Confidence must be earned

Amundi ASSET MANAGEMENT

Weekly Market Review

The latest news from financial markets

for the exclusive attention of professionals

Edition of 26th April 2021 | Par les équipes de Recherche Amundi

The week at a glance

- **Market** : profit taking on equity markets despite a good start of the earnings season.
- **United States** : 4-week average initial jobless claims fell to a new recovery-level low.
- **Eurozone** : the ECB published the Bank Lending Survey for Q1 2021.

KEY FIGURE

1.4%

Commodities continue to be driven by global growth expectations for 2021

KEY FOCUS

This week the ECB published the Bank Lending Survey for Q1 2021. Banks moderately tightened their lending standards for companies (on risk perception and concerns around borrower creditworthiness); concerning households, credit standards eased slightly for housing loans but tightened moderately for consumer credit. In Q2, banks expect some tightening in credit standards for both firms and households. Demand for loans by firms and households decreased in Q1. Banks reported lower demand for fixed investment (postponement of investments) and for working capital (availability of liquidity buffers and direct government liquidity support, especially to small and medium-sized enterprises). Weak consumer confidence was a drag on household demand, both for housing loans and consumer credit. For Q2, some recovery in demand is expected.

KEY DATES

27 April	28 April	End April (TBC)
BoJ meeting	Fed meeting	China Politburo meeting

Source: Amundi Research.

Our weekly analysis

Who will be the next German Chancellor ? Two names have now clearly emerged

As Angela Merkel's tenure draws to an end, two clear favourites have emerged this week to take over from her as Chancellor of Germany following federal elections on 26 September. On 20 April, Angela Merkel's CDU-CSU centre-right coalition appointed Armin Laschet, chairman of the CDU, as its candidate. A close ally of Angela Merkel, he was chosen over the more conservative chairman of the CSU, Markus Söder. On the previous day, the Greens appointed Annalena Baerbock as their candidate. The polls currently predict that the CDU-CSU will win 25% of votes and the Greens will win 20%, which means it is highly likely that one of these two groups will be the main party in forming a government coalition and, as is customary, their candidate will become Chancellor. The make-up of the future coalition, however, is far from certain. Depending on the results of the elections and subsequent agreements, the CDU-CSU and the Greens could go into government together or either of them could team up with another party or parties, for instance the SPD (centre-left, polled at around 15% of votes), the FDP (liberal, around 10%) or Die Linke (extreme left, around 7%, although probably only in the event of a coalition led by the Greens), while the AfD (extreme right, around 10%) should, in theory, be kept out. In most of these scenarios, there is unlikely to be any major about-turn in Germany's policies, which are usually established through careful coalition negotiations and a culture of consensus. A key factor that will be of interest to other European countries and markets is how Germany may change its attitude in terms of its own fiscal rules, as well as towards EU fiscal rules, once the Covid crisis has passed. Given the need for ongoing support for the recovery and to strengthen investment in the European market in the face of a readjusting global economy, Germany's tolerance around deficits is likely to grow. However, it is not certain that the make-up of a coalition led by the CDU-CSU, or the emergence of a coalition led by the Greens and including the CDU-CSU would make a major difference in this regard. Only the scenario of a coalition led by the Greens without the CDU-CSU, unlikely at present but not impossible, would be perceived as a clear signal of much more generous public expenditures.

