Confidence must be earned

Amundi ASSET MANAGEMENT

Weekly Market Review

The latest news from financial markets

for the exclusive attention of professionals

Edition of 22nd February 2021 Par les équipes de Recherche Amundi

The week at a glance

- **Markets**: Long bond yields rose further among advanced economies.
- **United States**: January retail sales surpassed the most optimistic expectations, rising 5.3% MoM.
- **Eurozone**: In the fourth quarter of 2020 Euro Area GDP contracted by 0.6% Quarter on Quarter.

KEY FIGURE

1.3%

Interest rate reached by US 10 year Treasury Yield to maturity

KEY FOCUS

The recent trend in the price of oil stemmed from many factors, as often happens with this particular commodity. Without a doubt, the economic recovery expected for 2021 has led to a rise in prices in recent months and the rotation of asset classes towards reflation trades has increased the appetite for those related to cyclical commodities. The movement of the last few days, however, relates more to the extraordinary weather conditions in the US and more precisely, the cold wave in Texas, which caused a temporary freeze on 40% of oil production, raising the price to $61 for the WTI. This supply shock is not structural but temporary and there is no risk of a global over-demand imbalance for 2021. In fact, OPEC, after the substantial cuts in production in 2020, has significant room for an increase in extraction, since current production is significantly lower than pre-COVID levels. We therefore believe that oil prices will remain at their current levels or slightly lower in the medium term.

KEY DATES

- **26th February**: G20 Finance Ministers' meeting
- **11th March**: ECB monetary meeting
- **17th March**: US Federal Reserve monetary meeting
- **18th March**: Bank of England monetary meeting

Source: Amundi Research.

Document for the exclusive attention of professional clients, investment services providers and any other professional of the financial industry.

Our weekly analysis

Euro area Flash Purchasing Managers' Indices (PMIs) show a further contraction in business activity in February

The Covid-19 restrictions in place in the Euro area to limit the spread of the virus continue to weigh on economic activity. According to the latest IHS Flash Markit PMI, private sector business activity further contracted in the Euro area in February, falling for the fourth consecutive month. The decline was driven by a steep contraction in service activity, which was heavily affected by the Covid-19 restrictions, with consumer facing activities suffering the most. Activity in the service sector contracted at the fastest rate since November, with steepening declines in France and Germany.

Conversely, the resilience of the manufacturing sector was further confirmed in February as manufacturers reported a further sustained expansion in business activity. Production volumes improved along with higher levels of new orders both from domestic and international clients. However, supply chain disruptions remain severe with lengthening delivery times. Similarly, there was further evidence of a significant rise in price pressure as the steep increase in demand for raw materials led to near-record supply constraints, driving manufacturing input prices higher. Particularly strong growth in manufacturing activity was highlighted in Germany, while France saw a return to expansion of its manufacturing production.

Employment across the Eurozone due to a further contraction of staff levels within the service sector, which outweighed a modest increase of hiring in manufacturing. The ongoing vaccination campaigns are helping to maintain high levels of confidence among firms on future business activity, with growing optimism around the recovery prospects.

Index	Return			
Equity markets	**02/19/2021**	**1 W**	**1 M**	**YTD**
S&P 500	3923	-0.3%	2.1%	4.4%
Eurostoxx 50	3713	-0.6%	3.1%	4.5%
CAC 40	5774	-0.2%	3.9%	4.0%
Dax 30	14001	-0.8%	0.9%	2.1%
Nikkei 225	30018	-0.2%	4.8%	9.4%
SMI	10732	-1.9%	-1.8%	0.3%
SPI	13433	-1.6%	-1.0%	0.8%
MSCI Emerging Markets (close -1D)	1425	-0.9%	2.3%	10.3%
Commodities - Volatility	**02/19/2021**	**1 W**	**1 M**	**YTD**
Crude Oil (Brent, $/barrel)	64	1.0%	15.4%	23.4%
Gold ($/ounce)	1784	-1.9%	-3.8%	-6.0%
VIX	22	2.0	0.1	-0.8
FX markets	**02/19/2021**	**1 W**	**1 M**	**YTD**
EUR/USD	1.21	0.0%	-0.4%	-0.7%
USD/JPY	106	0.2%	1.7%	2.3%
EUR/GBP	0.86	-0.9%	-2.8%	-3.2%
EUR/CHF	1.09	0.5%	0.7%	0.4%
USD/CHF	0.90	0.6%	1.1%	1.1%

