INFORMATION FOR INVESTMENT PROFESSIONALS

Market updates

Investment team updates | 30 April 2021

US equities

Markets

- In the past week the US market has been driven higher by a combination of better-than-expected earnings and the prospect for more government stimulus. In the four trading days so far this week (26-29 April), the S&P 500 is up by 0.8% and the small cap Russell 2000 up by 1%.
- Equities have also been buoyed by a raft of positive economic data this week. The Q1 GDP print showed that the economy grew at a 6.4% annualised rate, leaving it just 1% shy of its pre-pandemic peak in Q4 2019. Jobless claims fell to their lowest level since the onset of the pandemic, dropping 13,000 to 553,000, while the unemployment rate has moved lower to 6%. As US states begin to lift restrictions on economic activity amid an increasingly vaccinated population, the consumer confidence index rose for the fourth straight month in April. Given that consumers underpin 70% of US GDP, a return to normal spending habits will be crucial to the success of the recovery and early signs are good: retail sales jumped 9.8% in March.
- Combined with this improving data picture, the US Federal Reserve has remained very accommodative in its monetary policy stance. It reported back from its April Federal Open Market Committee meeting this week, with Chairman Powell not willing to consider a tapering of the asset purchase programme until substantial further progress has been made on the recovery. In the Fed's opinion inflationary forces remain transitory, so it won't consider a rate rise until these become sustained.
- The earnings picture overall has been very positive. Factset data shows that with 25% of companies having reported Q1 earnings, 84% have beaten expectations leading to a blended (estimates and actuals) EPS growth rate for Q1 of 33.8%. This is a very strong figure by any standards and has been upwardly revised as companies have reported. However, share price reactions have been more muted given that some stocks had a strong run coming into earnings season and are only being rewarded for substantially beating expectations. Microsoft is a case in point: having beaten expectations across the board, the stock has fallen 3.6% in the two trading days since. Alphabet shares on the other hand have reacted very positively to its own earnings report. Following huge beats on its top and bottom line, given the outstanding growth in its digital ad revenue, shares are up 4.4% since the announcement. Amazon has likewise smashed earnings expectations this week, as sales soared in Q1 2021 to $108.5 billion, which amounts to 44% growth on a year-on-year basis alongside record Q1 profit of $8.1 billion. Shares are indicating up before the open today.

European equities

- German politics remains interesting, with the continuing battle around Angela Merkel's replacement, and the Greens retaining considerable influence.
- In France, the government is trying to entice back the holiday trade, but the virus wave remains a problem, as elsewhere in Europe – although France has set out a roadmap to gradually unlock the country between now and the end of June. The EU is suing AstraZeneca over supply shortages, but the firm says it will "strongly defend itself" against the claim it breached supply agreements.
- Financials have been resurgent owing to expectations of better economic growth, but it has not been one-way traffic – Credit Suisse is mired in the Archegos saga, with heads rolling, poor Q1 results and a battered share price.
- Markets have been strong year-to-date, matching the US and outperforming the UK in common-currency terms.

Fixed income

News

- In the US, GDP expanded less than expected in Q1, by 6.4% (annualised rate), although this is still very strong. It was driven by consumption aided by government transfers (fiscal expansion), while the savings rate remains elevated at 21%, likely fuel for further growth.
- Also in the US, in April 10-year inflation expectations rose again to 2.43%, having been at 0.5% in March 2020. Wednesday 28 saw the US Federal Reserve meeting and the following: an upgrade of growth forecasts on the back of better vaccine news/policy support; no change to present policy or to forward guidance of policy; and an expectation that rises in inflation will be short lived/transitory.
- President Biden, meanwhile, delivered details of spending on education and infrastructure to a joint session of congress, and US consumer confidence in April rose by more than expected to a new "post-pandemic" high of 121.7. US durable goods orders rose by less than expected in March, 0.5%, on lower aircraft – and specifically Boeing – orders.
- In Europe, the Euro Commission Economic Indicator rose to highest level since end of Q218, rising to 110.3 points in April from 100.9 in March.
- In France, GDP grew more than expected in Q1, by 0.4% against 0.0%, with the country set to relax curfew controls over the coming weeks before exiting all lockdowns by the end of June.
- In Germany, inflation rose to its highest level in two years in April, at 2.1% year-on-year, on the back of strong rollout of vaccinations. The IFO business climate index for April, meanwhile, reached its highest level since mid-2019.
- In the UK, ONS credit card spending data has bounced back to pre-pandemic levels.
- In China, the Caixin Manufacturing PMI improved in April, though the official PMI dropped due to sampling differences, with moderation reported in service sector PMIs.

Markets

- In core government bonds, the US 10-year treasury started the week (26 April) at 1.58%, before experiencing a large sell off on 27 April to 1.64%, and seeing the remainder of the week out unchanged. Wednesday 28 April in Germany, meanwhile, saw core bond yields move higher to -0.23%, around about the highest level in a year, before moving higher still on Thursday 29 April to -0.2% – do positive yields beckon?

- In credit markets, based on BofA Merrill Lynch Bond Indices, Global IG essentially remained unchanged all week at 95bps. This very low volatility remains a key feature of credit markets throughout April, with IG showing a 2bps range during the month. In Global High Yield, meanwhile, there was also very little movement, starting the week (Monday 26 April) at 360 bps and ending it (Thursday 29 April) at 356. In emerging markets – USD sovereign spreads ended the week (29 April) at 315bps, having started April at 323bps.
- The BCOM Commodity Index is up 8% month-to-date, driven by agriculture and oil-based energy, and up 15% year-to-date. On Tuesday 27 copper rose to its highest level in a decade, while oil spent the week inching higher, moving from $62.4 on Monday 26 to $64.7 on Thursday 29.
- In FX, the dollar was basically unchanged against the euro all week at around 1.21.

Note: all data as at 29 April 2021, unless otherwise specified. Source: Bloomberg.