



# WEEKLY MARKET RECAP

19 April 2021

Improving growth prospects for International trade

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- The regional breakdown reveals that Asia recorded the largest increases in exports.
- The vaccines rollout should rebalance the countries weight in international trade, allowing restrictions to be relaxed.

## Improving growth prospects for International trade

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Fig. 1  
trade recorded another positive change in January

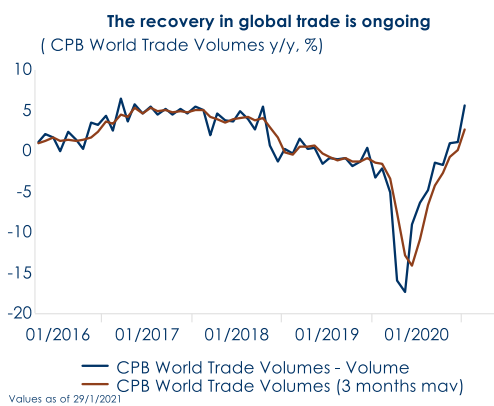


Fig. 2  
International trade has overcome the cargo shortage



Following the slowdown experienced in spring 2020 due to the pandemic crisis, international trade gradually resumed growth (Fig. 1), already recovering its pre-crisis level in November.

**The rebound is ongoing.** The latest data from the CPB Netherlands Bureau suggest that world trade had shrugged off rising shipping costs during the winter months. This view is also supported by the timeliest surveys. Indeed, the April Air Cargo Survey, produced by Evercore ISI, has reached its peak since November 2018 (Fig. 2). Respondents seem optimistic about the outlook, as increasing demand for charter contracts and for longer-term contracts suggests customer optimism.

Still, the aggregate figure on international trade hides a marked **heterogeneity** between countries and, above all, a sharp difference in the fortunes of exports from Asia and the rest of the world: in January, exports from the euro zone and the US were still below their pre-virus levels, whereas exports from China were well above (Fig. 3). Nevertheless, this different speed of recovery, due to the pandemic-induced change in consumer habits, is comparable to what happened after the 2008 GFC, when recovery from the Great Trade Collapse was remarkably heterogeneous and more volatile than aggregate income after the sharp and synchronized decline in the value of international trade. In 2008, the BRICS (Brazil, Russia, India, China, South Africa) rebounded the fastest, followed by other emerging and developing countries, leaving the EU and G7 well behind.

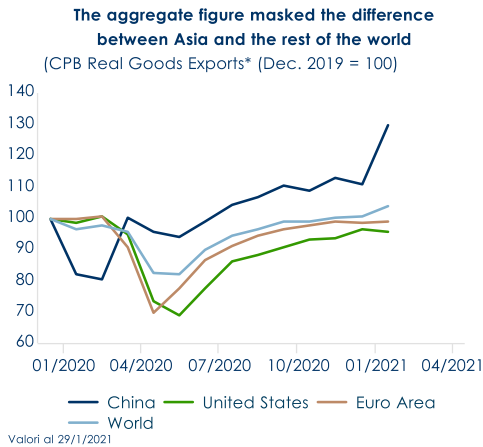
In recent quarters, Asian exports have benefited from lockdowns that have prompted a shift in spending patterns, particularly in DMs, toward the types of goods dominating in terms of market share, such as electronics and household items. China's nominal goods breakdown reveals that last year's export surge leaned heavily on furniture, electronics, and recreational products. Conversely, as restrictions have weighed on transport demand, goods exports from advanced economies have been hit mostly by a shift away from purchases of transport equipment and fuel. The average of US real export data for January and February shows that the decline in US exports was driven by reductions in exports of fuel and transport equipment (excluding cars and especially aircraft).

A separate assessment deserves the UK, where UK exports fell 18,2% in January, hurt by Brexit: exports of goods to the EU fell 41,7% m/m, while those to non-EU countries rose 1,6% m/m. Fortunately, the number of cargo ships visiting UK ports grew rapidly in March,

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Fig. 3

Asian exports have benefited from lockdowns that have prompted a shift in spending patterns



suggesting that trade flows are recovering. **Excluding Brexit-related disruption earlier in the year**, US goods exports were the worst among DMs. The US, already suffering from being one of the largest fuel exporters, was further impacted by the fact that growth and demand recoveries in other countries remained slower. This explains why demand for US exports has been relatively weak while its imports have rebounded.

In the coming months, the spread of vaccines will allow for an easing of economic restrictions and a normalization of global spending patterns, rebalancing the weights of countries within international trade.

