The Weekly Market View

January 03 2021

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We wish all our readers a healthy, happy and prosperous New Year.

2020: The abnormal

Although the initial days of 2020 looked like an extension of the relative 'normal' of 2019 when the economic growth was showing signs of stabilisation, 2020 in entirety turned out to be an 'abnormal' year. As COVID-19 cases continued to rise across the globe, H1 saw a range of restrictions brought in by Governments globally. This had in turn caused the economic activity to plummet. Monetary and fiscal authorities, however, were quick to extend unprecedented levels of economic support – this proved to be the bridge helping economic agents to navigate difficult times. As countries eased restrictions, economic activity bounced back rather quickly in Q3. Whilst the virus was recurrent, medical progress (both vaccines and treatments) provided the much needed optimism by bringing in sight the possible 'end of the pandemic'. Overall in 2020, the global economy experienced, what can be called one of the deep, sharp and broad recessions of modern times. Yet, equity markets delivered above-average returns during the year. MSCI ACWI was up c14% in 2020 compared with the preceding 33-year mean annual return of c7% (and the median annual return of 12%). Returns were strong in other asset classes too. In our recent weekly, we discussed the three learnings we had while trying to understand the 'disconnect' between the plunge in the economic activity and the strong financial market returns.

2021: The unabnormal

We remain constructive on the outlook for equities in 2021. Against a backdrop of the global economy rebounding from the compression of 2020 and recovering subsequently, corporate earnings are expected to recover over the next several quarters. Indeed, I/B/E/S consensus estimates MSCI ACWI earnings to grow 28.7% in 2021 (vs. -15.3% in 2020) helped by stronger sales growth of 10.1% (vs. -4.2% in 2020) and net profit margin expansion of 140bps in 2021 (from 8.5% in 2020). Further, we do expect the policy (both monetary and fiscal) to remain accommodative helping valuations. Especially the fiscal policy has potential to turn more 'stimulative' from being 'supportive'. Here, digitalisation, healthcare innovation and green recovery seem to be high on the 'build back better' agenda for most developed world leaders, supporting long-term trends in those sectors. Of course, we also remain vigilant of risks which include a return of inflation, a sudden spike in bond yields, potential policy missteps, and hiccups in vaccine distribution. Of course, political and geopolitical risks could surface in 2021. Rampant virus, Georgia senate run-off and technical overbought conditions present near-term risks.

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. Our preference is for large cap non-cyclical growth with focus on quality. We have also identified industry level opportunities to play the vaccine availability in the medium-term. See also our report highlighting 21 talking points for 2021.

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Global markets' performance snapshot

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	3,756	1.4	16.3
Dow Jones	30,606	1.3	7.2
Nasdaq	12,888	0.7	43.6
DAX**	13,719	1.0	3.5
Nikkei 225**	27,444	3.0	16.0
FTSE 100	6,461	-0.6	-14.3
Sensex	47,751	1.7	15.8
Hang Seng	27,231	3.2	-3.4
Regional Markets (Sunday to Thursday)*			
ADX	5,045	-1.6	-0.6
DFM	2,492	-1.4	-9.9
Tadawul	8,690	-0.2	3.6
DSM	10,436	-1.0	0.1
MSM30	3,659	1.6	-8.1
BHSE	1,490	-0.2	-7.5
KWSE	5,546	-0.4	-11.7
MSCI			
MSCI World	2,690	1.2	14.1
MSCI EM	1,291	2.9	15.8

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	51.8	1.0	-21.5
WTI USD/bbl	48.5	0.6	-20.5
Gold USD/t oz	1,898.4	0.8	25.1
Silver USD/t oz	26.4	2.2	47.9
Platinum USD/t oz	1,072.1	4.5	10.9
Copper USD/MT	7,741.5	-0.7	25.8
Alluminium	1,979.0	-2.6	10.6
Currencies			
EUR USD	1.22	0.2	8.9
GBP USD	1.37	0.8	3.1
USD JPY	103.25	-0.2	-4.9
CHF USD	0.89	-0.5	-8.4
Rates			
USD Libor 3m	0.24	-0.7	-87.5
USD Libor 12m	0.34	0.4	-82.9
UAE Eibor 3m	0.51	18.5	-76.8
UAE Eibor 12m	0.65	0.7	-71.4
US 3m Bills	0.06	-28.1	-96.2
US 10yr Treasury	0.91	-1.1	-52.4

