



CIO OFFICE MORNING MARKET WRAP – April 20th, 2021. ALSO AVAILABLE ON ALEXA.

This morning markets in Asia are weak, following yesterday's retreat of US stocks from all-time highs. The technology sector lead losses as the yield on the 10-year note regained the 1.6% level, Europe slipped, the dollar weakened and Bitcoin fell 9%. Investors will be eagerly awaiting the heart of the earnings season and more economic data later this week.

Cryptocurrencies are grabbing headlines again, with renewed weakness across competing coins as of the time of writing. Bitcoin's losses are still modest compared to this year's gains and considering that the digital currency is trading less than 20% off its recent record. Although it is in theory impossible to find convincing explanations for why something devoid of any fundamentals is plunging, there are many currently doing the rounds. Presumable reasons range from concerns about regulatory clampdowns, which is nothing new, to prices getting ahead of themselves, which indeed explains nothing, to more idiosyncratic factors. A positive for cryptocurrencies is that institutional direct involvement is steadily rising and that both Morgan Stanley and Goldman Sachs are planning to offer clients access to crypto-investments. Jim Cramer, ex hedge-fund manager and TV anchor, best described the still mixed attitude towards these digital assets, when he said that he sold off half of his position in bitcoin to pay off a mortgage, being "like phony money paying for real money".

Sometimes it is difficult to find explanations for market swings of something which is supposed to have a well-determined fair value, like the US 10-year Treasury yield. Yet, last week's 8bps yield drop is still hard to square with some of the strongest releases for the US economy. Rate sensitive assets like the euro, gold and hard-currency EM sovereigns reacted promptly and are nicely up month-to-date. Explaining each market zig and zag is much less to the point than understanding the consequences of long-dated yields having already seen a top for the year, which we think they have not. It would mean the failure of the Fed to run a high pressure economy, of the multiple fiscal interventions arranged by Congress, of macro forecasts of US year-end growth to be in the high-single digits. Yes, there is a risk for the recovery to flop out if the massive money supply growth does not translate into loan growth, that is if money sits in the bank and keeps on ending up in financial markets rather than in the economy. Vice Fed chair Clarida's commentary that 2021 growth could be the fastest in 35 years should suggest that money will eventually be put to work properly.

The world powers reconvened on Sunday to try to breathe new life in the 2015 Iran deal. Talks have been held for the past two weeks amidst cautiously more optimistic tones on the Iran's side. Its lead negotiator said that a "new understanding" was taking place and that the text of a new agreement was being worked upon. Iran shrewdly upped the ante in the attempt to gain more bargaining power by starting the process of enriching uranium to the highest level ever, as confirmed on Saturday by the International Atomic Energy Agency. Joe Biden will have his nice set of challenges getting the deal revamped, having for instance to present Congress with a periodic explanation of why such a deal serves national security interests, something established by the Iran Nuclear Agreement Review Act that the Republicans will want to enforce and the president is likely to dispute.

The reporting season continued, with Coke citing strong sales across its beverages and reiterating full-year guidance. IBM shares jumped in extended trading after the company delivered its best revenue gain in eleven quarters, suggesting the CEO Krishna's turnaround plan is working.

Stay safe.

MAURICE GRAVIER
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