



## CIO OFFICE MORNING MARKET WRAP – April 5th 2021. ALSO AVAILABLE ON ALEXA.

A strong start for quarter two for markets last week across regions and sectors after a buoyant Q1. This morning many Asia markets are closed but Japan equities are trading higher following Europe and the US from last week's strong close. UAE indices were little changed and KSA equities gained 0.7% yesterday. US 10 year Treasury yields are unchanged at 1.72%, gold is trading at \$1725 and Brent oil futures are at \$64.5. Globally, April should see good economic data, strong Q1 earnings and there should be a pause in the yield move if inflation does not pick up, which as per our current estimates is not likely to do so.

The debate on the proposed infrastructure bill in the U.S. continues as the Republicans want a more limited plan. The S&P 500 had a strong close last week and it's clear that the economic recovery is happening as observed from data on restaurant trends in re-opened states and airline bookings' trends. Of course the equity market started partially discounting a strong recovery much before the economy began rebounding. The impetus of the U.S. market is driven by a very strong economy, low unemployment, with higher long-term rates, and likely higher tax rates in the next 6-12 months. This implies higher EPS and lower P/E. Last quarter equity performance was outperformance from the cyclical sectors and smaller caps, and the second half of March saw resurgence in tech, however it remained one of the weaker sectors for the quarter as 10-year Treasury yields jumped.

On the tax front, the infrastructure bill outlined by President Biden last week highlights that funding will largely come from a corporate tax increase from 21% to 28% and attempts to extract more taxes from overseas subsidiaries. This could have a 5 to 10% negative impact to EPS at the index level in 2022, but as the EPS growth forecast by analysts is anywhere between 20 to 30% for the S&P 500 this will not be a decline but just a lower EPS than previously estimated. While the cyclical trade still has legs as does the value trade, of interest is the fact that financials account for 36% of the value names among the top 1,000 largest US stocks by market cap.

As demand comes roaring back, we are likely to witness supply shortages. National security and economic advisors meet with semiconductor and auto companies on April 12th to discuss the global shortage of microprocessors. European automakers specially Volkswagen have seen production in Q1 impacted by the chip shortage as have US auto firms General Motors and Ford. EV makers as well as high end cars need the chips, however Tesla seems to have its supply well sorted and had a record delivery of 185,000 vehicles in Q1, as did Toyota which had a strong rebound in U.S. sales in the first quarter.

Key events to watch next week: the Reserve bank of Australia delivers its policy decision Tuesday, the Fed publishes minutes from its March meeting (will be closely watched for clues on inflation) on Wednesday and Chinas consumer and producer prices data are due Friday. The IMF and World Bank kick off their spring meeting today and expectations are for a upgradation of the global GDP numbers.

Stay safe.

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