The Weekly Market View

November 28 2022

ADCB
ASSET MANAGEMENT LIMITED

Staying strong

A range of macro, micro, policy, political, and geopolitical headwinds have caused acute weakness in financial markets this year. Uncertainty around macro outcomes caused concerns of systemic risks which in turn increased cross-asset correlations causing most assets to fall together. However, as we have been arguing recently (for instance in our Quarterly Investment View, October 2022), while other risks are likely to simmer in the background, financial market fortunes are largely tied to prospects of a central bank 'pivot'. Last week got some evidence that the central bank policy could turn less hawkish soon. Minutes of early-November FOMC policy meeting, which were released last week, pointed out that a "substantial majority of participants" thought that slowing the pace of hikes would be appropriate. This was also inline with some of the communications from the Fed speakers over the past week. November flash PMIs (Purchasing Manager Indices) showed weakening economic momentum and easing inflation pressures – both conducive to an eventual central bank pivot. Elsewhere, China's central bank cut the amount of cash lenders must hold in reserve (RRR) for the second time this year to help the economy racked by surging COVID cases and a continued property downturn. Responding to these data and developments, USD hit the lowest level since mid-August. Yields on 10Y USTs fell during the week. However, yields of longer-maturity Treasury debt decreased more than shorter maturities, leading to a further inversion of the yield curve. Global equities rose strongly over the past week. Since hitting a local trough in mid-October, MSCI ACWI is up c14% in USD terms. Last week saw DM outperform EM. Within DM, UK and Japan outperformed in USD terms while US underperformed. In the commodity space, oil prices fell sharply over the past week as demand concerns from China and uncertainty on Russian oil price cap weighed. OPEC+ is scheduled to meet on December 4. Gold and platinum prices ended the week marginally lower while silver prices rose helped by weaker USD and lower UST yields. Industrial metal prices fell on rising concerns about China demand.

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When stagflation is a consensus view

The macro scenario of stagflation defined as below-trend growth and above-trend inflation has become a consensus view amongst market participants. Portfolio positioning appears to be extremely cautious with significant overweight in cash and substantial underweight in equities and bonds (BofA Survey Shows Stagflation Fears With No Fed Pivot in Sight, Bloomberg, November 15 2022). The macro view of stagflation and the cautious positioning are consistent with each other. But we challenge this consensus view for 2023 on two distinct levels. First on the macro scenario, our regular readers should be aware that we have been working with the thesis that global economy is likely to experience an asynchronous mid-cycle slowdown rather than an outright recession or stagflation. The Eurozone and UK might continue to experience acute economic headwinds, but global economic stagflation is at best our low-probability worst-case scenario. Of course, inflation has been a wildcard, but we do expect it to normalize rapidly over the next 12 months. Against this macro backdrop, the question is whether central banks will be able to pivot towards a more accommodative monetary policy. We are of the opinion that, should inflation start to cool, there is little incentive for the central banks to keep their policy tight for exceedingly long, especially when growth slowdown risks remain significant. It is the interplay of growth, inflation, and interest rate policy that would define the trajectory of this cycle and guide the portfolio positioning. This brings us to the second point of our counter-consensus view on portfolio positioning itself. The current consensus positioning of overweight cash and underweight equities and bonds might have worked well in 2022, but this may not be the appropriate strategy for 2023. The macro scenario of stagflation and cautious portfolio positioning are a crowded trade already. Conventional wisdom is that there tends to be little value in positioning in line with an already strong consensus. Contrarian investors might be able to find favourable asymmetry. In terms of our asset allocation, through 2022, we have been underweight bonds, overweight cash, and neutral equities and alternatives. However, given the recent strong consensus, we might turn contrarian very soon.

Global markets' performance snapshot*

Index Snapshot (World Indices)*

Index	Latest	Weekly %	YTD %
S&P 500	4,026	1.5	-15.5
Dow Jones	34,347	1.8	-5.5
Nasdaq	11,226	0.7	-28.2
DAX	14,541	0.8	-8.5
Nikkei 225	28,283	1.4	-1.8
FTSE 100	7,487	1.4	1.4
Sensex	62,294	1.0	6.9
Hang Seng	17,574	-2.3	-24.9
Regional Markets			
ADX	10,528	0.6	24.0
DFM	3,305	-1.4	3.4
Tadawul**	10,939	-1.0	-3.5
DSM**	11,867	-2.0	2.1
MSM30**	4,555	1.6	9.9
BHSE**	1,863	0.1	3.7
KWSE**	7,587	-0.1	7.7
MSCI			
MSCI World	2,704	1.7	-16.3
MSCI EM	941	-0.2	-23.6

