MAY 2021

Market Review

Global Market Strategy @ Natixis Investment Managers Solutions

Economic & Political News

In general, positive data surprises continued in May as the ongoing vaccination process allowed many countries to gradually reopen and businesses to review their growth expectations upwards. This rapidly improving economic outlook has, however, broadened inflation concerns, especially after the US April inflation print, where headline inflation rose 0.8% month over month (to 4.2% year over year). In addition, there have also been some datapoints suggesting upward pressures on wages. The April jobs report showed that the US labour market had added 266 thousand jobs, largely missing expectations for 1 million. However, the latest National Federation of Independent Business (NFIB) survey pointed that small businesses are struggling to fill jobs, which has led some states to announce that they will be ending current enhanced unemployment benefits before September (their original expiring date). Nonetheless, the Federal Reserve has continued to point towards temporary factors being at play and has, therefore, stayed firm on its economic outlook.

After a slow start, the vaccine rollout in Europe has finally picked up, and is currently advancing at similar rates to those of the UK (~0.8% of the population per day). As a result, mobility restrictions are expected to be gradually removed over the summer, which has boosted growth expectations for the second half of 2021 (as suggested by the IFO index in Germany and the INSEE survey in France). In particular, the continent's services sector is expected to bounce back in the near term, after its recovery had been hampered due to slower vaccination. Moreover, after months of delay, the European Union (EU) countries finally ratified the EUR 750 billion recovery fund and funds should be disbursed in the coming months.

Equities

Despite the broadly positive data, inflation fears weighed on equity performance during May. As such, developed markets posted a +1.5% return, underperforming emerging ones (+2.3%), while expectations for higher inflation helped value stocks to outperform growth ones (+3% vs 0.1%, respectively). With the earnings season now in the rear-view mirror, Q1 corporate earnings were much stronger than expected: S&P 500 earnings' growth was 47% year over year (vs. expectations for 20% year over year growth), while STOXX 600 earnings' growth was 93.3% year over year (vs. expectations for 44% year over year growth).

Within developed markets, the STOXX 600 (+2.7%) outperformed both the Japan TOPIX (+1.4%) and the S&P 500 (+0.7%) thanks to its more value-tilted construction. As such, the technology-heavy Nasdaq declined 1.4%. Within European markets, the FTSE MIB increased 5.2%, followed by the CAC 40 and the IBEX 35, which increased 4% and 3.9%, respectively. Moreover, the DAX increased 1.9% and the FTSE 1.1%. The best performing developed market sectors were Energy (+5.3%), Finance (+4.9%) and Materials (+4.3%). The worst performing sectors were Consumer Discretionary (-1.1%), Information Technology (-1%) and Utilities (-0.6%).

Fixed Income

Government bond yields continued to retreat from their recent peaks; indeed, yields barely moved on inflation prints, which suggests that investors have already priced in a higher growth and inflation outlook.

The 10-year Treasury yield retreated 3bp to 1.59% and the 2s10s spread tightened slightly from 147bp to 145bp. Core sovereign yields in Europe stayed relatively quiet during the month after lots of reopening was already priced in during April. The yield on the 10-year German Bund increased 1bp to -0.19% and its 2s10s spread stayed unmoved at 48bp. In addition, OATs increased 1bp to 0.17%, BTPs increased 1bp to 0.1%. For their part, Gilts declined 5bp to 0.80%. Moreover, corporate debt was mixed: US IG tightened 5bp, but HY widened 5bp; EU IG widened 2bp and HY was flat; while both EM corporate rates continued to tighten, 6bp for IG and 14bp for HY.

Emerging Markets

The MSCI Emerging Markets index returned 2.3% during the month, outperforming the MSCI World (+1.5%) supported by a weaker US dollar as well as higher commodity prices. After declining for some months, Asian stocks were up 1.2% during May, likely as a reflection of the vaccination progress achieved in India, where +190 million jabs have been administered so far, behind only the US and China in absolute terms.

At the index level, the best performing emerging market (in local currency) was India (+8.7%), followed by Pakistan (8.2%) and Russia (+6.9%). From a regional perspective, emerging Europe led, increasing 9.9%, followed by emerging Latam and Asia, which were up 8% and 1.2% respectively. The worst performing emerging markets were Taiwan (-1.2%) and South Korea (+0.4%).

FX & Commodities

The DXY index, which measures the US dollar against a currency basket, declined 1.59% to 89.8 driven by stable yields and improving data from outside the US. The US dollar weakened against every major currency. It lost 1.7% to 1.22 against EUR, 2.8% to 1.42 against GBP, 1.6% to 0.89 against CHF, 1.6% to 6.37 against CNY and 0.2% to 0.77 against AUD. Conversely, it strengthened only against JPY (+0.3%) and TRY (+2.4%).

The gold price rallied 7.8% to USD 1,907 per ounce in May partially driven by the progress in terms of vaccination campaigns in emerging markets, especially in India, as well as by inflation concerns. Oil prices posted another strong month as global reopening prospects improved and the OPEC+ supply cuts continued. WTI increased 4.3% to USD 66.3 per barrel and Brent increased 3.1% to USD 69.3 per barrel. Copper prices reached an all-time high, after jumping another 4.4% to USD 4.65 per pound.