Confidence must be earned

Amundi ASSET MANAGEMENT

Weekly Market Review

The latest news from financial markets

for the exclusive attention of professionals

Edition of June 14, 2021 By research Amundi

The week at a glance

- **Markets**: The week was mainly positive for European stocks, Emerging markets were the laggards.
- **United States**: The US Consumer Price Index increased by 0.6% Month-on-Month in May, 5.0% Year-on-Year.
- **Eurozone**: The Eurozone Sentix Index rose to 28.1 in May.

KEY FIGURE

5.0%

Year-on-Year rise in US inflation for May

Focus

Lessons from Peru and Mexico presidential and mid-term elections

The political pendulum has swung visibly leftward in Latin America, driven by anti-establishment feelings magnified by the tragic consequences of the pandemic, as Peru's numbers clearly show. Mexico, meanwhile, has defied regional trends to some degree.

In Peru, results have not been finalised yet, with 500k votes being contested over irregularities and the hard-left candidate Castillo leading against the right-aligned Fujimori by nearly 70k votes. Fujimori's victory would likely mean policy continuity with a populist twist, though at the risk of social unrest in the short term. Castillo, meanwhile, stands for a regime and economic model change, higher structural spending and taxation (and regulation) of the mining sector, a Chilean-style constitutional overhaul that would open a Pandora's box wide and clear. Congress has technically the power to block the radical proposals but this is not a given, due to its fragmented nature.

In Mexico, meanwhile, the Morena coalition (Mc) lost its supermajority, but retained a simple, majority that will allow it to control the budget and legislative agenda but without the power to amend the constitution. This essentially means more of the same by the AMLO administration – a populist but prudent fiscal approach and pursuit of the state-centric vision of the energy sector with the help of the Supreme Court. And while the supermajority is gone, Mc did well in the state elections, winning another 12 governorships, and now has 17 out of 32, thus strengthening its local presence.

KEY DATES

14th June	15th June	15th June	16th June
Eurozone industrial production	Eurozone inflation	US Producer Price Index	China industrial production

Source: Amundi Research.

Our weekly analysis

ECB to keep its dovish “steady hand” by not tapering PEPP

At its most recent meeting, the ECB kept its policy unchanged and confirmed its pandemic emergency purchase programme (PEPP) at a significantly higher pace than in the first months of the year. The prospective shift of Quantitative Easing over the summer was the major focus on markets’ radar and, as broadly pre-announced in the communications of previous weeks, there is no sign of tapering for now. This looks consistent with the fact that ECB has made it clear that its priority is still to keep financing conditions accommodative. The need to keep a “steady hand” through Quantitative Easing was sustained as well by mixed revisions to the economic outlook, which improved in growth for 2021 and 2022, while still pointing to unchanged and lower-than-targeted inflation levels in 2023. Furthermore, the slight tightening in financing conditions since the March meeting and the expected improvement in macro prospects still to be confirmed in the next few months does not yet favour any tapering of the current stimulus.

The outcome of the meeting is maintaining a favourable environment for EUR spread products (in both peripheral and credit markets) and is reducing the potential upside of EUR bond yields. We expect monetary stimulus to remain in place next year and, in this respect, the September meeting is likely to provide more guidance on stimulus deployment in 2022. At that time, in fact, the ECB will have also more visibility on macro trends.

Indice	Performance			
Equity markets	06/11/2021	1 W	1 M	YTD
S&P 500	4246	0.4%	2.3%	13.0%
Eurostoxx 50	4124	0.9%	4.5%	16.1%
CAC 40	6601	1.3%	5.3%	18.9%
Dax 30	15677	-0.1%	3.7%	14.3%
Nikkei 225	28949	0.0%	1.2%	5.5%
SMI	11856	2.5%	7.9%	10.8%
SPI	15220	2.0%	7.9%	14.2%
MSCI Emerging Markets (close -1D)	1379	-0.2%	3.7%	6.7%
Commodities - Volatility	06/11/2021	1 W	1 M	YTD
Crude Oil (Brent, $/barrel)	73	0.9%	5.8%	40.1%
Gold ($/ounce)	1885	-0.3%	2.5%	-0.7%
VIX	16	-0.9	-6.3	-7.2
FX markets	06/11/2021	1 W	1 M	YTD
EUR/USD	1.21	-0.4%	-0.3%	-0.8%
USD/JPY	110	0.1%	0.9%	6.3%
EUR/GBP	0.86	-0.2%	-0.3%	-4.0%
EUR/CHF	1.09	-0.5%	-0.8%	0.6%
USD/CHF	0.90	-0.2%	-0.5%	1.4%

