INFORMATION FOR INVESTMENT PROFESSIONALS

Market updates

Investment team updates | 23 April 2021

US equities

Markets

- Last week (ending 16 April) was another good week for US equities, building on recent strength. Both small and large caps saw gains, with the S&P 500 up by 1.4% and the Russell 2000 up by 0.9%. Growth and momentum led the way, while value trailed.
- Positive momentum behind the reopening narrative really helped to drive the market, confirmed by an array of positive macro data and the fact that close to 50% of US adults have now received at least one vaccine dose. President Biden's administration is on course to deliver 200 million doses in its first 100 days, having originally targeted 100 million.
- This week, US equities have pulled back slightly after reaching all-time highs and if this continues through Friday 23 April would set the S&P 500 for its first negative week since mid-March. There were reports this week that Biden is considering an increase in capital gains tax, targeted at the wealthiest Americans. Although such an increase has been expected in order to pay for the stimulus packages, the size of the proposed increase is ahead of some expectations.
- Republicans have proposed a much reduced $568 billion counter-offer to Biden's $2.25 trillion infrastructure plan, which demonstrates the gulf in expectations between the two sides. However, should the Democrats choose to use the budget reconciliation process they would be able to sidestep the filibuster and pass the package solely with Democrat votes.
- Jobless claims data improved again this week, continuing the recent positive trajectory and reflecting improvement in the labour market. New filings for jobless claims came in at 547,000, a decline of 39,000 from the prior week and a new low since the pandemic effect began. Although there are threats to this improving picture, it has demonstrated the strength of the overall economic recovery amid reopening and a successful vaccine rollout. Further positive signals from a surge in retail sales and an excellent non-farm payrolls report for March have provided basis for the economic recovery narrative.
- Q1 earnings season is well underway and results have been particularly eye-catching. So far, 22% of S&P 500 companies have now reported. According to FactSet data, 86.5% of companies have surpassed consensus earnings-per-share (EPS) expectations. In aggregate, companies are reporting earnings that are 24% above expectations. There is an expectation for Q1 EPS growth of around 32% for the S&P 500, based on those companies which have already reported and estimates for the rest, which is a significant improvement on expectations for a 24% rise before reporting began.

- We hold this against the fact that this is the first quarter of easy comparisons with the same quarter in 2020, and also that analysts have been overly conservative in their estimates on the economic rebound. In addition to this, it is clear the economic stimulus and the reopening of the economy is also translating to enhanced company earnings.
- Overall, pandemic winners remain bright spots, while those companies in the eye of the storm such as airlines have come out with some fairly positive reopening commentary. Supply chain constraints, input cost pressures and price increases continue to receive attention on earnings calls.
- The big banks kicked off earnings last week, producing very impressive numbers: Goldman Sachs and JPMorgan issued their highest quarterly earnings on record. This was largely driven by investment bank departments as trading revenue remained high and capital markets work was in very high demand as equity underwriting boomed. The release of more reserve provisions, which had been set aside, or bad loans, also helped the bottom line. However, there was continued weakness in loan growth, for instance at JP Morgan outstanding loans were down 4% on a year earlier. Anecdotally, it would seem consumers have less reason to borrow as they are sitting on elevated levels of savings from the stimulus programmes, which they are waiting to deploy as the economy reopens.

European equities

- President Biden has reinforced the renewal of policies to address climate change. US tax changes are causing some concerns and distortions, while reflationary US policies are still supporting markets globally, including in Europe.
- German politics is exciting interest as the race to replace Angela Merkel gains pace. The strength and influence of the Green party is a notable feature.
- Vaccines in Europe are belatedly rolling out and picking up pace, and “light” lockdowns continue. There is some emphasis on vaccinating those in holiday areas – for example, the Greek and Spanish islands – to stave off a second lost summer holiday season.
- The company results season in Europe has generally been encouraging, and cyclical, recovery counters continue to be in favour.

Fixed income

News

- In March in the US housing starts were stronger rising to 1.74 million. Meanwhile, the University of Michigan Consumer sentiment rose modestly to 86.5 in April from 84.9 in March – lower than the expected 89.6.
- The UK saw a strong rebound in retail sales to 7.2% year-on-year in March. Also in the UK consumer price inflation for March rose slightly to 0.7% year-on-year, with the core rate at 1.1% year-on-year, slightly less than expected.
- UK house prices rose by 8.6% year-on-year in February, while the unemployment rate for December 2020-February 2021 fell to 4.9% – lower than expected.
- In the eurozone, France’s PMI composite rose to 51.7 in April – a nine-month high – while Germany’s dropped slightly to 56.0.
- In China the People’s Bank of China may provide assistance/bailout for Huarong, a troubled “bad bank”.
- Turning to Covid-19, globally cases are growing, with India recording 315,000 in a day on 22 April, and almost 1.6 million cases across a seven-day period. Japan, meanwhile, on 23 April announced “short and powerful” states of emergency for Tokyo, Osaka and two other prefectures.

Markets

- Core government bond yields drifted lower over the week. The US 10-year Treasury started Monday 19 April at 1.62, dipped to 1.54% on the Wednesday before drifting higher on Thursday 22 April to 1.57%. We started the month at 1.74%, and this rally is being led by falling real yields rather than declining inflation expectations.
- Credit markets, meanwhile, drifted almost nowhere. Global IG, based on BofA Merrill Lynch Bond Indices, started and finished the week (22 April) at 96bps, while Global HY widened slightly from 358bps on 19 April to 366bps on 22 April. Both markets are around 0.8 to 1.0 standard deviations rich of their five-year averages.
- Tuesday 20 April saw heavy new issuance in US IG market, after US banks results weighed on the market. Meanwhile, Netflix missed on new subscription numbers after a recent upgrade to BB1 (two notch) from Moody's.
- Oil prices fell slightly over the week, as worsening Covid-19 case numbers dented growth/demand sentiment, from $64.1 a barrel on Monday 19 to $62 a barrel on Thursday 22 April.
- In FX the US dollar was pretty much unchanged against the euro at 1.205.

Note: all data as at 22 April 2021, unless otherwise specified. Source: Bloomberg.