The Weekly Market View

June 23 2020

ADCB ASSET MANAGEMENT LIMITED

RoRo rollercoaster

Risk assets performed well in spite of market sentiment oscillating between risk-on and risk-off mode. Equity markets posted weekly gains, partially reversing some of the previous week's losses. While concerns on rising infections in US states and China continued to linger, markets shrugged off these concerns and focused on optimism driven by hopes of economic recovery and policy stimulus. The Fed's announcement on the details of the corporate bond program, albeit nothing new apart from extension of eligibility criteria, kick-started the rally. Upbeat retail sales data, reports of White House considering USD1trn of infrastructure stimulus and reports of China to increase purchases of US agricultural products were the positive triggers that added leg to the equity market rally. The tech-heavy NASDAQ was the best performer, returning close to the all-time highs of 10 June. European stocks also gained with progress in EU's discussion of stimulus plan. On the other hand, concerns of second wave infections pushed investors to pour money into safe-haven assets. Gold prices continued to post weekly gains. On the fixed income side, US Treasury yields declined over the week while European bond yields edged higher. Dollar index rose as stimulus announcements in Europe and the UK weighed on the euro and the pound sterling respectively. The BoE announced an extension of bond purchases until next three months, albeit slowed the pace of the purchases. Elsewhere, oil prices had a stellar week, mainly driven by re-opening optimism and OPEC's pushing for better compliance to supply cuts. Brent crude registered 9% weekly gain while WTI crude jumping up by over 9.5%. Local equity markets were mixed but Saudi stocks and ADX recorded gains on the back of rise in oil prices and reports of further lifting of lockdown restrictions.

Brace for low for longer yields

In spite of signs of some improvement in economic activity and return of rally in risk assets, US Treasury yields have remained pressed low. Bond yields are not only suppressed but have also exhibited low volatility during this risk-on risk-off period. Fed's stimulus through continued commitment to bond purchases has undoubtedly managed to stave off volatility in rates and yields. We believe the stability in treasury yields, especially in the long-term yields is likely to sustain even as the US economy moves into the recovery stage. With the Fed's unprecedented stimulus and likelihood of the central bank delving into yield curve control, we are unlikely to witness steepening of UST curve as historically seen during stages of recovery immediately post economic slowdown. Moreover, in spite of signs of sharp recovery, growth in the US is expected to trend low while prospects of revival in inflation remain dim. In an environment of low growth and low inflation, long-term bond yields are unlikely to undergo any massive correction. At the same time, the Fed has shown its reluctance to switching to negative interest rate policy. Short-dated bond yields and rates have adjusted well to the Fed's message with the market pricing of negative policy rates almost vanished for now.

As a result, we recommend increasing duration to the medium to long-term part of the curve in our overweight US Treasury stance.

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

Luciano Jannelli, Ph.D., CFA
Head Investment Strategy
Tel: +971 (0)2 696 2340
luciano.jannelli@adcb.com

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

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

Noor Alameri
Analyst
Tel: +971 (0)2 694 5182
noor.alameri@adcb.com

Visit Investment Strategy Webpage to read our other reports

Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	3,098	1.9	-4.1
Dow Jones	25,871	1.0	-9.3
Nasdaq	9,946	3.7	10.8
DAX	12,331	3.2	-6.9
Nikkei 225	22,479	0.8	-5.0
FTSE 100	6,293	3.1	-16.6
Sensex	34,732	2.8	-15.8
Hang Seng	24,644	1.4	-12.6
Regional Markets (Sunday to Thursday)			
ADX	4,345	1.2	-14.4
DFM	2,078	-1.2	-25.2
Tadawul	7,356	0.6	-12.3
DSM	9,320	0.9	-10.6
MSM30	3,516	0.1	-11.7
BHSE	1,274	-0.5	-20.9
KWSE	5,020	-1.4	-20.0
MSCI			
MSCI World	2,216	2.1	-6.3
MSCI EM	995	1.5	-10.2

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	42.2	8.9	-36.1
Nymex WTI USD/bbl	39.8	9.6	-34.9
Gold USD/t oz	1,743.9	0.8	14.9
Silver USD/t oz	17.6	0.8	-1.3
Platinum USD/t oz	814.8	0.2	-15.7
Copper USD/MT	5,799.0	0.9	-5.2
Alluminium	1,584.5	0.5	-12.3
Currencies			
EUR USD	1.12	-0.7	-0.3
GBP USD	1.24	-1.5	-6.8
USD JPY	106.87	-0.5	-1.6
CHF USD	0.95	-0.0	1.5
Rates			
USD Libor 3m	0.31	-4.9	-84.0
USD Libor 12m	0.58	-3.0	-71.2
UAE Eibor 3m	0.65	-13.9	-70.8
UAE Eibor 12m	1.03	-0.8	-55.1
US 3m Bills	0.15	-2.0	-90.5
US 10yr Treasury	0.69	-1.4	-63.8

