



## **CIO OFFICE MORNING MARKET WRAP – April 25th, 2021. ALSO AVAILABLE ON ALEXA.**

Last week started on a nervous note but ended reasonably well on financial markets. Developed stocks were slightly down on average but their emerging counterparts gained 0.5%. The fixed income universe was well oriented with the US 10-year Treasury yield ending the week at 1.56%. Gold was flat and the price of Brent crude oil was only slightly down, closing at \$66.1 on Friday.

The week was relatively light in terms of macroeconomic data except for interim Flash PMI numbers which broadly confirmed the current sequence in regional leadership. The US is booming, with Markit's April flash composite PMI printing a record 62.2, and new home sales exceeding expectations. China is seeing a plateau, which results from the combination of a maturing rebound after a year, and of deliberate policy tightening. Europe and Japan are in between, with some encouraging signs supporting the idea of a delayed rebound rather than a compromised one, especially as the US will generously stimulate global growth in the current and next quarter. The situation remains complicated on the virus front, but it's worth noting that restrictions put in place in Europe look reasonably effective, and the pace of vaccination is significantly picking up. Japan is facing rising infections but is also fighting with a renewed state of

emergency in Tokyo and Osaka. India is the most problematic. The second wave is devastating, with a potential “double mutation” new variant. In a speech on Tuesday, the Prime Minister urged states to consider lockdowns at the last option. Again, most analysts consider that the situation will delay the recovery rather than derail it.

With regards to central banks, the ECB unsurprisingly reiterated a strong commitment to support activity, which is comforted by the currently low levels of inflation. The Bank of Canada was surprisingly hawkish, leaving open the possibility of a rate hike in 2022, way earlier than what forward markets are pricing for the US, i.e. the end of 2023. The Fed will hold its FOMC meeting next week.

With regards to corporate earnings, the Q1-2021 season will accelerate next week with almost 40% of developed market companies reporting. So far, with around one sixth of completion, Q1 is looking very strong in both the US and Europe. In the former, 73% of numbers came above expectations with an average year-on-year 60% growth. Financials are the best contributor. The proportion of beats is only slightly lower in Europe at 68% and the average year-on-year change is slightly below 50%. In both regions, reality is much better than what the consensus expected, which gives some comfort with currently elevated valuation multiples. We are still overweight in stocks, especially in developed markets, for the time being.

Finally, as Bloomberg writes, “the Bitcoin rollercoaster is back” with a 15% drop in prices over the weekend for the benchmark cryptocurrency, which weighs on more or less all digital assets. Part of it is the very natural convulsions of super speculation, but the catalyst is certainly the increased interest from regulators around the world. The US Treasury may crack down on money laundering suspicions – for financial criminals, non fungible tokens in particular could look like an irresistible temptation. China is rumoured to consider a ban of cryptocurrency mining in Inner Mongolia, which is currently a global centre for this activity due to comparatively cheap electricity prices. Finally, the Turkish central bank said it would ban the use of cryptocurrency as a form of payment from the end of April. The country also launched an international search for the founder of Thodex, one of its major crypto exchanges, who fled the country after stopping paying clients.

Corporate earnings and the FOMC meeting on Wednesday will dominate the week ahead. The OPEC+ will also meet, and we will get Q1 GDP numbers from the US on Thursday and from the Euro area on Friday. The first week of May will see the traditional monthly market movers: PMIs and US job report.

Stay safe.

**MAURICE GRAVIER**  
Chief Investment Officer  
Wealth Management  
Emirates NBD.

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