



CIO OFFICE MORNING MARKET WRAP – April 19th, 2021. ALSO AVAILABLE ON ALEXA.

Asian shares are climbing as of the time of writing and US futures paring a drop with the strong recovery and corporate earnings coming into focus. Hong Kong and China are outperforming and Japan turned higher. Treasury yields are slipping further but the dollar is steady.

Economic figures released last week confirm the growth rotation between the two largest world economies, as real GDP in China shrank sharply last quarter from the end of last year, while the United States reported boomy readings across the board. The difference could not be more marked in terms of policy stance either. Joe Biden and Jerome Powell have persisted in a sort of hyper-stimulative mode, while Mr. Xi seems to be determined to take care of financial stability risks. The Fed chair, speaking at the Economic Club of Washington, reiterated once more that the FOMC will wait for inflation to be sustainably above 2% and the labour market recovery to be complete before hiking, what we could call the new 'rear-view-mirror stance', but actually is dubbed 'Average Inflation Targeting' as per FedSpeak. On the opposite end of the policy spectrum the Chinese authorities are minded to stave off excessive leverage accumulation, as indicated by their management of the Huarong Asset Management crisis, the systemically important manager of distressed debt whose bailout is in the making. The United States may be winning the stimulus race, though on sustainability the jury is still out.

Cryptocurrencies are making headlines again, poking greed, with outsize gains, and fear, because of what may follow the outsize gains, at the same time. Crypto-enthusiasts must have been delighted by the debut of Coinbase, the largest digital coin exchange in the US, which as of the close of Friday boasted a market cap of \$68bn, in line with that of Intercontinental Exchange, the owner of the New York Stock Exchange. In spite of all of the enthusiasm and hype, the profitability and ultimately the prospects of the company will remain tied to the huge volatility of cryptocurrencies. There is again talk of there being a bubble in Bitcoin, which plunged 8.5% Friday just days after hitting a new all-time high and putting in an enviable 53% gain year-to-date. Chatting of bubbles will anyway leave investors unimpressed, at least until the gargantuan liquidity impulse orchestrated by the Fed abates, which should happen sometime in 1H 22, according to projections. Until that time, most likely the Fed would be helping along and hype only be inflating.

Last week the International Energy Agency, the US Energy Information Administration and OPEC all raised their oil demand estimates for 2021, a synchronous upgrade which had never occurred since they started publishing their reports. This newfound optimism comes from the large upgrade to global growth made by the IMF and the assumption that the pandemic is now running its course, with the worst possibly behind us following accelerating vaccine roll-outs. Should there be harsh lockdowns in Autumn or Winter, not only would collective suffering start afresh, but the outlook for yields, stocks, as well as growth projections could be put into questions, and, yes, the winding down of Quantitative Easing would be delayed, but for unfortunate reasons.

Stay safe.

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