بنك أبوظبي التجاري ADCB

Dow tops 20,000 for first time

Risk assets rallied after several weeks of consolidation. All three major US equity indices (Dow, S&P and Nasdaq) set new record highs during the week. This came despite weaker than expected US Q4 GDP growth (1.9% annualized vs. 2.2% expected) and a series of executive orders by the new US president which could easily have caused concern among investors. The US dollar was volatile during the week, but in the end closed broadly flat against most major currencies, except for pound sterling which gained on the back of the UK's Supreme Court ruling that parliament must vote to initiate the triggering of Article 50. EM equities outpaced developed markets yet again, helped by stability in the US dollar and commodity prices. Japanese equities outperformed, boosted by a weaker yen and 2016 trade balance data which showed Japan posted its first trade surplus in six years.

Carrots and sticks

It has been a busy week for the new US president as he signed a series of executive orders and met with senior management of major manufacturing companies. The new president has clearly adopted a carrot and stick approach to managing corporate America promising "advantages" for companies producing in the US and threatening a "substantial border tax" for goods made abroad by US companies and imported back into the US. For the time being, investors continue to cherry pick from Mr Trump's actions and plans, choosing to ignore potentially damaging policies. Equity markets touching new highs in the week that US GDP growth disappointed suggests that the president's honeymoon period is intact. We too have said that while we are sceptical of the new administration's policy proposals, investors will likely continue giving them the benefit of the doubt. However, despite the optimism which prevailed last week, a near-term pull back should be expected in our view.

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,294.7	1.0	2.5
Dow Jones	20,093.8	1.3	1.7
Nasdaq	5,660.8	1.9	5.2
DAX	11,814.3	1.6	2.9
Nikkei 225	19,467.4	1.7	1.8
FTSE 100	7,184.5	-0.2	0.6
Sensex	27,882.5	3.1	4.7
Hang Seng	23360.8	2.1	6.2
Regional Markets (Sunday to Thursday)			
ADX	4624.2	-1.7	1.7
DFM	3701.5	0.3	4.8
Tadawul	7134.9	3.8	-1.0
DSM	10989.8	0.4	5.3
MSM30	5750.96	0.3	-0.5
BHSE	1300.1	4.9	6.5
KWSE	6852.3	6.5	19.2
MSCI			
MSCI World	1,803.4	1.2	3.0
MSCI EM	915.9	2.5	6.2

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	55.5	0.1	-2.3
Nymex WTI USD/bbl	53.2	1.4	-1.0
Gold USD/t oz	1191.2	-1.6	3.8
Silver USD/t oz	17.1	0.3	7.6
Platinum USD/t oz	985.6	0.8	9.1
Copper USD/MT	5847.0	2.5	6.3
Alluminium	1805.25	-2.1	6.6
Currencies			
EUR USD	1.0699	-0.0	1.7
GBP USD	1.2555	1.5	1.7
USD JPY	115.10	0.4	1.6
CHF USD	0.9993	-0.2	2.0
Rates			
USD Libor 3m	1.0390	-0.4	4.1
USD Libor 12m	1.7240	-0.5	2.3
UAE Eibor 3m	1.3860	1.7	-6.1
UAE Eibor 12m	2.0793	-0.2	-0.7
US 3m Bills	0.5076	2.0	2.1
US 10yr Treasury	2.4843	0.7	1.6

Please refer to the disclaimer at the end of this publication

Markets focussing on positive Trump policies

Uncertainty aplenty, but you wouldn't think it looking at equities

In his first days in office Mr Trump has already enacted some of his more controversial campaign pledges and there is still a "yuge" amount of uncertainty about what policies the new US administration will or won't implement in the coming 6 months. The type of diplomacy currently being employed by the US president could easily have unnerved investors, instead however, equity markets hit a new high in the US last week. The S&P 500 has now risen over 7% since Mr Trump's election and the trailing PE for the index has risen from 20x in November to 22x. The reason for the rally in stock markets is simple, it is down to expectations of pro-growth policy announcements as well as a republican congress. As Mohamed El-Erian writes; "politics can help change market and economic sentiment and, with that, set up a more enabling environment for growth". Of course at some point expectations and results need to be stacked up next to one another.

