

Crosscurrents

From the ongoing pandemic to a war to a sharp rise in inflation, a range of headwinds to global growth persist. This has caused bond yield curves to invert – which in the past have signalled rising recession risks. Against this backdrop financial markets faced volatility but the price performance has not been very weak. After all, we would have expected much weaker performances given the range of headwinds. Yet, investors have had to face volatility with significantly wider price swings. Last week was one with price action to the downside. UST yield curves continued to steepen after inverting over the prior weeks. The short-term and intermediate-term rates retreated and long-end yields ticked slightly higher. US CPI showed that the headline inflation reached a four-decade high while the core inflation slowed slightly in March. US PPI inflation was much higher than expected and fed into further inflation and corporate margin squeeze fears. Core Eurozone bond yields were volatile and ended higher amid speculation around the ECB policy meeting. UK and peripheral Eurozone bond yields broadly moved in line with core markets. VIX index rose in the initial part of the week and fell subsequently. SKEW index, a measure of tail risks fell sharply from its recent local high it hit in early April. In the holiday-shortened week, global equities lost another c2%. EMs outperformed DMs marginally although both regions recorded losses. Within DM, Canada, UK and Japan outperformed while the US underperformed. By global sectors, energy and materials not only outperformed but also managed to post small gains during the past week. IT, healthcare, and communication services sectors underperformed. USD strengthened broadly but lost marginally against the GBP. Gold and silver prices rose despite the strength of the greenback as safe haven demand supported. Oil prices rose sharply on the news that EU could potentially phase in a ban on Russian oil.

Earnings watch

Earnings season has just begun in the US where companies are reporting to investors on how they have performed during Q1'22. Based on data from Refinitiv, through 14 April, 34 companies in the S&P 500 Index have reported earnings for the last quarter. Of these 34 companies, 79% beat (vs. long-run average of 66% and last four quarters average of 83%) and 18% missed (vs. long-run average of 20% and LTM average of 13%) consensus expectations. Looking ahead, the bar for reported earnings to beat is much lower, in our view. Sticking with the US, which constitutes c60% of our global equity benchmarks, we see a clear chance for companies to report better than expected earnings. Based on I/B/E/S consensus estimates, S&P 500 aggregate earnings are expected to grow 6.3% year-over-year in Q1 and 6.4% in Q2. c11% year-over-year growth is currently pencilled in for both Q3 and Q4 taking the annual growth rate for the year to c9% in 2022. This compares with a realized earnings growth of 52% during 2021. During the current earnings season we would also watch closely for companies' guidance on inflation impacting corporate profit margins, and for any hints from the corporate management on slowing demand indicating a potential recession over the next 12-18 months. After all, one cannot ignore the fact that pre-announcements for Q1 2022 did have a negative tone with 70% of the 103 S&P 500 companies that issued pre-announcements ahead of their earnings releases, have issued negative guidance. This compares with 48% of companies issuing negative pre-announcements in Q1 2021.

Yet, we believe earnings growth is likely to be strong through 2022 off-setting the drag from compressing valuations. In fact, we believe that earnings growth projections still have upside. For the context, I/B/E/S consensus estimates for 2022 earnings growth for MSCI All Country World Index were upgraded to c9% currently from c7% at the start of the year. We believe there is upside for earnings growth estimates for this year. However, as indicated previously, valuation changes are likely to induce volatility and influence the overall equity returns for the year.

Global markets' performance snapshot*

Index Snapshot (World Indices)*			
Index	Latest	Weekly %	YTD %
S&P 500	4,393	-2.1	-7.8
Dow Jones	34,451	-0.8	-5.2
Nasdaq	13,351	-2.6	-14.7
DAX	14,164	-0.8	-10.8
Nikkei 225**	27,093	0.4	-5.9
FTSE 100	7,616	-0.7	3.1
Sensex	58,339	-1.9	0.2
Hang Seng	21,518	-1.6	-8.0
Regional Markets			
ADX**	9,970	-1.2	17.5
DFM**	3,602	1.7	12.7
Tadawul	13,621	1.7	20.2
DSM	14,125	-2.4	21.6
MSM30	4,239	0.0	2.2
BHSE	2,101	-1.0	16.9
KWSE	8,313	0.6	18.0
MSCI			
MSCI World**	2,960	-1.7	-8.4
MSCI EM**	1,113	-1.3	-9.7

