

The Weekly Market View

April 18 2021

Every zig has its zag

Take a look at the economic data releases last week. Starting with China, a positive surprise on imports was met with a negative surprise on exports. Staying with China, negative surprises on GDP and industrial production were counterbalanced by positive surprises on fixed asset investments and retail sales. US CPI was higher than expected, jobless claims and retail sales were both better than expected, but industrial production was weaker than the estimates. In Germany, ZEW survey for current situation was positive but was offset by negative surprise on expectations component. On the health situation, a 'pause' in Johnson & Johnson's coronavirus vaccinations was met with Pfizer's announcement that it could deliver 10% more vaccine than earlier promised by end of May. Q1 reporting season that just began appeared strong too. Geopolitical risks rose at the margin when US announced sanctions on Russia. However, markets read all these developments against the backdrop of an economy that looks increasingly positive, a monetary policy stance that is accommodative and a fiscal policy that is generous. Global equities delivered positive returns for the fourth consecutive week. 10Y UST yields declined during the week despite strong economic data and upbeat inflation numbers. USD weakened and commodity prices rose (for details see page 2).

Three top-of-mind topics

Over the next months, investors are likely to have earnings, taxes and seasonality on top of their minds, of course alongside developments in the health situation. **On earnings**, as we argued in our report [Global Equity Outlook 2021: The unabnormal, January 19 2021](#), equity returns in 2021 should be led by earnings growth. I/B/E/S consensus now estimates 31% EPS growth this year (up from 29% estimated in January). We still see upside risks to this number. Q1 reporting season which has just began is likely to provide more clarity in the form of guidance from the corporates. In terms of earnings growth for Q1, strongest performance (on a y-o-y basis) is expected to come from cyclical sectors (like consumer discretionary, financials and materials in the US; consumer cyclicals, industrials and basic materials in Europe). Expectations are for this strong earnings growth momentum to continue into Q2 but moderation beyond that – yet maintaining a positive growth. **Relating to taxes**, the current proposal by Biden administration to raise taxes to fund the spending plans (including American Jobs plan, American Families plan and an extension of American Rescue plan) are likely to take the mind space of investors over next months. We expect this legislation to be debated over next months and eventually passed in September or beyond. However, the news flow around this is likely to create near-term volatility. Investors should watch this space closely for more specifics of the tax plan and the discussions with the US Congress. **Seasonality** in equity markets too will also be top-of-mind for investors especially going into summer months. In general we note that, chances (and magnitude) of drawdowns tend to increase, volatility tends to rise and valuations tend to compress during summer months. Add to this, the scope for earnings moderation starting Q3, a peak re-opening narrative, and tax proposals in the US making progress, the case for a **sobering summer** becomes clearer.

For our latest view across assets, see our report [Q2 2021 Outlook: A balancing act, April 2021](#) and the chart book [Q2 2021 Outlook Chart book: A balancing act, April 2021](#).

Global markets' performance snapshot

| Index Snapshot (World Indices) | | | |
|---------------------------------------|--------|----------|-------|
| Index | Latest | Weekly % | YTD % |
| S&P 500 | 4,185 | 1.4 | 11.4 |
| Dow Jones | 34,201 | 1.2 | 11.7 |
| Nasdaq | 14,052 | 1.1 | 9.0 |
| DAX | 15,460 | 1.5 | 12.7 |
| Nikkei 225 | 29,683 | -0.3 | 8.2 |
| FTSE 100 | 7,020 | 1.5 | 8.7 |
| Sensex | 48,832 | -1.5 | 2.3 |
| Hang Seng | 28,970 | 0.9 | 6.4 |
| Regional Markets (Sunday to Thursday) | | | |
| ADX | 6,132 | 1.2 | 21.5 |
| DFM | 2,633 | 1.9 | 5.7 |
| Tadawul | 9,988 | -0.2 | 14.9 |
| DSM | 10,899 | 3.4 | 4.4 |
| MSM30 | 3,708 | 0.0 | 1.3 |
| BHSE | 1,475 | 1.5 | -1.0 |
| KWSE | 5,954 | 0.5 | 7.3 |
| MSCI | | | |
| MSCI World | 2,953 | 1.5 | 9.8 |
| MSCI EM | 1,349 | 0.7 | 4.4 |