Notes: *Data as of December 31 2020; **Data as of December 30 2020

Summary market outlook

Global Yields	US Treasury (USTs) yields slightly declined over the week, on year-end buying and reduced hopes of large stimulus payments. US IG spreads tightened over the week while improved risk appetite benefitted US HY. We remain long duration on USTs as overall economic outlook remains mixed and is likely to remain so with rising COVID-19 infection rates. In US credit, we remain neutral on US IG and underweight on US HY, both trading at rich levels.
Stress and Risk Indicators	VIX remained contained as equity markets closed 2020 at all-time highs. We expect the VIX index to continue to stabilize over the next weeks and months.
Equity Markets	
Local Equity Markets	GCC markets ended 2020 quite mixed. Against the backdrop of the region underperforming broader equity benchmarks, Saudi Arabian equities outperformed their regional counterparts by gaining c4% over the year. Abu Dhabi and Qatar equities were rather flat but other GCC markets ended the year lower. We remain neutral GCC equities within our global equity framework. Stable to higher oil prices, potential for revival in growth and recent underperformance are all balanced by lack of structural growth plays in the equity market.
Global Equity Markets	Global equities (MSCI ACWI) ended the year 2020 at all-time high levels. Optimism was helped by President Trump signing the USD900bn support package, UK approving the COVID-19 vaccine developed by AstraZeneca and Oxford University, and EU and China agreeing on their investment treaty. Further stronger data including industrial profits and PMI in China, rise in house prices in both the US and the UK, and an unexpected fall in US jobless claims helped too. With the virus rampant and the uncertainty around who gets a majority in the US Senate persisting, we remain watchful of near-term risks especially given some slightly overbought conditions. However, we are constructive on the outlook over the 12-month horizon. 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 preference is for large cap non-cyclical growth with focus on quality.
Commodities	
Precious Metals	Precious metals gained on USD weakness. USD index fell to its lowest level since April 2018. We remain overweight gold as a hedge against general risks, but we are not particularly bullish over the near-term.
Energy	Last week oil prices rose as USD weakened further and crude oil inventories in the US fell more than expected. Oil prices are likely to remain sustained as the market is roughly balanced in terms of demand versus supply.
Industrial Metals	Industrial prices slipped last week after rising strongly since March lows. Copper prices, helped by supply and demand dynamics, posted ninth straight monthly gain in December – the longest rally since 1994. Aluminum prices dropped last week as net bullish positions on LME aluminum were cut to 6-month low. We do not recommend industrial metals exposure as China structurally reigns in demand.
Currencies	
EURUSD	Helped by broader weakness in the greenback and the optimism following an EU-UK trade deal, EUR appreciated further against the USD to hit the 1.23 mark mid-week. We expect the EUR to remain stable.
Critical levels	R2 1.2618 · R1 1.2417 · S1 1.1907 · S2 1.1598
GBPUSD	Thanks to the EU-UK deal, GBP appreciated against the USD. Looking ahead, GBP is likely to be influenced by global cyclical conditions – an improvement there would mean cable strength.
Critical levels	R2 1.4030 · R1 1.3851 · S1 1.3314 · S2 1.2956
USDJPY	JPY gained marginally against the USD and closed the year c5% stronger at 103 JPY/USD. The risk-on context is not favourable for the JPY, which will facilitate BoJ's intention to keep it weak if necessary through further yield curve targeting.
Critical levels	R2 105.49 · R1 104.35 · S1 102.47 · S2 101.73

