The Weekly Market View

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ASSET MANAGEMENT LIMITED

August is the month of the high-sailing hawks

So goes the saying. This August has been the month of roaring bears thanks to the escalation of the US-China trade war. Global equities fell by more than 4% through the month taking their year-to-date gains to 12%. Gaining from this risk aversion were global bonds and precious metals which posted strong gains. Whilst the bond yields compressed further, gold prices rose in lock step with the stock of negative yielding debt. Trade weighted US dollar strengthened. Focussing on the last week's performance, equities registered marginal loses with US equities underperforming as the trade stand-off between US and China escalated and as the US manufacturing PMI entered a contractionary territory for the first time in many years. European equities however did relatively well on potential stimulus, better than expected PMI (albeit remaining in the contractionary territory) and marginal positive news flow around Brexit. EM equities outperformed their DM counterparts. On the fixed income side, bond yields remained compressed with UST 10Y yields hovering near their three year lows. Germany auctioned its first negative yielding 30Y bond. Elsewhere, USD weakened against the Euro, British pound sterling and the Japanese yen but strengthened against most EM currencies. Gold prices firmed up further.

Dog days of summer are behind us

Taking stock of the current situation, we reckon that this is not the time to reduce equity exposure – especially US equities. For the context, there were 25 instances (since 2009 lows) of S&P 500 index correcting by 5% or more. All these instances, proved to be good buying opportunities. Sentiment towards equities remains bearish, with American Association of Individual Investors (AAII) survey pointing to bears outnumbering bulls. Historically, bearish sentiment, in most cases, lead equity upturns. Fund flows data shows that equity funds (both in developed and emerging markets) experienced net outflows year-to-date while bond funds (both DM and EM) saw strong inflows. This suggests that there is no exuberance in equities. US equity valuations after recent correction have fallen below their three year averages. US equity valuations look particularly appealing when compared with bonds. For instance, the yield on 10Y USTs fell below the 12m forward dividend yield (I/B/E/S consensus) of S&P 500 index for the first time in three years. Furthermore, there are reasons to believe that trade concerns will abate in the near-term. Mr. Trump, who is concerned about his re-election in 2020 is unlikely to materially ratchet up trade tensions any further, in our view. Worth noting that Trump's approval rating is already similar to that of presidents who fell short of re-election amid recession. Also, University of Michigan consumer sentiment indicator shows that republicans have been losing faith in the economy with the associated reading falling to its lowest level since Mr. Trump took office. Furthermore, tariffs that are currently announced are capable of more than offsetting the benefits the tax cuts gave to the average US consumer. So looking at the bigger picture, we tend to believe that trade wars should at least stop being an incremental overhang on equities in the near-term; here 'no news is good news'.

From an asset allocation stand point, we remain neutral equities. Within equities, we have a strong preference for quality. We prefer growth to value and large caps to small caps. Thematically, we continue to prefer services over manufacturing. Country wise, we remain overweight US equities. By sector, we are overweight Communication services, Consumer Staples and Energy.

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Gobal markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly	YTD %
S&P 500	2,847	-1.4	13.6
Dow Jones	25,629	-1.0	9.9
Nasdaq	7,752	-1.8	16.8
DAX	11,612	0.4	10.0
Nikkei 225	20,711	1.4	3.5
FTSE 100	7,095	-0.3	5.5
Sensex	36,701	-1.7	1.8
Hang Seng	26,179	1.7	1.3
Regional Markets (Sunday to Thursday)			
ADX	5,039	0.0	2.5
DFM	2,769	-1.0	9.5
Tadawul	8,446	-1.0	7.9
DSM	9,919	1.4	-3.7
MSM30	3,988	3.2	-7.8
BHSE	1,534	0.2	14.7
KWSE	6,000	0.3	18.1
MSCI			
MSCI World	2,132	-0.7	11.2
MSCI EM	976	0.3	0.8

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly	YTD %
ICE Brent USD/bbl	59.3	1.2	10.3
Nymex WTI USD/bbl	54.2	-1.3	19.3
Gold USD/t oz	1,527.0	0.9	19.1
Silver USD/t oz	17.4	1.8	12.5
Platinum USD/t oz	857.8	1.0	7.9
Copper USD/MT	5,675.0	-0.6	-4.9
Alluminium	1,754.3	-0.3	-3.8
Currencies			
EUR USD	1.11	0.5	-2.7
GBP USD	1.23	1.0	-3.8
USD JPY	105.39	-0.9	-4.1
CHF USD	0.97	-0.4	0.9
Rates			
USD Libor 3m	2.14	0.4	-23.6
USD Libor 12m	2.03	4.3	-32.5
UAE Eibor 3m	2.44	0.2	-14.1
UAE Eibor 12m	2.55	1.9	-28.6
US 3m Bills	1.95	5.1	-17.0
US 10yr Treasury	1.54	-1.2	-42.8

