving drivers can contribute significantly to positive market returns. For the slow-moving drivers, it is a gradual process and consistency matters more here. Second, equity market rallies this year have seen strong enablers like bearish sentiment, weak positioning, oversold technicals, and normal valuations. While these enablers are not price catalysts themselves, the degree of enablement determines the extent of bounce higher in equities. Now for the next two months, we can state with a good degree of conviction that enablers are in place. That shifts the primary focus to the drivers. Given that we have gathered a good amount of earnings evidence already this reporting season, incremental information is likely to be only minor. That gives more scope for fast-moving drivers to influence the market direction and magnitude. Here, we are dealing with inflation, interest rates, and recession probabilities. We think inflation will soften over the next couple of months, but recession probabilities will likely edge higher – giving the central bank policy makers some room to manoeuvre and eventually pivot. Such a development in the fast-moving macro drivers is supportive of equity market performance not just in the near-term but also beyond. This would especially be the case if the rise in recession probabilities ends in a mid-cycle slowdown as we expect rather than in an outright recession. But investors should bear in mind that these macro drivers can cause significant volatility. In short, we think equities can rally into year's end, but the headwinds are not at all insignificant.

## Global markets' performance snapshot*

**Index Snapshot (World Indices)***

| Index | Latest | Weekly % | YTD % |
|---|---|---|---|
| S&P 500 | 3,901 | 4.0 | -18.2 |
| Dow Jones | 32,862 | 5.7 | -9.6 |
| Nasdaq | 11,102 | 2.2 | -29.0 |
| DAX | 13,243 | 4.0 | -16.6 |
| Nikkei 225 | 27,105 | 0.8 | -5.9 |
| FTSE 100 | 7,048 | 1.1 | -4.6 |
| Sensex | 59,960 | 1.1 | 2.9 |
| Hang Seng | 14,863 | -8.3 | -36.5 |
| **Regional Markets** | | | |
| ADX | 10,287 | 1.7 | 21.2 |
| DFM | 3,349 | -1.5 | 4.8 |
| Tadawul** | 11,710 | -2.5 | 3.3 |
| DSM** | 12,262 | -2.6 | 5.5 |
| MSM30** | 4,401 | -0.4 | 6.1 |
| BHSE** | 1,864 | -0.1 | 3.7 |
| KWSE** | 7,231 | -0.5 | 2.7 |
| **MSCI** | | | |
| MSCI World | 2,561 | 4.0 | -20.8 |
| MSCI EM | 846 | -2.2 | -31.4 |

**Global Commodities, Currencies and Rates***

| Commodity | Latest | Weekly % | YTD % |
|---|---|---|---|
| Brent USD/bbl | 95.8 | 2.4 | 23.1 |
| WTI USD/bbl | 87.9 | 3.4 | 16.9 |
| Gold USD/t oz | 1,641.2 | -0.1 | -9.9 |
| Silver USD/t oz | 19.1 | 0.1 | -17.9 |
| Platinum USD/t oz | 950.0 | 5.0 | -0.9 |
| Copper USD/MT | 7,619.0 | -1.3 | -21.8 |
| Alluminium | 2,200.7 | 0.6 | -21.6 |
| **Currencies** | | | |
| EUR USD | 1.00 | 1.0 | -12.4 |
| GBP USD | 1.16 | 2.7 | -14.2 |
| USD JPY | 147.47 | -0.1 | 28.1 |
| USD CHF | 1.00 | -0.2 | 9.2 |
| **Rates** | **Latest** | **Weekly (bp)** | **YTD (bp)** |
| USD Libor 3m | 4.44 | 8.1 | 423.0 |
| USD Libor 12m | 5.37 | -10.7 | 478.6 |
| UAE Eibor 3m | 4.10 | 1.8 | 374.0 |
| UAE Eibor 12m | 4.74 | 3.3 | 400.0 |
| US 3m Bills | 3.99 | 9.0 | 393.0 |
| US 10yr Treasury | 4.01 | -20.2 | 251.1 |

Source: Bloomberg | Notes: *Data as of October 28 2022 unless stated otherwise; **Data as of October 27 2022.

