The Weekly Market View

March 27 2017

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Trump rally fizzling out…

*This week's edition is a brief summary of our **Investment strategy note** update sent out yesterday. Last week, the Republican Party failed to proceed with their much publicized health care reforms, this despite having control of congress. As expected markets reacted negatively to this news, raising doubts on Mr. Trump's administration's ability to proceed with other economic reforms. As a result, risk-off sentiment hit markets with US stocks edging lower from their record highs while the dollar weakened against most currencies. On the other hand, bond markets rallied and long-term US Treasury yields fell as investors re-priced the continuation of the reflation trade. Similarly, gold prices benefitted from the rise in safe-haven appetite as well as the softer dollar. Oil prices remained under pressure in spite of dollar weakness as US crude inventories rose for another week.*

…but not yet time to call an end to the "Trump reflation trade"

With the failure in pushing through health care reforms last week, it now seems that we could have the first dent in the investor optimism which pushed US equities to fresh record highs (and dragged other markets up too). The market will now question Mr Trump's ability to push through other reforms such as taxes and deregulation. It would be quite likely that the parts of the market which have run the furthest since Mr Trump's election to now see some profit taking. However, rather than calling an end to the "Trump reflation trade" we would view any pull-back in equities as a healthy and natural occurrence, especially considering the impressive returns not only since the US elections but since the February 2016 lows in global equities. Yes valuations are expensive, especially in the US which trade on a forward PE of 17.9x (vs. 10-year avg of 14.2x) and trailing PE of 22.4x (vs. 10-year avg of 17.3x). However, using valuation data as a guide to market inflection points is fraught with risk as markets can remain expensive for years. The overall equity environment remains conducive to positive equity performance (growth is decent, inflation is well-behaved and central banks are still accommodative). A near-term pull-back in equities should not alter these overarching drivers for the asset class in our view.

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,344.0	-1.4	4.7
Dow Jones	20,596.7	-1.5	4.2
Nasdaq	5,828.7	-1.2	8.3
DAX	12,064.3	-0.3	5.1
Nikkei 225	19,262.5	-1.3	0.8
FTSE 100	7,336.8	-1.2	2.7
Sensex	29,421.4	-0.8	10.5
Hang Seng	24358.3	0.2	10.7
Regional Markets (Sunday to Thursday)			
ADX	4495.3	1.6	-1.1
DFM	3461.4	-1.7	-2.0
Tadawul	6878.7	-0.6	-4.6
DSM	10445.2	0.8	0.1
MSM30	5635.08	-0.6	-2.6
BHSE	1375.5	0.1	12.7
KWSE	7043.5	3.4	22.5
MSCI			
MSCI World	1,845.8	-0.9	5.4
MSCI EM	969.1	0.4	12.4

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	50.8	-1.9	-10.6
Nymex WTI USD/bbl	48.0	-1.7	-10.7
Gold USD/t oz	1243.6	1.2	8.4
Silver USD/t oz	17.8	2.1	11.5
Platinum USD/t oz	964.7	-0.0	6.8
Copper USD/MT	5782.5	-1.8	5.1
Alluminium	1934.75	1.4	14.2
Currencies			
EUR USD	1.0798	0.6	2.7
GBP USD	1.2473	0.6	1.1
USD JPY	111.34	-1.2	5.0
CHF USD	0.9914	-0.7	2.8
Rates			
USD Libor 3m	1.1513	-0.0	15.4
USD Libor 12m	1.8029	-0.6	7.0
UAE Eibor 3m	1.4263	-0.8	-3.3
UAE Eibor 12m	2.1377	3.4	2.0
US 3m Bills	0.7618	4.9	53.2
US 10yr Treasury	2.4123	-3.5	-1.3

