بنك أبوظبي التجاري ADCB

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

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

Visit Investment Strategy Webpage to read our other reports

Flat equity markets amidst rising US yields and corporate earnings deluge

The majority of the equity markets were mostly flat last week as markets digested a week full of corporate earnings releases, key economic releases and central bank meetings. US equities had a sluggish week beginning with the 10-year US treasury yields breaching the 3% level and followed with concerns on corporate profitability peaking. These concerns rose after the Caterpillar- industrial equipment giant, in spite of positive earnings results, cautioned that they may have reached "high-water mark for the year". The fears were further aggravated by stronger private wages data spurring the possibility of a more aggressive Fed path. The dollar rebound gained momentum for another week, boosted by the stronger economic data coming out of the US and relatively dovish stance advocated by other developed market central banks. The ECB maintained its dovish bias, acknowledging the softness in economic data, thus pushing the euro lower versus the dollar. Similarly, a disappointing UK 1Q GDP result led to the unwinding of the BoE rate hike priced in for May while the BoJ also struck a dovish tone at the MPC meeting. As a result, the FTSE 100, Nikkei and European stocks outperformed the most, registering positive gains with their respective currencies weakening. The 10-year US Treasury yield breached the 3% level in the beginning of the week, but settled lower at 2.96% after the moderation in the GDP data and lower bund yields. Elsewhere, oil continued to have a positive week as rising risk of US sanctions on Iran posed threats on the supply.

Core PCE, FOMC and labour market data to be the focus

We believe that the recent fears over corporate profitability peaking along with the likelihood of an aggressive Fed path are overblown. Corporate earnings in the first quarter have so far been better than expected. Based on Factset data, the largest US companies are on track to register earnings growth of 23.2% from a year ago, with more than 50% of the S&P 500 companies having reported earnings till now. Separately, private wages posting the largest rise in 11 months only implies that inflation is rising and moving closer to the Fed's long-term inflation goal. Market-implied inflation expectations after the employment cost index report were mostly unchanged which also explains that equity market concerns of higher inflation and aggressive Fed rate hike path may be exaggerated. At the same time, the 10-year US treasury yields are unlikely to remain above 3% as it will only breach the Fed's indicated long-term median target rate (unlikely to be revised upwards). Equity markets are expected to stabilize this week with more corporate earnings scheduled to be released. We do not expect a major rally as the week will be heavy with Core PCE, FOMC meeting and labor market releases. Any upward surprise in core PCE and labor market data could weigh particularly on US Treasuries and increase the probability of Fed rate hikes this year. FOMC meeting will always be closely watched and all attention will be on the policy statement if it signals any change in the central bank's tone on the inflation outlook.

Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,669.9	-0.0	-0.1
Dow Jones	24,311.2	-0.6	-1.7
Nasdaq	7,119.8	-0.4	3.1
DAX	12,580.9	0.3	-2.6
Nikkei 225	22,467.9	1.4	-1.3
FTSE 100	7,502.2	1.8	-2.4
Sensex	34,969.7	1.6	2.7
Hang Seng	30280.7	-0.5	1.2
Regional Markets (Sunday to Thursday)			
ADX	4697.2	0.3	6.8
DFM	3042.8	-1.2	-9.7
Tadawul	8248.5	-0.1	14.1
DSM	9088.0	-0.7	6.6
MSM30	4722.46	-0.8	-7.4
BHSE	1263.1	-2.9	-5.2
KWSE	-	-	-
MSCI			
MSCI World	2,096.0	-0.2	-0.4
MSCI EM	1,156.3	-1.0	-0.2

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	74.6	0.8	11.6
Nymex WTI USD/bbl	68.1	-0.4	12.7
Gold USD/t oz	1324.0	-0.9	1.6
Silver USD/t oz	16.5	-3.6	-2.5
Platinum USD/t oz	915.3	-1.2	-1.4
Copper USD/MT	6797.0	-2.0	-5.0
Alluminium	2227	-10.4	-1.4
Currencies			
EUR USD	1.2130	-1.3	1.0
GBP USD	1.3781	-1.6	2.0
USD JPY	109.05	1.3	-3.3
CHF USD	0.9877	1.3	-1.4
Rates			
USD Libor 3m	2.3581	-0.1	39.2
USD Libor 12m	2.7803	0.7	32.0
UAE Eibor 3m	2.5388	3.1	41.4
UAE Eibor 12m	3.1500	2.4	22.2
US 3m Bills	1.8023	0.1	31.0
US 10yr Treasury	2.9568	-0.1	22.9