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## Summary market outlook

| | |
|---|---|
| Global Yields | Yields on 10Y USTs fell sharply over the past week which also saw the 10Y-3M portion of the yield curve invert for the first time since March 2020. Expectations for the US Fed to slow its rate hikes increased over the recent weeks – especially after Bank of Australia and Bank of Canada surprised markets with smaller than expected rate hikes. European government bond yields softened as the ECB hiked its interest rates by 75bp but sounded relatively less hawkish. Weak PMIs helped the softness in yields. 10Y JGB yields fell on increased bond buying by BoJ. 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 (measuring implied volatility in equities), VVIX index (measuring volatility of the VIX), SKEW index (a measure of tail risks in equities), and MOVE index (measure of volatility in bonds) all registered significant losses last week. VVIX index fell to its lowest level since early-2019. We expect financial market volatility to stay elevated as the monetary policy normalizes. |
| **Equity Markets** | |
| Local Equity Markets | GCC equities posted losses over the week and underperformed global equities but outperformed LatAm markets. Thanks to strength in Abu Dhabi equities, UAE managed to post flat returns while all other regional markets posted losses. 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 All Country World Index) rose for the second straight week and posted their strongest weekly gain in four months. DM outperformed EM over the past week. Within DM, Europe and Canada outperformed. By sector, utilities, industrials, and healthcare outperformed while communication services, consumer discretionary, and materials 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 and NYSE FANG+ indices underperformed broader US benchmarks. 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 fell marginally despite the USD weakness and a fall in UST yields. Platinum prices rose strongly as data showed strong demand from China's fuel cell electric vehicle production. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks. |
| Energy | Stronger than expected GDP data from the US and Germany helped brighten the demand outlook while looming European ban on Russian crude imports helped the prices from supply side. 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 action was mixed with copper prices falling while aluminium prices rising marginally. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain. |

| Currencies | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| EURUSD | EUR, supported by upside surprise in German GDP data release, rose against the USD. ECB was a mixed bag. We expect ECB policy divergence and growth differentials to play a major role in the performance of the euro. | | | | | | | |
| Critical levels | R2 | 1.0242 | R1 | 1.0104 | S1 | 0.9817 | S2 | 0.9668 |
| GBPUSD | GBP rallied sharply as the appointment of Rishi Sunak as the Prime Minister of UK (third in two months) restored confidence in UK assets. We expect GBP to weaken against USD and stay flat versus the EUR. | | | | | | | |
| Critical levels | R2 | 1.1909 | R1 | 1.1762 | S1 | 1.1351 | S2 | 1.1087 |
| USDJPY | Weakness in broader USD was offset by weakness in JPY following a dovish BoJ – causing the USDJPY to end the week flat. BoJ policy remains odd-one out and is likely to keep JPY under pressure. | | | | | | | |
| Critical levels | R2 | 152.07 | R1 | 149.84 | S1 | 145.24 | S2 | 142.87 |

## Forthcoming important economic data/events

### United States

| Date & Time (GST) | Indicator | Period | Expected | Prior |
|---|---|---|---|---|
| **11/01/22 17:45** | **S&P Global US Manufacturing PMI** | **Oct F** | **--** | **49.9** |
| 11/01/22 18:00 | Construction Spending MoM | Sep | -0.50% | -0.70% |
| **11/01/22 18:00** | **ISM Manufacturing** | **Oct** | **50.0** | **50.9** |
| **11/02/22 22:00** | **FOMC Rate Decision** | **2- Nov** | **3.75%-4.00%** | **3.00%-3.25%** |
| 11/03/22 16:30 | Initial Jobless Claims | 29- Oct | -- | -- |
| 11/03/22 16:30 | Continuing Claims | 29- Oct | -- | -- |
| **11/03/22 17:45** | **S&P Global US Services PMI** | **Oct F** | **--** | **46.6** |
| 11/03/22 18:00 | Factory Orders | Sep | 0.40% | 0.00% |
| 11/03/22 18:00 | Durable Goods Orders | Sep F | -- | -- |
| **11/03/22 18:00** | **ISM Services Index** | **Oct** | **55.9** | **56.7** |
| **11/04/22 16:30** | **Change in Nonfarm Payrolls** | **Oct** | **200K** | **263K** |
| **11/04/22 16:30** | **Unemployment Rate** | **Oct** | **3.60%** | **3.50%** |
| **11/04/22 16:30** | **Average Hourly Earnings YoY** | **Oct** | **4.60%** | **5.00%** |
| 11/04/22 16:30 | Labor Force Participation Rate | Oct | -- | 62.30% |

