



CIO OFFICE MORNING MARKET WRAP – April 18th, 2021. ALSO AVAILABLE ON ALEXA.

It was an eventful week on many fronts, with stocks, bonds and commodities registering positive returns, China on a slowdown path, the US economy turbocharged, yet long-dated Treasury yields falling, and both Fed and ECB officials making hints to the future unwinding of asset purchase programs. Developed market stocks gained 1.5%, the yield on the US 10-year note lost 8bps, gold broke above \$1,750, Brent crude rose by 6% and the US dollar fell back to mid-March levels.

US macro releases saw consumer prices accelerate by the most in almost 9 years, retail sales grow at a torrid, high-single digit pace, unemployment benefits continue their post-pandemic decline and industrial production expand by 2.7%. In spite of this really flattering string of economic figures Treasury yields fell for the week, and across geographies, alongside real yields. It could be a case of investors waiting to reassess incoming data following a steady post-pandemic rise. A case for yields yet to rise more by year-end could be made based on the fact that by summer Fed officials should initiate talk of the tapering of asset purchases and by March the ECB seems to be ready to be done with its Pandemic Emergency Purchase Program, while the BOE could discuss scaling back bond-buying as soon as next month.

The Chinese economy remains on a slowdown course, in spite of the monster-double-digit GDP growth recorded on a year earlier and a surge in retail sales, with quarterly sequential growth easing to only 0.6% once distorting base effects are taken into account.

Financials kicked off the Q1 earnings season, which saw earnings from Goldman Sachs and JPMorgan blow past analyst expectations, Wells Fargo put in the best post-earnings gain in a decade and Bank of America and Citigroup also report above-consensus results. Amongst other factors bank results were boosted by the release of reserves, as loan losses diminish with the recovery progressing. It will be interesting to see how the relative performance of the sector will hold up with long-dated Treasury yields now easing. Also, will banks be able to grow their loans sustainably? This, of course, will depend on the strength of the business cycle. Although the global banking sector is in relatively good health, because of the Archegos meltdown - the family office was forced to sell billions of over-leveraged equity positions after failing to meet margin calls - global banking regulators are considering more oversight of the industry.

The Johnson and Johnson vaccine went through a setback as cases of adverse events related to blood clots occurred and Europe's EMA is set to come up with a decision on its roll-out next week. Actually, according to a French government minister, the EU won't renew contracts both with Astra Zeneca and Johnson and Johnson, prioritising instead mRNA vaccines. The goal is still the vaccination of 70% of adults by the end of the summer. In a disturbing development Chile saw the number of daily cases reach a new record in spite of the country being at the forefront of vaccination efforts with one of the fastest rollouts in the world. On the virus front the mood in Italy remains gloomy for different reasons: for the country's hotels and restaurants 2021 is shaping up to be very much like 2020, considering the collapse in tourist arrivals in the first months of the year. The striking of the proper balance between pandemic and economic risks is growing all the more urgent, and not just in Italy.

Next week will see the release of the Bloomberg economic survey for the Eurozone and the major EA countries and Switzerland on Monday; of Netflix 1Q earnings and the streaming of Apple's first product unveiling of the year on Tuesday; the release of EIA crude oil inventory report on Wednesday; the ECB rate decision, president Joe Biden holding a virtual climate summit with 40 world leaders, the release of ECB consumer confidence, of the US initial jobless claims, leading index and existing home sales, of Credit Suisse results on Thursday; of the Markit manufacturing PMIs in the major developed countries and of US new home sales and Baker Hughes rig count on Friday.

Stay safe.

MAURICE GRAVIER
Chief Investment Officer
Wealth Management
Emirates NBD.

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