Global Commodities, Currencies and Rates*

Commodity	Latest	Weekly %	YTD %
Brent USD/bbl	83.6	-4.6	7.5
WTI USD/bbl	76.3	-4.8	1.4
Gold USD/t oz	1,749.7	-0.3	-4.0
Silver USD/t oz	21.4	1.5	-8.2
Platinum USD/t oz	979.0	-0.7	2.1
Copper USD/MT	7,975.0	-0.8	-18.1
Alluminium	2,329.6	-3.2	-17.0
Currencies			
EUR USD	1.04	0.7	-8.6
GBP USD	1.21	1.7	-10.6
USD JPY	139.12	-0.9	20.9
USD CHF	0.95	-1.0	3.6
Rates	**Latest**	**Weekly (bp)**	**YTD (bp)**
USD Libor 3m	4.74	7.1	452.7
USD Libor 12m	5.56	5.1	497.7
UAE Eibor 3m	4.45	1.8	408.3
UAE Eibor 12m	4.98	-0.2	424.3
US 3m Bills	4.22	7.0	416.0
US 10yr Treasury	3.71	-12.0	221.0

Notes: *Data as of November 25 2022 unless stated otherwise; **Data as of November 24 2022.

Summary market outlook

Global Yields	Yields on 10Y USTs fell during the week as signs of economic weakness emerged in the form of weaker PMIs. Yields of longer-maturity Treasury debt decreased more than shorter maturities, leading to a further inversion of the yield curve. Signs of weakening economic momentum and easing inflation helped German government bond yields remain below 2%. In the UK, 10Y bond yields steadied around 3% as expectations of smaller rate hikes were broadly offset by concerns about record issuance. Yields on 10Y JGBs rose marginally over the week. Bond yields and prices are inversely correlated. i.e. yields rise when prices fall and vice versa. Overall, we recommend adding duration on USTs (7-10Y segment) as growth slowdown/recession fears rise.
Stress and Risk Indicators	VIX (a measure of implied equity volatility) fell sharply over the past week. MOVE index (a measure of volatility in bonds) remained unchanged. VVIX (a measure of volatility in the VIX) and SKEW index (a measure of tail risks) rose marginally. We expect financial market volatility to stay elevated as the monetary policy normalizes.
Equity Markets	
Local Equity Markets	MSCI GCC index posted losses and underperformed its emerging and global equity benchmarks as oil prices fell sharply over the week. Within the region, Qatar, Dubai and Saudi stocks posted losses while Abu Dhabi stocks gained. 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 markets.
Global Equity Markets	Global equities rose strongly over the past week. Since hitting a local trough in mid-October, MSCI ACWI is up c14% in USD terms. Last week saw DM outperform EM. Within DM, UK and Japan outperformed in USD terms while US underperformed (albeit posting gains). All 11 global GICS sectors posted gains during the past week – with utilities and materials outperforming the most and consumer discretionary and communication services underperforming. We are moderately overweight US, UK, and Asia Pacific; underweight Eurozone and EMs outside Asia. By sector we prefer healthcare, industrials, and communication services. 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 rose a modest 0.7% while HK tech index fell c6.4%. Within the technology sector, we prefer non-cyclical growth over cyclical growth (tech hardware, semiconductors etc.) over a 12-month horizon.
Commodities	
Precious Metals	Gold and platinum prices ended the week marginally lower while silver prices rose helped by weaker USD and lower UST yields. We are overweight gold as a hedge against potential inflation, growth, and geopolitical risks.
Energy	Oil prices fell sharply over the past week as demand concerns from China and uncertainty on Russian oil price cap weighed. OPEC+ is scheduled to meet on December 4. 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 despite the USD weakness as concerns about China demand increased. Another commodity super-cycle is difficult, yet demand for commodities linked to “green infrastructure” is likely to sustain.
Currencies	
EURUSD	Weaker USD pushed EURUSD to its highest level since early-July on Thursday. We expect ECB policy divergence and growth differentials to play a major role in the performance of the euro.
Critical levels	R2 1.0429 · R1 1.0393 · S1 1.0331 · S2 1.0305
GBPUSD	Firming expectations that BoE will remain stubborn in its fight against inflation caused GBPUSD to the rise to its strongest position since mid-August. We expect GBP to weaken against USD and stay flat versus the EUR.
Critical levels	R2 1.2115 · R1 1.2083 · S1 1.2022 · S2 1.1993
USDJPY	USDJPY fell to the weakest level since end-August on broader weakness in the greenback. Tokyo core-CPI rose more than expected to a 40-year high. BoJ policy remains odd-one out and is likely to keep JPY under pressure.
Critical levels	R2 139.91 · R1 139.21 · S1 138.08 · S2 137.65

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Forthcoming important economic data/events