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## EQUITY MARKETS

### A terrific reporting season!

Better than expected numbers and improved mid-term guidance (Daimler, LVMH, L'Oreal, SAP, Covestro, US banks...). The supportive U.S. data boosted sentiment on markets: retail sales up 9,8% in March and above economists' expectations (+5,8%) and the second-best result since 1992, jobless claims down more than the consensus at 576k and improved industrial and manufacturing production data. In China, GDP came out "disappointing" at 18,3% on an annual basis versus expectations of 19% growth; in any case, the highest variation ever and a sharp increase compared to the +6,5% in the fourth quarter of last year. In terms of performance, the European EuroStoxx50 market was up slightly over +1%. Real Estate +2,45 %, Retail +3,27% and Consumer Products +3,21% were the largest performance contributors, while Personal Care Drug and Grocery Stores -0,92%, Telecom -0,12% were the worst performers relative to the index. US equity indices closed the week at record highs, supported by better than expected economic data and corporate earnings. The Dow Jones breached 34000 points and the Nasdaq 100 crossed the 14000 mark for the first time in history, up +1,10% with Moderna +21% the best and Intel -5 % suffering. S&P500 +1,4% driven by Auto +6,5%, against the steady underperformance of Broadcasting -5% and Airlines -4%.

Since the beginning of the year, we continue to see an over-performance of the MSCI World Value index, which gained 12% (vs. 10% for the MSCI World, including dividends!). Despite this, the Value sector has lagged significantly behind in the current economic recovery, posting +12,5% since the beginning of 2020 (vs. +28,4% for the MSCI World). In particular, the MSCI World indexes, banking and energy, performed +7,2% and -14%, respectively, over the same period. The MSCI World Growth Index has gained almost 12% since 8 March and is up 7,3% since the start of the year; so, the momentum for that does not seem to be over, despite a 44% gain since the start of 2020...

On the vaccine side, the first reopening can be glimpsed immediately after the first of May, to gradually arrive in June with an Italy "tinged with yellow". Clearly, the whole thing is still driven by numbers, but the news that Pfizer is negotiating an increase in supplies in Europe bodes well. Obstacles to a full-scale launch of vaccination campaigns continue to appear. Last week, news came of a suspension in the distribution of Johnson & Johnson's vaccine following suspicions that it could cause the same rare thrombosis condition for which AstraZeneca's vaccine had been discontinued. According to some observers, this is a rather serious stop for less wealthy countries that would be heavily dependent on supplies of J&J and AZ type vaccines; on the contrary, it would not be particularly important for a country like the US, which has sufficient stocks of alternative vaccines, and also for Europe, which should be able to compensate with alternative supplies.

NAME	LEVEL	▲ WEEK
MSCI World AC	2 953,35	▲ 1,5%
S&P 500	4 185,47	▲ 1,4%
NASDAQ Composite	14 052,34	▲ 1,1%
SX5E	4 032,99	▲ 1,4%
DAX	15 459,75	▲ 1,5%
CAC 40	6 287,07	▲ 1,9%
FTSEMIB	24 744,38	▲ 1,3%
IBEX 35	8 613,50	▲ 0,6%
FTSE 100	7 019,53	▲ 1,6%
MSCI Emerging	1 348,69	▲ 0,8%
CSI 300	5 087,02	▼ -1,4%

Strategic View

*Figures on vaccine effectiveness triggered a new risk-on phase. The forward-looking components of the key leading indicators accelerated, the stock markets reacted with a reduction in risk premiums, a marked increase in prices and sector rotation.*

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NAME	LEVEL	Δ WEEK
Gold	1 777	▲ 1,9%
Silver	25,97	▲ 2,8%
WTI	63,13	▲ 6,4%
Brent	66,77	▲ 6,1%

NAME	LEVEL	Δ WEEK
VIX (S&P 500)	16,25%	▼ -2,6%
V2X (SX5E)	16,11%	▼ -0,4%

NAME	LEVEL	Δ WEEK
US 10-year Yield	1,58%	▼ -7,9 bp
GER 10-year Yield	-0,26%	▲ 4,1 bp
FRA 10-year Yield	-0,01%	▲ 3,4 bp
ITA 10-year Yield	0,75%	▲ 2,0 bp

## Strategic View

US Government. Treasury yields showed a modest upward trend, driven by the reset of the economic growth expectations and increased fiscal stimulus. Economic normalization should put some pressure on long rates, which will however only see modest increases as they are manipulated by the Fed. We express a neutral view.

EU Government. European government bonds showed a decoupling from US bonds and a downward trend in the wake of expectations of further monetary easing by the ECB in October, justified by negative inflation and a weak economic outlook.

