The Weekly Market View

September 26 2021

بنك أبوظبي التجاري
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A dip that didn't last long

Last week saw markets contemplate about a range of uncertainties. In the US, data including Fed's refreshed projections of the economy hinted at a potential stagflationary scenario emerging. In China, fears of the second largest property developer defaulting have led to concerns of a potential 'Lehman moment' for global financial markets and a 'Minsky moment' for Chinese economy/markets. Data disappointments continued – the Citi Global economic surprise index that measures the extent to which reported data is above (+) or below (-) expectations fell from +90 to -25 in just the past three months. PMI data reported last week disappointed across the globe; and pointed to building cost pressures and slowing top line. Central bank policy had a hawkish tilt with the US Fed and Bank of England announcing their plans to taper. Some central banks including those in Norway, Brazil, and Hungary have raised their policy rates too.

Global equities ended the week rather flat but were volatile through the week. Monday saw significant losses across the board but markets recovered strongly through the week. Last week DM outperformed EM. Within DM, the UK and the US outperformed while Japan underperformed (during the holiday-shortened week). EM underperformance was driven by Asian markets as China's Evergrande remained in focus. Sector wise, energy, financials, and IT outperformed while real estate, utilities, and materials underperformed. VIX index rose sharply at the start of the week to hit a four-month high but fell subsequently. SKEW index, a measure of tail risks fell to its lowest level since mid-May. Yields on 10Y US treasuries rose to the highest level since early July on potential taper of asset purchases and eventual interest rate increases. Gold prices rose in the first half of the week on risk-off environment but fell subsequently as the US Fed provided details on its taper plans. Oil prices rose further and neared three-year highs on improving demand. Natural gas prices have risen sharply in recent weeks on likely higher demand during winter.

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Transitionary (and transitory) times

No doubt uncertainties are on the rise. As we have been highlighting in our recent weeklies, the rise of uncertainties – pertaining to a range of matters including the emergence of new COVID-19 virus variants, behaviour of the labour market (and labour costs) after a deep shock, 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, weakening consumer confidence, and potential fading of the fiscal policy – has influenced the market behaviour recently. Yet, recent dips in risk assets have been bought. For context, MSCI ACWI fell 4.0% over two weeks to September 20, but rebounded 1.7% subsequently.

From a strategy view point, investors are best served by remaining invested in a reasonably well diversified portfolio over the next 15 months, we believe. Why? First, taking a step back and thinking about where the global economy is in the cycle reminds us that the Western world is in the midst of a transition from "rebound" to "recovery" after a deep shock (for our Convalescence model of an economic sudden stop, see The Equity Strategist, August 12 2020). Such transitions, in our view, are almost always accompanied by a rise in uncertainty regarding the outlook. Yet, as this transition moves forward clarity should start to emerge. For instance, as the case counts of Delta variant COVID-19 peak, the growth outlook should become clearer. Also, as generous pandemic-related unemployment insurance benefits end and as supply bottlenecks ease, investors would be better able to assess the transitory nature of inflation. Further, investors should be able to discern if current inflation numbers are set to remove the left-tail risks (i.e. deflation) or outright enhance right-tail risks (i.e. higher sustainable inflation). Whatever, occasional wobbles in risk assets should not be ruled out over next months, but equally such dips are unlikely to last long, as fundamentals remain strong. Such wobbles in fact should help long-term investors by removing excesses in positioning and sentiment.

Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	4,455	0.5	18.6
Dow Jones	34,798	0.6	13.7
Nasdaq	15,048	0.0	16.8
DAX	15,532	0.3	13.2
Nikkei 225	30,249	-0.8	10.2
FTSE 100	7,051	1.3	9.1
Sensex	60,048	1.7	25.8
Hang Seng	24,192	-2.9	-11.2
Regional Markets (Sunday to Thursday)			
ADX	7,825	-0.7	55.1
DFM	2,840	-2.1	13.9
Tadawul*	11,271	-1.3	29.7
DSM	11,241	0.5	7.7
MSM30	3,927	-0.2	7.3
BHSE	1,702	1.4	14.3
KWSE	6,876	0.1	24.0
MSCI			
MSCI World	3,104	0.2	15.4
MSCI EM	1,265	-1.1	-2.0

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	78.1	3.7	50.8
WTI USD/bbl	74.0	2.8	52.5
Gold USD/t oz	1,750.4	-0.2	-7.8
Silver USD/t oz	22.4	0.2	-15.1
Platinum USD/t oz	985.4	4.5	-8.1
Copper USD/MT	9,275.0	-1.7	19.8
Alluminium	2,910.0	0.9	47.0
Currencies			
EUR USD	1.17	0.0	-4.1
GBP USD	1.37	-0.5	0.1
USD JPY	110.73	0.7	7.2
CHF USD	0.92	-0.8	-4.3
Rates			
USD Libor 3m	0.13	6.8	-44.5
USD Libor 12m	0.23	2.1	-33.0
UAE Eibor 3m	0.45	23.3	-11.6
UAE Eibor 12m	0.43	-36.1	-34.6
US 3m Bills	0.03	-16.7	-56.6
US 10yr Treasury	1.45	6.6	58.9