### Japan

| Date & Time (GST) | Indicator | Period | Expected | Prior |
|---|---|---|---|---|
| 10/31/22 09:00 | Annualized Housing Starts | Sep | 0.868m | 0.903m |
| **11/01/22 04:30** | **Jibun Bank Japan PMI Mfg** | **Oct F** | **--** | **50.7** |
| 11/02/22 03:50 | Monetary Base YoY | Oct | -- | -3.30% |
| **11/04/22 04:30** | **Jibun Bank Japan PMI Services** | **Oct F** | **--** | **53.0** |

### Eurozone

| Date & Time (GST) | Indicator | Period | Expected | Prior |
|---|---|---|---|---|
| **10/31/22 14:00** | **Eurozone CPI Estimate YoY** | **Oct** | **--** | **10.00%** |
| **10/31/22 14:00** | **Eurozone GDP SA QoQ** | **3Q A** | **--** | **0.80%** |
| **10/31/22 11/02** | **Germany Retail Sales MoM** | **Sep** | **-0.70%** | **-1.30%** |
| 11/02/22 12:50 | France S&P Global Manufacturing PMI | Oct F | -- | 47.4 |
| 11/02/22 12:55 | Germany S&P Global/BME Manufacturing PMI | Oct F | -- | 45.7 |
| **11/04/22 13:00** | **Eurozone S&P Global Manufacturing PMI** | **Oct F** | **--** | **46.6** |
| 11/04/22 11:00 | Germany Factory Orders MoM | Sep | -- | -2.40% |
| **11/04/22 11:45** | **France Industrial Production MoM** | **Sep** | **--** | **2.40%** |
| 11/04/22 13:00 | Eurozone S&P Global Services PMI | Oct F | -- | 48.2 |
| 11/04/22 14:00 | Eurozone PPI YoY | Sep | -- | 43.30% |

### United Kingdom

| Date & Time (GST) | Indicator | Period | Expected | Prior |
|---|---|---|---|---|
| 10/31/22 13:30 | Net Consumer Credit (GBPbn) | Sep | -- | 1.1 |
| 10/31/22 13:30 | Mortgage Approvals | Sep | -- | 74.3K |
| **10/01/22 13:30** | **S&P Global/CIPS UK Manufacturing PMI** | **Oct F** | **--** | **45.8** |
| 11/02/22 04:01 | BRC Shop Price Index YoY | Oct | -- | 5.70% |
| **11/03/22 13:30** | **S&P Global/CIPS UK Services PMI** | **Oct F** | **--** | **47.5** |
| **11/03/22 13:30** | **S&P Global/CIPS UK Composite PMI** | **Oct F** | **--** | **47.2** |
| **11/03/22 16:00** | **Bank of England Bank Rate** | **3- Nov** | **3.00%** | **2.25%** |
| 11/04/22 13:00 | New Car Registrations YoY | Oct | -- | 4.60% |

**China and India**

| Date & Time (GST) | Indicator | Period | Expected | Prior |
|---|---|---|---|---|
| **11/01/22 05:45** | **China Caixin PMI Mfg** | **Oct** | **--** | **48.1** |
| **11/01/22 09:00** | **India S&P Global PMI Mfg** | **Oct** | **--** | **55.1** |
| **11/03/22 05:45** | **China  Caixin China PMI Services** | **Oct** | **--** | **49.3** |
| **11/03/22 09:00** | **India S&P Global PMI Services** | **Oct** | **--** | **54.3** |
| 11/04/22 | China  BoP Current Account Balance | 3Q P | | $77.5b |

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