Wall Street drifts, Asian markets mixed

NEW YORK, Jan 13, (AP): US stocks are drifting Wednesday as Wall Street continues a pause from its big recent rally, and even Treasury yields are stalling following their rapid rise.

The S&P 500 was 0.1% higher after flipping between small gains and losses in early trading. It remains close to its record high set at the end of last week. The Dow Jones Industrial Average was up 19 points, or 0.1%, at 31,088, as of 10:30 am Eastern time, and the Nasdaq composite was 0.3% higher.

Markets around the world have rushed higher recently on building optimism that a healthier economy is on the way because of the rollout of coronavirus vaccines and the prospect for more stimulus from a US government soon to be run by Democrats.

Some of the biggest action has been in the bond market, where expectations for increased federal borrowing, economic growth and inflation have pushed longer-term Treasury yields to their highest levels since last spring.

The yield on the 10-year Treasury slowed its ascent, though, and dipped to 1.10% from 1.12% late Tuesday. Analysts said statements from two Federal Reserve officials a day earlier helped to calm concerns that it may curtail its purchases of Treasurys. Those purchases have helped keep rates low in hopes of boosting financial markets and the economy. The concerns are reminiscent of the 2013 "taper tantrum," when markets tumbled after the Fed said it expected to slow bond purchases as the economy recovered.

Low rates have been one of the main underpinnings for the stock market's rise to records, even as much of the economy still struggles under the worsening pandemic. The 10-year yield has been spurting higher, up from 0.90% on Jan 4, the day before two runoff elections in Georgia gave control of the Senate – and thus Washington – to Democrats.

The Fed has had the freedom to keep short-term rates at nearly zero in part

In this file photo provided by the New York Stock Exchange, trader Ashley Lara works on the trading floor. U.S. stocks drifted on Wednesday, Jan. 13, 2021, as Wall Street continues a pause from its big recent rally. (AP)

Yield on 10-year Treasury bonds slows its ascent

because inflation has remained weak. A report on Wednesday showed that prices at the consumer level were 1.4% higher in December from a year earlier. That was slightly more than economists expected, though it remains relatively low.

The Fed will release its latest "Beige Book" in the afternoon, which gives anecdotal evidence it's hearing about how businesses are faring around the country. Fed Chair Jerome Powell will also be speaking at an online event hosted by Princeton University on Thursday, which may offer more clues about the Fed's intent.

If interest rates keep climbing, it could bolster the argument for critics of the stock market, who say it has climbed too high and left prices too expensive.

Stocks that would benefit in particular from low rates were leading the way in Wednesday morning trading. Utility stocks tend to pay relatively big dividends, so their appeal often rises when bonds are paying less in interest and drawing fewer investors seeking income. Utilities rose 1% for the biggest gain among the 11 sectors that make up the S&P 500.

Tech stocks also climbed, as low interest rates help make investors more willing to pay high prices for their expected growth. Within the group, Intel jumped 8.4% after it said industry veteran Pat Gelsinger will take over as CEO next month. It also said it expects to report revenue and profit for the latest quarter above its prior forecast.

On the losing end were some of the market's biggest winners recently, which have climbed with expectations for a stronger economy and higher rates. Raw-material producers in the S&P 500 fell 0.7%, while industrial stocks fell 0.5% and financial stocks lost 0.3%.

Stocks of smaller companies also pulled back from their big recent rally. The Russell 2000 index of small-cap stocks slipped 0.3%, though it remains 7.5% higher for 2021 so far. That towers over the 1.3% rise for the big stocks in the S&P 500.

Other risks are also hanging over the market, headlined by the worsening pandemic. Accelerating coronavirus counts and hospitalizations are doing more damage to the economy, and US employers cut more jobs last month than they added for the first time since the spring.

Political uncertainty continues to engulf Washington, meanwhile, and President Donald Trump appears to be on the verge of getting impeached for a second time. Democrats and even some Republicans say Trump incited an insurrection after encouraging a mob of loyalists who went on to storm the Capitol last week.

Investors have been looking past such political turmoil for the most part, though, focusing instead on expectations for a stronger economy ahead.

