NATIXIS INVESTMENT MANAGERS

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Market Review

Global Market Strategy @ Natixis Investment Managers Solutions

Economic & Political News

The vaccination process made further progress in the US and the UK, with over 44% and over 51% the respective populations having received at least one dose. Encouragingly, Europe's vaccine rollout gained steam during the month and the outlook for supplies improved. The share of the total population having received at least one dose in the European Union (EU) doubled to over 24% during April, with Germany leading the pack.

The US economy grew at an annualized pace of 6.4% in the first quarter of 2021, bringing the real GDP to just 0.9% below its pre-pandemic level. The labour market added 916'000 new jobs in March compared to over 379'000 the month before. Retail sales increased 9.8% in March, nearly doubling expectations, and now are 17% above the pre-pandemic level. However, despite core inflation jumping to 1.6% in March from 1.3% the month before, and commodity prices continuing their upward move —with copper prices close to an all-time high—, the Federal Reserve continued steadfast in its message that inflation will be transitory, and that "substantial further progress" had to be achieved before considering beginning tapering asset purchases.

Moreover, President Biden unveiled two fiscal package proposals in addition to the USD 1.9 trillion *American Rescue Program* that went through in early March. The first targeting infrastructure and jobs, the *American Jobs Plan*, amounting to USD 2.25 trillion; and the other one targeting social policies and education, the *American Families Plan,* amounting to USD 1.8 trillion.

The Eurozone economy experienced a slight double-dip in the first quarter, the GDP dropping 0.6%. German GDP contracted 1.7% while French GDP was up 0.4%. However, the European Commission's sentiment index rose in April to levels not seen since September 2018, auguring for a rebound in activity in the second quarter. For its part, the European Central Bank (ECB) sounded somewhat more dovish than the Fed, suggesting that its tapering of bond purchases will likely be slower than that of its US counterpart.

China's economy grew 0.6% during the first quarter as its activity in services continues to improve and the situation across sectors gets balanced. At the same time, fiscal and monetary authorities continue to lessen their support. Cases have spiked in some emerging countries —such as Turkey, Taiwan and, especially, India—, risking delaying their recovery.

Equities

April was a strong month for developed equity markets as the 10-year Treasury yield retreated from its March peak of 1.77% and ended the month at 1.63%. The prospects for economic growth and a strong earnings season enabled developed markets (+4.7%) to outperformed emerging ones (+2.5%). Like at the end of January, the rotation trade took a breather in April as growth stocks (6.3%) outperformed value (+3.2%).

Within developed markets, the S&P 500 (+5.3%) outperformed both the STOXX 600 (+2.4%) and the Japan TOPIX (-2.8%) due to their more value-tilted construction. Within European markets, the CAC 40 increased 3.6%, followed by the IBEX 35 and the DAX, which increased 2.8% and 0.9% respectively, while the FTSE MIB declined over 1.9%. The best performing developed markets' sectors were Communication Services (+7%), Real Estate (+3.1%) and Information Technology (+5.5%). The worst performing sectors were Energy (+0.4%), Industrials (+2.8%) and Utilities (+3.1%).

Fixed Income

Government bond yields retreated from their recent peaks during April, investors having already priced in lots of fiscal stimulus, higher growth, and higher inflation.

The 10-year Treasury yield retreated 8bp to 1.63% and the 2s10s spread tightened slightly from 156bp to 147bp, Conversely, yields in Europe rose, driven by the improvement of the continent's vaccine campaign. The yield on the 10-

year German Bund increased 8bp to -0.20% and its 2s10s spread widened from 41bp to 48bp. In addition, OATs increased 20bp to 0.16%, BTPs increased 22bp to 0.9%. For their part, Gilts remained quite stable just ticking 2bp up to 0.84%. Moreover, corporate debt continued to tighten and to absorb some of the rise in yields: IG US, EU and EM spreads narrowed 3bp, 7bp and 9bp respectively; and HY US, EU and EM spreads narrowed 28bp, 18bp and 36bp.

Emerging Markets

The MSCI Emerging markets index returned 2.5% during the month, underperforming the MSCI World (+4.7%) despite a weaker USD and higher commodity. The main driver of this underperformance is likely to have been the rising Covid-19 infections, especially in India, where daily new cases were exceeding 400'000 at the end of the month, as well as idiosyncratic risks in China surrounding tech regulation.

At the index level, the best performing emerging market (in local currency) was Saudi Arabia (+5.6%), followed by Qatar (4.9%) and South Korea (+2.8%). Emerging Latam was up 3.7%, followed by emerging Europe and Asia, which were up 1.7% and 2.4% respectively. The worst performing emerging markets were Chile (-8.7%) and India (-1.5%).

FX & Commodities

The DXY index, which measures the US dollar against a currency basket, declined 2.1% to 91.3, mimicking the fall in US yields, and has since settled into something of a trading range with major currencies. The US dollar weakened against every major currency. It lost 2.5% to 1.20 against EUR, 0.3% to 1.38 against GBP, 3.2% to 0.91 against CHF, 1.3% to 109.3 against JPY, 1.2% to 6.47 against CNY and 1.6% to 0.77 against AUD. Conversely, it only strengthened against TRY — gaining 0.52% — as the Turkish authorities are trying to tackle the country's rising inflation amid surging Covid-19 cases.

The gold price rebounded 3.6% to USD 1,768 per ounce in April after almost reaching a multiyear low level at the end of March (around USD 1,670 per ounce), partially driven by the stabilization of medium-term inflation expectations. Oil prices experienced a strong month as reopening prospects improved and the OPEC+ agreed to maintain its supply cuts throughout the summer. WTI increased 6.8% to USD 63.5 per barrel and Brent increased 5.8% to USD 66.7 per. Copper prices reached an 11-year high, close to an all-time high, after jumping 11.8%.