Please refer to the disclaimer at the end of this publication

Summary market outlook

Bonds	
Global Yields	Long-end US Treasury yields ended the week at 2.96% after breaching the 3% level early last week. Yield curve flattened further as rate hike expectations rose post the robust private wages data. Overall, we expect 10-year yield to consolidate below 3% as further uptick in yields will only trigger a buying opportunity for long-duration fixed income investors.
Stress and Risk Indicators	The VIX index was mostly unchanged as investors still remained a bit cautious. Volatility is unlikely to decline significantly given the backdrop of markets' fear of central bank policy normalization and geopolitical concerns.
Equity Markets	
Local Equity Markets	GCC markets were mixed amidst the corporate earnings season. We remain neutral on GCC equities given the potential for further dollar strength and range-bound oil prices. We maintain our tactical call on Saudi equities on the back of their inclusion onto the MSCI watch list for potential promotion into the MSCI Emerging Markets index.
Global Equity Markets	Global equities had a mixed week and muted response to the strong corporate earnings results. US equities ended the week flat as fears over profitability peaking gripped the markets. However, European and Japanese markets outperformed. FTSE 100 was the best performer, driven by pound weakness while yen depreciation boosted rally in Japanese stocks. European markets also benefitted from the dovish ECB bias. Overall, strong economic fundamentals along with robust corporate earnings growth support our overweight stance on equities.
Commodities	
Precious Metals	Gold prices ended the week slightly lower on fears of inflation and more aggressive Fed. We remain overweight on gold as a risk hedge against ongoing political and (potential) inflationary risks.
Energy	Brent crude prices were higher on concerns of possible US sanctions on Iran impacting the supply. We expect oil to continue trading in the broad range seen over the past 12 months. A break out at the upper end will be challenging given US production will likely act as a ceiling on oil prices.
Industrial Metals	Industrial metals underperformed with a stronger dollar appetite. Longer-term we do not recommend industrial metals exposure due to concerns around Chinese growth prospects post the Party Congress.
Currencies	
EURUSD	The euro weakened versus the dollar as ECB struck a dovish tone. We expect the euro to remain range bound with a minor upward bias.
Critical levels	R2 1.2183 · R1 1.2157 · S1 1.2080 · S2 1.2029
GBPUSD	The pound depreciated versus the dollar as disappointing GDP data further lowered market expectation of a BoE rate hike in May. We expect sterling to remain under pressure due to political uncertainty, economic weakness and Brexit negotiations.
Critical levels	R2 1.4015 · R1 1.3898 · S1 1.3706 · S2 1.3631
USDJPY	The yen fell versus the dollar with the BoJ maintaining its dovish stance. We believe there will remain a bias for yen weakness given divergent monetary policies between Japan and the US.
Critical levels	R2 109.75 · R1 109.40 · S1 108.84 · S2 108.63

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

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
04/30/2018	Core PCE YoY	Mar	1.90%	1.60%	Market attention will be on FOMC meeting, core PCE and labour market payroll data.
05/02/2018	FOMC meeting	2-May	No change	55.6	
05/03/2018	Initial Jobless Claims	28-Apr	224K	209K	
05/03/2018	Trade Balance	Mar	-$50.0b	-$57.6b	
05/03/2018	Durable Goods Orders	Mar F	--	2.60%	
05/03/2018	Factory Orders	Mar	1.40%	1.20%	
05/04/2018	Change in Nonfarm Payrolls	Apr	195K	103K	
05/04/2018	Unemployment Rate	Apr	4.00%	4.10%	
05/04/2018	Average Hourly Earnings YoY	Apr	2.70%	2.70%	
05/04/2018	Labor Force Participation Rate	Apr	--	62.90%	

Japan

	Indicator	Period	Expected	Prior	Comments
05/01/2018	Nikkei PMI Mfg	Apr F	--	53.3	Focus will be on Japan PMI Mfg.
05/02/2018	Consumer Confidence Index	Apr	44.5	44.3	

Eurozone

	Indicator	Period	Expected	Prior	Comments
04/30/2018	CPI YoY (GE)	Apr P	1.50%	1.60%	GDP and retail sales will be important for this week.
05/02/2018	GDP SA QoQ	1Q A	0.40%	0.60%	
05/03/2018	PPI YoY	Mar	2.10%	1.60%	
05/04/2018	Trade Balance	Mar	-5000m	-5186m	
05/04/2018	Retail Sales YoY	Mar	1.90%	1.80%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
05/01/2018	Mortgage Approvals	Mar	63.0K	63.9K	The main focus will be on Markit PMI.
05/01/2018	Markit PMI Manufacturing SA	Apr	54.8	55.1	

China and India

	Indicator	Period	Expected	Prior	Comments
04/30/2018	Manufacturing PMI (CH)	Apr	51.3	51.5	All eyes will be in China Manufacturing PMI and Caixin PMI Mfg. In India Nikkei PMI Mfg will be important.
05/02/2018	Caixin PMI Mfg (CH)	Apr	50.9	51	
05/02/2018	Nikkei PMI Mfg (IN)	Apr	--	51	

Sources

All information in this report has been obtained from the following sources except where indicated otherwise:

1. Bloomberg
2. Wall Street Journal
3. RTTNews
4. Reuters
5. Gulfbase
6. Zawya

Disclaimer

*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 Abu Dhabi Commercial Bank PJSC ("**ADCB**") to enter into any transaction.*

The content of this publication should not be considered 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.

Information contained herein is based on various sources, including but not limited to public information, annual reports and statistical data that ADCB considers accurate and reliable. However, ADCB 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 qualified customers of ADCB.

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. ADCB expressly disclaims any obligation to update or revise any forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

ADCB 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 the foregoing services may at time give rise to a conflict of interest that could affect the objectivity of this publication.

Past performance does not guarantee future results. Investment products are not bank deposits and are not guaranteed by ADCB. They are subject to investment risks, including possible loss of principal amount invested. Please refer to ADCB's Terms and Conditions for Investment Services.

This publication is being furnished to you solely for your information and neither it nor any part of it may be used, forwarded, disclosed, distributed or delivered to anyone else. You may not copy, reproduce, display, modify or create derivative works from any data or information contained in this publication.