CIO OFFICE MORNING MARKET WRAP – April 4th 2021. ALSO AVAILABLE ON ALEXA.

It has been a good quarter and a good week for equity markets, though beset with severe daily ups and downs. The first trading day of Quarter 2 i.e. Thursday last week was good for markets taking global equity gains to 5.8% for the year. Friday, US and European bourses were closed. The markets remain buoyed by economic and earnings optimism for 2021 as the new quarter began, countering the recent spike in Treasury yields and the bounce in the U.S. dollar. The yield on 10-year Treasury notes is at 1.72% having gained 88% since the end of 2020. Yields have posted their biggest one-quarter rise since 2016, unsettling tech stocks whose valuations had been boosted by low interest rates. Worst Q1 for 30yr US Treasuries since 1919 and Investment Grade bonds since 1980. However, yields are seen to be stabilizing and the S&P 500 closed above 4000, a record close.

Despite the sector rotation in the stock market this year, tech stocks were the biggest drivers of the S&P 500’s latest 1,000-point milestone. With bond volatility seen to be taking a pause, growth stocks fared better last week and in the U.S. the Technology and Communication Services sectors, led the way after the unveiling of President Biden’s $2.3 trillion infrastructure spending plan. On Wednesday, President Biden unveiled the plan centered on transportation and electric vehicles, green housing, schools, power and water upgrades, fixing roads and bridges, expanding broadband internet access and boosting funding for research and development.
Regional equities had a good quarter and a good week. Abu Dhabi markets remain in the lead at 22% year to date gains. Abu Dhabi began trading future contracts for its most important oil grade Murban creating a new regional benchmark. Oil gained last week with Brent up at $64.9, with the OPEC+ alliance’s deal to gradually increase supply affirming expectations that demand will continue to grow. OPEC and its allies agreed Thursday to add more than 2 million barrels a day to the market from May to July, which includes a phased rollback of Saudi Arabia’s previous 1 million barrel-a-day cut over the next three months. The global energy sector in line with oil prices and a move to cyclical and recovery plays has been the best performer so far this year along with financials and industrials. However, tech stocks recent recovery indicates that the rotation will be a back and forth pattern this year and it is best to stay balanced in portfolios. Year to date most major global indexes are up with the S&P 500 leading at 7.4% and the Nasdaq up 4.8%. DM has a slight edge over EM of around 2%; we are overweight both with a bias towards the US and Asia. US exceptionalism from the last decade continues. China which led markets till end Feb has broken its strong upward trajectory and the MSCI China is at just +2% ytd gains. China US trade relations are status quo and investors await visible green shoots from growth.

The rebound from February’s winter storms, vaccine rollouts, reopening of the service sector and stimulus impact lead to widespread job gains in the US. But the labor market remains a long way from the Fed’s goal of full employment. The number of Americans filing new claims for unemployment benefits has dropped to the lowest level since the start of the pandemic in March 2020. The Institute for Supply Management’s March survey of purchasing managers at U.S. factories was better than expected, showing another solid month for new orders, output and employment. The March PMI came in at 64.7, higher than the projected 61.7.

Ether, the world’s second-largest cryptocurrency, rose to a record high as the digital token for the Ethereum network gained 6.2% on Friday and reached as high as $2,144 on Saturday. It has nearly tripled this year, and first topped $2,000 briefly on an intraday basis in February. However the recently much hyped digital art tokens NFTs are seeing a pause in volume and prices. We do not advise on cryptocurrencies.

Global coronavirus cases surpassed 130 million, with India reporting the most new cases since the peak of its outbreak in September. China is battling a flareup in its Yunnan province, while South Korea saw more than 500 cases for a fourth straight day. However, the efficacy of vaccines is now well established, and more than 650 million doses have been administered across 150 countries, with seven vaccines now available for public use.

Stay safe.

MAURICE GRAVIER
Chief Investment Officer
Wealth Management
Emirates NBD.
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