Index	Return			
Equity markets	**04/23/2021**	**1 W**	**1 M**	**YTD**
S&P 500	4143	-1.0%	6.0%	10.3%
Eurostoxx 50	3988	-1.1%	4.2%	12.3%
CAC 40	6231	-0.9%	4.8%	12.2%
Dax 30	15167	-1.9%	3.4%	10.6%
Nikkei 225	29021	-2.2%	0.1%	5.7%
SMI	11150	-1.0%	0.5%	4.2%
SPI	14365	-0.2%	2.5%	7.8%
MSCI Emerging Markets (close -1D)	1341	-0.5%	1.3%	3.8%
Commodities - Volatility	**04/23/2021**	**1 W**	**1 M**	**YTD**
Crude Oil (Brent, $/barrel)	65	-2.0%	7.6%	26.3%
Gold ($/ounce)	1779	0.1%	3.0%	-6.3%
VIX	18	2.2	-1.9	-4.3
FX markets	**04/23/2021**	**1 W**	**1 M**	**YTD**
EUR/USD	1.21	0.6%	1.8%	-1.3%
USD/JPY	108	-0.9%	-0.7%	4.5%
EUR/GBP	0.87	0.5%	1.0%	-2.6%
EUR/CHF	1.11	0.2%	-0.1%	2.2%
USD/CHF	0.92	-0.4%	-1.9%	3.5%

Source: Bloomberg. Amundi Research - 04/23/2021 - 15:00pm

Index	Return			
Credit markets	**04/23/2021**	**1 W**	**1 M**	**YTD**
Itraxx Main	+51 bp	+2 bp	-3 bp	+3 bp
Itraxx Crossover	+251 bp	+8 bp	-20 bp	+10 bp
Itraxx Financials Senior	+59 bp	+1 bp	-4 bp	-
Fixed Income markets	**04/23/2021**	**1 W**	**1 M**	**YTD**
EONIA	-0.48	-	--	+2 bp
Euribor 3M	-0.54	--	--	+1 bp
Libor USD 3M	0.17	-2 bp	-3 bp	-7 bp
2Y yield (Germany)	-0.69	--	+2 bp	+1 bp
10Y yield (Germany)	-0.26	-	+8 bp	+31 bp
2Y yield (US)	0.15	-1 bp	+1 bp	+3 bp
10Y yield (US)	1.56	-2 bp	-6 bp	+65 bp
Eurozone Sovereigns 10Y spreads vs Germany	**04/23/2021**	**1 W**	**1 M**	**YTD**
France	+34 bp	+9 bp	+9 bp	+11 bp
Austria	+23 bp	--	--	+7 bp
Netherlands	+14 bp	-	--	+5 bp
Finland	+16 bp	-1 bp	-1 bp	-
Belgium	+31 bp	--	-1 bp	+12 bp
Ireland	+36 bp	-1 bp	+1 bp	+9 bp
Portugal	+65 bp	-1 bp	+14 bp	+5 bp
Spain	+65 bp	-1 bp	+1 bp	+3 bp
Italy	+103 bp	+2 bp	+9 bp	-8 bp

Asset Class

	MARKET	AMUNDI ANALYSIS
Equity	**Some profit taking on equity markets despite a good start of the earnings season.** The contraction in long-term interest rates and questions about the end of the health crisis in Europe, Japan and India, then the announcement of an "American Families Plan"' financed by a tax pressure on wealthy individuals, in particular, served as a pretext.	This consolidation does not call into question either the cyclical recovery underway or the willingness of central banks not to overreact to a temporary rise in inflation. Q1 earnings expectations (+30% in the US and +53% in Europe) remain accessible. It is therefore advisable to maintain a pro-cyclical bias while being increasingly selective.
Fixed Income	**Sovereign core bond yields declined slightly this week**. Peripheral spreads remained broadly stable.	Last ECB communication confirms the tone of previous meeting's minutes. Divergences inside the board are likely to increase as the economic recovery starts. The debate about the assessment of "favourable financing conditions" is still open within the ECB. However, the ECB must maintain a stable cost of financing of public debt as long as economic fragmentation prevails in the Eurozone. Fiscal policy can only be effective if sovereign yields remain low and stable even in the face of growing deficits.
Credit	**Less supportive market sentiment around recent headlines on Covid led to limited spread widening in the speculative grade corporate bond market,** together with higher volatility in other risky assets. IG corporate bonds, however, remained quite stable and close to recent spread lows, thanks to the ongoing consolidation in bond yields, which ultimately supports high-rated spread products.	The confirmation of a dovish tone from the ECB meeting and the hint at a need to maintain an accommodative stance for quite some time supported carry trades and spread products in Europe. Strong technicals led to a continued steady rise in ECB corporate bond holdings together with a slowdown in supply in Europe, while, in the US, the positive performance of corporate bonds was led mainly by the expected recovery in fundamentals.
Foreign Exchange	**The US dollar depreciated vs. all G10 currencies**. The market appeared to accept the Federal Reserve's message that any increase in inflation would only be temporary. This has led to a significant fall in expectations of a rate hike in the near future, which, in turn, has seen the yen and the other G10 currencies gain against the greenback. Among emerging markets, the Brazilian Real has been the best performer vs. the US dollar while the Peruvian Sol has been the worst performer.	We see space for an appreciation of the USD vs. the EUR given the fiscal booster which should lead to a US growth premium vs. RoW, and a repricing into US carry advantage. Emerging currencies appear to be fairly valued in the short term after the recent positive performance. There could be some more upside for Latam currencies and the Russian ruble. But volatility is expected to remain high.
Commodi-ties	**Commodities rose by 1.4%.** The WTI and Brent fell $61 and $63 respectively. Gold drift to 1786 while base metals jumped by 1%.	Commodities continue to be driven by global growth expectations for 2021 and the recalibration of asset allocations. Gold is gaining ground due to further very dovish statements from the Fed. Oil is expected to stay at current levels over the coming months. Base metals should move higher in line with the economic recovery.

