The Weekly Market View

August 28 2023

بنك أبوظبي التجاري ADCB ASSET MANAGEMENT LIMITED

Relief

After having seen relentless rise in long-term bond yields and falls in stock prices over previous weeks, financial markets got some relief last week. Mixed macro news and data helped markets realize that the direction of the economy and interest rates are not pre-set (markets were earlier assuming higher rates as a given). Amongst economic data releases last week, flash PMIs across the developed markets surprised negatively. Services sector PMIs disappointed and fell into a contractionary territory in Europe while they remained in expansion in the US. Manufacturing sector, which remains in contractionary zone across the board, disappointed further in the US and UK but surprised positively in the Eurozone. Japan reported rising PMIs in both manufacturing and services sectors. In the US, UMich consumer sentiment data disappointed after touching a two-year high. Durables goods orders disappointed although ex-defense and transportation, the sector grew. New home sales in the US reached their highest level since early-2022 despite the 30Y mortgage rates hitting their highest level since 2001. Across the Atlantic, concerns of Germany stagnating in Q3 rose as IFO business climate index disappointed. Jackson Hole Symposium yielded no specific surprises in our view although financial markets were volatile going into the event. Staying with monetary policy, Chinese central bank disappointed with its interest rate cut. Elsewhere, S&P Global downgraded its credit ratings on five regional US banks citing risks in the commercial real estate sector. Digesting all this, yields on 10Y sovereigns fell (Japan was an exception), USD strengthened against EUR, GBP, and JPY. With the exception of oil, commodity prices rose. Equities posted their first weekly gain in four.

Revival

Over the past year, the manufacturing sector has been in the doldrums to say the least. This was not just a US or European phenomenon but rather a global one. Across the board, the industrial production was weaker than market expectations, the purchasing managers' indices (or PMIs) were printing numbers below 50 indicating a contraction of activity, and the sentiment around the sector as measured by various surveys has been weak. We now believe that the global manufacturing cycle is bottoming out and this will have implications for the global economy and presents investment opportunities. Manufacturing activity, after having seen a brief slump at the onset of the pandemic in early 2020, recovered rather quickly while services activity remained impaired due to COVID-related restrictions. In early 2021, the global manufacturing activity as measured by PMIs was at its highest level ever. Subsequently, global factories lost steam as pandemic related disruptions to supply chains started to bite, and eventually as the reopening took hold, the global economy rebalanced from goods-led to services-led growth. Especially over the past year, the global manufacturing sector has been contracting due to weaker demand, elevated inflation, and tighter labour market. Also, the manufacturing activity tends to be more cyclical compared to the services sector activity and the former has shorter cycles compared to the latter.

Looking ahead, we think the outlook for global manufacturing activity is set to improve. Some economic indicators like capital expenditure intentions, South Korean trade volumes, crude steel production, cement production, and railroad, and port traffic volumes – those that tend to lead the manufacturing activity are pointing to a potential recovery. PMI sub-indices that lead the headline also confirm the potential recovery of the manufacturing sector. A revival in the manufacturing sector exactly at the time when the services sector activity is slowing means that global economic growth can hold up better for longer. The consumer goods sector is at the intersection of strong consumer and a revival in the manufacturing activity. We believe that the sector is better positioned than the rest of the market for an uptick in manufacturing PMIs. In the recent past, the consumer goods sector outlook was constrained by elevated inflation, supply chain bottlenecks, and labor market distortions – this is changing now. Of course, company-specific issues may persist but the outlook for the sector broadly is brighter. Further, the sector presents a good mix of cyclical and defensive companies – making it less vulnerable to growth shocks. The sector looks attractive on price-earnings to earnings growth (PEG) ratio basis. Positioning of active money into the sector does not look stretched either.

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Global markets' performance snapshot

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	4,406	0.8	14.8
Dow Jones	34,347	-0.5	3.6
Nasdaq	13,591	2.3	29.9
DAX	15,632	0.4	12.3
Nikkei 225	31,624	0.6	21.2
FTSE 100	7,339	1.1	-1.5
Sensex	64,887	-0.1	6.7
Hang Seng	17,956	0.0	-9.2
Regional Markets			
ADX	9,765	-0.4	-4.4
DFM	4,107	1.4	23.1
Tadawul**	11,405	-0.8	8.1
DSM**	10,365	-2.0	-3.0
MSM30**	4,776	0.1	-2.0
BHSE**	1,952	-0.5	3.0
KWSE**	7,052	-0.7	-3.3
MSCI			
MSCI World	2,912	0.5	11.9
MSCI EM	971	0.7	1.5

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	84.5	-0.4	-1.7
WTI USD/bbl	79.8	-1.8	-0.5
Gold USD/t oz	1,905.1	0.7	4.9
Silver USD/t oz	24.1	5.9	1.5
Platinum USD/t oz	949.0	5.0	-8.0
Copper USD/MT	8,319.3	1.3	-0.5
Alluminium	2,113.7	1.2	-10.0
Currencies			
EUR USD	1.08	-0.6	0.9
GBP USD	1.26	-1.2	4.0
USD JPY	146.43	0.7	11.7
Rates	**Latest**	**Weekly (bp)**	**YTD (bp)**
SOFR	5.30	0.0	100.0
UAE Eibor 3m	5.38	7.1	107.5
UAE Eibor 12m	5.58	9.6	53.4
US 3m Bills	5.34	6.0	104.0
US 10yr Treasury	4.23	-1.7	40.2
German 10yr Bund	2.56	-6.4	-0.6
UK 10yr Gilt	4.45	-22.9	77.8

Source: Bloomberg, and ADCB Asset Management
Notes: *Data as of August 25 2023 unless stated otherwise; **Data as of August 24 2023.

