



CIO OFFICE MORNING MARKET WRAP – Sunday 14th March 2021. ALSO AVAILABLE ON ALEXA.

Global equities ended the week on a very strong note, with indices of the developed countries clearly outperforming their emerging peers, the US reaching a new record and Europe leading markets higher. Technology and Consumer Discretionary stocks were boosted by a benign inflation report and the approval of the \$1.9 trillion COVID-19 relief bill. The US dollar weakened, gold rebounded from a 9-month low and crude was little changed. We would be hard put to saying that the sessions through Friday showed that stocks and yields can advance together. US Treasuries suffered a renewed bout of selling just Friday, with the yield on the 10-year note closing at 1.625%, above the 13-month high established the previous week.

Catalysts were provided by stimulus checks - individual payments of up to \$1,400 - possibly hitting bank accounts as early as on this week end, as well as president Biden vowing to accelerate vaccinations. More money into people's pockets implies a more constructive outlook for yields, growth and inflation. Although consensus sees no inflation overshoot looming, Morgan Stanley begs to differ. According to its chief economist US households have lost \$490 billion in income and already received \$1.3 trillion worth of transfers, excluding the latest fiscal bill, hence he sees the risk of a

“truly disruptive” market shift, should the “overshoot in inflation indeed overshoot”. Irrespective of the diverging views on inflation, there still seems to be upside to US 10 year Treasury yields, which have not been this low relative to economic growth estimates since 1966. The average projection for nominal GDP of the United States this year is at 7.6% as per Bloomberg. Expectations for future inflation are adjusting as well, as consumer inflation expectations one year out are now at 3.09%, highest since 2014, according to a New York Fed survey. The ECB decided to err on the side of activism, by pledging to step up the pace of its emergency bond-buying program after repeated warnings that rising yields could put the recovery in jeopardy. Bonds and stocks reacted promptly, with euro area yields marginally lower for the week and the large cap Euro Stoxx Index gaining more than 4%. On the virus front Joe Biden said that he wants that states make all US adults eligible for coronavirus vaccinations by May 1, accelerating the efforts to end the pandemic. He sees normalcy return by summer, as the country surpassed 100 million administered doses on Friday. With infections rising, most of Italy will enter a lockdown on March 15 and Germany said it is at the beginning of a third wave. In a sign of the times marked by ever higher liquidity lifting all boats, the acronym FOMO, describing the Fear Of Missing Out, has gone from a measure of investor sentiment to a financial instrument. Connecticut-based Tuttle Tactical Management filed with the SEC to launch the ETF investing in “securities that reflect current or emerging trends”, selected according to a “proprietary tactical model”.

Next week will see the release of key economic data, Industrial Production and Retail Sales, in China on Monday and the United States on Tuesday; the FOMC meeting, the publication of the Oil Market Report by the International Energy Agency and the vaccine passport proposal by the European Commission on Wednesday; the meeting between the US Administration and Chinese Foreign Ministry officials in Alaska and the release of Jobless Claims and the Leading Index on Thursday; the so-called quadruple witching session on Friday, when both index futures and options and stock futures and options expire, usually causing heightened volatility.

Stay safe.

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