The Weekly Market View

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Assessing

Faced by hawkish Federal Reserve, mixed economic data, and rising concerns around the US banking sector, financial markets turned volatile over the past week. VIX index (implied volatility in equities), MOVE index (implied volatility in bonds), and our measure of FX volatility all moved sharply higher over the past week. Earlier in the week, Fed Chair Powell during his semi-annual testimony to Congress sounded hawkish and accordingly bond markets priced in higher rates. Staying with central banks, policy actions from Reserve Bank of Australia, Bank of Canada, and Bank of Japan were all in line with expectations. In terms of the economic data, Chinese inflation was less than expected and trade balance was higher than forecasts, and UK GDP was better but industrial production disappointed. In the US, labour market data was mixed – headline payroll number was strong, but unemployment rose, and average hourly earnings rose less than expected. Banking sector risks took center stage in the US with the Silicon Valley Bank (SVB) closed and Silvergate Capital announced voluntary liquidation. Especially the failure of SVB was the first bank failure since 2020, the biggest since the global financial crisis, and the second largest in US history. As a result, last week saw S&P 500 banks equity index lose c12% – the largest weekly loss outside the episodes of the global financial crisis of 2008/2009 and the COVID-19 sell off during early 2020.

Systemic?

Is the failure of the Silicon Valley Bank (SVB) a prelude to another Global financial crisis? While it may be too early to tell, based on the current information we don't think that this is another systemic crisis in making. In other words, we view this episode as an idiosyncratic problem more than a systemic risk at this juncture. The post-global financial crisis regulatory environment was rather tight for the large US banks there by reducing the chances of a capital or liquidity event driven by assets/liabilities mismatches or concentrated positions on securities portfolios. However, the current episode has some near-term implications for businesses and financial markets. For the banks sector overall, higher deposit rates could be coming in the US as banks compete for funds. Banks with diversified funding mix are likely to do well compared to those with concentrated sources of funding. Mid and small size regional banks across the US may come under scrutiny over the next days as markets question 'what is next?'. Implications for the tech sector could be negative if the closure of the SVB is not handled smoothly by regulators. This episode also shows the disruption that is likely to occur in the private equity markets where, unlike in public listed markets, prices have not yet adjusted fully to reflect the higher interest rates. In the equity space, markets may move to assign higher risk premium to stocks of lenders that are tech-focused and crypto-focused. Also, regional banks could come under further pressure. In the market capitalization weighted equity indices, the representation of the regional banks is low. This minimizes the risk of contagion. In the US Investment Grade credit, the risk of contagion from small to large banks is remote, considering the low share of regional banks in the investment grade credit index. While the banking sector does make up a large share of the iBoxx USD IG market at 25% of the notional outstanding, regional domestic banks only make up 6% of the banks sector, or about 1.5% of the broader USD IG market. Even that small weight is not very concentrated. US financial institutions comprise around 3.1% of the BBG Global Agg bond index. The more significant market implication of this event may be through the Federal reserve policy. With some risks to financial stability building, the Federal Reserve may not be able to pursue a very hawkish policy for very long. Also at the time of publishing this report, US financial regulators rolled out emergency measure to stem the crisis.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	3,862	-4.6	0.6
Dow Jones	31,910	-4.4	-3.7
Nasdaq	11,139	-4.7	6.4
DAX	15,428	-1.0	10.8
Nikkei 225	28,144	0.8	7.9
FTSE 100	7,748	-2.5	4.0
Sensex	59,135	-1.1	-2.8
Hang Seng	19,320	-6.1	-2.3
Regional Markets			
ADX	9,828	-0.8	-3.8
DFM	3,386	-1.0	1.5
Tadawul**	10,463	0.5	-0.8
DSM**	10,737	1.1	0.5
MSM30**	4,850	-0.1	-0.5
BHSE**	1,912	0.1	0.9
KWSE**	7,283	-0.5	-0.1
MSCI			
MSCI World	2,657	-3.6	2.1
MSCI EM	955	-3.3	-0.1

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	82.8	-3.6	-3.6
WTI USD/bbl	76.7	-3.8	-4.5
Gold USD/t oz	1,859.1	0.7	2.4
Silver USD/t oz	20.4	-3.3	-14.0
Platinum USD/t oz	953.0	-2.6	-7.6
Copper USD/MT	8,847.0	-1.2	5.8
Alluminium	2,263.3	-4.1	-3.7
Currencies			
EUR USD	1.06	0.1	-0.6
GBP USD	1.20	-0.1	-0.6
USD JPY	135.00	-0.6	3.0
Rates	**Latest**	**Weekly (bp)**	**YTD (bp)**
SOFR	4.55	0.0	25.0
USD Libor 3m	5.14	15.4	37.1
USD Libor 12m	5.74	4.4	25.6
UAE Eibor 3m	5.00	19.9	68.6
UAE Eibor 12m	5.16	-6.3	11.5
US 3m Bills	4.76	11.0	46.0
US 10yr Treasury	3.69	-26.9	-14.6

Source: Bloomberg, and ADCB Asset Management
Notes: *Data as of March 10 2023 unless stated otherwise; **Data as of March 09 2023.