Summary market outlook

Global Yields	Rising trade tensions meant bond yields remained compressed with UST 10Y yields hovering near their three year lows. However, we believe that the long-term US rates will remain in line with the Fed's target Fed fund rate.
Stress and Risk Indicators	VIX jumped as global slowdown fears and trade uncertainty sparked a sell-off in equity markets. We believe that volatility is likely to stay elevated due to the fear of global growth slowdown and concerns around trade.
Equity Markets	
Local Equity Markets	GCC equity markets too came under pressure on rising trade tensions globally. We remain neutral on GCC equities given the potential for further dollar strength and range-bound oil prices, but we maintain our overweight call on Saudi equities. We also prefer banks in the regional context.
Global Equity Markets	Equities registered marginal loses with US equities underperforming as the trade stand-off between US and China escalated and as the US manufacturing PMI entered a contractionary territory for the first time in many years. European equities however did relatively well on potential stimulus, better than expected PMI (albeit remaining in the contractionary territory) and marginal positive news flow around Brexit. EM equities outperformed their DM counterparts. We remain neutral on equities with an overweight on US and underweight EU and EM (but with selective exposure to India, Brazil and South Africa).
Commodities	
Precious Metals	Gold prices firmed up further taking the year to date gains to 19%. We remain overweight gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	WTI crude prices fell as China imposed tariffs on US oil imports. Brent crude prices, however, rose over the past week. Overall the oil price is likely to remain sustained as the market is roughly balanced.
Industrial Metals	Industrial metals came under pressure amidst the backdrop of global slowdown fears. We do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	Better than expected manufacturing PMI (which remains in contractionary territory) and positive news around Brexit meant Euro strength against the USD. We expect the euro to remain stable.

	R2		R1		S1		S2	
Critical levels	R2	1.1218	R1	1.1181	S1	1.1079	S2	1.1015

GBPUSD	Positive news around Brexit and weaker than expected PMI in the US translated into British pound sterling appreciating against the US dollar. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.

Critical levels	R2	1.2351	R1	1.2308	S1	1.2209	S2	1.2152

USDJPY	Yen's safe haven status helped the currency gain strength against the US dollar. We think the BOJ yield curve targeting should put continuing downward pressure on the yen.

Critical levels	R2	107.27	R1	106.33	S1	104.85	S2	104.32

Note: R2, R1, S2 and S1 refer to Bloomberg calculated weekly technical resistance and support levels.

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
08/26/2019	Chicago Fed Nat Activity Index	Jul	0.05	-0.02	GDP and Core PCE will be the main releases this week.
08/26/2019	Durable Goods Orders	Jul P	1.00%	1.90%	
08/28/2019	MBA Mortgage Applications	23- Aug		-0.90%	
08/29/2019	GDP Annualized QoQ	2Q S	2.00%	2.10%	
08/29/2019	Core PCE QoQ	2Q S	1.80%	1.80%	
08/29/2019	Wholesale Inventories MoM	Jul P	0.20%	0.00%	
08/29/2019	Initial Jobless Claims	24- Aug	215K	209K	
08/30/2019	U. of Mich. Sentiment	Aug F	92.3	92.1	

Japan

	Indicator	Period	Expected	Prior	Comments
08/30/2019	Jobless Rate	Jul	2.30%	2.30%	Retail sales and Inflation releases will be closely tracked by the market.
08/30/2019	CPI YoY	Aug	0.60%	0.90%	
08/30/2019	CPI Ex-Fresh Food, Energy YoY	Aug	0.70%	0.80%	
08/30/2019	Retail Sales YoY	Jul	-0.60%	0.50%	
08/30/2019	Industrial Production MoM	Jul P	0.30%	-3.30%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
08/26/2019	IFO Expectations	Aug	91.8	92.2	CPI and German IFO survey will be important.
08/29/2019	CPI YoY (GE)	Aug P	1.50%	1.70%	
08/30/2019	CPI Core YoY	Aug A	1.00%	0.90%	
08/30/2019	GDP YoY	Jun	1.40%	1.40%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
08/28/2019	Nationwide House PX MoM	Aug	0.10%	0.30%	
08/30/2019	Mortgage Approvals	Jul	66.1K	66.4K	

China and India

Indicator	Period	Expected	Prior	Comments
				No important data scheduled for the week.

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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