Global Commodities, Currencies and Rates

| Commodity | Latest | Weekly % | YTD % |
|-------------------|---------|----------|-------|
| Brent USD/bbl | 66.8 | 6.1 | 28.9 |
| WTI USD/bbl | 63.1 | 6.4 | 30.1 |
| Gold USD/t oz | 1,776.5 | 1.9 | -6.4 |
| Silver USD/t oz | 26.0 | 2.8 | -1.6 |
| Platinum USD/t oz | 1,205.7 | 0.0 | 12.5 |
| Copper USD/MT | 9,336.0 | 3.8 | 20.6 |
| Alluminium | 2,302.0 | 2.4 | 16.3 |
| Currencies | | | |
| EUR USD | 1.20 | 0.7 | -1.9 |
| GBP USD | 1.38 | 0.9 | 1.2 |
| USD JPY | 108.80 | -0.8 | -5.1 |
| CHF USD | 0.92 | -0.4 | -3.8 |
| Rates | | | |
| USD Libor 3m | 0.19 | 1.2 | -20.4 |
| USD Libor 12m | 0.29 | 0.7 | -15.8 |
| UAE Eibor 3m | 0.36 | -8.8 | -30.2 |
| UAE Eibor 12m | 0.55 | 10.7 | -15.3 |
| US 3m Bills | 0.01 | 33.3 | -82.7 |
| US 10yr Treasury | 1.58 | -4.7 | 73.0 |