Summary market outlook

Global Yields	Yields on 10Y USTs declined this week after five weeks of gains. Yields on UK 10Y gilts and German Bunds declined on weak economic data in Europe. Bond yields and prices are inversely correlated. i.e. yields rise when prices fall and vice versa. Overall, we maintain our slight duration exposure with preference for USTs (7-10Y segment) over other DM sovereigns.
Stress and Risk Indicators	Both VIX index (measure of implied volatility in equities) and the MOVE index (measure of bond volatility) declined over the week. We expect recession probabilities and uncertainty around the timing of the first rate cut from the Fed to feed into financial market volatility.
Equity Markets	
Local Equity Markets	GCC equity markets declined – with the exception of Dubai which was helped from gains in the banking and utilities sector. The GCC performance was led by a decline of oil prices coupled with monetary policy uncertainty from mixed economic data around the world. We stay neutral GCC equities within our global equity framework. Stable oil prices, potential for revival in growth prospects, and scope for reversing the underperformance of the past several years are all balanced by lack of structural growth plays in the equity market indices. We would look to play benchmark transformation over next years.
Global Equity Markets	Global equities gained last week after three straight weeks of losses. DM equities including the S&P, DAX, and FTSE increased despite mixed signals from global central banks. The NASDAQ rose the most on the back of good tech sector corporate earnings. Despite lacklustre Hang Seng and Sensex performance, EM still outperformed DM over the week. We are overweight North America, and Asia Pacific; underweight EMs outside Asia and significantly underweight Europe. Our strategic preference is for large cap non-cyclical growth with focus on quality. We prefer Japanese equity exposure through local indices on a FX-hedged basis. Our other high conviction ideas include HK equities and Chinese hotels & leisure (beneficiaries of the post-pandemic reopening of the Chinese economy), and Cybersecurity and Chinese Semiconductors (play on rising deglobalisation risks and national security prominence). For long-term investors, we have identified 13 different themes to play disruptive trends in the global economy.
Technology Segments	Nasdaq-100 index rose 1.68% while HK Tech index fell 1.29% last week. Better than expected corporate earnings and falling bond yields helped the sector performance in the US.
Commodities	
Precious Metals	Precious metals prices increased over the week despite a stronger dollar with silver and platinum outperforming gold by a big margin. We prefer gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Both Brent and WTI benchmarks posted their second weekly loss in a row after 8 consecutive weeks of gains due to weak economic data and a stronger dollar. Over the near-term to medium-term, we expect oil prices to move sideways but with significant volatility.
Industrial Metals	Industrial metal prices increased over the week as hopes of a demand pick up in China. Both copper and aluminium prices rose. In our view, another commodity super-cycle is difficult, yet demand for commodities linked to “green infrastructure” is likely to sustain. We prefer copper for the near-term.
Currencies	
EURUSD	The EUR weakened versus the USD for a fifth week in a row following poor Eurozone economic data. We expect euro to stabilize and record a better performance in 2023 compared to 2022.
Critical levels	R2 1.0826 · R1 1.0818 · S1 1.0795 · S2 1.0780
GBPUSD	The GBP weakened against the dollar over the week on disappointing macro data leading to a recalibration of rate hikes from BoE. We expect GBP to strengthen versus the USD with the BoE likely to remain the most hawkish of the lot.
Critical levels	R2 1.2626 · R1 1.2615 · S1 1.2583 · S2 1.2562
USDJPY	JPY weakened against the USD for a third straight week despite narrowing yield differentials between the USTs and JGBs. Yen is likely to remain weak in the near-term in absence of hawkish BoJ bias, but could strengthen once the Fed takes a dovish turn.
Critical levels	R2 146.69 · R1 146.51 · S1 146.24 · S2 146.16

