The Weekly Market View

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Equities scale new all-time highs

Global equity benchmarks have relentlessly scaled new all-time highs so far this year. For instance, year-to-date, MSCI All Country World Index (ACWI) reached 51 new all-time highs (76 on an annualised basis). Last week saw the index close at a new all-time high every single day. This followed a strong month of August which marked the seventh consecutive month of gains for the index. This takes the year-to-date returns on equities to c16% – putting it firmly on track for a rather rare third consecutive year of gains. Also, compared to history these year-to-date returns are strong. For the context, since 1988, annual average return on MSCI ACWI stood at c7% and median return is c13%. Even on a cross-asset comparison, equity returns are robust on year-to-date basis. A 16% return on equities 2021-to-date compares quite favourably with -2% and -1% returns on sovereign bond aggregates, and corporate bond aggregates respectively. Commodity prices are up 23% in aggregate so far this year. Hedge funds have given more moderate returns while REITs delivered stronger returns of 22% year-to-date.

Looking back at last week, economic data releases broadly pointed to higher-than-expected inflation (HCIP in the Eurozone and average hourly earnings in the US) and weaker-than-expected growth momentum (US consumer confidence, global PMIs, Japanese industrial production, European Commission's economic sentiment index, and US non-farm payrolls). Last week also saw hawkish comments from some ECB Governing Council members pointing to the taper process of the PEPP. Also, the recent rise in US COVID-19 cases led the European Council to increase restrictions on US travellers. Political risks resurfaced in Japan as PM Yoshihide Suga announced his intention to resign. As a result of all these, yields on 10Y USTs rose last week. USD weakened as data disappointments in the US caused markets to reconsider the prospects of the Fed tapering and eventual rate increases. Gold prices rose for the fourth consecutive week on broader USD weakness. Oil prices were mixed last week. Brent crude prices fell marginally as weaker US job market data led to demand-side concerns while WTI prices rose on production cuts from the US Gulf of Mexico in the wake of Hurricane Ida. Industrial metal prices got a tailwind from USD weakness.

The case for a diversified portfolio

As we argued in our Q3 outlook report, markets are facing three peaks – peak growth, peak inflation, and peak policy support – at the time when the economic cycle is moving faster than normal. Also, a range of uncertainties persist. These include the emergence of new variants of the COVID-19 viruses, behaviour of the labour market as we move from the post-pandemic ‘rebound’ to ‘recovery’, central bank dilemma (whether to keep the monetary policy accommodative to aid the nascent recovery or to start tightening so that they begin to accumulate some ammunition to fight the next downturn), emergence of supply-side bottlenecks impacting inflation outlook, and weakening consumer confidence as fiscal policy support fades. While the level of economic growth remained strong, peak growth concerns weighed on the performance of risk assets intermittently during recent months. Citi Global economic surprises index – which measures the extent to which the actual economic activity across the globe surprised versus the estimates – peaked mid-June, fell consistently subsequently, and turned distinctly negative in mid-August. All this is reflected in the elevated level of uncertainty regarding unemployment, core PCE, and GDP growth at the US FOMC. This uncertainty is also feeding into a wide range of year-end target levels for S&P 500 and 10Y UST yields.

Looking ahead, for the next 16 months, we think investors are best served by maintaining a well-diversified portfolio to counter this broad range of uncertainties. Of course, staying invested in a well-diversified portfolio was always prudent, it is just now a bit more important too. For our investment strategy and recommended portfolio positioning, see Quarterly Investment View, July 2021.

Global markets’ performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	4,535	0.6	20.7
Dow Jones	35,369	-0.2	15.6
Nasdaq	15,364	1.5	19.2
DAX	15,781	-0.4	15.0
Nikkei 225	29,128	5.4	6.1
FTSE 100	7,138	-0.1	10.5
Sensex	58,130	3.6	21.7
Hang Seng	25,902	1.9	-4.9
Regional Markets (Sunday to Thursday)			
ADX	7,653	0.4	51.7
DFM	2,912	0.4	16.9
Tadawul	11,320	1.7	30.3
DSM	11,071	-0.3	6.1
MSM30	3,974	0.3	8.6
BHSE	1,663	-0.2	11.7
KWSE	6,813	0.3	22.8
MSCI			
MSCI World	3,164	1.0	17.6
MSCI EM	1,316	3.4	1.9

