The Weekly Market View

August 22 2021

بنك أبوظبي التجاري ADCB

ASSET MANAGEMENT LIMITED

Kishore Muktinutalapati
Equity Strategist
Tel: +971 (0)2 696 2358
kishore.muktinutalapati@adcb.com

Prerana Seth
Fixed Income Strategist
Tel: +971 (0)2 696 2878
prerana.seth@adcb.com

Mohammed Al Hemeiri
Analyst
Tel: +971 (0)2 696 2236
mohammed.alhemeiri@adcb.com

Visit Investment Strategy Webpage to read our other reports

Growth scare causes risk-off

If anything, the mere doubling of S&P 500 from its March 2020-lows highlighted the power of the policy stimulus. Markets, backed by easy central bank policy (both conventional and unconventional), did very well even when the growth was weak. Of course, markets are always forward looking and have rightly anticipated the economic rebound that has ensued. However, the role of easy policy in the market rebound of the last 17 months is indisputable. Against this backdrop, looming reduction is the US stimulus at the time when Delta variant of COVID-19 is spreading rapidly, created a growth scare that eventually resulted in the risk-off sentiment last week. Minutes from the Federal Reserve meeting of July 27-28, released Wednesday, indicated members' willingness to start reducing asset purchases this year. Of course, many Fed officials have repeatedly indicated that there is no link between the tapering of asset purchases and interest rate rises. But markets mapped this development against the spread of the Delta variant which appears to be weighing on both manufacturing and consumption, and causing growth softness. Weakness of July US ISM Manufacturing which dipped below 60 for the first time in the post-pandemic era was still fresh in the memory. Last week saw US retail sales for July drop more than expected – thereby exacerbating the fear of an economic soft-patch. Philly Fed Survey declined 2.5pt to +19.4 in August, against consensus expectations for a slight increase. Weak data from China, the world's second largest economy, did not help.

As a result, risk assets sold off. Global equities had their worst week since June. DM sovereign bonds benefitted from the deteriorating risk appetite. USD gained against major currencies. Strength in the greenback and the general risk-aversion meant weakness in commodities. Oil prices posted their biggest weekly loss in more than nine months. Risk-off mood helped gold prices but a stronger USD was the offset.

How 'sobering' was this summer?

Following an extraordinary run-up in risk assets from their March-2020 lows, we anticipated this summer to be sobering (see The Weekly Market View, May 02 2021). We expected risk assets to move sideways through the summer months before resuming their uptrend later in the year. Therefore, a likely range-bound market with increasing risks made the risk-return for investors slightly unfavourable but only in the near-term. We also stressed that long-term investors are better served by remaining invested in risk-assets even through the summer. Since early May, MSCI ACWI returned just 2% compared with a 85% rise previously from March 2020-lows. Summer months also saw less favourable risk-return dynamics with the risk-adjusted-returns significantly lower since May compared with the prior 13 months.

Looking ahead, beyond the summer months, we think equity market should resume its uptrend. While we continue to like the structural growth, quality and large cap segments over strategic time frames, we think in the very near-term (2-3 months), cyclical, value and re-opening themes are likely to fare better. As we argued previously too (for instance in the report The Weekly Market View, July 25 2021), peak growth doesn't mean contraction. In our view, markets have overly priced the 'base-effect-driven' moderation of growth expected in H2 2021; and a re-pricing is likely to come over the next months in our view, as concerns of weakening growth abate. We note that while the global economic surprises have moderated they remain elevated. Vaccinated countries are seeing fewer hospitalizations in relation to the rising COVID-19 Delta variant case counts and therefore it is not unreasonable to expect re-opening to remain on track in those countries. While the monetary policy support is likely peaking, we should not forget that the policy makers are willing to be flexible to address any weakness in the economy. Corporate earnings picture is strong too. For MSCI ACWI, EPS growth is expected to be c41% in 2021 and c10% in 2022 – both numbers have upside in our view.

Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	4,442	-0.6	18.3
Dow Jones	35,120	-1.1	14.7
Nasdaq	14,715	-0.7	14.2
DAX	15,808	-1.1	15.2
Nikkei 225	27,013	-3.4	-1.6
FTSE 100	7,088	-1.8	9.7
Sensex	55,329	-0.2	15.9
Hang Seng	24,850	-5.8	-8.7
Regional Markets (Sunday to Thursday)			
ADX	7,620	0.3	51.0
DFM	2,838	0.8	13.9
Tadawul	11,202	-1.1	28.9
DSM	11,033	1.0	5.7
MSM30	3,983	-0.5	8.9
BHSE*	1,638	0.4	10.0
KWSE	6,668	0.8	20.2
MSCI			
MSCI World	3,080	-1.4	14.5
MSCI EM	1,221	-4.7	-5.5