Source: Bloomberg. Amundi Research - 02/19/2021 - 15:00pm

Index	Return			
Credit markets	**02/19/2021**	**1 W**	**1 M**	**YTD**
Itraxx Main	+47 bp	+1 bp	-1 bp	--
Itraxx Crossover	+245 bp	+8 bp	-8 bp	+4 bp
Itraxx Financials Senior	+58 bp	+3 bp	-2 bp	--
Fixed Income markets	**02/19/2021**	**1 W**	**1 M**	**YTD**
EONIA	-0.48	-	--	+2 bp
Euribor 3M	-0.54	-	--	-
Libor USD 3M	0.18	-1 bp	-3 bp	-6 bp
2Y yield (Germany)	-0.68	+1 bp	+2 bp	+2 bp
10Y yield (Germany)	-0.31	+7 bp	+20 bp	+26 bp
2Y yield (US)	0.11	--	-1 bp	-1 bp
10Y yield (US)	1.33	+12 bp	+24 bp	+41 bp
Eurozone Sovereigns 10Y spreads vs Germany	**02/19/2021**	**1 W**	**1 M**	**YTD**
France	+25 bp	+2 bp	+2 bp	+2 bp
Austria	+23 bp	+3 bp	+8 bp	+8 bp
Netherlands	+14 bp	+1 bp	+7 bp	+5 bp
Finland	+17 bp	+2 bp	+2 bp	+1 bp
Belgium	+20 bp	+2 bp	+2 bp	+2 bp
Ireland	+36 bp	+3 bp	+4 bp	+9 bp
Portugal	+56 bp	+3 bp	-2 bp	-4 bp
Spain	+66 bp	+2 bp	+3 bp	+5 bp
Italy	+94 bp	+3 bp	-33 bp	-18 bp

Asset Class

	MARKET	AMUNDI ANALYSIS
Equity	**Equity markets hampered by the acceleration of the rise in long term interest rates,** while corporate earnings publications are supportive. The consensus forecasts for the fourth quarter of 2020 have thus been revised upwards since 1 January. For example in the USA from -10.3% to + 3.4% and in Europe from -27% to -20% as of 16 February.	Equity market Price/Earnings ratios are certainly high, but the risk premiums remain attractive. These should prevent a consolidation from turning into a bear market. The cycle has only just started and the encouraging outlook for companies suggests to maintain a pro-cyclical bias despite the rise in long rates.
Fixed Income	**10Y bonds yields were up over the week** reaching nearly 1.30% in the US and -0.37% in Germany. The prospect of a $1.9tn stimulus package coming in the United-States, pent-up demand after months of restrictions, and loose monetary policy from the Federal Reserve have pushed inflation expectations to their highest in years in the US. In the Eurozone, the upward move in German yields can be attributed to better news on the COVID situation and increased bond supply.	Long rates still have upside potential. We anticipate a strong rebound in growth in the second half of the year thanks to the reopening of economies, the savings accumulated by households, the rebuilding of inventories and monetary policies that are still accommodative. The fiscal stimulus is massive in the US and will help the American economy to return to its pre-Covid momentum very quickly. In Europe, the rise in long rates will be more limited because of weak inflation and the massive purchases of sovereign bonds by the ECB.
Credit	**Spreads moved within a relatively tight range** during the week, following other risky asset swings: the start-of-week tightening turned into a reverse during the final days but overall moves were quite limited in both speculative grade and investment grade. The sell-off in bond yields had a limited impact on the credit markets, which were driven more by equity implied volatility, especially in the Eurozone.	As spreads have already tightened significantly from crisis peaks, they look less sensitive to swings in bond yields, the latter only recently implying a reflationary scenario and moving higher in the long-end segments of the curves. We believe that the usual link between higher rates and lower spreads in this recovery phase has been changed by the very rapid normalization in risk premia, driven by unprecedented monetary and fiscal stimulus: therefore we continue to expect more carry-like returns from corporate bonds going forward.
Foreign Exchange	**The USD remained under pressure against the GBP and commodities-related currencies** (AUD, CAD, NOK) in the G10, whilst the JPY and CHF underperformed. In Emerging Markets, the CLP and TRY were the winners of the session, whilst the MXN, BRL, ZAR, PHP and COP are all down on last week.	With US growth proving stronger than anticipated and expectations of further stimulus being delivered in the coming months, we see both break-evens and real rates on the rise in the second half of 2021. A mixed and challenging environment for the USD, which remains weak against higher yielders/ commodities-related currencies but has strengthened against the lowest yielders (especially vs. the usual safe havens – i.e. the CHF and JPY).
Commodi-ties	Commodities moved up this week by 1.7%, driven by base metals. The WTI and Brent reached $59.5 and $60.5 respectively. Gold retraced further to 1774 while base metals jumped by 3%.	Cyclical commodities should gain in this positive economic environment despite vulnerabilities related to the pandemic. Gold should be supported by dovish central banks despite rising concerns around monetary policy normalisation and higher real rates. Oil is expected to stay at current levels although an overshooting in the near term is possible. Base metals should move higher in line with economic recovery.