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Summary market outlook

| | | | | | |
|----------------------------|--|--------------------|--------------------|--------------------|--------------------|
| Global Yields | 10yr USTs yields declined during the week despite strong economic data and upbeat inflation numbers. US credit performed well supported by economic confidence. In Europe, core bond yields rose on reports of additional vaccine supplies in the second quarter. Overall, we recommend a lower duration stance (5yr bonds US Treasuries) in anticipation of interest rate volatility in the near term. | | | | |
| Stress and Risk Indicators | Last week saw the VIX index slip further to its new post-pandemic lows. We think the VIX index will not fall back to the pre-pandemic levels before the virus comes fully under control. | | | | |
| Equity Markets | | | | | |
| Local Equity Markets | GCC markets underperformed their EM peers over the past week. Saudi Arabian equities were weak following the strong performance of the previous weeks. Equities in Qatar rose strongly following the cabinet approval of the bill that allows non-Qatari investors to own up to 100% of listed companies' capital. Also, the central bank there decided to maintain its liquidity support for local banks. Airline and property stocks helped the strong performance of Dubai index while financials sector helped Abu Dhabi market. 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 market. | | | | |
| Global Equity Markets | Global equities delivered positive returns for the fourth consecutive week. DMs outperformed EMs. Within DMs, UK outperformed the most and Japan underperformed the most. Within EM, LatAm and EMEA outperformed strongly while Asian EMs, led down by China and India, underperformed. 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. | | | | |
| Technology Segments | US big-tech (NYSE FANG+) performed strongly last week as UST yields continued to moderate. In China, regulators urged 34 internet companies to conduct a 'comprehensive self-inspection' and correct their anti-competition practices. This caused slight weakness in Chinese tech (HSTECH index down 0.8% over the week). | | | | |
| Commodities | | | | | |
| Precious Metals | Moderation in UST yields, slightly weaker USD, accommodative Fed, and rising tensions between US and Russia have all helped precious metals gain over the past week. We keep our overweight in gold as a hedge against potential risks on the horizon. | | | | |
| Energy | Oil prices rose c6% over the week helped by larger than expected drawdown in US crude inventories. Also, the International Energy Agency (IEA) raised its forecast of global oil demand for 2021 by 230kbpd (to 5.7mbpd). OPEC too increased its demand forecast for this year by 100kbpd. Overall, we believe that oil prices are likely to remain sustained as the market approaches a balance. | | | | |
| Industrial Metals | Helped by strong economic data from China and the US, and weaker USD, industrial metal prices rose last week. While another commodity super-cycle appears difficult, demand for commodities linked to environmental friendly green infrastructure is likely to sustain. | | | | |
| Currencies | | | | | |
| EURUSD | EUR gained against the USD as yields on USTs retreated further. We expect movements in major currencies to be influenced by how the virus cases, re-opening of the economies, and the policy support unfold. | | | | |
| Critical levels | <table border="0"> <tr> <td>R2 → 1.2185</td> <td>R1 → 1.2084</td> <td>S1 → 1.1793</td> <td>S2 → 1.1603</td> </tr> </table> | R2 → 1.2185 | R1 → 1.2084 | S1 → 1.1793 | S2 → 1.1603 |
| R2 → 1.2185 | R1 → 1.2084 | S1 → 1.1793 | S2 → 1.1603 | | |
| GBPUSD | GBP rose against the USD as the re-opening in the UK gathered pace. We expect the cable to be driven by how the re-opening plays out over the near-term and therefore to some extent further decouple from the EUR. | | | | |
| Critical levels | <table border="0"> <tr> <td>R2 → 1.4171</td> <td>R1 → 1.4002</td> <td>S1 → 1.3666</td> <td>S2 → 1.3499</td> </tr> </table> | R2 → 1.4171 | R1 → 1.4002 | S1 → 1.3666 | S2 → 1.3499 |
| R2 → 1.4171 | R1 → 1.4002 | S1 → 1.3666 | S2 → 1.3499 | | |
| USDJPY | USD/JPY closely tracked UST yields and the FX pair fell in line with a retreat of the latter. However, over the medium-term, we believe that BoJ yield curve targeting should put continuing downward pressure on JPY. | | | | |
| Critical levels | <table border="0"> <tr> <td>R2 → 112.05</td> <td>R1 → 110.42</td> <td>S1 → 107.72</td> <td>S2 → 106.65</td> </tr> </table> | R2 → 112.05 | R1 → 110.42 | S1 → 107.72 | S2 → 106.65 |
| R2 → 112.05 | R1 → 110.42 | S1 → 107.72 | S2 → 106.65 | | |

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 | |
|-----------------|------------------------------------|---------------|-------------|-------------|--|
| 04/21/21 | MBA Mortgage Applications | 16-Apr | -- | -3.70% | Flash PMIs for both manufacturing and services sectors are expected to expand further. This is largely consistent with the vaccination efforts in the US and the ongoing re-opening narrative. Initial/continuing jobless claims, regional economic indicators and home sales activity (existing, as well as new) will be closely watched too. |
| 04/22/21 | Chicago Fed Nat Activity Index | Mar | 1.20 | -1.09 | |
| 04/22/21 | Initial Jobless Claims | 17-Apr | 625k | 576k | |
| 04/22/21 | Continuing Claims | 10-Apr | 3,700k | 3,731k | |
| 04/22/21 | Existing Home Sales | Mar | 6.15m | 6.22m | |
| 04/22/21 | Kansas City Fed Manf. Activity | Apr | 28 | 26 | |
| 04/23/21 | Markit US Manufacturing PMI | Apr P | 60.5 | 59.1 | |
| 04/23/21 | Markit US Services PMI | Apr P | 61.5 | 60.4 | |
| 04/23/21 | Markit US Composite PMI | Apr P | -- | 59.7 | |
| 04/23/21 | New Home Sales | Mar | 886k | 775k | |

