The Weekly Market View

April 04 2022

ASSET MANAGEMENT LIMITED

A quarter to remember

Markets continued to assess the Russia-Ukraine situation along with a string of economic releases amidst portions of the UST yield curve inverting. The most anticipated labour market data- a key determinant of the Fed tightening path-signalled that job growth slightly disappointed but pointed to a strong labour market. Non-farm payrolls missed market expectations at 431k but unemployment rate declined more than expected while average hourly earnings growth matched market expectations. The latest ISM Manufacturing survey signalled slowdown in growth momentum in the manufacturing activity, but remained in expansionary territory. On the other hand, the final March S&P US Manufacturing PMI was revised upwards. In Eurozone, preliminary estimates showed inflation jumping to a record 7.5% in March. However, the ECB policymakers warned on the possible deterioration in the economic outlook owing to the Russia-Ukraine war. Elsewhere, the Bank of Japan expressed an opposing accommodative stance by boosting bond purchases as part of its yield curve control policy. Global equity markets ended the week almost unchanged, registering a quarterly loss of c5.5% in Q1 22. EM equities outperformed DM peers last week. In DM, European equities gained momentum, outperforming their peers while Japanese stocks were the worst performers. In the bond market, the 10-2yr UST yield curve inverted for the first time since 2019. Corporate credit recorded gains. Across the Atlantic, core Eurozone bond yields ended mostly unchanged. In commodities, oil prices posted losses with Biden administration announcing unprecedented release of strategic reserves. Gold prices pared their previous weekly gains. The US dollar lacked momentum, weakening versus the euro but strengthened against the pound sterling and the yen.

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Assessing EM debt vulnerability

EM USD bonds have been the worst performer in 1Q 22, recording losses of c9.4%. The escalating tensions between Russia-Ukraine has been one of the key drivers for the underperformance. However, given the marginal weight of Russia bonds (pre-exclusion) in the EM bond index, it has not been the only driver. In fact, EM USD bonds were already under pressure due to the China debt default concerns. China has the largest weight in the EM USD bond index (sovereign + corporates) and the drawdown in the market value of the China bond index corresponds to the similar drawdown see in the EM USD bond index. In case of EM USD sovereigns, surprisingly, better quality GCC sovereigns (Saudi, Qatar and the UAE) ranked amongst the top underperformers in the 1Q 2022. On the other hand, countries which were most vulnerable to the Russia-Ukraine war (Egypt, Turkey) have reversed their previous declines. EM USD HY sovereigns have, in fact, recorded positive returns in March. This is despite the stress in the global bond markets and tightening of US financial conditions. The recent quarterly sell-off has raised the attractiveness of the EM USD sovereign bonds, particularly versus the US HY and the EM LCY peers. However, it may be still early to increase allocation to EM USD sovereign bonds. EM USD sovereign bonds are vulnerable to the tightening of the US financial conditions and any further tightening could mean funding stress for EM sovereigns, particularly the EM HY sovereigns. EM USD sovereign bonds also likely to remain susceptible to the increased UST volatility. We maintain our neutral stance on EM USD sovereign bonds with a selective preference for oil exporting countries including high-quality GCC sovereigns and Brazil.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	4,546	0.1	-4.6
Dow Jones	34,818	-0.1	-4.2
Nasdaq	14,262	0.7	-8.8
DAX	14,446	1.0	-9.1
Nikkei 225	27,666	-1.7	-4.0
FTSE 100	7,538	0.7	2.1
Sensex	59,277	3.3	1.8
Hang Seng	24,209	3.0	-4.6
Regional Markets			
ADX	9,929	1.6	17.0
DFM	3,537	3.6	10.7
Tadawul**	13,090	1.1	16.0
DSM**	13,533	-0.7	16.2
MSM30**	4,205	-1.8	-0.1
BHSE**	2,074	2.0	16.0
KWSE**	8,147	1.3	15.2
MSCI			
MSCI World	3,053	0.3	-5.4
MSCI EM	1,142	1.9	-7.0

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	104.4	-13.5	34.4
Nymex WTI USD/bbl	99.3	-12.8	32.1
Gold USD/t oz	1,925.7	-1.7	4.9
Silver USD/t oz	24.6	-3.5	5.4
Platinum USD/t oz	989.6	-1.6	2.1
Copper USD/MT	10,247.0	-0.3	5.7
Alluminium	3,439.8	-4.6	22.7
Currencies			
EUR USD	1.10	0.5	-2.8
GBP USD	1.31	-0.5	-3.1
USD JPY	122.52	0.4	6.2
USD CHF	0.93	-0.4	1.4
Rates	**Latest**	**Weekly (bp)**	**YTD(bp)**
USD Libor 3m	0.96	-2.1	75.3
USD Libor 12m	2.17	8.3	158.8
UAE Eibor 3m	1.05	3.9	68.6
UAE Eibor 12m	2.15	10.9	141.3
US 3m Bills	0.51	-1.0	48.0
US 10yr Treasury	2.38	-9.1	87.2

Notes: *Data as of April 1 2022 unless stated otherwise; **Data as of March 31 2022