Economic Indicators

	MARCHÉS	ANALYSES AMUNDI
United States	**Retail sales surpassed the most optimistic expectations in January**, rising by 5.3% MoM and quelling concerns about the weakness seen in the fourth quarter. This outcome is particularly striking given that COVID cases were still increasing at the time of the report and shows the significant propensity of US consumers to spend stimulus payments.	Control sales (direct GDP input) were up by 6% MoM, posting the largest increase since June 2020. This strength was broad-based, both in goods (durables and non-durables) and services. Online sales were also strong (+11% MoM). Although part of this strength may be linked to seasonal factors, the fiscal stimulus passed in December represents a key driver.
Eurozone	While Eurostat reported that in the fourth quarter 2020 Euro Area GDP contracted less than initially reported, by 0.6% QoQ, employment rose 0.3% in the quarter (after growing 1% in the third quarter but still remaining 2% below fourth quarter 2019 levels). **Activity seems to be holding up better during the current lockdowns and restrictions than during the first half of 2020.**	While manufacturing activity is less affected than in the first half of 2020, with global demand and supply chains less badly hurt this time around, the labour market has been spared somewhat by the widespread use of furlough schemes. Given the pressure put on public finances, governments will have to figure out, in the coming months, how to phase out their extraordinary support without compromising the recovery.
Emerging Markets	**On 18 February, the Bank of Indonesia (BI) cut its policy rate by 25bp to 3.5%, in line with market expectations**. Moreover, BI announced specific measures to revamp credit in the auto sector (down payment requirements on loans/ 0% financing for all new motor vehicles) and housing (loan/financing-to-value ratio to maximum 100% on all residential property) sectors.	Domestic conditions continue to warrant an accommodative monetary policy: low inflation, weak growth, strengthening external position (trade balance and Current Account surplus). BI has clearly highlighted the ongoing disappointing transmission of a more accommodative monetary policy to lending rates. BI is currently urging banks to continue lowering lending rates expeditiously.
Japan	**The widely-watched national core CPI** (Consumer Price Index - excluding fresh food) **narrowed its decline in January**, recovering from -1% YoY in the previous month to -0.6% YoY. The temporary suspension of the government-subsidised travel programme was the major driver. Excluding this factor, the core CPI reading remained unchanged.	Against the backdrop of still-soft consumer sentiment in January and slightly improved consumption data in early February, we expect deflationary pressures to persist in the near term. However, the inflation outlook should brighten up as Japan has secured a surplus of vaccines for its population. The recovery in consumption should resume, supporting the pick-up in inflation.