

# Market Review

## Global Market Strategy @ Natixis Investment Managers Solutions

### Macroeconomic developments

The Russian invasion of Ukraine has triggered a global shock that has tightened broad financial conditions, reflecting in declines in equity prices, increases in sovereign yields, credit spreads, and a stronger US dollar. Price pressures continued to accumulate in March after commodity prices jumped following the sanctions introduced against Russia, which is a key producer of several important commodities. And, on top of the additional supply chains that the conflict has already disrupted, China imposed a new series of lockdowns in line with its zero-Covid policy, which increased delays and affected the production of inputs.

The US economic data suggests that growth remained solid for the first quarter of 2021. That is, PMIs stayed at elevated levels, spending remained solid and job creation was very robust –in line with a very tight labour market. Headline consumer inflation jumped by 7.9% year-over-year in March, extending pressures for Fed's intervention despite delivering their first 25 basis point hike and their incrementally hawkish tone. On this line, the elevated uncertainties associated with geopolitical events, did not prevent the Fed from signalling intentions to proceed with its policy normalization agenda. As such, market participants continued to price in more rate hikes for 2022 –with expectations for a 50 basis point increase in May being now the consensus.

Eurozone's high dependency to Russian gas has materially increased downside risks for the region's economic growth; high energy prices are expected weigh on both business and consumer demand. The Area's inflation accelerated to 7.5% year-over-year in March, with the caveat that the energy component explaining two-thirds of the increase – but just one-third the US print. The European Commission announced a plan called "RePowerEU" that, among other objectives, aims to reduce EU's energy dependency from Russia by two-thirds before year-end. Still, the ECB announced an acceleration of its tapering schedules, but, in light of the current economic and geopolitical backdrop, President Lagarde emphasized on the ECB usual data-dependency stance.

### Markets' reaction

Financial markets were very volatile during March with both the VIX and MOVE indices approaching pandemic levels. Noteworthy, however, is the relative better behaviour of the equity-implied volatility compared to the bond one. That is, while both indices jumped when the war struck, the VIX index has since come back down to pre-pandemic levels whereas the MOVE index remains very high compared to its historical levels. This pattern suggests several things. First, there is a persistent uncertainty in markets, especially in bond ones, around the capacity of central banks to do as much as necessary to address inflation. But at the same time, there is also nervousness around the possibility that central banks could act more aggressively than currently expected by markets. Secondly, equity markets appear to have become more resilient to uncertain backdrops, reflected in their strong rebound since they bottomed in March 8<sup>th</sup>.

In the meantime, however, equity markets were broadly positive in March with the MSCI World outperforming the EM one, whose performance was largely driven down by the China's sell-off. However, although the major equity indices enjoyed a rapid recovery, all remain negative year-to-date –with the exception of the FTSE 100. The S&P 500 increased 3.7%, the NASDAQ 2.8% while EuroStoxx50 lagged, posting a 0.5% negative return, as the FTSE MIB and the IBEX35 fell 1.5% and 0.3%, respectively. On the other hand, the Chinese CSI 300 led the losses with a 7.8% decline following the governments' new series of lockdowns. And, coming as no surprise, commodity-linked markets were the best performers with Australia up 7%, Norway 6% and Canada 4%.

Conversely, bond prices declined sharply in March as investors look through the war in Ukraine and remained worried on inflationary pressures. Although the US 10-year yield soared 51bp to 2.34%, its highest level since May 2019, the 2-year yield jumped 90bp to 2.33%, as investors reassess their tightening expectations in light of the more hawkish tone of Fed policymakers. This also led to a brief inversion of the infamous 2y-10y spread by the end of the month, signalling that a recession should occur during the next 18 months. European sovereign yields also increased, with the German Bund up 41bp to 0.55%, OATs up 30bp to 0.98% and BTPs up 33bp to 2.04%. Moves were relatively less pronounced for Gilts, which increased 20bp to 1.61%.

# Market Review

Corporate debt posted significantly negative returns and wider spreads, underperforming sovereign debt. The smaller duration in the high yield space, made it perform relatively better than investment grade. As such, US IG and HY fell 2.5% and 1.1%, EU IG and HY returned -1.3% and 0%, and EM IG and HY fell 4.1% and 1.7%, respectively.

TABLE: Best and Worst Performers during Last Month

Developed Markets Equity - LC		Fixed Income Sectors - LC	
<b>Top 3 Markets in March</b>	<b>Return</b>	<b>Top 3 Markets in March</b>	<b>Return</b>
- S&P/ASX 200 Australia	7.0%	- EU HY	0.0%
- OBX Norway	6.1%	- EM Sov HC	-0.9%
- Nikkei 225	5.7%	- US HY	-1.1%
<b>Worst 3 Markets in March</b>		<b>Worst 3 Markets in March</b>	
- ISEQ Ireland	-7.9%	- EM Corp IG	-4.1%
- Hang Seng	-2.8%	- US GOV	-2.8%
- ATX Austrian	-2.1%	- EM Corp HC	-2.5%
Emerging Markets Equity - LC		Forex and Commodities - USD	
<b>Top 3 Markets in March</b>	<b>Return</b>	<b>Forex</b>	<b>Return</b>
- Turkey Bist 100	17.1%	- DXY Index	1.7%
- Moex Russia	9.4%	- USD/EUR	-1.4%
- S&P PSA Chile	8.9%	- USD/GBP	-2.1%
<b>Worst 3 Markets in March</b>		<b>Commodities</b>	
- CSI 300	-7.8%	- Gold	1.5%
- FTSE South Africa	-0.8%	- WTI	4.8%
- PSEi Philippines	-0.6%	- Bitcoin	9.9%

# Market Review

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