United States

Date & Time (GST)	Indicator	Period	Expected	Prior
11/28/22 19:30	Dallas Fed Manf. Activity	Nov	-22.0	-19.4
11/29/22 18:00	FHFA House Price Index MoM	Sep	-1.30%	-0.70%
11/29/22 19:00	**Conf. Board Consumer Confidence**	**Nov**	**99.9**	**102.5**
11/30/22 16:00	MBA Mortgage Applications	25- Nov	--	2.20%
11/30/22 17:30	Wholesale Inventories MoM	Oct P	0.50%	0.60%
11/30/22 17:30	**GDP Annualized QoQ**	**3Q S**	**2.80%**	**2.60%**
11/30/22 19:00	Pending Home Sales NSA YoY	Oct	--	-30.40%
11/30/22 19:00	JOLTS Job Openings	Oct	10,350K	10,717K
12/01/22 17:30	**Personal Income**	**Oct**	**0.40%**	**0.40%**
12/01/22 17:30	**Personal Spending**	**Oct**	**0.80%**	**0.60%**
12/01/22 17:30	**PCE Deflator YoY**	**Oct**	**6.00%**	**6.20%**
12/01/22 17:30	**PCE Core Deflator YoY**	**Oct**	**5.00%**	**5.10%**
12/01/22 17:30	**Initial Jobless Claims**	**26- Nov**	**--**	**240K**
12/01/22 17:30	Continuing Claims	19- Nov	--	1,551K
12/01/22 18:45	**S&P Global US Manufacturing PMI**	**Nov F**	**47.6**	**47.6**
12/01/22 19:00	**ISM Manufacturing**	**Nov**	**49.8**	**50.2**
12/02/22 17:30	Change in Nonfarm Payrolls	Nov	200K	261K
12/02/22 17:30	**Unemployment Rate**	**Nov**	**3.70%**	**3.70%**
12/02/22 17:30	**Average Hourly Earnings YoY**	**Nov**	**4.60%**	**4.70%**
12/02/22 17:30	**Labor Force Participation Rate**	**Nov**	**62.30%**	**62.20%**

Japan

Date & Time (GST)	Indicator	Period	Expected	Prior
11/29/22 03:30	**Jobless Rate**	**Oct**	**2.50%**	**2.60%**
11/29/22 03:50	**Retail Sales YoY**	**Oct**	**5.10%**	**4.50%**
11/30/22 03:50	**Industrial Production MoM**	**Oct P**	**-1.80%**	**-1.70%**
11/30/22 09:00	Housing Starts YoY	Oct	-1.00%	1.00%
11/30/22 09:00	Annualized Housing Starts	Oct	0.866m	0.857m
12/01/22 04:30	**Jibun Bank Japan PMI Mfg**	**Nov F**	**--**	**49.4**
12/01/22 09:00	Vehicle Sales YoY	Nov	--	19.70%
12/02/22 03:50	Monetary Base YoY	Nov	--	-6.90%

Eurozone

Date & Time (GST)	Indicator	Period	Expected	Prior
11/27/22 12/02	**Germany Retail Sales MoM**	**Oct**	**-0.60%**	**0.90%**
11/29/22 14:00	Eurozone Economic Confidence	Nov	93.0	92.5
11/29/22 14:00	**Eurozone Consumer Confidence**	**Nov F**	**--**	**-23.9**
11/29/22 17:00	**Germany CPI YoY**	**Nov P**	**10.40%**	**10.40%**
11/30/22 11:45	**France CPI YoY**	**Nov P**	**6.10%**	**6.20%**
11/30/22 11:45	France PPI YoY	Oct	--	28.50%
11/30/22 14:00	**Eurozone CPI YoY**	**Nov**	**10.40%**	**10.70%**
11/30/22 14:00	**Eurozone CPI Core YoY**	**Nov**	**5.00%**	**5.00%**
12/01/22 12:50	**France S&P Global Manufacturing PMI**	**Nov F**	**49.1**	**49.1**
12/01/22 12:55	**Germany S&P Global/BME Manufacturing PMI**	**Nov F**	**46.7**	**46.7**
12/01/22 13:00	**Eurozone S&P Global Manufacturing PMI**	**Nov F**	**47.3**	**47.3**

United Kingdom

Date & Time (GST)	Indicator	Period	Expected	Prior
11/28/22 12/03	**Nationwide House Px NSA YoY**	**Nov**	**5.80%**	**7.20%**
11/29/22 13:30	Net Consumer Credit	Oct	0.9b	0.7b
11/29/22 13:30	Mortgage Approvals	Oct	60.0K	66.8K
11/30/22 04:01	BRC Shop Price Index YoY	Nov	--	6.60%
12/01/22 13:30	**S&P Global/CIPS UK Manufacturing PMI**	**Nov F**	**46.2**	**46.2**

China and India

Date & Time (GST)	Indicator	Period	Expected	Prior
11/30/22 05:30	**China Manufacturing PMI**	**Nov**	**49.0**	**49.2**
11/30/22 05:30	China Non-manufacturing PMI	Nov	48.0	48.7
11/30/22 16:00	**India GDP YoY**	**3Q**	**6.20%**	**13.50%**
12/01/22 05:45	**China Caixin PMI Mfg**	**Nov**	**48.9**	**49.2**
12/01/22 09:00	**India S&P Global PMI Mfg**	**Nov**	**--**	**55.3**

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