The Weekly Market View

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بنك أبوظبي التجاري ADCB

ASSET MANAGEMENT LIMITED

Inflation jitters

Last week, surprise upbeat inflation numbers unnerved the market participants. Headline US inflation rose by 7.5% yoy in January, beating market expectations and marking the highest level in four decades. Core inflation also rose by 6.5% yoy, the highest reading since 1982. The latest University of Michigan consumer sentiment surveys also highlighted possible impact of higher inflation on consumer finances with the consumer sentiment index dropping to the lowest level since 2011. In addition to the hot inflation reading, comments from ST Louis Fed President Mr James Bullard signalled that the Fed could raise rates by 100bp by July 2022. All this translated into the markets pricing more aggressive rate hikes with probability of full 50bp rate hike in March now standing at 90%. Market expectations of a surprise Fed inter-meeting also accelerated, though we don't see this materializing. Across the Atlantic, growing divide in the ECB on the appropriate monetary policy action was evident with the ECB President Christine Lagarde pushing back against hasty tightening.

Global equities ended the week slightly in the negative territory. EM equities outperformed DM stocks. In DM, European equities were the best performers, driven by strong earnings reports. UK equities also recorded gains on strong GDP print and relaxation of lockdown restrictions. On the other hand, US equities underperformed last week. NASDAQ was the worst performer. In bond markets, the 10yr UST yield crossed the 2% level for the first time since December 2019 on the back of upbeat inflation print, but later ended the week at 1.94%. In Europe, core bond yields and UK Gilt yields both rose over the week. Corporate credit remained under pressure. In currencies, dollar added gains on safe haven demand with rising geopolitical tensions between Russia and Ukraine. In commodities, gold jumped to a two-month high on the back of geopolitical tensions. Copper prices reached the highest levels since October 2021 on supply squeeze concerns and Aluminium prices jumped to the highest level since 2008.

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What shines during rate hikes?

Compared to equity markets, bond market volatility has continued to remain high since 2021. With markets remaining aggressive on number of possible rate hikes the Fed could deliver in absence of signs of inflation abating anytime soon, we expect fixed income assets to face more volatility. We maintain underweight on fixed income and continue to recommend a short-duration stance. Short-duration strategies have worked well during the previous periods of Fed tightening cycle when the yield curve has bear flattened. Leveraged loan, being short-duration in nature, is one asset class which is turning out to be investors' favourite this year. From last year's preference for Inflation-linked bonds, bias is now moving towards leveraged loans with evidence of rising investors bets since the beginning of the year. Unlike fixed rate bonds, the interest rate of leveraged loans is linked to floating rate and hence adjusts upward with rate hikes, thus making it less sensitive to interest rates and acting as hedge against rising interest rates. The S&P/LSTA Leveraged Loan Index recorded marginal positive returns of 0.4% in January, when all other fixed income assets posted losses, including the HY index which declined by c2.5%. Historical precedents indicate that loans also perform better than long-duration assets during periods of policy tightening. In addition, while other fixed income assets have a negative correlation with UST yields (higher yields, lower returns), leveraged loans have a strong positive correlation with UST yields. While leveraged loans look attractive ahead of the beginning of the rate hike cycle, investing in it comes with a variety of risks too. Given the corporate borrowers of these loans are rated below investment grade, credit risk is one of the main risks. Also typically, loans tend to come under pressure during late stage of cycle or with sudden turnaround in the growth outlook. Lastly, liquidity issues could arise as unlike bonds- these are traded as unregistered securities.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	4,419	-1.8	-7.3
Dow Jones	34,738	-1.0	-4.4
Nasdaq	13,791	-2.2	-11.8
DAX	15,425	2.2	-2.9
Nikkei 225	27,696	0.9	-6.3
FTSE 100	7,661	1.9	3.7
Sensex	58,153	-0.8	-0.2
Hang Seng	24,209	1.4	5.3
Regional Markets			
ADX	8,998	3.0	6.0
DFM	3,257	2.7	1.9
Tadawul**	12,269	1.0	6.6
DSM**	12,809	1.2	8.7
MSM30**	4,093	-0.8	-1.0
BHSE**	1,867	2.4	4.2
KWSE**	7,478	1.0	5.3
MSCI			
MSCI World	3,088	-0.7	-6.0
MSCI EM	1,251	1.6	0.7

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	94.4	1.3	23.2
Nymex WTI USD/bbl	93.1	0.9	25.8
Gold USD/t oz	1,858.8	2.8	1.3
Silver USD/t oz	23.6	4.7	1.3
Platinum USD/t oz	1,030.8	0.3	7.1
Copper USD/MT	10,040.0	1.7	3.6
Alluminium	3,146.5	1.6	12.3
Currencies			
EUR USD	1.14	-0.9	-0.2
GBP USD	1.36	0.2	0.0
USD JPY	115.42	0.1	0.4
USD CHF	0.93	0.0	1.4
Rates	**Latest**	**Weekly (bp)**	**YTD(bp)**
USD Libor 3m	0.51	16.7	29.7
USD Libor 12m	1.39	39.3	80.9
UAE Eibor 3m	0.56	9.8	19.5
UAE Eibor 12m	1.18	15.6	43.8
US 3m Bills	0.34	11.7	31.0
US 10yr Treasury	1.94	2.9	42.7

Notes: *Data as of February 11 2022 unless stated otherwise; **Data as of February 10 2022

