



# WEEKLY MARKET RECAP

18 October 2021

Aggregate output for the advanced economy group is expected to regain its pre-pandemic trend path in 2022.

- ❖ The International Monetary Fund has revised down global growth projection for 2021 to 5.9%, no change for 2022 at 4.9%.
- ❖ Vaccine rollout, policy support, and continued supportive financial conditions are still the key drivers for global growth.
- ❖ 2021 downward revision of growth stems from lower expected growth in advanced countries, due to supply-side bottlenecks, while bodes well for emerging countries due to an improving outlook for commodity exporting economies.

# WEEKLY MARKET RECAP

## Aggregate output for the advanced economy group is expected to regain its pre-pandemic trend path in 2022.

- ❖ The International Monetary Fund has revised down global growth projection for 2021 to 5.9%, no change for 2022 at 4.9%.
- ❖ Vaccine rollout, policy support, and continued supportive financial conditions are still the key drivers for global growth.
- ❖ 2021 downward revision of growth stems from lower expected growth in advanced countries, due to supply-side bottlenecks, while bodes well for emerging countries due to an improving outlook for commodity exporting economies.

This week, the IMF released the autumn update of its World Economic Outlook (WEO), marginally revising down the growth forecast for 2021 (to 5.9%) and keeping it unchanged expected growth for 2022 (4.9%). The downward revision for 2021 compared to the July forecast reflects a downgrade in growth for some of the major advanced economies, mainly attributable to bottlenecks found in supply chains and lower growth for emerging economies that still have low vaccination rates.

In geographical terms, growth prospects for 2021 are revised down compared to the July forecast, largely reflecting downgrades to the United States (due to large inventory drawdowns in the second quarter; in part reflecting supply disruptions, and softening consumption in the third quarter); Germany (in part because of shortages of key inputs weighing on manufacturing output); and Japan (reflecting the effect of the fourth State of Emergency from July to September as infections hit a record level in the current wave). Contrastingly, Italy is among the countries for which an improvement in the scenario is expected: this year, Italian GDP will rise by 5.8%, in line with the data of the Italian Government and the OECD. A clear improvement compared to 4.9% that the IMF forecast in July. In 2022, Italian growth is expected to be more moderate, but still at 4.2%.

Although the revision of world growth to -0.1% seems minor, it conceals major downgrades for some countries. The outlook for the group of low-income developing countries has been revised down considerably due to worsening pandemic dynamics. Partially offsetting these changes, projections for some commodity exporters have improved due to higher commodity prices. Pandemic-related disruptions in contact-intensive sectors meant that labor market recovery lagged significantly behind output recovery in most countries.