President-elect Joe Biden is expected on Thursday to release details of his plan to support the economy. They could include bigger cash payments going to most Americans

In European stock markets, indexes were also making only modest moves. The German DAX returned 0.3%, and the French CAC 40 added 0.4%. The FTSE 100 in London was nearly unchanged.

Asian stock markets were mixed Wednesday after Wall Street rebounded, shrugging off uncertainty about a possible new attempt to impeach President Donald Trump over last week's attack on the US Capitol.

Tokyo, Australia and South Korea advanced while Shanghai and Hong Kong declined.

On Wall Street, the benchmark S&P 500 index gained less than 0.1%, recovering from the previous day's decline. Analysts suggested investors were more focused on President-elect Joe Biden's economic stimulus plans after he takes office next week than on the aftermath of last week's turmoil.

Democrats in Congress are discussing possibly impeaching Trump for encouraging supporters who attacked the Capitol, but the president has taken few official actions since then.

"Hopes are pinned on the incoming Biden administration, leveraging Democrat Senate majority, to emphatically tackle COVID," said Mizuho Bank in a report.

The Shanghai Composite Index lost 0.6% to 3,583.95 while the Nikkei 225 in Tokyo advanced 1.1% to 28,462.78. The Hang Seng in Hong Kong shed 0.2% to 28,215.71.

The Kospi in Seoul added 0.6% to 3,141.52 and the S&P-ASX 200 in Sydney was up 0.1% at 6,686.60.

India's Sensex opened down less than 0.1% at 49,479.37. New Zealand declined while Southeast Asian markets advanced.

Mabanee Co adds 4 fils, NAPESCO dips

Kuwait index edges lower in volatile session

KUWAIT CITY, Jan 13: Kuwait stocks saw a slight pullback on Wednesday snapping the three-day gains. The All Shares Index fell 8.69 points in volatile trade to 5,636.37 pts weighed mostly by heavyweights even as the overall mood remained mixed.

The Premier Market slipped 11.69 points to 6,157.11 pts trimming the month's gains to 106 pts while Main Market eased 2.52 points. The BK 50 Main index was up 13.99 points at 4,737.08 pts. The volume turnover meanwhile slid after soaring past the 300 million mark on Tuesday. Over 223 million shares changed hands – 28 pct drop from the day before.

The sectors closed mixed. Technology outshone the rest with 3.62 percent gain whereas Utilities shed 1.1 pct, the worst performer of the day. Volume wise, Real Estate topped with 80.8 million while Banking sector continued to dominate in value with KD 14.7 million.

In the individual shares, National Bank of Kuwait fell 2 fils to 850 fils after pushing 6.2 million shares and Boubyan Bank followed suit to end at 573 fils. Mabanee Co rose 4 fils to 702 fils extending last session's gains whereas NAPESCO shed 20 fils.

Zain dialed up 2 fils on back of 6.4 million shares while Ooredoo eased 1 fil to 648 fils with thin trading. stc added 3 fils extending Tuesday's uptick while logistics major Agility was up 3 fils at 726 fils. Humansoft Holding was unchanged at KD 3.685 after shedding 114 fils so far during the month whereas Boursa Kuwait Securities scaled 7 fils to close at KD 1.139.

KIPCO eased 1 fil to 158 fils and KAMCO was unchanged at 73.6 fils. National Investment Co rose 4 fils to 142 fils on back of over 7 million shares whereas Kuwait Investment Co and Bayan Investment Co stood pat at 124 fils and 41 fils respectively. International Financial Advisors inched 0.8 fil up and Kuwait Financial Centre (Markaz) took in 0.5 fil. Noor Financial Investment Co added 3 fils.

The market opened on low note and edged lower in early trade. The main index pulled up briefly before heading south again amid selling spurt in some of the counters. It plumbed the day's lowest level of 10.42 points almost half way into the session and rebounded thereafter to recoup most of the losses at close.

Top gainer of the day, Metal and Recycling Co rallied 9.85 pct to 68 fils while Inovest scaled 7.84 percent to stand next. EK Holding skidded 4.79 pct, the steepest decliner of the day and Tijara topped the volume with 56.3 million shares.