NAME	LEVEL YTW	Δ WEEK
USD Invest. Grade	2,18%	▲ 0,4%
EUR Invest. Grade	0,33%	▼ -0,1%
USD High Yield	3,99%	▲ 0,2%
EUR High Yield	3,05%	▲ 0,2%
Emerging Local ccy	3,53%	▲ 1,0%
Emerging Hard ccy	3,57%	▲ 0,7%

NAME	LEVEL	Δ WEEK
Itraxx Main	49,43	▼ -1,2 bp
Itraxx Xover	243,856	▼ -2,2 bp
Itraxx Sub Fin.	105,79	▲ 0,3 bp
CDX North Am. IG	50,32	▼ -0,6 bp
CDX North Am. HY	288,15	▼ -5,1 bp

## Strategic View

IG Corporate. Monetary policy support through direct purchases and forward guidance on "low rates for a long time" justify compressed spread levels. During the year, the improving economic cycle will further bolster fundamentals. We maintain a neutral view.

HY Corporate. Positive outlook but renewed volatility phases could provide buying opportunities. Low default rates with a peak in Q1, but still lower than previous cycles. Market support due to positive technical factors and the search for yield. We maintain a neutral view.

## COMMODITIES AND VOLATILITY

The oil price is firmly above \$60 per barrel. In the background, progress on vaccination rollouts and a stronger global economic recovery are reinforcing the scenario for a rebound in energy demand, which has led to an easing of OPEC+ production cuts. The IEA (International Energy Agency) and OPEC published their monthly report confirming growing oil demand picture, and aligning with a scenario that assumes a strong fuel demand especially in the summer period.

## GOVERNMENT BOND MARKETS

The bond market remained choppy last week, with the US 10-year falling in a week with strong economic data released (2,6% vs 2,5% CPI, 9,8% vs 5,8% for retail sales). It appears that the market is adjusting to the Fed's willingness to keep rates at historic lows as long as the recovery is well underway and, more importantly, the employment rate has returned to pre-pandemic levels.

In the euro government market, however, modest downward pressure on bond prices continued. The week saw a number of verbal interventions from ECB members. Christine Lagarde reiterated the message that the central bank support will continue until the economic recovery is well underway, whereas Villeroy and De Guindos discussed when the extraordinary PEPP stimulus might be withdrawn from the system. The ECB meeting will be the main event this week, even as many investors do not seem to understand what the ECB is targeting and how it plans to achieve its targets. The ECB should convince markets of its determination to maintain accommodative financial conditions within the Eurozone. Data will start improving via a combination of base effects and reopening, with vaccination progress creating the illusion that the EA is merely lagging behind the US.

## CORPORATE BOND MARKETS

As well as for the main risky assets, the credit market week was quite positive, helped by good US macro data and the first set of quarterly reports confirming a positive economic outlook. Technical factors also helped the Fund's performance with flows particularly into the short and mid-curves.

HY Credit Markets Indexes posted gains through the week (+0,15% in Europe and +0,2% in US) while IG indexes reported +0,39% in US and -0,05% in Europe due to higher risk free rates.

CDS indices were positive as well, with new lows both in Europe (Main (IG) -1,2 bps, and Xover (HY) -2,2bps) and in the US, CDX HY (-5), IG (-1). Cash indices performed well in line with CDS driven by good flows.

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NAME	LEVEL	Δ WEEK	
Dollar Index	91,56	▼	-0,7%
EUR/USD	1,1983	▲	0,7%
GBP/USD	1,3832	▲	0,9%
EUR/GBP	0,8658	▼	-0,3%
EUR/CHF	1,1026	▲	0,2%
USD/JPY	108,80	▼	-0,8%

## EXCHANGE RATES

The data released during the past week did not offer any major news. However, the FX market remains focused on US real rates: during the week, they retreated somewhat and closed the week down by almost 8 bps. This allowed all G10 currencies to gain relative to the US dollar, that closed the week at the lowest level against EUR in almost a month (March 16th closing at 1,2003) and near the 1,20 threshold. The coming weeks will be crucial for the EURUSD pair: if EU macroeconomic data show an improvement related to the reopening of major economies such as Italy, Germany and France, the Euro will be able to extend its appreciation against USD.

In Emerging Market, the past week was a very positive one, thanks to the move in US real rates. The only negative note was the decision by the US administration to impose new sanctions against Russia. This news initially spooked the market. As it is normal in these cases, the Ruble weakness quickly involved other currencies. However, on Thursday afternoon, the US Administration released a detailed document that explained the sanctions and they appeared less severe than what initially feared. Since then, the Ruble recovered somewhat and closed the week on a stronger footing.

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## THE WEEK AHEAD: UPCOMING DATA

**Europe:** Preliminary PMIs for April will be published this week and will provide important insights into the latest lockdown extensions in the Eurozone. The Bank Lending Survey should be the most interesting release though for the EA. Finally, the German Constitutional Court's decision on the NGEU issue is expected to be announced next week.

**United States:** The US will see a few data releases, with the usual weekly survey of unemployment claims giving a fresh reading on labour market conditions. The Manufacturing PMI and the Leading Index will also be announced.

**Asia:** In Japan, the manufacturing and services PMIs will be published, as well as the state of consumer price inflation (CPI).

*Source: CMB Monaco, Mediobanca SGR*

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