Notes: *Data as of September 22 2021

Summary market outlook

Global Yields	Yields on 10Y US treasuries rose to the highest level since early July on potential taper of asset purchases and eventual interest rate raises. Corporate bond spreads (both investment grade and high yield) started the week wider, yet tightened over the course of the week. 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 rose sharply at the start of the week to hit a four-month high but fell subsequently. SKEW index, a measure of tail risks fell to its lowest level since mid-May. 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 markets performed in line with broader EMs and ended the week c1% lower. Within the region, equities in the UAE and Saudi Arabia underperformed, Kuwaiti equities remained flat and Qatari equities outperformed. The UAE central bank said that it was starting to withdraw the pandemic era stimulus. 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 the week rather flat but were volatile through the week. Monday saw significant losses across the board but markets recovered strongly through the week. For context, MSCI ACWI fell 4.0% over two weeks to September 20 and rebounded 1.7% subsequently. Last week DM outperformed EM. Within DM, the UK and the US outperformed while Japan underperformed (during the holiday-shortened week). EM underperformance was driven by Asian markets as China's Evergrande remained in focus. Sector wise, energy, financials, and IT outperformed while real estate, utilities, and materials underperformed. From a strategy view point, we are moderately overweight US, UK, and Asia Pacific; underweight Eurozone and EMs outside Asia. By sector we prefer industrials, IT, and communication services. 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) fell another 5% over the week on broader weakness but also as the US Public Company Accounting Oversight Board (PCAOB) adopted a new rule related to the PCAOB's responsibilities under the Holding Foreign Companies Accountable Act (HFCAA).
Commodities	
Precious Metals	Gold prices rose in the first half of the week on risk-off environment but fell subsequently as the US Fed provided details on its taper plans. We keep our overweight in gold as a hedge against potential risks on the horizon.
Energy	Oil prices rose further and neared three-year highs on improving demand. Natural gas prices have risen sharply in recent weeks on likely higher demand during winter. Overall, we believe that oil prices will remain sustained as the market approaches a balance.
Industrial Metals	Industrial metal prices showed mixed trends. Sentiment towards China, a key importer of industrial commodities, was weak; yet supply constraints for certain commodities persisted. While another commodity super-cycle appears difficult, demand for commodities linked to environmental friendly green infrastructure is likely to sustain.
Currencies	
EURUSD	EUR fell against the USD earlier in the week but rebounded subsequently to end the week relatively unchanged. Re-opening is a positive for EUR while risk-off sentiment and the easier policy are moderately negative.
Critical levels	R2 1.2009 · R1 1.1865 · S1 1.1620 · S2 1.1519
GBPUSD	Cable ended the week marginally weaker – yet remained within the range seen over the past three months. 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 1.4042 · R1 1.3861 · S1 1.3550 · S2 1.3420
USDJPY	Divergence in outlook for monetary policies in the US and Japan caused JPYUSD to fall to its lowest level since July. Over the medium-term, we believe that BoJ yield curve targeting should put downward pressure on JPY.
Critical levels	R2 111.89 · R1 111.31 · S1 109.63 · S2 108.53

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
09/27/21	**Durable Goods Orders**	**Aug P**	**0.60%**	**-0.10%**	Very busy week in terms of data releases. Aggregate PMIs – including the ISM and the final print from Markit – are like to provide broad assessment of economic momentum. Other indicators like the Dallas Fed manufacturing activity, Richmond Fed manufacturing index, and MNI Chicago PMI are likely to provide more context. Durable goods orders and inventories data for August is expected to provide a snapshot of the industrial economy. House price information from FHFA and S&P CoreLogic alongside pending home sales data are worth watching to assess the situation in the housing market. Turning to consumer, while confidence/ sentiment data from Conference Board and UMich provide a snapshot of the current situation, personal income/spending and core PCE data for August provide 'hard' evidence for policymakers.
09/27/21	Dallas Fed Manf. Activity	Sep	11	9	
09/28/21	Wholesale Inventories MoM	Aug P	0.80%	0.60%	
09/28/21	FHFA House Price Index MoM	Jul	1.50%	1.60%	
09/28/21	S&P CoreLogic CS 20-City YoY NSA	Jul	20.00%	19.08%	
09/28/21	**Conf. Board Consumer Confidence**	**Sep**	**115.0**	**113.8**	
09/28/21	Richmond Fed Manufact. Index	Sep	10	9	
09/29/21	MBA Mortgage Applications	24-Sep	--	4.90%	
09/29/21	Pending Home Sales MoM	Aug	1.00%	-1.80%	
09/30/21	**Initial Jobless Claims**	**25-Sep**	**330k**	**351k**	
09/30/21	Continuing Claims	18-Sep	2,805k	2,845k	
09/30/21	GDP Annualized QoQ	2Q T	6.60%	6.60%	
09/30/21	MNI Chicago PMI	Sep	65.0	66.8	
10/01/21	**Personal Income**	**Aug**	**0.20%**	**1.10%**	
10/01/21	**Personal Spending**	**Aug**	**0.60%**	**0.30%**	
10/01/21	PCE Deflator YoY	Aug	4.20%	4.20%	
10/01/21	**PCE Core Deflator YoY**	**Aug**	**3.50%**	**3.60%**	
10/01/21	**Markit US Manufacturing PMI**	**Sep F**	**60.5**	**60.5**	
10/01/21	U. of Mich. Sentiment	Sep F	71	71	
10/01/21	**ISM Manufacturing**	**Sep**	**59.5**	**59.9**	