Mirroring the day's downtick, losers slightly outnumbered the winners. 55 stocks advanced whereas 59 stocks closed lower. Of the 129 counters active on Wednesday, 15 closed flat. 9,610 deals worth KD 40.37 million were transacted during the session.

National Industries Group eased 1 fil to 180 fils after trading 2.8 million shares while Mezzan Holding followed suit to close at 590 fils. Boubyan Petrochemical Co gave up 3 fils while Al Qurain Petrochemical Co was down 5 fils to 359 fils. Integrated Holding eased 1 fil to 360 fils and Aznour closed 3 fils in red.

Jazeera Airways paced 6 fils whereas ALAFCO eased 1 fil to 215 fils after moving 1.3 million shares. Inovest rose 5.2 fils to 71.5 fils and Al Manar Financing clipped 2.4 fils. Kuwait Resorts Co dialed up 1.7 fils on back of 3.2 million shares and Mashaer Holding added 2.2 fils.

Kuwait Cement Co took in 1 fil whereas Kuwait Portland Cement trimmed 1 fil to end at 789 fils. ACICO Industries paused at 90.3 fils whereas NICBM and Kuwait Gulf Links Transport Co dialed down 1 fil each. Automated Systems Co added 2.5 fils while KCPC climbed 10 fils to 412 fils. Educational Holding Co dialed up 2 fils and HEISC jumped 26 fils to 426 fils on back of 8.9 million shares. UPAC slipped 8 fils to 249 fils.

Kuwait Foundry Co rose 3 fils to 278 fils and Gulf Cable scaled 12 fils. Combined Group Contracting Co gained 10 fils while Burgan Well Drilling Co closed 3 fils in green. Al Bareeq Holding ticked 0.4 fil higher.

In the banking sector, Gulf Bank fell 2 fils to 217 fils while Kuwait International Bank and Burgan Bank tripped 1 fil each. Kuwait Finance House dialed up 1 fils on back of 5.2 million shares whereas Ahli United Bank gave up 3 fils after trading 12.6 million shares. Warba Bank eased 1 fil and Al Ahli Bank added 2 fils.

The market has been largely upbeat so far during the week scaling 99 points in last four sessions. It has gained 90 points from start of the month after tumbling 736 points during whole of 2020.

Patron Capital raises £844 mn for Fund VI

LONDON, Jan 13, (Agencies): Patron Capital, the pan-European institutional investor focused on property-backed investments, has closed its most recent fund, raising £ 844 million ($1.038 billion), including approximately £128 million ($157 million) of co-investment capital for Patron Capital, L.P. VI ('Fund VI'). Of the total £844 million raised for Fund VI, 83% came from Patron's existing investor base and existing relationships, with the majority of commitments coming from North America, followed by Asia Pacific, Europe, and the Middle East. Investors included pension funds, sovereign wealth funds, endowments, foundations and asset managers. Evercore acted as the primary placement agent.

Fund VI will continue the same investment strategy as Patron's previous funds, opportunistically targeting distressed and undervalued investments, directly or indirectly related to property, across Western Europe. The fund will invest in individual properties as well as in property-backed corporate investments and credit opportunities. In recent weeks, the Fund has already completed several investments and is in the final stages of closing on several others, using approximately 25% of the Fund's investment capacity.

Keith Breslauer, Patron Capital's founder and Managing Director, said:

"This is the seventh fund that we have closed in our 21-year history. In this time, we have established a proven track record in identifying opportunities and maximising value, built exceedingly strong relationships and, ultimately, demonstrated that we can deliver attractive returns in any economic environment. This is why we have been able to close this latest fund with such a high proportion of our existing investors and relationships, as well as bring in the final tranche of capital against a backdrop of extreme uncertainty due to the COVID-19 pandemic.

"The pandemic has accelerated a number of existing trends across different real estate sectors in Europe, as well as created opportunities to acquire fundamentally sound but mismanaged assets at attractive prices.

Ford announces 'closing' of 3 production units in Brazil

SAO PAULO, Jan 13, (AP): Ford Motor Co. said Monday it will close three plants in Brazil and stop producing automobiles in the South American country where it has been operating since 1919.

