



**CIO OFFICE MORNING MARKET WRAP – April 14<sup>th</sup>, 2021.  
ALSO AVAILABLE ON ALEXA.**

Inflation data for March in the US was the key release of yesterday. The CPI report came in higher than the median forecast from economists. Consumer prices increased by +0.6% month on month, and by +2.6% year-on-year. The same measures on core inflation, i.e. excluding food and energy, were respectively +0.3% and +1.6%. It is important to note that the year-ago increase is linked to strong base effects, as the same period in 2020 saw dramatic collapses in some prices, especially in services. Still, the progression of consumer prices is higher than the consensus estimate, after the same happened for producer prices last week. As a result, translating into the Fed's preferred measure, the core PCE year-on year change should be very close to +2% in March. This measure should stay elevated for some time, especially as base effects will remain strong in April and May.

As always, the reaction of the market is as interesting, if not more, than the facts. Yes, inflation was higher than expected but it was not higher than what was already implicitly priced in. Interest rates in the US ended the day materially lower: the Treasury yields lost on average 5 basis points across the 5, 10 and 30-year maturities, to close at 1.61% for the 10 year. Equities took note. Global stocks gained 0.3% on

average with the US outperforming at +0.4%. Growth sectors in general and technology in particular were sought after, and it was another all-time high in the S&P500 and Nasdaq. The price of Brent crude oil moved up 0.6% to \$63.4 and Gold was steady above \$1740, as the US dollar was a bit weaker, down 0.1% against trade-weighted counterparts. In a nutshell and as we write for some time, it seems that the inflation number was more a surprise for economists than for market participants, and their reaction is a positive behavioral indication. A lot of growth, but also some inflation pressure, are already priced-in by markets. We are clearly overweight stocks in our recommended allocations.

Elsewhere in the news, the US decided to freeze the use of Johnson & Johnson's Covid 19 vaccine after six women developed severe blood clots. J&J will also delay the roll-out of the vaccine in Europe, and Pfizer announced an increase in their production capacity. On the corporate front, sales from luxury giant LVMH were simply stellar in Q1 with a 52% year on year increase on an organic basis, almost twice the number forecast by analysts. European software maker SAP raised its full year sales outlook. In Europe, the Age of Magic Money is confirmed: the EU is set to lay out plans to raise almost \$1 trillion of debt over 5 years. Bitcoin reached another all-time high, close to \$64000.

As we write this morning, the session in Asia is overall positive. Stocks are positive everywhere except in Japan where indices are slightly down due to a weaker dollar and concerns over the vaccine rollout. Hong-Kong outperforms due to the large weight in technology stocks. Chinese onshore stocks are only marginally up, as credit markets there remain under some tension following a large sell-off in one of China's largest bad-debt managers. Dollar interest rates are stable, holding their rally from Tuesday, and so are future contracts on western stock indices. Oil prices keep on being well oriented, up 0.5%.

This Wednesday will be a big day for US banks, with quarterly results from Goldman, JP Morgan and Wells Fargo among others, kicking off the earnings season for large caps. Market participants will look for any impact from the Archegos collective disaster and of course focus on forward looking statements and outlook. We will get an avalanche of Central Bank input, from the Fed's beige book to speeches from the ECB and BOE – no reason to expect anything else than the sempiternal message of support, patience, and confidence. Bonds will be sold by the UK, Germany, Russia, and Turkey, including gold-based sukuk. The Euro Area industrial production for February will also be released, as well as the EIA crude inventory data.

Stay safe.

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