



CIO OFFICE MORNING MARKET WRAP – Monday March 1st, 2021. ALSO AVAILABLE ON ALEXA

After a week of yield driven market movements, with global equities losing 3% and 10 year Treasury yields rising mid-week to 1.51%, Monday has begun with a stabilization in sovereign bonds, a lower US dollar, signaling somewhat calmer markets with equity indices in Japan, Australia and Hong Kong trading up over a percent. U.S 10 year Treasury yields are at 1.40%. Australia's 10-year yield fell the most in a year after the central bank doubled purchases at its regular bond-buying operation, in an effort to pacify fixed-income markets. Gold is up 1% to \$1750 and oil up 1.5% with Brent futures at \$65.4. The Hang Seng Index is to be reconstituted, an announcement comes today with an increase in the number of member constituents, cap weightings of individual companies and fast-tracking of new listings. This comes as more Chinese firms list in Hong Kong, with the U.S. placing restrictions on Chinese listings.

US macro data for January largely beat expectations, and growth expectations are being revised upwards for 2021. Households received a massive inflow of income in January up 10%, with the surge in transfer receipts from the December stimulus package. Real consumption was up 2% in January and the saving rate is around 20.5% indicating consumption should continue growing. An aggregate \$2 trillion+ in "excess" savings by the U.S. consumer is expected by the time economies fully open, which represents over 15% of annual consumer spending. The average family of four will get more than \$14,000 from the U.S. government this year.

Another fiscal package expected in March, gradual re-opening and a recovering labour market should support personal income and spending. Hence, we remain constructive and think the rise in yields should be manageable. Early-cycle currents in growth, inflation, and easy policy are supportive and yields are rising for the 'right' reasons i.e. improving growth. Rising bond yields and steepening yield curves have historically been a very favourable environment for stocks. On average MSCI World has risen by 6.6% during these periods over the last 20 years, with a hit ratio of 92% as per a report from JP Morgan.

On the Asia macro front its mixed news. India's economy returned to growth in the final quarter of 2020, growing 0.4% y/y as a sharp drop in coronavirus cases led to businesses reopening and people returning to work. GDP contracted by a record 24% y/y in the quarter to June and by more than 7% in the quarter to September. Agriculture remains important as a 20% contributor to GDP and animal agriculture suffered as a result of lower demand during the COVID driven lockdowns. China's official manufacturing February PMI fell to a nine-month low of 50.6, missing consensus, as export orders slowed and factories shut for the Lunar New Year. The non-manufacturing PMI also fell more than expected, as virus restricted what would normally be a busy travel season. This is a seasonal effect and this month numbers should be better.

The U.S. is seeing falling cases and deaths as are France and South Africa. Johnson & Johnson's one-shot vaccine was cleared for adults in the U.S. J&J said it will ship 100 million doses in H1 2021. Anthony Fauci recommended getting a shot sooner and not shopping around for any individual brand. Tech in trouble as the widely-used Microsoft vaccine scheduling software ran into difficulties in some U.S. states.

Key events to watch this week: Over the weekend, the U.S. House of Representatives passed President Joe Biden's \$1.9 trillion Covid-19 aid package. The bill heads to the Senate, where it cannot afford to lose a single Democratic vote or get Republican votes to pass. Today we see earnings from Zoom. Reserve Bank of Australia sets monetary policy Tuesday; U.S. Federal Reserve Beige Book is due Wednesday; OPEC+ meeting on output Thursday; Fed Chair Jerome Powell to discuss the economy at a Wall Street Journal event on Thursday; February U.S. employment report on Friday will provide an update on the speed and direction of the nation's labor market recovery. Stay safe.

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