FOMC unlikely to turn more dovish just yet

The interaction between the new US administration and the Federal Reserve will be closely monitored. In this context, following a meeting on Wednesday the Federal Reserve will release its statement the following day. Investors will look for clues as to whether or not the central bank will stick to its projections of hiking 3 times this year. With the dollar surge having taken a breather since the turn of the year it seems unlikely that Mrs Yellen will already turn more dovish at this early stage in the year, despite the fact that Q4 GDP growth came in slightly below expectations.

Although we are sceptical that the Fed will deliver three hikes in 2017, it is likely that the members of the FOMC will want more time to assess the impact of Mr. Trumps policies on the real economy before changing their stance. A hold in the next few meetings is most likely in our view.

US earnings season update

The US political environment is not only impacting policy makers but it is also seeping into Q4 earnings releases, with many corporates referencing the new administration in their quarterly announcements. With around one-third of S&P 500 companies having reported, the Q4 2016 earnings season is in full swing. So far earnings have grown 4.4%, surprising by 2.5% (see sector by sector breakdown in the table). Unsurprisingly, financials have so far enjoyed the largest aggregate earnings beats, 5.1% better than expectations.

US dollar strength took another leg higher following the US presidential elections, therefore it is interesting to see how US corporates fared in Q4. The concern is that earnings growth significantly outstripped sales growth. This is unsustainable as it points to cost cutting being the main driver of earnings.

US Q4 earnings season surprises

Industry (ICB)	Reported			Earnings surprise			
				Pos	Inline	Neg	%
All Securities	**170**	**/**	**498**	**125**	**3**	**42**	**2.5%**
Oil & Gas	8	/	35	5	0	3	-53.2%
Basic Materials	7	/	18	5	0	2	2.2%
Industrials	38	/	80	27	1	10	2.9%
Consumer Goods	18	/	62	10	0	8	3.4%
Health Care	14	/	52	12	0	2	0.4%
Consumer Svs	19	/	72	14	1	4	1.7%
Telecoms	2	/	5	0	1	1	-1.8%
Utilities	2	/	29	1	0	1	2.7%
Financials	39	/	95	29	0	10	5.1%
Technology	23	/	49	22	0	1	4.1%

Source: Bloomberg

Indeed if Mr Trump follows through with his fiscal spending programme there would likely be further upward pressure on the US dollar which could weigh further on sales growth at a time when wages in the US are also rising.

An update on our UK and Japanese hedged equity calls

Last week delivered some impactful news affecting both of our currency hedged equity calls (on UK large caps and on Japan).

Firstly in the UK, the Supreme Court upheld the High Court's ruling that parliament must vote to initiate the triggering of Article 50. The Supreme Court also ruled that the devolved governments of Scotland, Wales and Northern Ireland need not be consulted on this. This outcome was sterling positive (and therefore UK equity market negative). Nevertheless, we stick to our hedged overweight recommendation on UK large caps as we expect sterling weakness to return as Brexit negotiations are almost certain to be complex and unclear.

In Japan, trade data for 2016 showed that the weak yen helped push Japan's trade balance into surplus for the first time in six years, boosted largely by auto sales. Japan posted a trade surplus of $60bn with the US and $36bn overall. A weak yen is the main driver for Japanese corporate earnings. We expect further yen weakness which will underpin the performance of Japanese equities.

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Summary market outlook

Bonds	
Global Yields	US Treasury yields backed up a bit on continued optimism about future growth prospects. Weaker than expected GDP print last Friday, however led to some consolidation. The upcoming US FOMC meeting will be the key driver of yields this week. A hawkish bias could push the yields higher, though upside is limited as markets continue to assess the impact of Trumps protectionist policies.
Stress and Risk Indicators	Positive momentum in the equity market and growth optimism fed into lower levels of VIX index. We argue against any sustained drop in volatility given the ongoing geopolitical risks.
Equity Markets	
Local Equity Markets	GCC equity markets ended the week higher, tracking global equity indices. Stable oil prices also proved supportive. KWSE was the best performing market for the second week in a row with the recent outperformance mainly driven by prospects of a new dollar bond issuance. Saudi market also posted gains, boosted by the introduction of new stock market reforms. Corporate earnings results and overall global sentiment will drive the local and regional markets this week.
Global Equity Markets	Global equities recorded a stellar performance last week, led by the US. US equities reached new record highs with the Dow Jones surpassing the 20,000 level, partly boosted by talks of infrastructure investments. The S&P 500 gained 1% as market participants processed key company earnings reports. FTSE 100 was the only underperformer, driven by pound strength. With markets trading at near record highs, a correction cannot be ruled out as Trump's trade protectionist policies could weigh on sentiment.