Summary market outlook

Global Yields	Long-term treasury yields declined, in spite of risk-on sentiment, as concerns on second wave infections. In Europe, German bund yields rose on progress in fiscal stimulus talks. Corporate bonds in the US posted gains on Fed announcing details of the corporate bonds secondary market purchases. We recommend increasing duration on US treasuries with long-term rates likely to remain pressed low on Fed's QE and low growth and inflation environment.
Stress and Risk Indicators	VIX fell further as equities moved higher. Despite falling sharply in recent weeks, VIX still remains high compared with levels observed in recent years. As such, we believe that volatility will likely stay elevated given the range of risks on the horizon. This entire episode of the coronavirus would be a part of our 'high volatility' narrative for 2020 and our risk-barbell positioning.
Equity Markets	
Local Equity Markets	Major GCC markets, helped by higher oil prices and reports of lifting lockdown restrictions, posted returns over the past week. However, GCC markets continue to lag international markets. We remain neutral on GCC equities given the potential for further dollar strength, stable to higher oil prices and potential for revival in credit growth following the interest rate cuts.
Global Equity Markets	Equity markets moved higher, in spite of the sentiment oscillating between risk-on and risk-off. Signs of sharp recovery, Fed's commitment to stimulus and reports of White house considering more fiscal stimulus were the positive drivers that buoyed the stock market performance. The tech-heavy NASDAQ led the gains, rising close to the all-time highs. European stocks also gained, receiving boost from the progress in fiscal stimulus plans. Overall, we remain neutral on equities with an overweight on US and underweight EU and EM outside Asia. By sector we prefer IT and Communication services. Our preference is for large cap non-cyclical growth with focus of quality.
Commodities	
Precious Metals	Precious metal prices rose, driven by concerns of second wave infections. We remain overweight gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Oil prices rose strongly over the week on hopes of economic recovery and OPEC+ pushing for better compliance. Overall, we believe that oil prices are likely to remain sustained as the market is roughly balanced.
Industrial Metals	Industrial metals posted gains in line with improved risk sentiment. Yet, we do not recommend industrial metals exposure as China reigns in demand.

Currencies								
EURUSD	Progress in fiscal stimulus plan resulted in EUR depreciating against the USD. We expect the euro to remain stable.							
Critical levels	**R2**	1.1349	**R1**	1.1319	**S1**	1.1246	**S2**	1.1203
GBPUSD	BoE announced an extension of its bond purchases, resulting in GBP weakness. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.							
Critical levels	**R2**	1.2546	**R1**	1.2504	**S1**	1.2429	**S2**	1.2396
USDJPY	USD depreciated against the JPY as safe-haven assets rallied in spite of improved risk appetite. BoJ yield curve targeting should put continuing downward pressure on the yen.							
Critical levels	**R2**	107.49	**R1**	107.28	**S1**	106.80	**S2**	106.53

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

بنك أبوظبي التجاري ADCB ASSET MANAGEMENT LIMITED

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
06/22/2020	Existing Home Sales	May	4.09m	4.33m	PMI prelim and GDP in focus.
06/23/2020	Markit US Manufacturing PMI	Jun P	50.8	39.8	
06/24/2020	MBA Mortgage Applications	Jun-19	--	8.00%	
06/25/2020	Wholesale Inventories MoM	May P	0.40%	0.30%	
06/25/2020	GDP Annualized QoQ	1Q T	-5.00%	-5.00%	
06/25/2020	Initial Jobless Claims	Jun-20	1350k	1508k	
06/26/2020	U. of Mich. Sentiment	Jun F	79	78.9	

Japan

	Indicator	Period	Expected	Prior	Comments
06/23/2020	Jibun Bank Japan PMI Mfg	Jun P	--.	38.4	PMI prelim will be closely tracked.
06/23/2020	Machine Tool Orders YoY	May F	--	-52.80%	
06/25/2020	All Industry Activity Index MoM	Apr	-6.60%	-3.80%	
06/26/2020	Tokyo CPI YoY	Jun	0.30%	0.40%	
06/26/2020	Tokyo CPI Ex-Fresh Food, Energy YoY	Jun	0.40%	0.50%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
06/23/2020	Markit Eurozone Manufacturing PMI	Jun P	44.8	39.4	Focus will be on PMI and IFO
06/23/2020	Markit/BME Germany Manufacturing PMI	Jun P	42.3	36.6	
06/24/2020	IFO Expectations(GE)	Jun	86.6	80.1	
06/26/2020	M3 Money Supply YoY	May	8.60%	8.30%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
					No major releases this week.

China and India

	Indicator	Period	Expected	Prior	Comments
06/18/2020	BoP Current Account Balance (IN)	1Q	-\$3.05b	-\$1.40b	Attention will be on PBOC meeting.
06/22/2020	1-Year Loan Prime Rate (CH)	Jun-22	3.85%	3.85%	
06/22/2020	5-Year Loan Prime Rate (CH)	Jun-22	4.65%	4.65%	

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.