Economic Indicators

	MARCHÉS	ANALYSES AMUNDI
United States	**Initial jobless claims fell by 39k to 547k** (for the week ending April 17), causing the four-week moving average to fall to 651k, a new recovery-level low. Continuing claims also declined.	After sticking to high levels during Q1, the decline in jobless claims has gathered momentum in recent weeks, supported by the pick-up in the hiring rate. Looking ahead, progresses on the vaccination campaigns and the reopening of many sectors of the economy should support a further improvement in the labour market.
Eurozone	**The IHS Markit Eurozone Flash Composite PMI rose to 53.7 in April**, up from 53.2 in March and underpinned by very sustained growth in the manufacturing PMI, which reached a record high of 63.3 (up from 62.5), and by the return to growth of the service index to 50.3 (up from 49.6).	Eurozone private-sector business activity expanded at a stronger rate in April according to the latest flash PMI released by IHS Markit. Manufacturing activity grew steeply, with the index reaching a historical high. Similarly, service activity returned to growth in April for the first time since August 2020. Expectations on future business activity brightened as well, with firms reporting an increase in staff levels. Average input prices continue to rise at a very sustained rate, driven higher also by very strong supply chain disruptions.
Emerging Markets	**China's fiscal spending came as a negative surprise in March**. Its general fiscal spending growth slowed from 16.5% yoy in Q4 to 0.2%/6.2% yoy in Mar/Q1. Spending growth related to the government fund for land sales and related expenditure eased to -7.5%/-12.2% yoy in Mar/Q1 from 33.3% yoy in Q4.	The numbers are weak even after considering base effects, confirming that fiscal spending has peaked as a % of GDP. This is in part attributable to muted net issuance of local government bonds in Q1, which we expect to quicken in May. The Politburo is likely to hold its quarterly economic assessment meeting next week, an event to watch in relation to potential changes in policy.
Japan	**CPI deflation narrowed for the third consecutive month in March** to -0.1% yoy, up from -0.4% yoy in Feb. and -1.2% yoy in Dec. last year. The BoJ's referred core inflation (CPI excl. fresh food and energy) picked up further to 0.3% yoy in March from 0.2% yoy in the previous month. The Q1 average core CPI firmed to 0.2% yoy from -0.3% yoy in Q4.	The suspension of the government's travel subsidy programme was one of the main contributors to the improvement of core inflation in Q1. Outside of this category, inflation registered a slight improvement, with durable goods CPI inflation strengthening notably in March. Looking ahead, with the slow vaccination and renewed state of emergency, we expect inflation to remain subdued.