Commodities	
Precious Metals	Precious metals came under pressure as growth optimism improved risk appetite. However, ongoing geopolitical and economic risks appear unlikely to fade away soon. Hence, we stick to our overweight gold recommendation.
Energy	Oil ended the week flat, stabilising within the range of US54/bl-USD56/bbl. However, we express caution against any significant jump in oil prices given the continuous increase in US oil and gas rig counts.
Industrial Metals	Industrial metals performed well last week helped by US infrastructure investment plans. However, such outperformance is unlikely to sustain as weak China growth could weigh on metal prices.

Currencies								
EURUSD	The euro appreciated versus the dollar on decent economic data but ended the week flat. The currency is likely to move sideways ahead of the FOMC meeting this week.							
Critical levels	R2	1.0761	R1	1.0730	S1	1.0663	S2	1.0628
GBPUSD	The pound continued to strengthen versus the greenback on account of better than expected GDP print and the UK Supreme Court's ruling that parliament must vote on triggering Article 50. We, however have our doubts on any long term resilience as Brexit concerns will linger.							
Critical levels	R2	1.2648	R1	1.2602	S1	1.2513	S2	1.2470
USDJPY	Yen weakness versus the dollar extended in spite of strong Japanese exports print. We expect this trend to continue as the Bank of Japan is unlikely to signal any QE tapering in the near term.							
Critical levels	R2	115.94	R1	115.52	S1	114.54	S2	113.98

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
01/30/2017	Personal Spending	Dec	0.5%	0.2%	The FOMC meeting will be the key focus this week
01/30/2017	PCE Core YoY	Dec	1.7%	1.6%	
02/01/2017	ISM Manufacturing	Jan	55.0	54.5	
02/01/2017	FOMC Rate decision		No change		
02/03/2017	Change in Nonfarm Payrolls	Jan	175k	156k	
02/03/2017	Unemployment Rate	Jan	4.7%	4.7%	
02/03/2017	Average Hourly Earnings YoY	Jan	2.7%	2.9%	
02/03/2017	Markit US Composite PMI	Jan-F		55.4	

Japan

	Indicator	Period	Expected	Prior	Comments
01/30/2017	Retail Sales MoM	Dec	-0.5%	0.2%	The BoJ policy meeting is the main event, albeit no change is expected
01/31/2017	Jobless Rate	Dec	3.1%	3.1%	
01/31/2017	Industrial Production MoM	Dec P	0.3%	1.5%	
01/31/2017	BoJ Policy meeting		No change		

Eurozone

	Indicator	Period	Expected	Prior	Comments
01/31/2017	GDP SA QoQ	4Q A	0.4%	0.3%	Market focus will be on the GDP 4Q2016 print .
01/31/2017	CPI Estimate YoY	Jan	1.5%	1.1%	
02/01/2017	Markit Manufacturing PMI	Jan F	55.1	55.1	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
02/01/2017	Nationwide House YoY	Jan	4.3%	4.5%	Bank of England policy meeting will be closely watched
02/01/2017	Markit Manufacturing PMI	Jan	55.9	56.1	
02/02/2017	BoE Policy meeting		No change		

China and India

	Indicator	Period	Expected	Prior	Comments
02/01/2017	Manufacturing PMI (CH)	Jan	51.2	51.4	India's annual budget and annual GDP print will be the main highlight. Focus will also be on China and India PMI data
02/03/2017	Caixin Manufacturing PMI (CH)	Jan	51.8	51.9	
01/31/2017	GDP Annual Estimate YoY (IN)	2016		7.1%	
02/01/2017	Annual Budget (IN)				
02/01/2017	Nikkei India PMI Mfg (IN)	Jan		49.6	

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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