Despite a strong Q2 earnings season, equities remain in a holding pattern

Equities fell last week as volatility spiked on the back of rising geopolitical tension. Demand for safe haven assets rose as reflected in the strength of the Japanese yen, Swiss franc, US Treasuries and precious metals. Perhaps preventing equities from falling further is the strong Q2 earnings season globally which follows on from a very strong Q1 numbers. In the US 90% of companies have reported with earnings up 9.8% y-o-y. Sector wise this has been driven mostly by the Tech, financials and energy sectors which together have contributed c70% of the market's earnings growth. Tech companies in particular have fared well as their earnings grew 17% y-o-y with 93% of companies in the sector beating expectations. The main tailwind has been the weaker US dollar. Among all US sectors, tech derives the largest share of its revenues from overseas (58%). Energy companies have also seen strong earnings growth although this has mostly to do with base effects following the slump in global oil prices in 2016. Financials too have performed strongly, boosted by deregulation prospects and hopes of a pick-up in economic growth and steeper yield curve.

A similarly positive picture can be seen for corporate earnings in the Eurozone, albeit the strength in the euro is beginning to impact sales growth. While earnings among the major Eurozone corporate rose 19.1% y-o-y in Q2 (so far), sales growth has risen just 5.5%. Along with Emerging Markets, Eurozone equities are most highly geared to the strength of the global economy. Given the export oriented nature of Eurozone corporates (which derive 50% of the revenues from overseas vs. 31% for US) a strong euro will make Eurozone products and services relatively more expensive.

*Overall, despite a second consecutive strong corporate reporting season, equities are not being rewarded for this in their share price performance. This fits in with our view articulated in a note from 1st June **(link)** in which we argued that equities will remain range bound during the seasonally weaker summer months. Since we published two and a half months ago, global equities have risen 1.1% and have never been down more than 0.7%. We continue to believe that equities will hold up, helped by strong and synchronized global growth and strong corporate earnings. However, expensive valuations, lower summer volumes and already very strong y-t-d performance suggests further upside will likely only materialise later in the year.*

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,441.3	-1.4	9.0
Dow Jones	21,858.3	-1.1	10.6
Nasdaq	6,256.6	-1.5	16.2
DAX	12,014.1	-2.3	4.6
Nikkei 225	19,729.7	-1.1	3.2
FTSE 100	7,310.0	-2.7	2.3
Sensex	31,213.6	-3.4	17.2
Hang Seng	26883.5	-2.5	22.2
Regional Markets (Sunday to Thursday)			
ADX	4563.0	-1.0	0.4
DFM	3641.6	-0.8	3.1
Tadawul	7164.6	1.1	-0.6
DSM	9242.8	-1.7	-11.4
MSM30	4991.51	-1.3	-13.7
BHSE	1324.3	0.1	8.5
KWSE	6845.0	0.3	19.1
MSCI			
MSCI World	1,937.7	-1.5	10.7
MSCI EM	1,042.8	-2.3	20.9

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	52.1	-0.6	-8.3
Nymex WTI USD/bbl	48.8	-1.5	-9.1
Gold USD/t oz	1289.3	2.4	12.4
Silver USD/t oz	17.1	5.2	7.5
Platinum USD/t oz	985.0	2.2	9.1
Copper USD/MT	6353.5	0.4	15.5
Alluminium	2038.25	7.7	20.3
Currencies			
EUR USD	1.1821	0.4	12.4
GBP USD	1.3014	-0.2	5.5
USD JPY	109.19	-1.4	-7.1
CHF USD	0.9618	-1.1	5.9
Rates			
USD Libor 3m	1.3150	0.2	31.8
USD Libor 12m	1.7246	0.1	2.3
UAE Eibor 3m	1.5270	-0.0	3.5
UAE Eibor 12m	2.1333	0.0	1.8
US 3m Bills	1.0316	-3.6	107.4
US 10yr Treasury	2.1888	-3.2	-10.5