Japan

	Indicator	Period	Expected	Prior	Comments
09/29/21	**LDP leadership election**				Liberal Democratic Party (LDP) leadership election will elect the next President of the LDP. The winner of the election will lead the party in the upcoming general election (likely to be held in November this year). In terms of data, industrial production, PMIs, retail sales, Tankan surveys, housing starts, and vehicle sales are all important.
09/30/21	Retail Sales YoY	Aug	-1.30%	2.40%	
09/30/21	**Industrial Production YoY**	**Aug P**	**12.10%**	**11.60%**	
09/30/21	Housing Starts YoY	Aug	9.50%	9.90%	
10/01/21	Jobless Rate	Aug	2.90%	2.80%	
10/01/21	**Tankan Large Mfg Index**	**3Q**	**13**	**14**	
10/01/21	Tankan Large Non-Mfg Outlook	3Q	5	3	
10/01/21	**Jibun Bank Japan PMI Mfg**	**Sep F**	**--**	**51.2**	
10/01/21	Vehicle Sales YoY	Sep	--	4.40%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
09/27/21	**Germany Federal election results**				Tightly contested German elections will be closely watched this week. Polls close at 6pm on Sunday, September 26, and provisional results are likely to be published early hours on Monday. Polls suggest a wide ranging possibilities of grand coalitions with meaningfully different implications for the economy as well as financial markets. Elsewhere, inflation, consumer confidence and PMI across the region are important to watch.
09/27/21	Eurozone M3 Money Supply YoY	Aug	7.70%	7.60%	
09/28/21	**Germany GfK Consumer Conf.**	**Oct**	**-1.6**	**-1.2**	
09/28/21	France Consumer Confidence	Sep	100	99	
09/29/21	**Eurozone Consumer Confidence**	**Sep F**	**--**	**-4**	
09/30/21	France CPI YoY	Sep P	2.20%	1.90%	
09/30/21	**Eurozone Unemployment Rate**	**Aug**	**7.50%**	**7.60%**	
09/30/21	Germany CPI YoY	Sep P	4.20%	3.90%	
10/01/21	Germany Retail Sales MoM	Aug	1.50%	-5.10%	
10/01/21	**Markit Eurozone Manuf. PMI**	**Sep F**	**58.7**	**58.7**	
10/01/21	**Eurozone CPI Core YoY**	**Sep P**	**1.90%**	**1.60%**	

United Kingdom

Date	Indicator	Period	Expected	Prior	Comments
09/28-10/03/21	Nationwide House Px NSA YoY	Sep	10.70%	11.00%	Final print of Q2 GDP is expected to show no change from the previous reading. Nationwide house prices and manufacturing PMI are rather important indicators to watch.
09/29/21	Mortgage Approvals	Aug	73.0k	75.2k	
09/30/21	**GDP YoY**	**2Q F**	**22.20%**	**22.20%**	
10/01/21	**Markit UK PMI Manufacturing SA**	**Sep F**	**56.3**	**56.3**	

China and India

Date	Indicator	Period	Expected	Prior	Comments
09/28/21	China Industrial Profits YoY	Aug	--	16.40%	In China, markets are likely to pay more attention to the debt situation of Evergrande. PMIs (both from NBS and Caixin) are likely to be watched closely.
09/30/21	**China Non-manufacturing PMI**	**Sep**	**50.8**	**47.5**	
09/30/21	**China Manufacturing PMI**	**Sep**	**50.2**	**50.1**	
09/30/21	**Caixin China PMI Mfg**	**Sep**	**49.5**	**49.2**	
10/01/21	**Markit India PMI Mfg**	**Sep**	**--**	**52.3**	

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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