



## CIO OFFICE MORNING MARKET WRAP – Thursday April 22<sup>nd</sup>, 2021. ALSO AVAILABLE ON ALEXA

Stocks in Asia are in positive territory as of the time of writing after US stocks snapped a two-day decline to gain almost 1%. Yields staid in a holding pattern, the dollar was little changed and gold came close to \$1,800. Markets are in a tug of war between very strong earnings and rising virus cases. Will they continue to be looking backward to Q1 or be overwhelmed by apprehensions about future developments? In this sense Bitcoin, seen as a reflection of the general mood of the trading crowds, is attracting increasing attention and institutional coverage. JPMorgan, carefully parsing flow and positioning data, said that, unless it soon breaks above 60,000, momentum signals are going to collapse. In less technical jargon this means that institutional investors following those signals, typically the so-called Commodity-Trading-Advisors, would be shorting Bitcoin heavily. In much more clear-cut terms Scott MinerD, the CIO of asset manager Guggenheim Partners, said that he expects a sharp correction between 20,000 and 30,000, though remaining bullish for the longer term.

The long-wave of past Trump politics risks throwing a spanner in the approval process of the infrastructure plan coveted by Joe Biden. In 2017 a tax law approved by Trump capped state and local tax deductions, or SALT, to \$10,000, a source of funds for the then enacted tax cuts. The congressional districts hardest hit were Democratic in overwhelming numbers. Some Democrats are now threatening to refuse to approve any changes to the tax code, necessary for the funding of the new plan, unless the SALT caps are repealed. As this kind of deductions by nature benefit few wealthy taxpayers, and even more White versus non-White households, it would not be in keeping with a true Democratic spirit to restore them. Biden will have his own challenges pushing through the infrastructure package in its original form, affording to lose only 3 Democratic votes in the House given a very lean 218-212 majority.

As for the Biden's tax hikes in pipeline, it does not seem that markets have been bothered starting to discount them. The companies with the highest effective tax rate, the ones standing to suffer the most under new tax rules, are outperforming again under Biden. Investors may be inclined to think that it is going to be quite some time before the unpopular measures are taken, maybe until more visibility is gained on the results of the 2022 mid-term elections.

The ECB meeting today could be an important one for the common area currency. With a big time gap between this policy meeting and the next, president Lagarde could choose to embrace the unfolding recovery and adjust the forward guidance accordingly, or stay put until there is more evidence that this virus wave is under control. To-date the eurozone economy has fared better than analysts expected in spite of lockdowns, which are being gradually lifted under pressure from fatigued populations. If the ECB acknowledges this the EUR could reach 1.22, while an otherwise underwhelming tone hinting to more stimulus would increase the odds of a drop towards 1.19. But Ms. Lagarde's erring on the side of caution, as it is usually the case, would most likely leave traders to their own devices, with a no change to the balance of risks and a reassessment of asset purchases delayed till June.

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