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	72.6	-0.1	39.9
WTI USD/bbl	69.3	0.8	42.8
Gold USD/t oz	1,827.7	0.6	-3.7
Silver USD/t oz	24.7	2.9	-6.4
Platinum USD/t oz	1,026.8	1.4	-4.2
Copper USD/MT	9,361.0	0.1	20.9
Alluminium	2,716.8	2.9	37.3
Currencies			
EUR USD	1.19	0.7	-2.8
GBP USD	1.39	0.8	1.5
USD JPY	109.71	-0.1	6.3
CHF USD	0.91	0.2	-3.1
Rates			
USD Libor 3m	0.12	-1.9	-50.7
USD Libor 12m	0.22	-5.3	-34.8
UAE Eibor 3m	0.28	-30.1	-46.3
UAE Eibor 12m	0.41	-19.7	-38.0
US 3m Bills	0.03	-27.8	-43.4
US 10yr Treasury	1.32	1.2	44.8

Summary market outlook

Global Yields	Yields on 10Y USTs rose last week despite the disappointment in the US job market data released on Friday. Perhaps, the jump in hourly earnings revived inflation fears and financial markets saw the recent job market weakness as 'transitory'. Yields on core Eurozone government bonds rose on higher-than-expected inflation in Eurozone and hawkish commentary from some ECB Governing council members. Sovereign bond markets in peripheral Eurozone and UK moved in tandem with the core markets. Yield on JGBs increased too. Overall, we recommend a lower duration stance (5Y US Treasuries) in anticipation of interest rate volatility in the near term.
Stress and Risk Indicators	VIX index remained stable at the mid-teens level indicating a more stable risk sentiment through the week. The SKEW index continued to remained elevated. We think the VIX index is unlikely to fall back to the pre-pandemic levels until the virus comes fully under control.
Equity Markets	
Local Equity Markets	GCC equity markets underperformed in the EM space but performed broadly in line with global equity benchmarks. Within the region, Saudi equities outperformed while Qatari equities underperformed. UAE and Kuwait equities posted small gains over the week. We remain neutral GCC equities within our global equity framework. Stable to higher oil prices, potential for revival in growth and scope for reversing the underperformance of 2020 are all balanced by lack of structural growth plays in the equity markets.
Global Equity Markets	Global equities ended last week at a new all-time high. Asian markets outperformed strongly while European and LatAm markets underperformed. By sector, with the exception of financials, all global sectors posted gains during the week. 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 strategic preference is for large cap non-cyclical growth with focus on quality. 'Build back better' themes including green recovery, digitalization and health care innovation are likely to do well. Yet, in the very near-term, as the new wave of COVID-19 fear subsides, we see opportunities in cyclicals, value, and re-opening sectors.
Technology Segments	HK Tech index (a measure of large cap Chinese tech names) rose c7% during the week. Over the past two weeks, this index has rebounded by c14%. Strength in Chinese tech names also supported the NYSE FANG+ index which rose c3% over the week. Nasdaq-100 index rose more than 1% last week.
Commodities	
Precious Metals	Gold prices rose for the fourth consecutive week on broader USD weakness. Silver and platinum metal prices increased too. We keep our overweight in gold as a hedge against potential risks on the horizon.
Energy	Oil prices were mixed last week. Brent crude prices fell marginally as weaker US job market pointed to demand concerns while WTI prices rose on production cuts from the US Gulf of Mexico in the wake of Hurricane Ida. Overall, we believe that oil prices will remain sustained as the market approaches a balance.
Industrial Metals	Industrial metal prices got a tailwind from USD weakness. Copper prices were stable while aluminium prices rose further to hit the highest level since 2011. While another commodity super-cycle appears difficult, demand for commodities linked to environmental friendly green infrastructure is likely to sustain.
Currencies	
EURUSD	EUR, helped by broader USD weakness, reached its highest level since late July against the greenback. Re-opening is a positive for EUR while risk-off sentiment and the easier policy are moderately negative.
Critical levels	R2 1.2063 · R1 1.1971 · S1 1.1726 · S2 1.1573
GBPUSD	GBP hit a four week-high against the USD despite the loss of reopening momentum in the UK. We expect the cable to be driven by how the re-opening plays out over the near-term and to decouple from the EUR.
Critical levels	R2 1.4200 · R1 1.4035 · S1 1.3654 · S2 1.3438
USDJPY	Despite USD weakness, JPY managed to gain only marginally against the greenback on risk-on sentiment. Over the medium-term, we believe that BoJ yield curve targeting should put downward pressure on JPY.
Critical levels	R2 111.82 · R1 110.77 · S1 108.69 · S2 107.66

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

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Forthcoming important economic data/events