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
08/28/2023 18:30	Dallas Fed Manf. Activity	Aug	--	-20
08/29/2023 17:00	FHFA House Price Index MoM	Jun	--	0.70%
08/29/2023 18:00	**Conf. Board Consumer Confidence**	**Aug**	**116.6**	**117.0**
08/30/2023 15:00	MBA Mortgage Applications	25-Aug	--	-4.20%
08/30/2023 16:15	ADP Employment Change	Aug	200k	324k
08/30/2023 16:30	**GDP Annualized QoQ**	**2Q S**	**2.40%**	**2.40%**
08/30/2023 16:30	Wholesale Inventories MoM	Jul P	--	-0.50%
08/30/2023 16:30	Personal Consumption	2Q S	1.90%	1.60%
08/30/2023 16:30	GDP Price Index	2Q S	2.20%	2.20%
08/30/2023 16:30	Core PCE Price Index QoQ	2Q S	--	3.80%
08/30/2023 18:00	Pending Home Sales MoM	Jul	-0.50%	0.30%
08/31/2023 16:30	**Initial Jobless Claims**	**26-Aug**	**--**	**230k**
08/31/2023 16:30	**Continuing Claims**	**19-Aug**	**--**	**1702k**
08/31/2023 16:30	**Personal Income**	**Jul**	**0.30%**	**0.30%**
08/31/2023 16:30	**Personal Spending**	**Jul**	**0.70%**	**0.50%**
08/31/2023 16:30	**PCE Deflator YoY**	**Jul**	**3.30%**	**3.00%**
08/31/2023 16:30	**PCE Core Deflator MoM**	**Jul**	**0.20%**	**0.20%**
09/01/2023 16:30	**Change in Nonfarm Payrolls**	**Aug**	**168k**	**187k**
09/01/2023 16:30	Change in Manufact. Payrolls	Aug	5k	-2k
09/01/2023 16:30	**Unemployment Rate**	**Aug**	**3.50%**	**3.50%**
09/01/2023 16:30	Average Hourly Earnings YoY	Aug	4.30%	4.40%
09/01/2023 16:30	Labor Force Participation Rate	Aug	--	62.60%
09/01/2023 17:45	**S&P Global US Manufacturing PMI**	**Aug F**	**--**	**47**
09/01/2023 18:00	**ISM Manufacturing**	**Aug**	**46.9**	**46.4**

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
08/29/2023 03:30	Jobless Rate	Jul	2.50%	2.50%
08/31/2023 03:50	Retail Sales YoY	Jul	5.40%	5.90%
08/31/2023 03:50	**Industrial Production MoM**	**Jul P**	**-1.30%**	**2.40%**
08/31/2023 09:00	Housing Starts YoY	Jul	-1.30%	-4.80%
08/31/2023 09:00	Annualized Housing Starts	Jul	0.827m	0.811m
09/01/2023 03:50	Capital Spending YoY	2Q	7.80%	11.00%
09/01/2023 04:30	**Jibun Bank Japan PMI Mfg**	**Aug F**	**--**	**49.7**

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
08/29/2023 10:00	**Germany GfK Consumer Confidence**	**Sep**	**-24.4**	**-24.4**
08/29/2023 10:45	**France Consumer Confidence**	**Aug**	**85**	**85**
08/30/2023 13:00	**Eurozone Consumer Confidence**	**Aug F**	**--**	**-16**
08/30/2023 13:00	Eurozone Economic Confidence	Aug	93.6	94.5
08/30/2023 16:00	**Germany CPI YoY**	**Aug P**	**6.00%**	**6.20%**
08/31/2023 10:45	**France CPI YoY**	**Aug P**	**4.30%**	**4.30%**
08/31/2023 10:45	France PPI YoY	Jul	--	3.00%
08/31/2023 10:45	France GDP YoY	2Q F	--	0.90%
08/31/2023 13:00	**Eurozone CPI Estimate YoY**	**Aug**	**5.10%**	**5.30%**
08/31/2023 13:00	**Eurozone CPI Core YoY**	**Aug P**	**5.20%**	**5.50%**
08/31/2023 13:00	Eurozone Unemployment Rate	Jul	6.40%	6.40%
09/01/2023 11:50	**France HCOB France Manufacturing PMI**	**Aug F**	**--**	**46.4**
09/01/2023 11:55	**Germany HCOB Germany Manufacturing PMI**	**Aug F**	**39.1**	**39.1**
09/01/2023 12:00	**Eurozone HCOB Eurozone Manufacturing PMI**	**Aug F**	**43.7**	**43.7**

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
08/30/2023 12:30	Net Consumer Credit	Jul	--	1.7b
08/30/2023 12:30	Mortgage Approvals	Jul	52.0k	54.7k
08/30/2023 12:30	M4 Money Supply YoY	Jul	--	0.10%
09/01/2023 10:00	Nationwide House Px NSA YoY	Aug	--	-3.80%
09/01/2023 12:30	**S&P Global/CIPS UK Manufacturing PMI**	**Aug F**	**42.5**	**42.5**

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
08/31/2023 05:30	**China Manufacturing PMI**	**Aug**	**49.1**	**49.3**
08/31/2023 05:30	**China Non-manufacturing PMI**	**Aug**	**51.3**	**51.5**
08/31/2023 16:00	**India GDP YoY**	**2Q**	**7.80%**	**6.10%**
09/01/2023 05:45	**China Caixin PMI Mfg**	**Aug**	**49.2**	**49.2**
09/01/2023 09:00	**India S&P Global PMI Mfg**	**Aug**	**--**	**57.7**

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