INFORMATION FOR INVESTMENT PROFESSIONALS

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Market updates

Investment team updates | 9 April 2021

US equities

Markets

- In a shortened trading week last week (ending 2 April) owing to the Easter weekend, the S&P 500 was up by 1.2% over the four trading days and has continued the positive momentum into this week – up by a further 2%. This has pushed the S&P 500 to an all-time high, as well as crossing the 4,000 barrier for the first time. Growth and momentum have outperformed value recently, reflected by the Nasdaq 100 index outperforming the S&P 500 this week. At the sector level technology was the top performer while energy stocks had the weakest returns as the oil price gave up some of its recent gains, especially as Saudi Arabia announced it would be bringing back more production than expected while a resumption of US-Iran talks could lead to more supply coming from Iran.
- President Biden's announcement of a $2 trillion infrastructure package was one of the key developments of the past few days. While the administration has signalled it will need to fund the spending through an increase in the corporate tax rate from 21% to 28% (but still below the Obama-era figure of 35%), Biden has shown a willingness to listen to Republican concerns regarding the final tax bill. However, it is quite likely the government will look to use the budget reconciliation method to pass the legislation and avoid the need for a 60-vote supermajority. This follows news that the Senate parliamentarian ruled that Senate Democrats could use the tool for a second time just as they did for the recent Covid-19 relief package. Equity markets have generally taken these developments positively given the amount of additional stimulus it will inject into the system and help to underpin accelerating growth as the recovery kicks into gear.
- The minutes of the most recent US Federal Reserve meeting contained no policy changes and no suggestion that they will back away from accommodative monetary policy in the near future. There was an acknowledgement of the accelerating economic recovery in the US given the improving vaccine and Covid case count. The Fed continues to believe that any near-term inflationary pressures will be transitory and it is willing to look through temporary bouts of inflation and tolerate an overshoot of its inflation target before moving to increase rates. We view these easy monetary policy conditions as being constructive for the economic recovery and note the healthy state of consumer savings versus prior recession episodes which, given that the consumer accounts for 70% of US GDP, should help underpin a consumer-led recovery.
- Q1 earnings season will be kicking off next week when the banks start reporting on Wednesday 14 April. Expectations for earnings season are high and have been upwardly revised since the turn of the year given the amount of stimulus entering the system and the easier year-on-year comparisons with the equivalent quarter in 2020, which started to show signs of disruption from the pandemic. Estimates from Factset point to consensus earnings growth of 23.8% for Q121, increasing from expectations of 15.8% growth at 31 December 2020. Analysts are expecting double-digit earnings growth for all four quarters of 2021 with earnings growth peaking in Q2 and an estimated earnings growth rate of 25.9% for the year as a whole.

- We continue to see attractive opportunities in consumer cyclicals and favour this vertical given its leverage to consumer spending. While expectations are high for this cohort, we believe companies can exceed expectations given the amount of surplus savings and pent-up demand ready to be unleashed. Recent credit card data has shown early signs of this spending power coming through.

European equities

- Markets are typically quiet in Europe over the Easter break. But overall the tone has been generally positive, as vaccine roll-outs continue – albeit too slowly to avoid a virus spike in Europe which has caused more lockdowns, at a less stringent level than earlier in the pandemic.
- Reflecting this, Q1 ended with stronger returns from cyclical counters, and less strong returns from stocks which had performed well earlier in the pandemic, in areas such as healthcare and technology.
- M&A and IPOs continue to be a strong feature.

Fixed income

News

- The US Federal Reserve, and its chair Jerome Powell, continued their dovish rhetoric this week, which supports all markets, after a recent bout of strong US economic data around employment and business/consumer sentiment. Non-farm payrolls were very strong, up 916,000 in March, against an expected 660,000, led by the leisure and hospitality sectors. Meanwhile, the unemployment rate fell to 6% in March from 6.2%, with wages growing at 4.4% year-on-year. However, Initial Jobless Claims were weaker and rose to 744,000 for the week ending 1 April with the pandemic still forcing layoffs.
- Also in the US, the ISM Services PMI was at its highest since 1997, while the ISM Manufacturing PMI was at its best since 1983.
- In the UK the PMI was at its highest since 2011 at 58.9, and in the euro area the composite PMI was revised higher to 53.2 (from 52.5).
- Meanwhile, the IMF has upgraded global growth forecasts: 2021 is now expected to be 6% (up from 5.5% in January 2021), and 2022 4.4% (up from 4.2% in January 2021).
- The eurozone has seen increased lockdowns to tackle a third wave of Covid-19, but there is now headway in terms of the vaccine roll-out: France, for example, has now vaccinated 10 million people. However, there has been a notable rise in cases in parts of the US, India has seen a record new case count, and there are surging fatalities in Brazil.

Markets

- Core government bond yields tracked lower over the week, with the US 10-year Treasures starting Monday 5 April at 1.7% before hitting a two-week low of 1.64% the next day, and ending 8 April +1 at 1.65%
- In credit spreads, based on BofA Merrill Lynch Bond Indices, Global IG remained unchanged through the week at 96bps, while Global High Yield tracked lower from 363bps on Monday 5 April to 359bps on 8 April.
- It was a quiet week on oil markets with prices pretty much unchanged at $59.6 per barrel.

Note: all data as at 8 April 2021, unless otherwise specified. Source: Bloomberg.