	2020	Projections		Difference from July 2021 WEO Update <sup>1</sup>		Difference from April 2021 WEO <sup>1</sup>	
		2021	2022	2021	2022	2021	2022
<b>World Output</b>	<b>-3.1</b>	<b>5.9</b>	<b>4.9</b>	<b>-0.1</b>	<b>0.0</b>	<b>-0.1</b>	<b>0.5</b>
<b>Advanced Economies</b>	<b>-4.5</b>	<b>5.2</b>	<b>4.5</b>	<b>-0.4</b>	<b>0.1</b>	<b>0.1</b>	<b>0.9</b>
United States	-3.4	6.0	5.2	-1.0	0.3	-0.4	1.7
Euro Area	-6.3	5.0	4.3	0.4	0.0	0.6	0.5
Germany	-4.6	3.1	4.6	-0.5	0.5	-0.5	1.2
France	-8.0	6.3	3.9	0.5	-0.3	0.5	-0.3
Italy	-8.9	5.8	4.2	0.9	0.0	1.6	0.6
Spain	-10.8	5.7	6.4	-0.5	0.6	-0.7	1.7
Japan	-4.6	2.4	3.2	-0.4	0.2	-0.9	0.7
United Kingdom	-9.8	6.8	5.0	-0.2	0.2	1.5	-0.1
Canada	-5.3	5.7	4.9	-0.6	0.4	0.7	0.2
Other Advanced Economies <sup>2</sup>	-1.9	4.6	3.7	-0.3	0.1	0.2	0.3
<b>Emerging Market and Developing Economies</b>	<b>-2.1</b>	<b>6.4</b>	<b>5.1</b>	<b>0.1</b>	<b>-0.1</b>	<b>-0.3</b>	<b>0.1</b>
Emerging and Developing Asia	-0.8	7.2	6.3	-0.3	-0.1	-1.4	0.3
China	2.3	8.0	5.6	-0.1	-0.1	-0.4	0.0
India <sup>3</sup>	-7.3	9.5	8.5	0.0	0.0	-3.0	1.6
ASEAN-5 <sup>4</sup>	-3.4	2.9	5.8	-1.4	-0.5	-2.0	-0.3
Emerging and Developing Europe	-2.0	6.0	3.6	1.1	0.0	1.6	-0.3
Russia	-3.0	4.7	2.9	0.3	-0.2	0.9	-0.9
Latin America and the Caribbean	-7.0	6.3	3.0	0.5	-0.2	1.7	-0.1
Brazil	-4.1	5.2	1.5	-0.1	-0.4	1.5	-1.1
Mexico	-8.3	6.2	4.0	-0.1	-0.2	1.2	1.0
Middle East and Central Asia	-2.8	4.1	4.1	0.1	0.4	0.4	0.3
Saudi Arabia	-4.1	2.8	4.8	0.4	0.0	-0.1	0.8
Sub-Saharan Africa	-1.7	3.7	3.8	0.3	-0.3	0.3	-0.2
Nigeria	-1.8	2.6	2.7	0.1	0.1	0.1	0.4
South Africa	-6.4	5.0	2.2	1.0	0.0	1.9	0.2

# WEEKLY MARKET RECAP

A reading of the WEO shows that there are two main drivers under the IMF's observation lens. On the one hand, **the dangerous divergence in economic prospects across countries remains a risk factor to be monitored**. The IMF expects aggregate output for the group of advanced economies to regain its pre-pandemic trend in 2022 and exceed it by 0.9% in 2024. In contrast, aggregate output for the group of emerging market and developing economies (excluding China) is expected to remain 5.5% below pre-pandemic forecasts in 2024, resulting in a larger setback in the trend of improving their living standards.

These divergences are a consequence of the "large vaccination gap" and large disparities in policy support (fiscal and monetary). While almost 60% of the population in advanced economies is fully vaccinated and some are receiving vaccine booster shots, about 96% of the population in low-income countries remains unvaccinated. On the other hand, **disruptions in supply chains pose another major economic challenge**. Not only have epidemics and climate disruptions led to shortages of key inputs and lowered production activity in several countries, but these supply shortages, together with the release of pent-up demand and rebounding commodity prices, have caused consumer inflation to rise rapidly. It is particularly the case in the United States, Germany, and many emerging and developing economies. Food prices have risen most in low-income countries, where the degree of "food insecurity" (determined by a higher share of food consumption in total spending) is most acute, increasing the burdens of poorer households and raising the risk of social unrest.

# WEEKLY MARKET RECAP

NAME	LEVEL	▲ WEEK
MSCI World AC	3 109.47	▲ 2.6%
S&P 500	4 471.37	▲ 2.5%
NASDAQ Composite	14 897.34	▲ 2.8%
SX5E	4 182.91	▲ 2.7%
DAX	15 587.36	▲ 2.6%
CAC 40	6 727.52	▲ 2.4%
FTSEMIB	26 489.18	▲ 2.2%
IBEX 35	8 997.00	▲ 1.1%
FTSE 100	7 234.03	▲ 1.2%
MSCI Emerging	1 283.67	▲ 1.4%
CSI 300	4 874.77	▼ -0.1%

## Strategic View:

The efficacy of Covid 19 vaccines triggered a new phase of increased risk appetite. The forward-looking components of the main anticipatory indicators have accentuated their acceleration and the stock markets have reacted with a reduction in risk premiums, a marked rise in prices and a sector rotation, also on the back of the excellent results at micro level.