The company said in a statement it will cease production immediately at the factories "as the COVID-19 pandemic amplifies persistent industry idle capacity and slow sales that have resulted in years of significant losses."

Unions of two units that will be closed said around 4,800 workers between them are affected.

The automaker also said it will keep its South America headquarters, product development center and proving grounds in Brazil.

"With more than a century in South America and Brazil, we know these are very difficult, but necessary, actions to create a healthy and sustainable business," said Jim Farley, Ford president and CEO. "We are moving to a lean, asset-light business model by ceasing production in Brazil and serving customers with some of the best and most exciting vehicles in our global portfolio."

Ford's decision is yet another blow to Brazil, whose economy has suffered since 2014, sinking further amid the pandemic. The country's unemployment rate is nearing 15%, a figure that economists consider to be largely underestimated.

Ford also said its Brazilian clients will have their needs met with cars sourced from Argentina, Uruguay and other regions.

Ford's decision caused political stir in Brazil. The country's lower house Speaker Rodrigo Maia said on Twitter that the closings are "a sign of the lack of credibility of the Brazilian government."

Fabio Wajngarten, the communications secretary of President Jair Bolsonaro, said also on Twitter that Ford's decision "has nothing to do with Brazil's political, economic and legal situation."

"Who says otherwise is lying and wants the spotlight," he said.

Figures of the association of automakers in Brazil said Ford ended 2020 as the fifth highest selling company of the sector, with a market share of 7%.

Brazilian Ford workers listen to union leaders outside the plant in Taubate, Brazil, Tuesday, Jan 12, 2021, the day after Ford Motor Co. announced it will close three plants in Brazil and stop producing automobiles in the South American country where it has been operating since 1919. (AP)

Economic Update

NBK Economic Research Department | 13 January 2021

Equity Markets

Global equities end year on a strong note, aided by stimulus and vaccine optimism

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Highlights

- **Global equity markets remained bullish in the fourth quarter of 2020, building on previous gains and reaching all-time highs.**
- **The rally in 4Q20 was driven in large part by positive vaccine news and larger US fiscal stimulus expectations.**
- **Regional markets' performance lagged behind their global counterparts but still managed to record decent gains in 4Q20.**
- **The rollout of vaccines raises the prospects of a sustained economic recovery, though steep valuations, rising inflation, and virus-related headwinds remain important downside risks.**

A good year for global equities, despite the pandemic

Despite a year marred by elevated uncertainty and volatility due to the pandemic, global markets have performed remarkably well, mostly reversing the steep losses seen in March/April and in many cases eking out considerable annual gains. Major US indices reached all-time highs in 4Q20 building on the strong gains seen in the previous quarter. The rally in 4Q20 was driven in large part by positive vaccine news flow, and optimism about additional fiscal stimulus in the US, and historically low interest rates. This good performance was marked though by high volatility mainly due to soaring virus infections and renewed lockdowns in many countries. Meanwhile, regional equities underperformed in 4Q20 but still made decent gains, helped by higher oil prices and an improved geopolitical scene.

Looking forward, a sustained equity rally remains hinged on economic recovery expectations, which depend in large part on additional economic stimulus, continued central bank dovishness, and the successful containment of the virus, given the recent rollout of several vaccines.

Global markets positive in 4Q20 on recovery optimism

Global markets were positive in 4Q20 despite renewed restrictions in Europe, the UK and some major US states. Investor sentiment nevertheless remained strong, supported by economic recovery and stimulus optimism, bolstered by signs of improvement in macroeconomic data. The MSCI World index gained a solid 12% q/q, led by emerging markets (MSCI EM +15.٧%) likely helped by a weakening USD in line with an improving global outlook, thereby reducing its safe-haven appeal, and making EM portfolios more attractive to investors due the potential appreciation of the EM currency versus the dollar. US markets also rose strongly, with the S&P500 up 11.7% in the third consecutive quarter of gains, helped by the approval of a $900 billion pandemic relief package in December (in addition to a $1.4 trillion spending bill that will keep the government funded until late 2021) curbing market fears of another economic downturn due to a sharp increase in virus infections. European and UK markets trailed those of the US and were also lifted by finally reaching a post-Brexit trade deal, which has been the source of much uncertainty and weaker sentiment throughout the year.