Notes: *Data as of April 14 2022 unless stated otherwise; **Data as of April 15 2022

Global Commodities, Currencies and Rates*

Global Commodities, Currencies and Rates*			
Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	111.7	8.7	43.6
WTI USD/bbl	107.0	8.8	42.2
Gold USD/t oz	1,968.8	1.3	8.0
Silver USD/t oz	25.4	2.8	9.1
Platinum USD/t oz	977.0	0.5	1.9
Copper USD/MT	10,297.5	-0.1	5.7
Alluminium	3,271.5	-2.4	16.6
Currencies**			
EUR USD	1.08	-0.6	-4.9
GBP USD	1.31	0.2	-3.5
USD JPY	126.36	1.6	9.8
USD CHF	0.94	0.8	3.3
Rates			
	Latest	Weekly (bp)	YTD (bp)
USD Libor 3m	1.06	5.2	85.4
USD Libor 12m	2.22	-5.0	163.8
UAE Eibor 3m**	1.12	6.0	75.6
UAE Eibor 12m**	2.36	5.4	162.3
US 3m Bills	0.78	9.0	72.0
US 10yr Treasury	2.81	9.3	131.1

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Summary market outlook

Global Yields

UST yield curves continued to steepen. The short-term and intermediate-term rates retreated and long-end yields ticked slightly higher. US CPI showed that the headline inflation reached a four-decade high while the core inflation slowed slightly in March. US PPI inflation was much higher than expected and fed into further inflation and corporate margin squeeze fears. Core Eurozone bond yields were volatile and ended higher amid speculation around the ECB policy meeting. UK and peripheral Eurozone bond yields broadly moved in line with core markets. The yield on the 10-year Japanese government bond was unchanged. 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 rose in the initial part of the week and fell subsequently. SKEW index, a measure of tail risks fell sharply from its recent local high it hit in early April. 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 markets outperformed global equities on sharp gains in oil prices. Within the region, stocks in Saudi and Dubai outperformed while those in Abu Dhabi and Qatar underperformed. Year-to-date, all stock markets in the region have outperformed strongly in line with rising oil prices. IPOs and reform momentum have added to the positive sentiment in recent months too. 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

In the holiday-shortened week, global equities lost another c2%. EMs outperformed DMs marginally although both regions recorded losses. Within DM, Canada, UK and Japan outperformed while the US underperformed. By global sectors, energy and materials not only outperformed but also managed to post small gains during the past week. IT, healthcare, and communication services sectors underperformed. 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

Technology segments came under further pressure as long-term bond yields in the US rose. Nasdaq-100 index fell c3% during the week while Hang Seng Tech index fell c2%.

Commodities

Precious Metals

Gold and silver prices rose despite the USD strength as safe haven demand supported. We keep our overweight in gold as a hedge against potential inflation and geopolitical risks.

Energy

Oil prices rose sharply on the news that EU could potentially phase in a ban on Russian oil, Japan's announcement regarding oil reserve release and tick up in US oil rig count. Overall, over the medium-term we believe that oil prices will remain sustained as the market balances into the new normal.

Industrial Metals

Copper and aluminium prices edged lower in the risk-off week. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain.

Currencies

EURUSD

EUR/USD fell for a second consecutive week and reached a fresh two-year low as the ECB stayed course with its monetary policy plans. We expect ECB policy divergence to play a major role in the performance of the euro.

Critical levels



GBPUSD

GBP gained marginally against the USD despite the broader strength in the greenback and weaker than expected GDP print in the UK as higher than expected inflation fed into hawkish rate 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



USDJPY

USD/JPY hit a two-decade high last week on widening yield differentials. Over the medium-term, BoJ's yield curve targeting should put downward pressure on JPY.