## EQUITY MARKETS

### Stagflation scare and Q3 reporting the key drivers for markets

Stock markets were quite weak in the first part of the week, but recovering in the final part pushing the S&P index close to (about 2% below) the previous all-time high seen at the beginning of September, making +1% over the week; +1.5% for Nasdaq, +1.9% for Stoxx600, +0.9% FTSE MIB, +2.8% ITAMID. Stagflation fear takes the lead in driving the initial phase of uncertainty, with global growth that seems “peaking” and inflation that seems to be “stickier”. Much of the imbalance between supply and demand pushing up inflation is due to the impact of COVID. Therefore, as the global pandemic situation continues to improve and more countries reopen, we should see a moderation in supply and production cost bottlenecks (particularly those in EM Asia that are major to the global supply chain and still have restrictions in place for their zero COVID policy). Meanwhile, activity data surprises in the US are showing signs of stabilization and inflation surprises appear to be “peaking”, so if the trend continues this could help alleviate stagflation concern. companies’ statements during Q3 reporting about the demand situation going forward will also be very important for market performance in the coming weeks. This week saw the first good results from the big American banks. They have presented very strong numbers, over a 20% increase in profits, mainly driven by the release of reserves and advisory fees. The emerging picture is consistent among the banks that have reported results so far: FICC -14% y/y on average, equities +32% y/y, advisory fees +45% y/y and management teams were generally constructive on the staying power of these positive trends. Europe, SAP's preannounced positively with a slight uptick on the FY guidance.

Slight outperformance of growth vs value this week, with the MSCI growth index at +2% and MSCI Value +1%, with a slight decline in 10-year rates (Treasury from 1.61% to 1.54%); previous rates rise (+40bps for the US and Europe), which occurred mainly last month, had favored a rotation toward value.

From a sector point of view, for the Stoxx600 the top performers were Technology +5.4%, Consumer Products +4.7% and Financial Services +3.7%, with top performers at the single stocks level QT Group (+15%), Sagax AB +13.7 %, Enter ASA +13.6%; sector laggard Telecom +0.2%, Personal care +0.2% and Insurance +0.4%, with negative performance for THG -30%, Pearson -14% and Allegro -13%. In the United States top performer sectors were Copper +8%, Drug retail +7% e Gold +6%, worst sectors Airlines -3.95%, Agri&Farm -3.9% e Health care Supplies -3.6%; MGM resort International (+9%) and Moderna (+8.8%) the top performers, Align Tech (-5.4%) and Delta Air (-4.6%) the worst stocks of the week. FTSE MIB top performer were Diasorin (+6%), Prysmian (+5.7%) and Fineco (+5.6%), negative performance for Leonardo (-7.7%) and Unipol Gruppo (-1%); in the ITAMID SERI Industrial index (+20%) and ELN (+18.6%) the best, Banca Carige (-4%) and Garofalo the worst (-3.7%).

# WEEKLY MARKET RECAP

NAME	LEVEL	Δ WEEK
Gold	1 768	▲ 0.8%
Silver	23.31	▲ 3.2%
WTI	82.28	▲ 2.2%
Brent	84.86	▲ 1.4%

NAME	LEVEL	Δ WEEK
VIX (S&P 500)	16.30%	▼ -18.5%
V2X (SX5E)	16.35%	▼ -19.0%

NAME	LEVEL	Δ WEEK
US 10-year Yield	1.57%	▼ -4.2 bp
GER 10-year Yield	-0.17%	▼ -4.6 bp
FRA 10-year Yield	0.17%	▼ -4.4 bp
ITA 10-year Yield	0.87%	▼ -4.7 bp

## Strategic View

**U.S. Government** We expect a moderate upward trend in US government yields, following the decline in the second quarter of the year led by the real and term premium component. The June FOMC meeting led to an excessive recalibration of market expectations for US monetary policy: the inclusion of two hikes in the dot plot forecast was interpreted as a lesser commitment to the new average inflation targeting strategy. The US government term structure should reshape the excessive flattening seen in the second quarter. Our view is neutral given the levels reached.

