



CIO OFFICE MORNING MARKET WRAP – Wednesday 17th March 2021. ALSO AVAILABLE ON ALEXA.

Stocks in Asia are showing no clear direction this morning, yesterday were mixed in the United States and put in sub-1% gains in Europe. Sector rotations saw the S&P 500 Information Technology Index reach a two-week high and Energy lead equities lower. With the crude market in deficit, but signs of tightness as measured by the futures curve at extreme levels, oil seems to be liable to a pullback. The dollar and gold struggled for direction, yields held steady and market-implied inflation measures inched higher.

US Retail Sales slumped by 3% in the month of February, most likely a temporary setback due to exceptionally bad winter weather that hit large swaths of the country. Consumption should accelerate from next month, when Americans will have received stimulus checks from the latest pandemic-relief bill. US growth keeps on being revised higher due to a combination of faster than expected recovery and unprecedented monetary and fiscal measures being deployed together. According to some forecasts the economy could be returning to pre-Covid highs well before the end of this year, no mean feat considering the depths plumbed in spring 2020.

An interesting 'Chart of the Day' on Bloomberg showed investment manager's Peter Lynch favourite valuation gauge, known as the "Rule of 20". Equities should be fairly valued when the sum of the trailing PE, the price to earnings, and the inflation rate is around 20. The current measure, at 33.9, is well above the previous overshoot reached during the Tech Bubble and is of course eye-catching. One could think that inflation, now so much in Mr Powell's heart, sooner or later will fly and push valuations lower, somewhat to Mr Lynch comfort. Yet, that's not a foregone conclusion. The Fed chair could still decide to suppress yield volatility via Yield Curve Control and send valuations in uncharted territory. Another scenario is that the mere announcement of the tapering of asset purchases could see PEs collapse and restore a semblance of regularity in that 'Chart of the Day'. Either way, it would still be up to the Fed, that investors must be now looking to, awaiting the conclusion of the March FOMC meeting.

US Treasuries, after an almost 40-year-long bull run, seem all of a sudden to have become by a good margin the most hated asset class in the market. Ray Dalio recently decried the "ridiculously low yields of bonds" and it is not a coincidence that hedge funds turned into the biggest net sellers of US bonds in January, offloading the most Treasuries in 9 months. That prescience and look-ahead bias seems to be equally matched by Janet Yellen's backward-looking stance when considering the cost of federal debt. Even though the national debt is more than twice as big as it was in 2007, the costs of servicing it "are no higher than they were in 2007", remarked Ms Yellen. While it is true that the cost of debt is a slow-moving variable, the uncertainty related to how much is too much when it comes to government debt should spur somewhat of a more forward-looking attitude.

Stay safe.

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