Notes: *data as of August 17 2021

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	65.2	-7.7	25.8
WTI USD/bbl	62.3	-8.9	28.1
Gold USD/t oz	1,781.1	0.1	-6.2
Silver USD/t oz	23.0	-3.0	-12.8
Platinum USD/t oz	997.1	-3.4	-7.0
Copper USD/MT	8,922.0	-5.4	15.2
Alluminium	2,539.8	-2.6	28.3
Currencies			
EUR USD	1.17	-0.8	-4.2
GBP USD	1.36	-1.8	-0.3
USD JPY	109.78	0.2	6.3
CHF USD	0.92	0.2	-3.5
Rates			
USD Libor 3m	0.13	5.2	-45.2
USD Libor 12m	0.24	-1.5	-31.2
UAE Eibor 3m	0.34	-7.5	-32.8
UAE Eibor 12m	0.44	-13.1	-32.1
US 3m Bills	0.04	-5.6	-26.1
US 10yr Treasury	1.26	-1.7	37.4

Summary market outlook

Global Yields	Yields on 10Y USTs fell through the week on increasing COVID-19 cases, weaker-than-expected retail sales data in the US, and dovish comments from some Fed officials. US HY bonds came under pressure while US IG bonds performed well. Core Eurozone bonds got bid on risk-off mood. Yields on the 10Y JGBs fell slightly. 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 through most of the week on falling pro-risk sentiment. The SKEW index bounced off a two-month low and 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	MSCI GCC index stayed flat during the week despite the acute weakness in oil prices. Strength in Qatar, Kuwait and UAE was offset by weakness in Saudi Arabia. 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 posted losses over the past week. MSCI ACWI index fell c2%. Both DM and EM aggregates posted losses but the former outperformed the latter. Within DM, US outperformed the rest. In EM space, all three regions – EMEA, LatAm and Asia – posted losses of more than 3% over the week. Sector wise, utilities, healthcare, and IT outperformed the most while energy, materials, and consumer discretionary 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. 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	Nasdaq -100 index stayed flat over the week while NYSE FANG+ index fell 3% thanks to weak performance of the US-listed Chinese technology names. HK Tech index (a measure of large cap Chinese tech names) fell 11% over the week as China passed the Personal Information Protection Law, laying out a comprehensive set of rules around data collection, to be implemented on November 1.
Commodities	
Precious Metals	Risk-off mood helped gold prices but a stronger USD was the offset; gold prices stayed flat over the week. Silver and platinum saw higher losses. We keep our overweight in gold as a hedge against potential risks on the horizon.
Energy	Oil prices posted their biggest weekly loss in more than nine months thanks to rapidly increasing COVID-19 cases once again causing demand concerns. Overall, we believe that oil prices will remain sustained as the market approaches a balance.
Industrial Metals	Industrial metal prices softened on USD strength and risk-off sentiment. While another commodity super-cycle appears difficult, demand for commodities linked to environmental friendly green infrastructure is likely to sustain.
Currencies	
EURUSD	Broader USD strength meant EUR lost against the greenback. EURUSD hit the lowest level since November 2020. Re-opening is a positive for EUR while risk-off sentiment and the easier policy are moderately negative.
Critical levels	R2 1.2002 · R1 1.1850 · S1 1.1605 · S2 1.1512
GBPUSD	Cable weakened on the wider spread of the Delta variant, mixed UK data, and fears of US tapering. 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 1.4137 · R1 1.3880 · S1 1.3469 · S2 1.3315
USDJPY	Broader USD strength was partly offset by the risk-off mood, causing JPY to marginally depreciate against the USD. Over the medium-term, we believe that BoJ yield curve targeting should put downward pressure on JPY.
Critical levels	R2 111.85 · R1 110.81 · S1 108.73 · S2 107.69

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
08/23/21	**Markit US Manufacturing PMI**	**Aug P**	**62.3**	**63.4**	Markets appeared worried about the potential growth slowdown thanks to rapidly spreading Delta variant of COVID-19. In this context, primary releases of manufacturing and services PMIs (Purchasing Managers Indices) will be closely watched. Housing market data (existing home sales and new home sales) are also important given the recent run up in home prices. Personal income (as well as spending) and PCE deflators should provide information on health of consumers and inflation respectively. Jackson Hole economic symposium discussing “Macroeconomic policy in an uneven economy” may also offer clues on the US Fed’s timeline of tapering asset purchases (and also potentially interest rate hikes).
08/23/21	**Markit US Services PMI**	**Aug P**	**59.2**	**59.9**	
08/23/21	Existing Home Sales	Jul	5.83m	5.86m	
08/24/21	Richmond Fed Manufact. Index	Aug	25	27	
08/24/21	New Home Sales	Jul	699k	676k	
08/25/21	MBA Mortgage Applications	20-Aug	--	-3.90%	
08/25/21	**Durable Goods Orders**	**Jul P**	**-0.30%**	**0.90%**	
08/26-08/28/21	**Jackson Hole Economic Symposium**				
08/26/21	Initial Jobless Claims	21-Aug	350k	348k	
08/26/21	GDP Annualized QoQ	2Q S	6.70%	6.50%	
08/26/21	Continuing Claims	14-Aug	2,780k	2,820k	
08/26/21	Kansas City Fed Manf. Activity	Aug	25	30	
08/27/21	Wholesale Inventories MoM	Jul P	1.00%	1.10%	
08/27/21	**Personal Income**	**Jul**	**0.20%**	**0.10%**	
08/27/21	**Personal Spending**	**Jul**	**0.40%**	**1.00%**	
08/27/21	**PCE Deflator YoY**	**Jul**	**4.10%**	**4.00%**	
08/27/21	**PCE Core Deflator YoY**	**Jul**	**3.60%**	**3.50%**	
08/27/21	U. of Mich. Sentiment	Aug F	70.6	70.2	