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
01/04/21	**Markit US Manufacturing PMI**	**Dec F**	**56.3**	**56.5**	Inventory rebuild across supply chains is continuing to prove helpful to the manufacturing sector. As a result market expects both the Markit and ISM indices for the manufacturing sector to have expanded strongly in December. The services sector however is expected to show some moderation in December especially as the virus count continues to rise rapidly. In line with recent rise in jobless claims, market expects the U-3 unemployment to have risen slightly in December.
01/04/21	Construction Spending MoM	Nov	1.00%	1.30%	
01/05/21	**ISM Manufacturing**	**Dec**	**56.5**	**57.5**	
01/06/21	MBA Mortgage Applications	1-Jan	--	0.80%	
01/06/21	ADP Employment Change	Dec	75k	307k	
01/06/21	**Markit US Services PMI**	**Dec F**	**55.2**	**55.3**	
01/06/21	FOMC Meeting Minutes	16-Dec	--	--	
01/07/21	Initial Jobless Claims	2-Jan	--	--	
01/07/21	**ISM Services Index**	**Dec**	**54.5**	**55.9**	
01/08/21	Change in Nonfarm Payrolls	Dec	85k	245k	
01/08/21	**Unemployment Rate**	**Dec**	**6.80%**	**6.70%**	
01/08/21	Average Hourly Earnings YoY	Dec	4.50%	4.40%	

Japan

	Indicator	Period	Expected	Prior	Comments
01/04/21	Jibun Bank Japan PMI Mfg	Dec F	--	49.7	Household spending is estimated to have contracted in November following a strong October that saw the first rise in 12 months.
01/06/21	Jibun Bank Japan PMI Services	Dec F	--	47.2	
01/07/21	Labor Cash Earnings YoY	Nov	-0.90%	-0.80%	
01/08/21	**Household Spending YoY**	**Nov**	**-1.00%**	**1.90%**	

Eurozone

	Indicator	Period	Expected	Prior	Comments
01/04/21	**Markit Eurozone Mfg PMI**	**Dec F**	**55.5**	**55.5**	Manufacturing and service sector PMIs are expected to print in line with the flash readings in December. Market expects November retail sales growth to have moderated and the unemployment to have ticked higher.
01/06/21	**Markit Eurozone Services PMI**	**Dec F**	**47.3**	**47.3**	
01/06/21	PPI YoY	Nov	-2.10%	-2.00%	
01/07/21	**Retail Sales YoY**	**Nov**	**1.00%**	**4.30%**	
01/07/21	CPI MoM	Dec P	0.40%	-0.30%	
01/08/21	**Unemployment Rate**	**Nov**	**8.50%**	**8.40%**	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
01/04/21	Mortgage Approvals	Nov	83.5k	97.5k	Manufacturing and service sector PMIs are expected to confirm the flash readings in December. The focus is likely to be on post-Brexit economy in the UK.
01/04/21	**Markit UK PMI Manufacturing SA**	**Dec F**	**57.3**	**57.3**	
01/06/21	New Car Registrations YoY	Dec	--	-27.40%	
01/06/21	**Markit/CIPS UK Services PMI**	**Dec F**	**49.9**	**49.9**	

China and India

	Indicator	Period	Expected	Prior	Comments
01/04/21	**Caixin China PMI Mfg**	**Dec**	**54.7**	**54.9**	Markets expect the strong growth momentum in both manufacturing and services sectors in China to have sustained in December. It would be interesting to see if India's manufacturing and service sectors can continue to expand at a strong pace seen in recent months.
01/04/21	**Markit India PMI Mfg**	**Dec**	**--**	**56.3**	
01/06/21	**Caixin China PMI Services**	**Dec**	**58.0**	**57.8**	
01/06/21	**Markit India PMI Services**	**Dec**	**--**	**53.7**	
01/09-01/15	China Money Supply M2 YoY	Dec	--	10.70%	
01/09-01/15	China Aggregate Financing CNY	Dec	--	2,130.0b	

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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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