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Markets were weaker across the board on Friday with the S&P 500 little changed on the week and Europe and Asia equities posting modest losses. The KSA, UK and India were among the few equity markets that were positive last week. Yesterday, the Dubai and Abu Dhabi indices gained over half a percent with real estate stocks in Dubai faring well and banks in Abu Dhabi. This morning Asia markets see Hong Kong and Singapore markets trading down around 1.5%. Japan, China and the UK are closed today. The 10-year Treasury yield is holding at 1.63% and gold is slightly up at $1774. Brent oil futures are flat at $66.6/b barrel. Weekly inflows saw cash in favour, the highest since March 20 but equities and bonds also saw over $10 bn each of inflows. Copper, palladium, steel, iron ore, timber and tin are close to all-time highs on a commodity rally stoked by reopening, demand from China the world’s biggest consumer of raw materials and a booming housing market in the US. Key agricultural commodities including corn and sugar have also rallied.

So far a good run and global equities are up over 9% in the first 4 months of 2021. Developed markets have fared better than emerging markets with the Eurostoxx, S&P 500 and Nasdaq near record highs, up close to 5% since the beginning of April. Tailwinds include monetary and fiscal policy support, falling COVID cases amid the vaccine rollout, and a blowout earnings quarter with companies declaring record earnings and revenue surprises. US macro data continues to trend up, including record PMIs and expectations for strong jobs report next week.
on reopening momentum. However, companies warn of ongoing supply chain bottlenecks and chip shortages. Taxes remain an overhang ahead of Biden’s Build Back Better plan. A 6.4% Q1 GDP growth report, supported by a 10.7% annualized consumer spending pick up has brought total GDP output back close to pre-pandemic levels. More fundamental reasons for the market’s rise are the strong earnings season with estimates for 1Q EPS rising by 7% since the start of April for the S&P 500.

In terms of US fiscal stimulus, nothing incremental as Pres. Biden reiterated the Republican counterproposal on infrastructure is too small and deemed it a non-starter. Complications continue around Democratic efforts to pass the physical and social infrastructure bills, with taxes one of the big sticking points. Also reports that VP Harris has been working with key Democrats to build out the $1.8 trillion families plan, looking for input on policy inclusions with some legislators pushing for drug-pricing measures and a Medicare expansion. Fed Chair Powell has signalled the Fed was still far away from withdrawing support for the US economy, even after it upgraded its view of the recovery. The Fed chair said: “We’ve had one great jobs report, it’s not enough. We’re going to act on actual data, not our forecast. We’re a long way from our goals. If we see inflation moving materially above 2% in a persistent way that risks inflation expectations drifting up, then we will use our tools to guide inflation and expectations back down.” His comments came after the Federal Open Market Committee offered a brighter picture than it had in March, but kept interest rates close to zero and debt purchases at $120bn a month. On a contrarian view, in his latest annual meeting, Warren Buffett warned of rising price pressures and a “buying frenzy” spurred by low interest rates. Also, Dallas Fed President Robert Kaplan, who’s not currently a voter on the Fed rate-setting committee, said signs of excessive risk-taking suggest it’s time to consider fewer bond purchases. His remarks contrast with those of the Fed Chair. However, U.S. financial officials are downplaying inflation risks and Treasury Secretary Janet Yellen said on the weekend that the demand boost from Pres. Biden’s economic plan would be spread over a decade.

In coronavirus news, India remains the epicentre of a violent second wave with record daily new cases and deaths. Globally over 150 million confirmed COVID cases but hope with close to 1.2 billion vaccines administered. New York looking to fully reopen in July and French Pres. Macron has announced easing of restrictions. This week in addition to significant earnings releases we have manufacturing PMIs due Monday, from U.S. and China. The Reserve Bank of Australia monetary policy decision is due Tuesday. Bank of England rate decision Thursday and U.S. April employment report is released on Friday.

Stay safe.

MAURICE GRAVIER
Chief Investment Officer
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Emirates NBD.
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