Source: Bloomberg, Amundi Research – 06/11/2021 – 15:00 pm

Indice	Performance			
Credit markets	06/11/2021	1 W	1 M	YTD
Itraxx Main	+47 bp	-2 bp	-4 bp	-1 bp
Itraxx Crossover	+232 bp	-12 bp	-23 bp	-9 bp
Itraxx Financials Senior	+55 bp	-3 bp	-6 bp	-4 bp
Fixed Income markets	06/11/2021	1 W	1 M	YTD
ESTER OIS	99.06	-1 bp	-5 bp	-25 bp
EONIA	-0.48	-	-	+2 bp
Euribor 3M	-0.55	--	-2 bp	--
Libor USD 3M	0.12	--	-4 bp	-11 bp
2Y yield (Germany)	-0.68	-1 bp	-2 bp	+2 bp
10Y yield (Germany)	-0.28	-7 bp	-12 bp	+29 bp
2Y yield (US)	0.15	-	-1 bp	+3 bp
10Y yield (US)	1.46	-10 bp	-17 bp	+54 bp
Eurozone Sovereigns 10Y spreads vs Germany	06/11/2021	1 W	1 M	YTD
France	+37 bp	-	-1 bp	+14 bp
Austria	+24 bp	--	-1 bp	+8 bp
Netherlands	+15 bp	-	--	+6 bp
Finland	+17 bp	-	-1 bp	+1 bp
Belgium	+34 bp	-	-1 bp	+15 bp
Ireland	+40 bp	-	-1 bp	+13 bp
Portugal	+63 bp	-4 bp	-7 bp	+3 bp
Spain	+63 bp	-4 bp	-5 bp	+1 bp
Italy	+102 bp	-6 bp	-13 bp	-9 bp

Asset class

	MARKET	AMUNDI ANALYSIS
Equity	**The week was mainly positive for European stocks after the central bank raised its recovery outlook and promised to maintain ample stimulus to the economy**. Emerging markets were the laggards, driven mainly by Chinese stocks, which suffered on inflation worries and lower credit growth before recoverying a bit at the end of the week.	Earnings are expected to remain robust and will now drive the recovery in stock markets. A breather is probably due going into summer but relative valuation will keep consolidation from muting into a bear market. In Europe, the end of the lockdown is favouring the start of the cyclical recovery. Also, Pacific markets (including Japan) should benefit from their cyclical behavior. Value laggards and emerging markets are the place to be.
Fixed Income	**Sovereign core bond yields have remained at their lowest level since March** amid growing confidence that inflation will be short-lived, leaving room for continued central bank support. Indeed, the ECB meeting delivered an accommodating statement: stable outlook for Quantitative Easing and the mixed revisions to the economic outlook. ECB economists' growth and inflation forecasts have been revised upwards, but inflation in 2023 is still unchanged and well below the central bank's 2% target.	What the markets will ultimately watch is what the Fed thinks about maintaining such a level of monetary accommodation. We expect the Fed to announce over the summer that it will cut its Quantitative Easing program by 2022. This could be a game-changer for rates.
Credit	**Risk sentiment continues to support credit markets,** especially higher-yielding segments such as speculative grade corporate bond segments, which closed the week with narrower spreads over government bonds. High grade bonds were more stable, but with risk premia marginally tighter in Europe. The fall in bond yields, despite higher-than-expected US CPI figures, and the dovish message from the ECB meeting supported demand for the asset class.	Together with other risky assets, the search for yield is finding a supportive environment in expected central banks' dovishness and contained tapering fears. The market, in particular, looks confident that the Fed doesn't look to be in a hurry to normalise its policy, following the past two monthly jobs reports, despite higher-than-expected US inflation. The ECB meeting look supportive as well for European credit as the QE path remained unchanged.
Foreign Exchange	**US inflationary pressures were strong in May**, but the lower-than-expected labour market data and the Fed's commitment to its average inflation targeting regime, resulted in lower US rates at this writing. The environment was mixed on the currency market, where volumes dropped substantially vs. last week. CHF, AUD and NOK were the best performers in the G10, and TRY, RUB and MXN in the Emerging Market universe, where ZAR and PEN were the only real laggards.	While US rates' advantage (long end – real/nominal - and money market) keeps losing momentum (thus reinforcing the structural headwinds narrative for the USD), peaking leading indicators and the still quite elevated US growth advantage suggest the opposite (thus resulting in a mixed and challenging environment). The Fed is the key catalyst to watch, yet it is important that inflation expectations remain supported, as a sharp correction would trigger another regime shift and that is where the USD bull-run starts. Being selective is key within Emerging Market, with the RUB and IDR improving, in our view.
Commodities	**Commodities rose by 1.8% this week**. WTI and Brent jumped to \$70 and \$71, respectively, on strong demand expectations. Gold reached \$1900, while base metals moved up by 1.6%.	A strong economic recovery and commodities demand are supporting the commodities markets rally, despite some evidence of decelerating momentum. Gold will be driven by Fed announcements in the near term on possible fine-tuning of monetary policy. Oil is expected to stay within its current \$60-70 range in the coming months, notwithstanding recent overshooting. Base metals should move higher, in line with the economic recovery and potential shortages in some specific commodities, although the most acute phase of undersupply imbalance should behind us.

