29 April 2024

Weekly Economy and Market Watch

Commercial Bank of Dubai
بـنـك دبـي التجـــــاري

Key Highlights

ECONOMIC DATA NOT AS BAD AS FEARED

Thursday's release of weaker GDP and stronger inflation stoked fears of stagflation, leading to a sharp sell off in equities and jump in bond yields. However, Friday's release of PCE index, the Fed's preferred gauge of inflation, came out in line with expectations and immediately flipped the investor sentiments. Drilling down into both the GDP and inflation data did not give any new reasons to worry.

VOLATILE EQUITIES HAVE THEIR BEST WEEK

Equites ended a volatile week with a bang. Despite the fear of rates staying higher-for-longer, both S&P500 and Nasdaq clinched their best week since November. As equity markets remain forward looking, the rally seems to be broadening, which gives it more staying power. The overall earnings season has also been decent so far with 77% of the S&P500 index companies beating their earnings estimates.

MAG 7 EARNINGS

Tesla profits dropped by 50% in Q1 amid weakening EV demand, but the launch of more affordable cars is seen as a growth driver. The badly beaten-up stock rose 14% for the week. Meta reported strong numbers, but its stock got hammered on higher spending on AI bets. Microsoft and Google beat consensus estimates with the latter announcing its first-ever dividend and a massive share buyback program. Both the stocks jumped higher as they announced gains from their AI investments.

ROUT IN BONDS, YIELDS ATTRACTIVE

The continued rout in government bonds this year, and in the last 3 years, has meant that cash has outperformed investment grade bonds in the last 10 years. This is unprecedented and driven by the distortions in rates market due to ultralow rates followed by the most aggressive tightening in history. A sharp rally in bonds is likely only after the outlook for rate cuts is clear. However, the downside is much less compared to the upside. Current yields are attractive to lock in for the long term.

ACTION PACKED WEEK AHEAD

The coming week is likely to be full of action for investors. The biggest event is the rate-setting US FOMC meeting that concludes on May 1st. Rates are expected to be on hold, but the press conference will be parsed carefully for any clues on interest rates. The most eagerly awaited economic data will be Friday's jobs report. 35% of the S&P500 index companies will be reporting their Q1 earnings with Apple and Amazon being the most important ones.

STRUCTURAL TAIL WINDS FOR COMMODITIES

JP Morgan issued a research report on the six structural shifts that are likely behind the unfolding rally in commodities. These are: 1) Return of industrial policies; 2) Rise of strategic stockpiling and recycling of trade surpluses into commodities; 3) De-dollarization and the shift in gold's ownership base; 4) Race to secure 34 critical minerals; 5) AI demand for energy and metals and 6) Populism and lack of project-level incentive to expand copper production.

	1 Week	YTD'24	2023
Mover of the Week			
Nvidia	15.14%	77.16%	329.00%
Global Equities			
Magnificent 7	5.71%	16.00%	80.89%
Dow Jones Ind.	0.67%	1.46%	13.70%
S&P 500	2.67%	6.92%	24.23%
Nasdaq Comp.	3.99%	5.30%	43.42%
Euro stoxx 600	1.74%	6.05%	12.74%
FTSE 100	3.09%	5.26%	3.78%
India Nifty50	1.23%	3.17%	20.03%
Nikkei 225	2.34%	13.36%	28.26%
Shanghai Comp.	1.20%	4.46%	-1.93%
Regional Equities			
Dubai DFM	-0.63%	2.18%	21.69%
Abu Dhabi ADX	-0.92%	-5.59%	-6.20%
Saudi Tadawul	2.67%	6.92%	13.87%
Bonds			
US IG Bond Index	-0.08%	-3.19%	5.15%
GCC Bnd/Suk Index	-0.10%	-3.22%	5.14%
Currencies			
Dollar Index	-0.20%	4.54%	-2.11%
Euro	0.38%	-3.34%	3.30%
GBP	0.79%	-2.15%	5.50%
JPY	-1.95%	-10.66%	7.50%
CHF	-0.44%	-8.17%	8.97%
AUD	1.70%	-4.45%	0.23%
CNH	-0.23%	-1.99%	-2.94%
INR	0.00%	-0.20%	-0.63%
SGD	-0.04%	-3.16%	1.49%
Commodities			
WTI Crude	0.85%	17.03%	-10.73%
Brent Crude	2.53%	16.17%	-10.32%
Nat Gas	9.76%	-23.51%	-43.82%
Gold	-2.75%	12.92%	13.47%
Silver	-5.19%	13.57%	0.18%
Copper	1.48%	17.31%	2.10%