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Summary market outlook

Bonds	
Global Yields	Bond markets across the globe benefitted from the risk-off mood. Policy uncertainty resurfaced after the Republican party failed to implement health care reforms. The lack of fiscal policy clarity will continue to confound investors, we expect US Treasuries to remain range bound in the near term. In Europe, sovereign bonds rallied led by French bonds as market concerns over elections eased. We expect French-German spreads to remain under pressure in the run up to the French elections next month.
Stress and Risk Indicators	The VIX jumped to the highest levels seen this year amid doubts surrounding the “Trump reflation trade”. We continue to believe that current levels are too low given current geopolitical risks.
Equity Markets	
Local Equity Markets	GCC equity markets were mixed, mainly due to the decline in oil prices. We remain neutral on GCC equities given the potential for further dollar strength and limited upside in oil prices.
Global Equity Markets	Global equities ended the week lower, led by US stocks as the failure to repeal and replace Obamacare raised doubts about Mr Trump’s ability to deliver other economic reforms. FTSE 100 and Nikkei 225 also fell as the pound and yen both gained versus the dollar. While a pullback in the equity rally is likely, policy momentum will remain skewed towards a fiscal boost, proving a still favourable environment for the equity market.
Commodities	
Precious Metals	Gold prices rose last week as investors rushed to safe-haven assets with signs of Trump reflation trade fizzling out. We stick to gold as a risk hedge against ongoing political and inflationary risks.
Energy	Oil prices continued to slide with Brent Crude and WTI crude both dipping below the USD50bbl level. While the increased likelihood of OPEC cuts and recent dollar weakness should limit the downward pressure, we still argue against a sizeable upward move as rising US crude production will weigh on energy prices.
Industrial Metals	Industrial metals were mixed this week in spite of higher gold prices and a weak dollar. We expect this trend to continue given the ongoing concerns on China demand.
Currencies	
EURUSD	The euro strengthened against the greenback, boosted by dollar weakness and a strong PMI print. However, the euro is likely to remain under pressure due to the upcoming elections in key Eurozone countries.
Critical levels	R2 1.0850 · R1 1.0824 · S1 1.0767 · S2 1.0735
GBPUSD	Cable gained versus the dollar on the back of a higher than expected inflation print. However, this trend is not sustainable ahead of the official triggering of “Article 50” this week.
Critical levels	R2 1.2541 · R1 1.2507 · S1 1.2454 · S2 1.2435
USDJPY	The Japanese yen strengthened versus the dollar due to the decline in dollar demand. We expect the yen to weaken given the potential for dollar strength.
Critical levels	R2 112.00 · R1 111.67 · S1 110.82 · S2 110.30

Forthcoming important economic data

United States

	Indicator	Period	Expected	Prior	Comments
3/28/2017	Wholesale Inventories MoM	Feb P	0.20%	0.20%	Focus will be on GDP and core PCE print.
3/30/2017	GDP Annualized QoQ	4Q T	2.00%	1.90%	
3/30/2017	Personal Consumption	4Q T	3.00%	3.00%	
3/31/2017	Personal Income	Feb	0.40%	0.40%	
3/31/2017	PCE Core YoY	Feb	1.70%	1.70%	

Japan

	Indicator	Period	Expected	Prior	Comments
3/29/2017	Retail Trade YoY	Feb	0.70%	1.00%	Inflation and job data will be important.
3/31/2017	Jobless Rate	Feb	3.00%	3.00%	
3/31/2017	CPI YoY	Feb	0.30%	0.40%	
3/31/2017	Industrial Production YoY	Feb P	3.90%	3.70%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
3/27/2017	IFO Business Climate (GE)	Mar	111.1	111	CPI data will be closely watched.
3/30/2017	Consumer Confidence	Mar F	-5.0	-5.0	
3/31/2017	CPI YoY	Mar	1.80%	2.00%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
3/31/2017	Nationwide House PX MoM	Mar	0.30%	0.60%	Focus will be on the GDP release.
3/31/2017	GDP YoY	4Q F	2.00%	2.00%	

China and India

	Indicator	Period	Expect	Prior	Comments
03/31/2017	Manufacturing PMI (CH)	Mar	51.7	51.6	China PMI data will be closely watched by the market.
03/31/2017	Fiscal Deficit INR crore	Feb	-	62942	

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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