Economic indicators

	MARKET	AMUNDI ANALYSIS
United States	**The US Consumer Price Index increased by 0.6% MoM in May**, after a 0.8% MoM rise in April. On a yearly basis, inflation rose by 5.0% YoY. Similarly, the core inflation index rose by 0.7% MoM and by 3.8% YoY, according to the latest official release.	US consumer prices rose solidly in May, as inflationary pressures continued to build, driven by a broad increase in prices. Similar to April, the upside in inflation in May reflected upticks in transitory components, hit hard by supply chain disruptions and boosted by the ongoing recovery in reopening-sensitive sectors (used car prices +7.3% MoM, transportation services +1.5% MoM, and airline fares +7.0% MoM). However, the more persistent components like rents (+0.24% MoM) and real estate (OER +0.31% MoM) rose significantly more than expected, which will continue to support inflation as the transitory factors fade.
Eurozone	**The Eurozone Sentix investor confidence index rose to 28.1 in May**, up from 21.0 in its latest release. Similarly, the Current Condition Index surged to 21.3 from the previous month's 6.3.	Economic activity is gaining momentum in the Eurozone, benefiting from the ongoing lifting of Covid-19 restrictions, which have enabled economies to progressively reopen. Confidence in current and future economic activity continues to improve, climbing to its highest level since the first quarter of 2018. They were also lifted by upticks in activity in the sectors hardest hit by the pandemic, which provides further evidence of their ongoing bottoming out.
Japan	**The May Economy Watchers Survey worsened further in its assessment of current conditions among small companies** (-1 to 38.1), with a tightening of restrictions. On the contrary, the expectations diffusion index bounced back (+5.9 to 47.6), led by household activity and the employment outlook.	The decline of new infections, hopes of accelerating vaccinations and the easing of the state of emergency likely improved expectations. However, the approval rate of the Suga Cabinet dropped to a record low, reflecting opposition to the Olympics and discontent on the handling of Covid-19. PM Suga is reportedly planning another stimulus before calling a snap election in September.
Emerging Market	**May emerging markets headline inflation figures were generally higher than one month earlier**: in Brazil at 8.1% YoY vs. 6.8% in April, in Russia at 6.0% vs. 5.5% YoY in April, in China at 1.3% YoY vs. 0.9% in April (PPI at 9.0% YoY vs. 6.8% YoY), and in Mexico at 5.9% YoY vs. 6.1% YoY in April.	In the past few months Emerging Market headline inflation has almost peaked and in some cases has already done so. Early third quarter figures for the year will probably see a peak in most Emerging Market Inflation rates. In China, the common path described above is more visible in the PPI figure than in headline inflation. While PPI should peak in the next few months, headline CPI should print lower in and not rise until the last quarter, to around 2.5% YoY.