**EU-Government:** European government bonds are expected to show a decoupling from US bonds in the wake of expectations of further monetary easing by the ECB.

## COMMODITIES AND VOLATILITY

The bullish pressure on commodity prices continues on the back of higher energy prices. The reached levels suggest caution, given the violence of the recently recorded movements recorded. Last week, OPEC revised down its 2021 estimates for global oil demand. Demand will rise by 5.82 million barrels per day this year, up from last month's estimate of 5.96 million. The revision is due to weaker-than-expected data recorded in the first three quarters of the year. By 2022, the cartel expects demand to rise by 4.15 million barrels per day. In early October, OPEC+ ignored calls for an increase in supply, confirming +400,000 barrels per day for November. Weekly API oil stockpile data saw an accumulation of over 5.4 million barrels, an event ignored by the market.

## GOVERNMENT BOND MARKETS

Last week the government bonds market has had "two phases". In the first days, yields continued to rise and Euro Area yields went very close to the current year highs subsequently, term structures fell back recording a sharp flattening. The US CPI print was another challenge to the transitory inflation camp, accelerating the front-loading of rate hike pricing, while the US PPI figure signaled a possible easing of supply chain bottlenecks, with numbers averaging lower than expected.

The September FOMC minutes were released confirming widespread consensus for the announcement of tapering in November, with an expected start with mid-November or mid-December timetables (-10b of Treasuries and -5b of MBS, likely), and closure of the program by mid-2022. The minutes report widespread consensus on the transitory nature of rising inflation and upside risks to the price path. However, a split emerges between the two groups. The first predicts that after 2022 the inflation trend will return to a decidedly downward trend, while the second group believes it is appropriate to start the hikes in 2022 to deal with a high inflation path not only next year but beyond. The "hawks" group in recent weeks lost two members, Kaplan and Rosenberg, who resigned over conflicts of interest in managing their finances.

# WEEKLY MARKET RECAP

NAME	LEVEL YTW	Δ WEEK
USD Invest. Grade	2.20%	▲ 0.71%
EUR Invest. Grade	0.40%	▲ 0.13%
USD High Yield	4.16%	▲ 0.15%
EUR High Yield	3.42%	▲ 0.26%
Emerging Local ccy	3.81%	▲ 0.50%
Emerging Hard ccy	3.92%	▲ 0.24%

NAME	LEVEL	Δ WEEK
Itraxx Main	50.37	▼ -2.6 bp
Itraxx Xover	256.131	▼ -12.7 bp
Itraxx Sub Fin.	110.94	▼ -5.6 bp
CDX North Am. IG	52.159	▼ -1.7 bp
CDX North Am. HY	299.96	▼ -8.3 bp

## Strategic View

IG Corporate Neutral outlook for Q3 2021. The level and valuations of spreads make the asset class vulnerable to changes in rates and could be affected by movements and volatility, which overall remains limited. Monetary policy support remains a key factor in the scenario.

HY Corporate Neutral outlook with improving fundamentals but valuations back to lows largely reflecting the good cyclical phase. Default rates are still contained with rating action at the positive margin. Yield seeking and low net supply signal supportive technical factors for Q3.

