



## **CIO OFFICE MORNING MARKET WRAP – Sunday May 16<sup>th</sup>, 2021. ALSO AVAILABLE ON ALEXA**

The past week was volatile, marked by inflation and cryptocurrency scares, with stocks closing the five days through Friday with minor losses and investors buying the dip, the dollar and gold ending little changed and long-dated Treasury yields still hovering within a holding pattern in spite of growing price pressures.

Investors were anxiously awaiting the US CPI release which saw headline inflation spike to 4.2% in April, from 2.6% the previous month, and the core gauge accelerate to 3% from about half that level, both well above projections. Although markets had known of the inflation base effects due to the pandemic for months, concerns mounted close to the release and a flurry of commentaries regarding the potential for prices rising out of control followed. The answer to the inflation dilemma is fraught with a lot of “it depends”. Being it a slow-moving variable, one is often on the safe side by saying that spikes are going to be temporary. So, views hinge on the time frame

considered. And we have already taken sides in this debate, sticking with the Fed's stance that price pressures will be abating. Yet, this is beyond the point. None less than legendary fund manager Stanley Druckenmiller, ex Treasury Secretary Lawrence Summers and Fed vice chairman Bill Dudley have envisaged scenarios where rates will be rising consistently due to relentless stimulus in spite of an accelerating economy. So, if we focus on somewhat longer horizons, Powell's Olympic poise is contrasted with little poise at all, actually if anything with more or less outspoken concerns about the end consequences of treading in uncharted territory. Even without looking that much further down the road, we should have at least one more quarter of relatively robust US growth, so most likely we will be witnessing more rounds of the same debate, with yields rising somewhat by year-end, although it should not be in the cards for now that the 10-year yield holds above the symbolic 2% threshold.

Actually, the releases which followed Wednesday's report were underwhelming, so to the tune of bad news being actually good news as bonds yields in investor minds would remain capped, equities recovered promptly and yield-sensitive assets, from the euro to EM FX and Sovereigns and gold, followed suit. Retail sales stalled, and both industrial production and a gauge of consumer sentiment disappointed. Unless the next jobs report is pretty strong, the current backdrop should not constitute a strong reason for the Fed to tackle the tapering of asset purchases at the June meeting, so the next deadline to be looking forward to in this sense would be the late-August Jackson Hole Symposium.

The fans of new assets and themes must have been pretty disappointed by Bitcoin's tumbling 15% and being unable to hold above the 50,000 support level. Rising inflation and Elon Musk's tweet about the prohibitive energy consumption related to the mining of the cryptocurrency were the main negative catalysts. Never mind that some investors declared it to be the new gold, which would imply some degree of inflation protection given its finite supply. What if in the end cryptocurrencies turn out to be mainly liquidity driven in these central-bank times? Also, innovation and clean energy stocks and SPACS approached bear market territory, reminding aficionados that, whatever the novelty of the theme, some risks still are attached to speculative activity in spite of Powell and Yellen's joint largesse.

On the virus front average cases in the US fell according to latest data by the CDC, while Europe seems set to be headed towards a summer season welcoming tourists. Italy will soon lift quarantine restrictions from a number of countries and Germany could further ease too if contagions fall below certain levels. Unfortunately, Narendra Modi said that the pandemic is spreading fast to rural areas.

In the week ahead China will be releasing April Industrial Production and Retail Sales on Monday; and Europe 1Q GDP on Tuesday; April's FOMC minutes will be released on Wednesday; and Saudi Arabia CPI and the US Leading Index and Jobless Claims on Thursday; Friday's focus will be on the Purchasing Manager Indices of the major Developed Countries.

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