Japan

	Indicator	Period	Expected	Prior	Comments
08/23/21	**Jibun Bank Japan PMI Mfg**	**Aug P**	**--**	**53.0**	Following the pandemic, Japanese manufacturing sector has returned to growth in February while the services sector continued to lag. Preliminary PMI data for August should provide us a snapshot of the most recent dynamic.
08/23/21	**Jibun Bank Japan PMI Services**	**Aug P**	**--**	**47.4**	
08/23/21	Nationwide Dept Sales YoY	Jul	--	-1.60%	
08/25/21	Machine Tool Orders YoY	Jul F	--	93.40%	
08/26/21	PPI Services YoY	Jul	1.30%	1.40%	
08/27/21	Tokyo CPI YoY	Aug	-0.40%	-0.10%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
08/23/21	**Markit Eurozone Manufacturing PMI**	**Aug P**	**62.0**	**62.8**	Eurozone PMIs are expected to show a slight moderation in both manufacturing and services sectors. Yet the numbers are expected to remain well above 50. Eurozone consumer confidence is expected to weaken further. Elsewhere, IFO business climate out of Germany, and manufacturing confidence of France are key data.
08/23/21	**Markit Eurozone Services PMI**	**Aug P**	**59.5**	**59.8**	
08/23/21	**Eurozone Consumer Confidence**	**Aug A**	**-4.9**	**-4.4**	
08/24/21	Germany GDP SA QoQ	2Q F	1.50%	1.50%	
08/25/21	**Germany IFO Business Climate**	**Aug**	**100.4**	**100.8**	
08/26/21	Germany GfK Consumer Confidence	Sep	-0.5	-0.3	
08/26/21	France Manufacturing Confidence	Aug	109	110	
08/26/21	Eurozone M3 Money Supply YoY	Jul	7.60%	8.30%	
08/27/21	France Consumer Confidence	Aug	100	101	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
08/23/21	**Markit UK PMI Manufacturing SA**	**Aug P**	**59.5**	**60.4**	Preliminary PMI releases and nationwide house price data will be closely tracked.
08/23/21	**Markit/CIPS UK Services PMI**	**Aug P**	**59.1**	**59.6**	
08/28-09/03/21	Nationwide House Px NSA YoY	Aug	--	10.50%	

China and India

	Indicator	Period	Expected	Prior	Comments
08/27/21	Industrial Profits YoY	Jul	--	20.00%	-

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

Disclaimer

ADCB Asset Management Limited ("AAML"), is a member of ADCB Group, licensed by Financial Services Regulatory Authority in Abu Dhabi Global Markets under financial services permission number 170036.

This publication is intended for general information purposes only. It should not be construed as an offer, recommendation or solicitation to purchase or dispose of any securities or to enter in any transaction or adopt any hedging, trading or investment strategy. Neither this publication nor anything contained herein shall form the basis of any contract or commitment whatsoever. Distribution of this publication does not oblige ADCB Group to enter into any transaction.

The content of this publication should not be considered as legal, regulatory, credit, tax or accounting advice. Anyone proposing to rely on or use the information contained in the publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in this publication. Investment products are not available to US persons.

Information and opinions contained herein is are based on various sources, including but not limited to public information, annual reports and statistical data that AAML considers accurate and reliable. However, AAML makes no representation or warranty as to the accuracy or completeness of any statement made in or in connection with this publication and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this publication. This publication is intended for customers who are either retail or professional investors.

Charts, graphs and related data or information provided in this publication are intended to serve for illustrative purposes only. The information contained in this publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. All statements as to future matters are not guaranteed to be accurate. AAML expressly disclaims any obligation to update or revise any forward looking statement to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

ADCB Group does and may at any time solicit or provide commercial banking, investment banking, credit, advisory or other services to the companies covered in its publications. As a result, recipients of this publication should be aware that any or all of foregoing services may at time give rise to a conflict of interest that could affect the objectivity of this publication. Opinions expressed herein may differ from opinions expressed by other businesses or affiliates of ADCB Group.

Past performance does not guarantee future results. Investment products are not bank deposits and are not guaranteed by ADCB Group. They are subject to investment risk, including possible of loss of principal amount invested. This publication may not be reproduced or circulated without ADCB Group written authority. The manner of circulation and distribution may be restricted by law or regulation in certain jurisdictions. Persons who come into possession of this document are required to inform themselves of, and to observe such restrictions. Any unauthorized use, duplication, or disclosure of this document is prohibited by law and may result in prosecution.