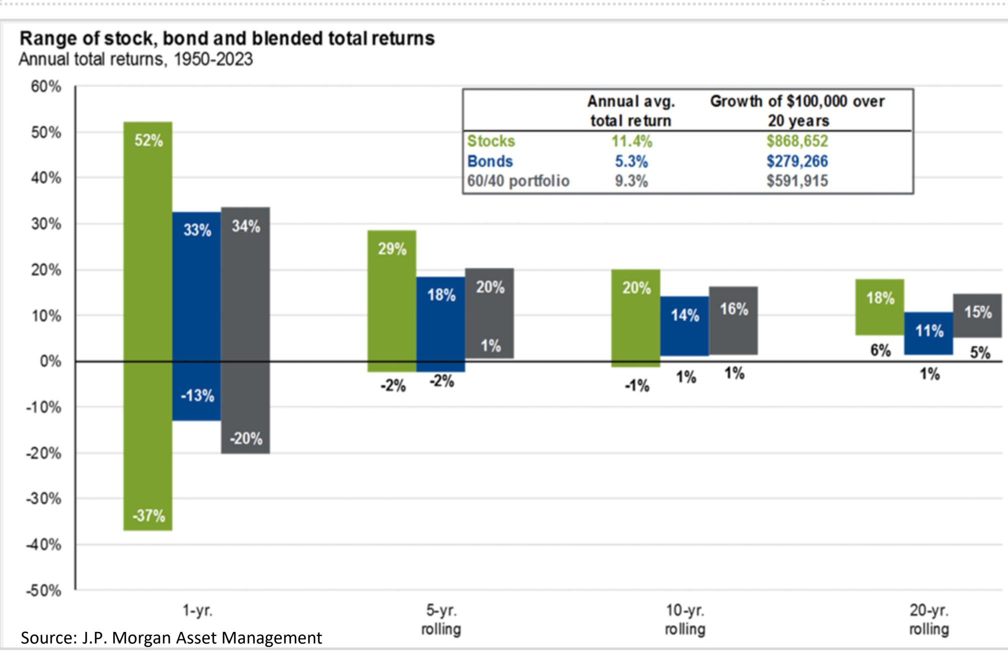

Chart of the Week

This chart shows the volatility of historical returns by holding periods for stocks (S&P500 index), bonds (Bloomberg US Aggregate Index) and a 60/40 portfolio (stocks and bonds), rebalanced annually, over different time horizons. The bars show the highest and lowest returns that investors could have experienced during each of the time periods.

Over the short term, all investments can be volatile, and investors could experience losses on an annual basis – not just in equities, but even in bonds and diversified portfolios. However, the moment you increase the investment time horizon to 5 or 10 years, the annual volatility becomes negligible. On an average, over the last 70 years, the S&P500 index has delivered 11.4% annual returns, bonds 5.3% and a balanced portfolio 9.3%. Clearly, investors must take a long-term view for making above-average returns, with a high level of certainty.

Treasury, Asset Management and Global Markets, Commercial Bank of Dubai
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Currencies

FX CHRONICLES

Stronger-than-expected US core PCE inflation data impacts GBP/USD, EUR/USD, and AUD/USD differently. GBP/USD turns negative near 1.2500 due to USD strength post-inflation, while EUR/USD faces modest bearish pressure above 1.0700. Conversely, AUD/USD extends its rally on higher factory gate inflation. This divergence shows varied reactions to the USD's strength, with GBP and EUR experiencing downward pressure, while AUD benefits from positive economic indicators. Switzerland's ZEW Survey Expectations rising to 17.6 in April from 11.5 suggest optimism, but escalating Middle East tensions may boost safe-haven flows, possibly favoring the Swiss Franc. The Japanese Yen weakens broadly after the Bank of Japan's policy decision, with USD/JPY hovering around 157.00 despite higher-than-expected US PCE Price Index.