Japan



| Indicator | Period | Expected | Prior | Comments | |
|-----------------|--------------------------------------|--------------|---------------|---------------|---|
| 04/19/21 | Exports YoY | Mar | 11.40% | -4.50% | Japanese exports are estimated to have risen by 11.4% y-o-y in March. This rise is largely helped by a favourable base of last year. PMI data will be closely watched; especially if services PMI can get back above the 50 mark for the first time since January 2020. |
| 04/19/21 | Imports YoY | Mar | 4.70% | 11.80% | |
| 04/23/21 | Natl CPI YoY | Mar | -0.20% | -0.40% | |
| 04/23/21 | Jibun Bank Japan PMI Mfg | Apr P | -- | 52.7 | |
| 04/23/21 | Jibun Bank Japan PMI Services | Apr P | -- | 48.3 | |
| 04/23/21 | Jibun Bank Japan PMI Composite | Apr P | -- | 49.9 | |
| 04/23/21 | Nationwide Dept Sales YoY | Mar | -- | -10.70% | |

Eurozone



| Indicator | Period | Expected | Prior | Comments | |
|-----------------|--------------------------------------|---------------|--------------|--------------|--|
| 04/20/21 | Germany PPI YoY | Mar | 3.30% | 1.90% | ECB meeting will be the key focus this week. Market does not expect any change in policy rates. However, the recent rise in purchases under PEPP are likely to be discussed further. In terms of PMIs, manufacturing is expected to remain in expansion and services still in contraction. |
| 04/22/21 | France Business Confidence | Apr | 95 | 97 | |
| 04/22/21 | ECB Main Refinancing Rate | 22-Apr | 0.00% | 0.00% | |
| 04/22/21 | ECB Marginal Lending Facility | 22-Apr | 0.25% | 0.25% | |
| 04/22/21 | ECB Deposit Facility Rate | 22-Apr | -0.50% | -0.50% | |
| 04/22/21 | Eurozone Consumer Confidence | Apr A | -10.9 | -10.8 | |
| 04/23/21 | Markit Eurozone Manufacturing | Apr P | 62.0 | 62.5 | |
| 04/23/21 | Markit Eurozone Services PMI | Apr P | 49.1 | 49.6 | |
| 04/23/21 | Markit Eurozone Composite PMI | Apr P | 52.9 | 53.2 | |

United Kingdom



| Indicator | Period | Expected | Prior | Comments | |
|-----------------|---------------------------------------|--------------|--------------|--------------|---|
| 04/19/21 | Rightmove House Prices YoY | Apr | -- | 2.70% | Labour market data (claimant rate and jobless claims change for March, and average weekly earnings and unemployment rate for February) are all important releases to assess the condition of the job market. Consumer confidence and PMIs for April and retail sales during March are other important data. |
| 04/20/21 | Jobless Claims Change | Mar | -- | 86.6k | |
| 04/20/21 | Average Weekly Earnings 3M/YoY | Feb | 4.80% | 4.80% | |
| 04/20/21 | ILO Unemployment Rate 3Mths | Feb | 5.00% | 5.00% | |
| 04/21/21 | CPI YoY | Mar | 0.80% | 0.40% | |
| 04/23/21 | GfK Consumer Confidence | Apr | -12 | -16 | |
| 04/23/21 | Retail Sales Inc Auto Fuel MoM | Mar | 1.50% | 2.10% | |
| 04/23/21 | Markit UK PMI Manufacturing SA | Apr P | 59.0 | 58.9 | |
| 04/23/21 | Markit/CIPS UK Services PMI | Apr P | 58.5 | 56.3 | |
| 04/23/21 | Markit/CIPS UK Composite PMI | Apr P | 58.1 | 56.4 | |

China and India



| Indicator | Period | Expected | Prior | Comments | |
|-----------------|-------------------------------------|---------------|--------------|--------------|--|
| 04/20/21 | China 1-Year Loan Prime Rate | 20-Apr | 3.85% | 3.85% | Markets expect no change in Chinese policy rate. |
| 04/20/21 | China 5-Year Loan Prime Rate | 20-Apr | 4.65% | 4.65% | |

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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