Please refer to the disclaimer at the end of this publication

Summary market outlook

Bonds	
Global Yields	US Treasury yields declined to a one month low, boosted by safe haven demand and a lower than expected CPI print. Market concerns around sluggish inflation led to a sizeable drop in the December rate hike expectations. Overall, we expect Treasury yields to remain range bound unless there is a sharp jump in inflation/inflation expectations.
Stress and Risk Indicators	The VIX jumped to the highest level (intraday basis) since the November US election amidst rising US-North Korea tensions. Given the ongoing global political uncertainty, the current levels appear justified.
Equity Markets	
Local Equity Markets	GCC equity markets ended the week on a mixed note with weakness in oil prices weighing on the markets. Overall, 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 fell amidst rising geopolitical tension with the S&P500 retracing from its all-time highs. However, European markets were more negatively impacted with the FTSE 100 underperforming the most. Emerging markets, particularly Asian markets were also hit by the risk-off mood. We believe sentiment in equity markets is less likely to be driven by political uncertainty and more by the central bank rhetoric and economic data. At the same time, with most of the equity markets still trading near record highs, further consolidation is expected to take place in the near-term.
Commodities	
Precious Metals	Gold prices jumped to a two month high, benefiting from the risk-off sentiment. We stick to our overweight recommendation on gold as a risk hedge against ongoing political and potential for inflationary risks.
Energy	Energy prices remained volatile, weighed by reports of rising oil production. The IEA also indicated that some OPEC countries' commitment to the previously agreed supply cuts may waning. At the same time the agency lowered its average demand estimate for next year. While, we expect some upward normalization to take place, moderately rising US production is still likely to act as a ceiling on oil prices.
Industrial Metals	Industrial metals also rallied, tracking the rise in gold prices and weak dollar demand. We do not recommend industrial metals exposure due to ongoing concerns around Chinese demand.
Currencies	
EURUSD	The euro strengthened versus the dollar as weak US CPI release weighed on dollar demand. On a long term basis, we expect the euro to weaken given the divergence in central bank policies in Europe versus the US
Critical levels	R2 1.1843 · R1 1.1833 · S1 1.1810 · S2 1.1797
GBPUSD	The pound weakened versus the dollar on the back of disappointing economic data. We expect sterling to remain under pressure due to political uncertainty and Brexit negotiations.
Critical levels	R2 1.3039 · R1 1.3020 · S1 1.2984 · S2 1.2968
USDJPY	The yen appreciated versus the dollar, buoyed by risk off sentiment. However, bias for yen weakness remains given the potential for dollar strength.
Critical levels	R2 109.29 · R1 109.23 · S1 109.06 · S2 108.94

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
8/15/2017	Retail Sales Advance MoM	Jul	0.40%	-0.20%	All eyes will be on the FOMC meeting minutes. Markets will look for details on Fed's plans of balance sheet reduction.
8/15/2017	NAHB Housing Market Index	Aug	64	64	
8/16/2017	Housing Starts MoM	Jul	0.40%	8.30%	
8/16/2017	FOMC Meeting Minutes	26-Jul			
8/17/2017	Capacity Utilization	Jul	76.7%	76.6%	
8/18/2017	Univ. of Mich. Sentiment	Aug P	94	93.4	

Japan

	Indicator	Period	Expected	Prior	Comments
8/14/2017	GDP SA QoQ	2Q P	0.60%	0.30%	Focus will be the GDP print.
8/15/2017	Industrial Production YoY	Jun F	-	4.90%	
8/17/2017	Exports YoY	Jul	13.40%	9.70%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
8/16/2017	GDP SA YoY	2Q P	2.10%	2.10%	GDP and Inflation numbers will be important
8/17/2017	CPI YoY	Jul F	1.30%	1.30%	
8/17/2017	CPI Core YoY	Jul F	1.20%	1.20%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
8/15/2017	CPI YoY	Jul	2.70%	2.60%	Inflation and retail sales data will be closely watched.
8/15/2017	CPI Core YoY	Jul	2.50%	2.40%	
8/15/2017	House Price Index YoY	Jun	4.30%	4.70%	
8/17/2017	Retail Sales Inc Auto Fuel YoY	Jul	1.40%	2.90%	

China and India

	Indicator	Period	Expect	Prior	Comments
8/14/2017	Wholesale Prices YoY (IN)	Jul	2.00%	1.54%	Focus will be on China's July data and India WPI and CPI data
8/14/2017	CPI YoY (IN)	Jul	2.00%	1.54%	
8/14/2017	Industrial Production YoY (CH)	Jul	7.10%	7.60%	
This week	New Yuan Loans CNY (CH)	Jul	800bn	1540bn	
This week	Aggregate Financing CNY (CH)	Jul	1000bn	1780bn	

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

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