What's cost averaging ?

FX cost averaging involves regularly purchasing a fixed amount of a foreign currency over time, regardless of its current exchange rate. This strategy aims to reduce the impact of short-term currency fluctuations and average out the cost of acquiring the currency. For example, if an investor wants to convert USD to EUR, they could buy $100 every month regardless of the exchange rate. If the exchange rate is high, they'll get fewer euros, but if it's low, they'll get more. Over time, this strategy can smooth out the effects of volatility and potentially result in a favorable average exchange rate. FX cost averaging is suitable for long-term investors looking to mitigate the risk of timing the market and seeking a disciplined approach to currency acquisition.

Commodities

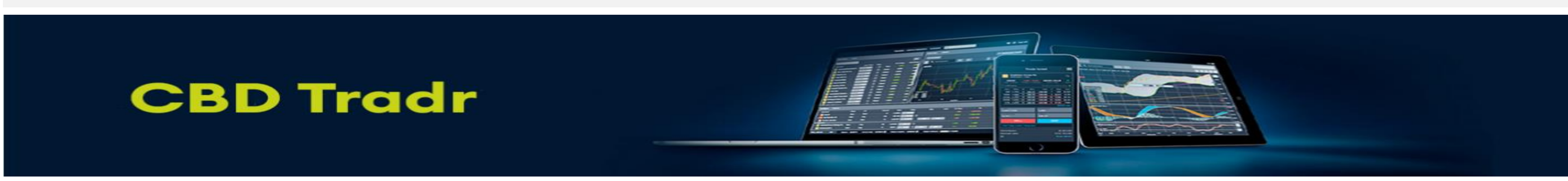
Is this it, Gold?

Gold prices plummeted over 2% to a one-week low as investors shifted their allocations from safe-haven assets to riskier investments like equities. Gold price is caught between competing factors like the hawkish outlook for interest rates on one side and the diminished tensions between Israel and Iran on the other. As a result of this and heightened volatility, gold lost its safe-haven appeal, allowing assets such as the S&P 500 and high-beta currencies to recover losses. Looking ahead, the US Treasury's update on funding needs and bond issuance preferences could impact shorter and longer dated yields, potentially affecting gold prices. The recent de-escalation in geopolitical tensions may further diminish gold's momentum, although support at $2320 suggests a potential bullish continuation if maintained. However, without significant catalysts, the upside for gold remains limited.

Oil Tensions!

Amid escalating tensions in the Middle East, oil prices closed higher on Friday. Brent futures rose by 0.55% to reach $89.50 per barrel, while WTI futures increased by 0.34% to $83.85. Despite the dollar's strengthening and the release of US inflation data, supply concerns buoyed prices. Israeli Prime Minister Benjamin Netanyahu dismissed potential ICC rulings, while Israeli airstrikes intensified in Lebanon and Gaza. However, economic pressures dampened gains, with US inflation reaching 2.7% annually.
There are several factors that would affect oil prices in the near term. Treasury Secretary Janet Yellen hinted at potential upward adjustments to Q1 GDP growth increasing the likelihood of rates staying higher for longer. Moreover, Secretary of State Antony Blinken's has a scheduled visit to Saudi Arabia that aims to alleviate tensions in the Gaza conflict.

CBD Tradr



Risks of Margin trading

FX margin trading promises substantial profits but comes with significant risks. Leverage, a key risk, allows traders to control large positions with minimal capital, amplifying both gains and losses. Volatility in FX markets, driven by economic indicators, geopolitical events, and central bank policies, can lead to sudden and substantial losses, triggering margin calls.

Without disciplined risk management, traders risk overleveraging or neglecting stop-loss orders, exposing themselves to excessive risk. To navigate these challenges, traders must implement careful risk management strategies, including setting appropriate stop-loss levels and avoiding overleveraging. While FX margin trading offers opportunities, understanding and mitigating its risks are crucial to safeguarding capital and preventing substantial losses

For more details on FX Tradr , please contact us on the below information. Telephone: 04 – 2121829 / 04 – 2121897

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