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Market updates

Investment team updates | 7 May 2021

US equities

Markets

- Following a flat week for the S&P 500 last week (ending 30 April), the index has moved 0.5% higher in the four trading days so far this week (ending 6 May), and is still hovering close to all-time highs. The small-cap Russell 2000 lost some ground, down by 1.1%.
- Q1 earnings season results have continued to come in this week. At the high level, with 60% of companies having reported, results are well ahead of expectations with 86% of companies beating earnings estimates. The year-on-year earnings growth rate stands at 45.8%, based on a blend of actual results and estimates. Expectations coming into the quarter were for a growth rate of 24%, so this has been revised significantly higher as actual numbers have been released. If this growth rate is maintained for the remainder of the earnings season it will be the best quarterly earnings growth rate since Q1 2010, when the US economy was emerging from the previous recession.
- While companies have easier comparisons with Q1 2020, the magnitude of this growth rate underlines the strength of the economic rebound, which is continuing to pick up pace through vaccine and stimulus efforts.
- A feature of this results season has been the relatively muted reaction of stock prices to earnings beats, particularly in the highly rated companies which had a strong run through the pandemic, showing that a lot of the good news was already priced in.
- A number of economic data points have come out this week. Better-than-expected weekly jobless claims fell to the lowest level since the pandemic began. The ISM services report for April came down from a record high reading in March but is still indicating very strong expansion for the sector.
- Comments from Treasury Secretary, Janet Yellen, on Tuesday 4 May suggesting that interest rates will have to rise to prevent the economy from overheating briefly sent markets lower – she later clarified she was not recommending or anticipating higher rates. Although tapering of quantitative easing will likely precede an increase in rates, the US Federal Reserve remains cautious and considers the current inflationary episode to be transitory.

European equities

- Results have generally been encouraging, and this has encouraged the market to push ahead to new highs.
- European countries are catching up in terms of vaccinations, and there has been much pressure to focus on holiday destinations to ensure the holiday season survives in some form.

- The combination of vaccinations encouraging reopening, an economic rebound, together with good corporate news and encouraging monetary and fiscal policy is supporting markets.
- IPOs continue in Europe, with good demand.

Fixed income

News

- China reported exports in April had moved higher by 32% year-on-year, imports moved higher by 43% year-on-year, and the Caixin Service Sector ISM was at 56.3.
- In the eurozone, retail sales moved higher by 2.7% in March, which was better than expected, while in Germany factory orders were also higher in March, up by 3%.
- In the UK, the Bank of England left monetary policy unchanged but revised GDP forecasts higher to 7.25% for 2021 from 5% in Feb.
- Also in the UK, the Scottish National Party (SNP) look likely to get a seven seat majority in the election on 6 May, but the result isn't expected until Friday 7/Saturday 8 May. If this is the case the risk of a second independence referendum rises.
- In the US President Biden has vowed to have 70% population given a first jab by 4 July. Elsewhere with Covid, cases continue to fall in Europe but rise elsewhere, with the situation in India continuing to be desperate.

Markets

- In core government bond yields, the US 10-year yield started the week (3 May) at 1.62% before improving over the week to 1.57%. The German 10-year was little moved over the week at 0.23%. The UK 10-year yield ended the week at 0.79%.
- In credit markets, based on BofA Merrill Lynch Bond Indices, Global IG was unmoved across the week at 95bps. Global HY, meanwhile, barely moved from the 361bps level it ended Thursday 6 May.
- The Bloomberg Commodity Index moved close to a 10-year high this week (4 May). Industrial metals and energy were driven higher by rising demand, while crop prices moved higher on dry weather globally, particularly in Europe and Brazil.
- Oil began the week (Monday 3 May) unchanged at $64.5 per barrel before tracking higher to $66.1 the next day. It fell slightly over the remainder of the week ending it (6 May) at $65.1
- In FX, the dollar was relatively static against the euro all week starting the week (3 May) at 1.202 and finishing it (6 May) at 1.206.

Note: all data as at 6 May 2021, unless otherwise specified. Source: Bloomberg.