Summary market outlook

Global Yields	The 10Y USTs crossed the 2% level for the first time since December 2019, but later ended the week below 1.94%. The UST curve flattened further with the markets pricing in 50bp rate hike in March. Core Eurozone bond yields continued to grind higher. Peripheral bond spreads widened over the week. Corporate credit remains under pressure with both IG and HY feeling the pinch. Overall, we recommend a lower duration stance (5Y USTs) in anticipation of interest rate volatility in the near term.
Stress and Risk Indicators	VIX index jumped again last week amidst the strong inflation print. 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	GCC markets performed well on the back of strong oil prices. UAE stocks, both Abu Dhabi and Dubai were the top performers. Oman recorded marginal negative returns, making it the worst performer last week. 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	Global equities recorded marginal negative returns on the back of rising inflation concerns. EMs outperformed DMs. Amongst DMs, Europe and UK were the best performers, the former helped by strong earnings report and the latter by robust GDP print. 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	HK tech index posted marginal positive returns. On the other hand, Nasdaq-100 slid by more than 2%.
Commodities	
Precious Metals	Gold jumped to a two-month high on rise in geopolitical tensions between Russia and Ukraine. We keep our overweight in gold as a hedge against potential risks on the horizon.
Energy	Oil prices jumped for another week as tensions between Ukraine and Russia raised concerns about tight global supplies. Overall, over the medium-term we believe that oil prices will remain sustained as the market balances into the new normal.
Industrial Metals	Copper prices rose to highest level since October and aluminium prices jumped to the highest level since 2008. Another commodity super-cycle is difficult, yet demand for commodities linked to "green infrastructure" is likely to sustain.
Currencies	
EURUSD	The euro weakened against the dollar on the back of rising UST yields and geopolitical tensions supporting demand for the dollar. We expect ECB policy divergence to play a major role in the performance of the euro.
GBPUSD	The pound sterling ended flat versus the dollar. We expect the GBP to be driven by how the BoE policy evolves over the near-term and to decouple from the EUR.
USDJPY	The US Dollar-Japanese yen ended the week unchanged despite the rise in UST yields. Over the medium-term, BoJ's yield curve targeting should put downward pressure on JPY.

Critical levels	R2	R1	S1	S2
EURUSD	1.1557	1.1453	1.1288	1.1227
GBPUSD	1.3719	1.3642	1.3489	1.3413
USDJPY	116.98	116.20	114.78	114.14

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
02/16/22	**MBA Mortgage Applications**	**11- Feb**	**--**	**-8.10%**
02/16/22	Industrial Production MoM	**Jan**	**0.40%**	**-0.10%**
02/16/22	Capacity Utilization	Jan	76.80%	76.50%
02/16/22	NAHB Housing Market Index	Feb	83	83
02/16/22	**FOMC Meeting Minutes**	**26- Jan**	**--**	**--**
02/17/22	Housing Starts	Jan	1700K	1702K
02/17/22	Initial Jobless Claims	12- Feb	220K	223K
02/17/22	Continuing Claims	5- Feb	--	1621K
02/17/22	Housing Starts MoM	Jan	-0.10%	1.40%
02/18/22	Existing Home Sales	Jan	6.19m	6.18m
02/18/22	Existing Home Sales MoM	Jan	-1.30%	-4.60%

Japan

	Indicator	Period	Expected	Prior
02/15/22	**GDP Annualized SA QoQ**	**4Q P**	**6.00%**	**-3.60%**
02/15/22	**GDP SA QoQ**	**4Q P**	**1.50%**	**-0.90%**
02/15/22	Industrial Production MoM	Dec F	--	-1.00%
02/15/22	Capacity Utilization MoM	Dec	--	8.00%
02/16/22	Tertiary Industry Index MoM	Dec	0.30%	0.40%
02/17/22	Trade Balance	Jan	-¥1637.0b	-¥582.4b
02/17/22	Exports YoY	Jan	16.50%	17.50%
02/17/22	Imports YoY	Jan	37.10%	41.10%
02/17/22	Core Machine Orders MoM	Dec	-2.00%	3.40%
02/18/22	**Natl CPI YoY**	**Jan**	**0.60%**	**0.80%**
02/18/22	**Natl CPI Ex Fresh Food, Energy YoY**	**Jan**	**-1.00%**	**-0.70%**

Eurozone

	Indicator	Period	Expected	Prior
02/15/22	GDP SA QoQ	4Q P	0.30%	0.30%
02/15/22	GDP SA YoY	4Q P	4.60%	4.60%
02/16/22	**Industrial Production WDA YoY**	**Dec**	**-0.50%**	**-1.50%**
02/16/22	**CPI YoY**	**Jan**	**4.80%**	**4.80%**
02/17/22	**ECB Publishes Economic Bulletin**			
02/18/22	**ECB Current Account SA**	**Dec**	**--**	**23.6b**
02/18/22	**Retail Sales MoM**	**Dec**	**-2.10%**	**0.70%**

United Kingdom

	Indicator	Period	Expected	Prior
02/16/22	**CPI YoY**	**Jan**	**5.40%**	**5.40%**
02/16/22	CPI Core YoY	Jan	4.30%	4.20%
02/16/22	RPI YoY	Jan	7.40%	7.50%
02/18/22	Retail Sales Inc Auto Fuel MoM	Jan	1.20%	-3.70%
02/18/22	Retail Sales Ex Auto Fuel YoY	Jan	7.60%	-3.00%

China and India

	Indicator	Period	Expected	Prior
02/14/22	**India Wholesale Prices YoY**	**Jan**	**12.70%**	**13.56%**
02/14/22	**India CPI YoY**	**Jan**	**6.00%`**	**5.59%**
02/15/22	India Exports YoY	Jan	--	38.90%
02/15/22	India Imports YoY	Jan	--	38.60%
02/16/22	China CPI YoY	Jan	1.00%	1.50%

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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