Summary market outlook

Global Yields	Hawkish comments by Federal Reserve Chair during his semi-annual Congressional testimony pushed the short-end bond yields to levels not seen since 2007. But as rate expectations decreased due to concerns around SVB, 2Y yields dropped c48bp in the last two days. 10Y UST yields stayed remarkably resilient in initial days of the week but fell sharply later to a one-month low. Yields on German 10Y bonds and UK 10Y gilts both fell c20bp. Yields on 10Y JGBs also fell sharply following the central bank commitment to easy monetary policy. 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).
Stress and Risk Indicators	Volatility rose across the board. VIX index (implied volatility in equities), MOVE index (implied volatility in bonds), and our measure of FX volatility all moved sharply higher last week. SKEW index (a measure of tail risks) jumped to its highest level seen in a year. We expect financial market volatility to stay elevated as the monetary policy normalizes and markets weigh recession probabilities.
Equity Markets	
Local Equity Markets	MSCI GCC index not only outperformed global equities but also posted gains over the past week. UAE markets – which traded on Friday – fell sharply reflecting the weak global sentiment. Elsewhere, Qatar and Saudi equities posted gains and outperformed despite weaker oil prices. 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 several years are all balanced by lack of structural growth plays in the equity market indices.
Global Equity Markets	Global equities – faced by hawkish Fed, mixed data, and rising risks around SVB – posted sharp losses over the past week. US equities lost c5% – the biggest weekly decline in more than six months. Elsewhere, Japanese equities finished the week being the best performing region last week. All 11 GICS sectors posted losses last week. Real estate, financials, and materials sectors underperformed. We are moderately overweight US, UK, and Asia Pacific; underweight Eurozone and EMs outside Asia. By sector we prefer healthcare, and industrials. Our strategic preference is for large cap non-cyclical growth with focus on quality. Our other high conviction ideas include clean energy themes (for medium to long-term); aerospace & defence, food security, energy security, and cybersecurity as plays on rising geopolitical tensions and deglobalization; and consumer services, airlines, and hotels, restaurants & leisure as plays on re-opening.
Technology Segments	Nasdaq-100 index fell c4% while HK tech index fell more than 10% last week. Within technology, we prefer non-cyclical growth over cyclical growth (tech hardware, semiconductors etc.) over a 12-month horizon.
Commodities	
Precious Metals	Gold rose to a one-month high as USD weakened and UST yields fell. Cyclical precious metals – silver and platinum fell. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Concerns of a steeper rate hiking cycle in the US during initial days of the week meant weakness in oil prices. Friday saw a strong rise in oil prices though, as rate expectations were dialled back. Overall, over the medium-term we believe that oil prices will remain sustained as the market balances into the new normal.
Industrial Metals	Industrial metal prices fell on modest growth target set by China NPC. Another commodity super-cycle is difficult, yet demand for commodities linked to “green infrastructure” is likely to sustain.
Currencies	
EURUSD	EUR/USD hit a two-week high as German inflation data warranted further ECB tightening and USD fell on SVB worries. We expect euro to stabilize and record a better performance in 2023 compared to 2022.
Critical levels	R2 1.0799 · R1 1.0721 · S1 1.0545 · S2 1.0447
GBPUSD	Stronger-than-expected UK GDP data for January helped GBP/USD to post its strongest one-day gain since January on Friday. We expect GBP to weaken against EUR and stay flat versus the USD.
Critical levels	R2 1.2293 · R1 1.2161 · S1 1.1851 · S2 1.1673
USDJPY	Falling UST yields, and broader USD weakness meant that JPY strengthened against the greenback. JPY is likely to strengthen in 2023 as interest rate differentials tighten, and as broad USD weakens.
Critical levels	R2 139.47 · R1 137.25 · S1 133.46 · S2 131.89

Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
03/14/2023 14:00	NFIB Small Business Optimism	Feb	--	90.2
03/14/2023 16:30	**CPI YoY**	**Feb**	**6.00%**	**6.40%**
03/14/2023 16:30	Real Avg Hourly Earning YoY	Feb	--	-1.80%
03/15/2023 15:00	MBA Mortgage Applications	10-Mar	--	7.40%
03/15/2023 16:30	**PPI Final Demand MoM**	**Feb**	**0.30%**	**0.70%**
03/15/2023 16:30	**PPI Ex Food and Energy YoY**	**Feb**	**--**	**5.40%**
03/15/2023 16:30	**Retail Sales Advance MoM**	**Feb**	**0.20%**	**3.00%**
03/15/2023 16:30	**Retail Sales Ex Auto MoM**	**Feb**	**0.30%**	**2.30%**
03/15/2023 18:00	**NAHB Housing Market Index**	**Mar**	**40**	**42**
03/16/23 16:30	Initial Jobless Claims	11-Mar	205k	211k
03/16/2023 16:30	Continuing Claims	4-Mar	--	--
03/16/2023 16:30	Housing Starts	Feb	1,310k	1,309k
03/16/2023 16:30	Building Permits	Feb	1,350k	1,339k
03/16/2023 16:30	Philadelphia Fed Business Outlook	Mar	-16.6	-24.3
03/17/2023 17:15	**Industrial Production MoM**	**Feb**	**0.50%**	**0.00%**
03/17/2023 17:15	Capacity Utilization	Feb	78.50%	78.30%
03/17/2023 18:00	**U. of Mich. Sentiment**	**Mar P**	**67**	**67**
03/17/2023 18:00	U. of Mich. Current Conditions	Mar P	--	70.7
03/17/2023 18:00	**U. of Mich. 1 Yr Inflation**	**Mar P**	**--**	**4.10%**
03/17/2023 18:00	**U. of Mich. 5-10 Yr Inflation**	**Mar P**	**--**	**2.90%**

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
03/16/2023 03:50	Trade Balance	Feb	-¥1,235.3b	-¥3,496.6b
03/16/2023 03:50	**Trade Balance Adjusted**	**Feb**	**-¥1,427.2b**	**-¥1,821.3b**
03/16/2023 03:50	**Exports YoY**	**Feb**	**6.90%**	**3.50%**
03/16/2023 03:50	**Imports YoY**	**Feb**	**13.00%**	**17.80%**
03/16/2023 03:50	Core Machine Orders MoM	Jan	1.50%	1.60%
03/16/2023 08:30	**Industrial Production MoM**	**Jan F**	**--**	**-4.60%**
03/16/2023 08:30	Capacity Utilization MoM	Jan	--	-1.10%
03/17/2023 08:30	Tertiary Industry Index MoM	Jan	0.50%	-0.40%

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
03/11/2023 11:00	**Germany Wholesale Price Index YoY**	**Feb**	**--**	**10.60%**
03/15/2023	Germany Current Account Balance	Jan	--	24.3b
03/15/2023 11:45	France CPI YoY	Feb F	--	6.20%
03/15/2023 14:00	**Eurozone Industrial Production WDA YoY**	**Jan**	**--**	**-1.70%**
03/16/2023 17:15	**Eurozone ECB Main Refinancing Rate**	**16-Mar**	**--**	**3.00%**
03/16/2023 17:15	**Eurozone ECB Marginal Lending Facility**	**16-Mar**	**--**	**3.25%**
03/16/2023 17:15	**Eurozone ECB Deposit Facility Rate**	**16-Mar**	**--**	**2.50%**
03/17/2023 14:00	**Eurozone CPI YoY**	**Feb F**	**--**	**8.60%**
03/17/2023 14:00	Eurozone CPI Core YoY	Feb F	--	5.60%

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
03/14/2023 11:00	**Jobless Claims Change**	**Feb**	**--**	**-12.9k**
03/14/2023 11:00	Average Weekly Earnings 3M/YoY	Jan	--	5.90%
03/14/2023 11:00	**ILO Unemployment Rate 3Mths**	**Jan**	**--**	**3.70%**
03/15/23	UK Chancellor Presents Spring Budget to Parliament			
03/17/2023 13:30	**BoE/Ipsos Inflation Next 12 Mths**	**Feb**	**--**	**4.80%**

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
03/13/2023 16:00	**India CPI YoY**	**Feb**	**6.40%**	**6.52%**
03/14/2023 10:30	**India Wholesale Prices YoY**	**Feb**	**4.00%**	**4.73%**
03/15/2023 05:20	**China 1-Yr Medium-Term Lending Facility Rate**	**15-Mar**	**2.75%**	**2.75%**
03/15/2023 15:30	India Exports YoY	Feb	--	-6.60%
03/15/2023 15:30	India Imports YoY	Feb	--	-3.60%
03/15/2023 06:00	**China Industrial Production YTD YoY**	**Feb**	**2.60%**	**3.60%**
03/15/2023 06:00	**China Retail Sales YTD YoY**	**Feb**	**3.50%**	**-0.20%**
03/15/2023 06:00	**China Fixed Assets Ex Rural YTD YoY**	**Feb**	**4.50%**	**5.10%**
03/15/2023 06:00	China Surveyed Jobless Rate	Feb	5.30%	5.50%
03/15/2023	India Trade Balance	Feb	-$18,000.0m	-$17,750.0m
03/15/23-03/31/23	**BoP Current Account Balance**	**4Q**	**-$23.00b**	**-$36.40b**
03/16/2023 05:30	China New Home Prices MoM	Feb	--	0.00%

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