United States

	Indicator	Period	Expected	Prior	Comments
09/08/21	MBA Mortgage Applications	3-Sep	--	-2.40%	Relatively light on data in a holiday-shortened week. JOLTS job openings and initial jobless claims are likely to give more indication of the trajectory of the job market. PPI data will likely draw more attention than usual, given the focus on inflation across the globe. MBA mortgage applications and wholesale inventories are other key data releases this week.
09/08/21	**JOLTS Job Openings**	**Jul**	**10,000k**	**10,073k**	
09/08/21	Federal Reserve Releases Beige Book				
09/09/21	**Initial Jobless Claims**	**4-Sep**	**335k**	**340k**	
09/09/21	Continuing Claims	28-Aug	--	2,748k	
09/10/21	**PPI Final Demand YoY**	**Aug**	**8.20%**	**7.80%**	
09/10/21	PPI Ex Food and Energy YoY	Aug	6.60%	6.20%	
09/10/21	PPI Ex Food, Energy, Trade YoY	Aug	--	6.10%	
09/10/21	Wholesale Inventories MoM	Jul F	0.60%	0.60%	

Japan

	Indicator	Period	Expected	Prior	Comments
09/07/21	Labor Cash Earnings YoY	Jul	0.30%	-0.10%	Final print of Q2 GDP is expected to be revised up slightly. However, more important will be indicators of economic activity during Q3 – household spending for July and machine tool orders in August.
09/07/21	Household Spending YoY	Jul	2.70%	-5.10%	
09/08/21	BoP Current Account Balance	Jul	¥2,288.2b	¥905.1b	
09/08/21	**GDP SA QoQ**	**2Q F**	**0.40%**	**0.30%**	
09/09/21	Money Stock M2 YoY	Aug	4.60%	5.20%	
09/09/21	**Machine Tool Orders YoY**	**Aug P**	**--**	**93.40%**	

Eurozone

	Indicator	Period	Expected	Prior	Comments
09/06/21	Eurozone Sentix Investor Conf.	Sep	19.7	22.2	ECB meeting is perhaps the most important event this week. Following hawkish comments from some ECB Governing Council members, market expectations for the taper of PEPP have increased. Elsewhere, industrial production data from Germany and France, alongside final Q2 GDP of the Eurozone, and Germany ZEW expectations are significant data releases this week.
09/07/21	**Germany IP YoY**	**Jul**	**5.10%**	**5.10%**	
09/07/21	**Germany ZEW Expectations**	**Sep**	**30.5**	**40.4**	
09/07/21	Eurozone Employment YoY	2Q F	--	1.80%	
09/07/21	Eurozone GDP SA YoY	2Q F	13.60%	13.60%	
09/07/21	Eurozone ZEW Survey Expectations	Sep	--	42.7	
09/09/21	**ECB Main Refinancing Rate**	**9-Sep**	**0.00%**	**0.00%**	
09/09/21	**ECB Marginal Lending Facility**	**9-Sep**	**0.25%**	**0.25%**	
09/09/21	**ECB Deposit Facility Rate**	**9-Sep**	**-0.50%**	**-0.50%**	
09/10/21	Germany CPI YoY	Aug F	3.90%	3.90%	
09/10/21	**France IP YoY**	**Jul**	**4.00%**	**7.10%**	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
09/06/21	New Car Registrations YoY	Aug	--	-29.50%	Monthly GDP growth is expected to have slowed in July – this is in line with a flatlining mobility data, fall in retail sales, slowing industrial growth, and weakness in the PMIs.
09/06/21	Markit/CIPS UK Construction PMI	Aug	56.0	58.7	
09/09/21	RICS House Price Balance	Aug	75%	79%	
09/10/21	**Monthly GDP MoM**	**Jul**	**0.50%**	**1.00%**	
09/10/21	**Industrial Production YoY**	**Jul**	**3.00%**	**8.30%**	

China and India

	Indicator	Period	Expected	Prior	Comments
09/07/21	**China Exports YoY**	**Aug**	**17.20%**	**19.30%**	Chinese data releases this week are likely to be watched with more interest given the slowdown there. Both exports and imports are expected to have grown at a slower pace in August compared to July. CPI and PPI are expected to remain unchanged. Key data will be the aggregate financing and money supply in China.
09/07/21	**China Imports YoY**	**Aug**	**27.00%**	**28.10%**	
09/07/21	China Foreign Reserves	Aug	$3,232.0b	$3,235.9b	
09/09/21	**China CPI YoY**	**Aug**	**1.00%**	**1.00%**	
09/09/21	**China PPI YoY**	**Aug**	**9.00%**	**9.00%**	
09/09-09/15/21	**China Aggregate Financing CNY**	**Aug**	**2,750.0b**	**1,060.0b**	
09/09-09/15/21	China New Yuan Loans CNY	Aug	1,325.0b	1,080.0b	
09/09-09/15/21	**China Money Supply M2 YoY**	**Aug**	**8.40%**	**8.30%**	
09/10/21	India Industrial Production YoY	Jul	9.50%	13.60%	

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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