Chart 1: Global equity markets
(rebased, 28 December 2018=100)

Source: Refinitiv DataStream

As we stand now, 2021 seems to be a promising year for global equities as virus risks gradually wane, monetary policy remains highly accommodative, and additional US fiscal stimulus materializes given the recent Democratic party wins in the Georgia Senate runoffs, which effectively resulted in a Democratic-controlled Senate. Despite these promising signs, several downside risks are present, including steep valuations especially in the US. The prospect of rising inflation or inflation expectations due to higher liquidity and recovering demand may lead to a further increase in yields, which may weigh down on markets. Furthermore, several virus-related headwinds could materialize, and finally, a possible resurgence of trade tensions, especially between the US and China will be negative for markets.

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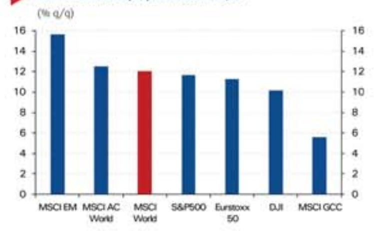
Chart 2: Global equity markets in 4Q20
(% q/q)



Source: Refinitiv DataStream

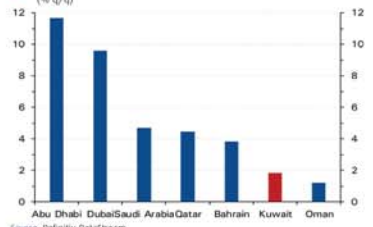
Chart 3: GCC equity markets
(rebased December 2018 = 100)

Source: Refinitiv DataStream

Regional markets lag behind global counterparts

Regional equities lagged behind their global counterparts but still managed to eke out decent gains in 4Q20. GCC markets were helped by higher oil prices later in the year, giving rise to a better economic and fiscal outlook. On the geopolitical front, early signs of improvement were seen in December to end the rift with Qatar, which materialized in early January during the GCC summit in Saudi Arabia. . The MSCI GCC index rose by 5.6% q/q, reducing the year-to-date decrease to -3.6%. Among the top gainers were Abu Dhabi and Dubai, as the UAE is considered a recovery play given its high exposure to tourism, trade, and services in general, benefitting as well from relatively depressed valuations during the year. Dubai, for example, has been one of the few destinations globally that has been open for tourism recently with hotel occupancy rates at relatively high levels. The region's largest market, Saudi Arabia, gained a decent 4.7% q/q (and was the only market in the GCC to post material gains in 2020 as a whole at 3.6%), helped by a relatively robust economic rebound in the second half the year. Meanwhile, Kuwait's all-share index underperformed, weighed down by factors including steep valuations relative to peers, the lagging pace of reforms, and perhaps more importantly, the end of a series of market classification upgrades, which were a major boost behind Kuwait's exceptional two-year (2018-2019) rally (+30%), leaving investors in search of a fresh catalyst. Looking forward, GCC equity markets will likely continue to be influenced by their global peers, geopolitical factors, oil market stability, the implementation of structural reforms and ultimately the pace of the economic recovery in the GCC.

Chart 4: GCC equity markets in 4Q20
(% q/q)



Source: Refinitiv DataStream

An improved equity outlook amid the rollout of vaccines

The recent rollout of vaccines is a key milestone in what has been a truly uncertain and risky year for equities, lending a much improved outlook for equities in 2021. This development lowers the chances of renewed restrictions and lockdowns (a major drag on markets this year) thereby raising the prospects of a sustained economic recovery. Record-low interest rates, continued central bank dovishness, as well as expectations of additional fiscal stimulus in the US, will likely continue to lend support to markets going into 2021. This bullish sentiment is reflected in global stocks reaching all-time highs in December, in tandem with softer demand for safe-haven assets such as gold and the USD, suggesting a risk-on investor attitude. The conclusion of the post-Brexit trade deal, and the end of the three year rift Qatar should also be positive for markets. However, as previously mentioned, downside risks are present in the form of steep valuations, rising inflation expectations, the possibility of renewed US-China trade tensions, and other vaccine related risks.

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