Summary market outlook

Global Yields	The 10-2yr yield curve inverted for the first time since 2019, following the 30-5yr yield curve inversion. Corporate credit recorded gains. European bond yields ended the week flat as strong inflation print was offset by dovish remarks by ECB policymakers and continued Russia-Ukraine tensions. Overall, we recommend a lower duration stance (5Y USTs) on the back of higher interest rate volatility in the near term.
Stress and Risk Indicators	VIX index fell sharply as risk-appetite improved. SKEW index ended the week higher. We expect financial market volatility to stay elevated through this year as the pandemic era policy accommodation is withdrawn.
Equity Markets	
Local Equity Markets	GCC stock markets recorded positive gains. Dubai, Bahrain and Abu Dhabi led the outperformance while Oman and Qatar 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 years are all balanced by lack of structural growth plays in the equity markets.
Global Equity Markets	Global equities ended the week mostly unchanged. EM stocks outperformed DM stocks. Amongst DMs, European equities gained momentum, making them the top performer last week. On the other hand, Japanese underperformed the most. 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, small caps, and re-opening sectors.
Technology Segments	Nasdaq-100 index ended the week flat. Hang Seng Tech index recorded gains of c3.3%.
Commodities	
Precious Metals	Gold prices pared their previous gains. We keep our overweight in gold as a hedge against potential inflation and geopolitical risks.
Energy	Oil recorded its biggest weekly loss in more than a decade after the Biden administration announced an unprecedented release of the US strategic reserves to control prices. 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 prices suffered losses last week. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain.
Currencies	
EURUSD	The euro strengthened versus the US dollar. We expect ECB policy divergence to play a major role in the performance of the euro.
Critical levels	R2 1.1298 · R1 1.117 · S1 1.093 · S2 1.0818
GBPUSD	The GBP/USD declined as strong US economic data backed Fed tightening bets. We expect the GBP to be driven by how the BoE policy evolves over the near-term and to decouple from the EUR.
Critical levels	R2 1.3269 · R1 1.3192 · S1 1.3044 · S2 1.2973
USDJPY	The yen weakened against the US dollar as the BoJ maintained its accommodative stance, diverging from the Fed's tightening policy. Over the medium-term, BoJ's yield curve targeting should put downward pressure on JPY.
Critical levels	R2 126.77 · R1 124.64 · S1 120.83 · S2 119.15

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
04/05/22 18:00	**ISM Services Index**	**Mar**	**58.3**	**56.5**
04/05/22 15:00	MBA Mortgage Applications	1- Apr	--	-6.80%
04/06/22 22:00	**FOMC Meeting Minutes**	**16- Mar**	**--**	**--**
04/06/22 16:30	**Initial Jobless Claims**	**2- Apr**	**--**	**--**
04/07/22 16:30	**Continuing Claims**	**26- Mar**	**--**	**--**
04/08/22 18:00	Wholesale Inventories MoM	Feb F	--	2.10%

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
04/05/22 03:50	Monetary Base YoY	Mar	--	7.60%
04/05/22 03:30	Labor Cash Earnings YoY	Feb	--	0.90%
04/05/22 03:30	Household Spending YoY	Feb	3.70%	6.90%
04/05/22 04:30	**Jibun Bank Japan PMI Services**	**Mar F**	**--**	**48.7**
04/08/22 03:50	BoP Current Account Balance	Feb	¥1622.4b	-¥1188.7b
04/11/22 10:00	**Machine Tool Orders YoY**	**Mar P**	**--**	**31.60%**

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
04/04/22 10:00	Germany Exports SA MoM	Feb	--	-2.80%
04/04/22 12:30	Eurozone Sentix Investor Confidence	Apr	--	-7
04/05/22 10:45	France Industrial Production YoY	Feb	--	-1.50%
04/06/22 13:00	**Eurozone PPI YoY**	**Feb**	**--**	**30.60%**
04/07/22 10:00	Germany Industrial Production SA MoM	Feb	--	2.70%
04/07/22 13:00	**Eurozone Retail Sales YoY**	**Feb**	**--**	**7.80%**

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
04/05/22 12:00	New Car Registrations YoY	Mar	--	15.00%
04/11/22 10:00	**Industrial Production YoY**	**Feb**	**--**	**2.30%**
04/11/22 10:00	Manufacturing Production YoY	Feb	--	3.60%
04/11/22 10:00	Construction Output YoY	Feb	--	9.90%
04/11/22 10:00	Index of Services 3M/3M	Feb	--	1.00%

China and India

Date & Time (GST)	**Indicator**	**Period**	**Expected**	**Prior**
04/06/22 05:45	**Caixin China PMI Composite**	**Mar**	**--**	**50.1**
04/06/22 05:45	**Caixin China PMI Services**	**Mar**	**49.8**	**50.2**
04/07/22	China Foreign Reserves	Mar	--	$3213.83b
04/08/22 08:30	**India RBI MPC Meeting**	**8- Apr**	**No Change**	
04/09/22 04/15	China Aggregate Financing CNY	Mar	--	1190.0b
04/09/22 04/15	China New Yuan Loans CNY	Mar	--	1230.0b
04/09/22 04/15	China Money Supply M2 YoY	Mar	--	9.20%
04/11/22 05:30	**China CPI YoY**	**Mar**	**--**	**0.90%**

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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