Critical levels



The Weekly Market View

April 18 2022

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
04/18/22 18:00	NAHB Housing Market Index	Apr	77	79
04/19/22 16:30	Building Permits	Mar	1839K	1859K
04/19/22 16:30	Housing Starts	Mar	1745K	1769K
04/20/22 15:00	MBA Mortgage Applications	15- Apr	--	-1.30%
04/21/22 16:30	Philadelphia Fed Business Outlook	Apr	21.4	27.4
04/21/22 16:30	Initial Jobless Claims	16- Apr	--	--
04/21/22 16:30	Continuing Claims	9- Apr	--	--
04/22/22 17:45	US S&P Global manufacturing PMI	Apr P	57.8	58.8
04/22/22 17:45	US S&P Global services PMI	Apr P	58.6	58

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
04/19/22 08:30	Industrial Production YoY	Feb F	--	0.20%
04/19/22 08:30	Capacity Utilization MoM	Feb	--	-3.20%
04/15/22 03:50	Trade Balance	Mar	¥48.4b	-¥668.3b
04/20/22 03:50	Exports YoY	Mar	19.00%	19.10%
04/20/22 03:50	Imports YoY	Mar	26.90%	34.00%
04/20/22 10:00	Machine Tool Orders YoY	Mar F	--	30.20%
04/21/22 03:50	Natl CPI YoY	Mar	1.20%	0.90%
04/22/22 03:50	Natl CPI Ex Fresh Food YoY	Mar	0.80%	0.60%
04/22/22 04:30	Jibun Bank Japan PMI Services	Apr P	--	49.4
04/22/22 04:30	Jibun Bank Japan PMI Mfg	Apr P	--	54.1

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
04/20/22 10:00	Germany PPI YoY	Mar	28.20%	25.90%
04/20/22 13:00	Eurozone Industrial Production WDA YoY	1.00%	-1.30%	
04/21/22 13:00	France Manufacturing Confidence	Apr	104	106
04/21/22	Eurozone CPI YoY	Mar F	7.50%	7.50%
04/21/22 15:45	Eurozone CPI Core YoY	Mar F	3.00%	3.00%
04/21/22 15:45	Consumer Confidence	Apr A	-20	-18.7
04/22/22 12:00	Eurozone S&P Global manufacturing PMI	Apr P	54.7	56.5
04/22/22 12:00	Eurozone S&P Global services PMI	Apr P	55	55.6
04/22/22 15:45	ECB Current Account SA	Feb	--	22.6b

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
04/18/22 03:01	Rightmove House Prices MoM	Apr	--	1.70%
04/22/22 03:01	GfK Consumer Confidence	Apr	--	-31
04/22/22 10:00	Retail Sales Inc Auto Fuel MoM	Mar	--	-0.30%
04/22/22 10:00	Retail Sales Ex Auto Fuel YoY	Mar	--	4.60%
04/22/22 12:30	UK S&P Global/CIPS manufacturing PMI	Apr P	--	55.2
04/22/22 12:30	UK S&P Global/CIPS services PMI	Apr P	--	62.6

The Weekly Market View

April 18 2022

China and India



Date & Time (GST)	Indicator	Period	Expected	Prior
04/18/22 06:00	China GDP YoY	1Q	4.30%	4.00%
04/18/22 06:00	China Fixed Assets Ex Rural YTD YoY	Mar	8.40%	12.20%
04/18/22 06:00	China Industrial Production YTD YoY	Mar	6.10%	7.50%
04/18/22 06:00	China Retail Sales YTD YoY	Mar	3.90%	6.70%
04/18/22 06:00	China Property Investment YTD YoY	Mar	2.00%	3.70%
04/18/22 06:00	China Surveyed Jobless Rate	Mar	5.40%	5.50%
04/18/22 10:30	India Wholesale Prices YoY	Mar	13.25%	13.11%
04/20/22 05:15	China 1-Year Loan Prime Rate	20- Apr	3.60%	3.70%
04/22/22 05:15	China 5-Year Loan Prime Rate	20- Apr	4.55%	4.60%
04/22/22 15:30	India RBI Policy Minutes			

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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