



CIO OFFICE MORNING MARKET WRAP – Sunday 28th March 2021. ALSO AVAILABLE ON ALEXA.

Risk appetite returned to markets following dovish Fed speak and Biden's announcement of aggressive vaccine roll-outs. US equities recouped losses to record the best returns in three weeks with Real Estate and Consumer Staples leading the advance. Treasuries took a breather and staged a mild rebound in one of their worst starts to a year, the dollar made gains at four-month highs, while gold and crude oil were little changed. Small caps underperformed on both sides of the pond in the five days through Friday, but with excess savings from stimulus and the US economy expected to ramp up, this might not last long having smaller companies a broader representation in cyclical sectors.

The Biden-Yellen joint testimony before the US House Financial Services Committee took centre stage. They both hailed economic progress, while reiterating that more help is needed, in keeping with previous public statements. Powell stressed that "the recovery is far from complete", implying the need for continued monetary accommodation. Yellen repeated that fiscal aid will help the economy go back to full employment. Inflationary pressures were seen on the rise in 2021, but temporary and subsiding in 2022. Bullish investors could have not hoped for better words, with growth and moderate inflation the sweet spot for risk assets.

Rising rates were still at the top of concerns, although the yield on the 10-year Treasury note retreated by 4bps for the week. Views about its year-end target value are quite divided, ranging from a consensus clustering more or less at 2%, to as low as 1% or even lower, depending on how bearish one gets as a function of the slack estimated to be still in the economy in spite of large stimulus efforts. There is more agreement on the fact that levels much above 2% seem untenable, given that there is a limit to how steep the yield curve could go or how high inflation break-evens could reach. If it is true that this time most of the rise in rates is due to stronger growth, rather than fears of tightening as in 2013, it is also true that growth rates are seen to be relatively strong throughout 2021 to moderate next year as stimulus effects fade. Hence, it should not be a matter of whether yields will peak, but rather of whether they will stay strong once they have peaked.

US economic data was mixed, while Europe held up better than expected in spite of prolonged lockdowns. American Personal Income and Spending were negative last month, due to fading stimulus effects, and inflationary pressures remained very muted. Manufacturing on the other hand continued to be strong, with purchasing managers seeing faster expansion ahead and the Philadelphia's Fed general business index surging to an almost five-decade high. Europe showed repeated signs of green shoots in the recovery. The Flash Manufacturing PMI was well ahead of expectations to reach the highest level on record and Germany's IFO Business Confidence was above forecasts as well.

AstraZeneca had to backtrack on the degree of efficacy of its vaccine, lowering the rate to 76% from the previous one of 79% considered to be relying on incomplete results. The ex CDC chief Dr. Robert Redfield said on CNN that he thinks that the corona virus originated in a Wuhan lab. Could this be sensational news, coming from a top US healthcare official? Not if Anthony Fauci rushes to say that Dr. Redfield was just 'giving an opinion', as he has done.

Next week will see the release of the Eurozone Economic and Consumer Confidence on Tuesday; of the EIA Crude Oil Inventory Report, the China Official Manufacturing PMI and the European CPI on Wednesday; the OPEC+ meeting on output and the release of the China Caixin PMI on Thursday; of the US employment report on Friday

Stay safe.

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