



## **CIO OFFICE MORNING MARKET WRAP – Sunday 21st March 2021. ALSO AVAILABLE ON ALEXA.**

Central Banks took center stage last week, with the US Federal Reserve holding their monthly committee on Wednesday. Economic data only confirmed that a large swing in growth has started, and will imminently accelerate as the consumer kicks in: data from the UK and Israel confirm that vaccines are effective in containing the pandemic, and massive fiscal stimulus provides the spending power. This pent-up demand is also confirmed by a sharp rise in business sentiment readings. Of course, there are regional divergences, with continental Europe and some Emerging Economies lagging, but there was nothing really new on the activity front. Where we learnt more was on how central banks see and intend to respond to inflation.

The Fed has kept an inflexible approach: they rose their economic outlook for the year but the update of their rates projections, the “dot-plot”, clearly indicates that they see no reason to hike interest rates before 2023, and may be not even in 2023. The line is similar from the large developed markets, following the ECB’s meeting the previous week. The Bank of Japan widened their targeted range for the 10 year rate, now between plus and minus 25 basis points, which was presented as a simple fine tuning. Indeed, it is not that wide. On the other hand, central banks in Brazil, Turkey, Russia

and even Norway have issued different guidance: rate hikes could be coming there sooner to contain inflation pressures, to control credit extension or limit the risk of housing bubble. China is a particular case: their recovery started earlier, which leads to some transitory slowdown now, and their use of monetary support has been much more modest than anyone else. There could be some irony to see that a country run by a communist party is currently showing the most orthodox monetary policy while the historically fervent supporters of capitalism are creating money to give it to people. Anyway, the frugal liquidity injection from the Bank of China last week confirmed that they are not at all overstimulating, which had a chilling impact on their stock indices.

On the markets' side, the week was volatile, which should never come as a surprise this year given the overall context of unstable equilibrium between growth, inflation risk, elevated valuations and optimistic consensus. Weekly returns were overall slightly negative for risk assets, with stocks down less than a percent in both developed and emerging regions. The US 10-year Treasury yield closed at 1.73% on Friday, higher than last week but a small retreat from its weekly peak. The flows in future contracts tends to indicate that new short positions are being added there. Overall, fixed income markets were also slightly negative, while gold had a contrarian appreciation, gaining 1%. Growth sectors were well oriented after the Fed, with consumer staples and healthcare slightly up while energy was down, without losing its leading position in the year-to-date returns: the energy sector is up 19% in 2021 so far. There was also some regional divergence, with Japan leading and India lagging. The MSCI GCC is so far one of the very best performing regions in the world with a 9% year-to-date appreciation. Elsewhere in the news, US and Chinese officials had their first conversations under the Biden administration. Talks were private but are said to have been constructive, which means tough in diplomatic language, on human rights and trade.

In the week ahead, Fed officials will deliver speeches, flash PMIs will be released on Tuesday as well as consumer confidence in the Euro area and the German IFO. In the US, we will get home sales data and PCE, an index of personal consumption inflation.

Stay safe.

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