NAME	LEVEL	Δ WEEK
Dollar Index	93.94	▼ -0.4%
EUR/USD	1.1601	▲ 0.4%
GBP/USD	1.3751	▲ 1.1%
EUR/GBP	0.8436	▼ -0.7%
EUR/CHF	1.0708	▼ -0.1%
USD/JPY	114.22	▲ 0.8%

## CORPORATE BOND MARKETS

For the credit market, as for the main risky assets, the week was characterised by two distinct phases. In the first part, the risk off continued with the widening of spreads and the rise in rates. Then, a mid-week reversal, with Thursday's session able to reverse much of the movement, both in credit and rates, which fell by around 10bp from their relative highs. The return of risk appetite was fueled by a combination of factors. These included the more accommodative stance of central bankers at both the Fed and ECB, as well as micro data, which confirmed a good start to the season for banks, and macro data, with inflation figures that did not surprise on the upside, although they continue to grow. The narrative that has emerged in recent sessions is for subdued economic growth with higher and to some extent less transitory inflation, but that both factors will not favour a substantial early revision of monetary policies, which may remain accommodative.

Indexes of credit markets closed almost flat in Europe on the week with HY -0.01% and IG -0.05%. In the US cash indexes performed better thanks to a spread compression and a limited decrease in US free risk rate, +0.16% in HY and +0.52% in IG.

CDS indices closed the week tightening with Itraxx Main (IG) -2bps, and Xover (HY) -7bps in Europe after widening to +10bps in the higher beta component. The US indices were broadly similar, with both CDX IG (-2) and CDX HY (-8) closing the week lower due to the Columbus Day holiday. Cash indices performed slightly worse, with indices substantially unchanged in Europe.

## EXCHANGE RATES

In the past week, the FX market was driven mainly by what happened in the rates market. At the beginning of the week, interest rates increased and, in some country, they touched the highest level of the year. In such circumstances the USD remained well supported and against the EUR it touched 1.152, the lowest level this year.

On Wednesday, the release of US inflation data caused a reversal of those moves. The data was in line with market expectations, well above 5% for the 5th month in a row, but the inability of interest rates to go higher on this data and the comments by FED central bankers prompted a reversal of the trend. Interest rates went down and so did the USD. The EUR closed the week close to 1.16.

Emerging market currencies recovered partially the losses registered during September. In a surprise move, the South American central bank hiked by 125 bps, letting the market understand that the increase will not remain alone. The Turkish Lira was the worst currency: it lost 2.7% after the Central Bank cuts rates by 100 bps, due to political pressure from President Mr. Erdogan. Global factors that tend to drive Emerging Markets are not turning positive in the near term, but rates increase may help in stabilizing the market.

# WEEKLY MARKET RECAP

## THE WEEKS AHEAD: UPCOMING DATA

**Europe:** France, Germany, UK and the Eurozone will publish the manufacturing, services and composite October PMI indices. Inflation will be published in the UK and Eurozone, while in Italy industrial sales will be known.

**United States:** Also unveiled here will be the manufacturing, services and composite PMI as well as industrial production and various economic sentiment indices such as the Leading Index, Larger Consumer Comfort and the Philadelphia Fed Business Outlook. Completing the picture are the usual updates on the labour market with initial and continuing claims for unemployment benefits and an update on the housing market with mortgage applications, new construction starts, existing home sales and new building permits issued.

**Asia:** China will publish third quarter GDP, industrial production and retail sales. In Japan, inflation and PMI (manufacturing, services and composite) as well as machinery orders will be released.

*Disclaimer: CMB Monaco prepared this document using information that it considers to be reliable. However, this information comes from third-party, professional sources that have not been independently verified and our institution offers no guarantee, express or implied, as to its accuracy or completeness.*

*CMB Monaco draws your attention to the fact that the analysis provided in this document may not be suitable for certain investor profiles given their nationality, country of residence or their risk aversion. This document does not take into account your financial situation or investment objectives. You alone can judge the appropriateness of any transactions that you may enter into, based on your personal financial situation, your objectives in terms of duration and your risk exposure.*

*The price, value and income of any financial instrument mentioned in this document may decrease or increase significantly depending on market fluctuations. CMB Monaco therefore urges you to ensure that you fully understand this information before considering any transaction on the markets.*