- **Q1 2021 saw strong gains for stocks and commodities** (link)
- **US infrastructure plan revealed** (link)
- **Reflation trade dominated US markets in first quarter** (link)
- **European stocks among the top performing assets globally in March** (link)
- **Turkey extends tax cuts to support lira** (link)
- **Peruvian currency gains on liquidation of pensions' foreign holdings** (link)

US | Europe | Other Mature | Emerging Markets | Market Tables

Markets make a positive start to the new quarter

With Q1 2021 in the books, most markets have opened Q2 on a positive note. Asia enjoyed a very good session overnight after the announcement of the US President's $2.25 tn infrastructure plan, while European stocks and US equity futures are also showing gains. However, trading volumes 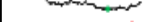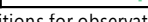are low ahead of the Easter holiday weekend. US Treasury prices are up, perhaps due to buying from Japanese investors as today is the start of their new fiscal year. Tomorrow's US payrolls report assumes even more significance than usual as rumors point to a blowout number that exceeds even the aggressive current consensus forecast of 650K jobs added for March. A weaker number could have a larger impact than usual given the low liquidity expected on a day when most markets outside the US are closed. Meanwhile, today's OPEC+ meeting is a key focus for markets, with most analysts expecting the production cuts to be extended for another month.

Key Global Financial Indicators

Last updated: 4/1/21 8:05 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		3973	0.4	2	2	61	6
Eurostoxx 50		3936	0.4	3	6	47	11
Nikkei 225		29389	0.7	2	0	65	7
MSCI EM		53	0.5	3	-3	63	3
Yields and Spreads					bps		
US 10y Yield		1.70	-3.7	7	29	112	79
Germany 10y Yield		-0.32	-2.4	7	2	14	25
EMBIG Sovereign Spread		353	-5	-2	-4	-274	3
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		56.3	0.3	0	-1	7	-3
Dollar index, (+) = $ appreciation		93.2	0.0	0	2	-7	4
Brent Crude Oil ($/barrel)		62.9	0.3	2	-1	154	21
VIX Index (%, change in pp)		18.5	-0.9	-1	-5	-39	-4

Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

First Quarter 2021 Recap

The first quarter of 2021 featured good performances for many equity indexes and commodities, but sentiment was challenged by sharply rising interest rates and a spike in interest rate volatility. The US Treasury market suffered its worst quarter since the year 1980. Fears of rising inflation also tempered equity gains. However, the global economy continued to recover and the US in particular appears poised for a major rebound. Many equity indexes are close to all-time highs, and even the abrupt unwinding of the Archegos hedge fund last week had little impact on the broader market. The S&P 500 set 16 news records over the quarter, but for once the European markets beat their US counterparts. The VIX remained subdued, credit spreads remained tight and corporate bond sales volumes were very high. China was the most prominent outlier as its market ended the quarter in the red because of worries that a crackdown on lending could slow down the recovery. The dollar strengthened against most major currencies, forcing many emerging markets to raise their policy rates.

Q1 2021 Performance for Selected Assets as of 4pm March 31, 2021
Source: Bloomberg

S&P 500	+5.77%
Euro Stoxx 600	+7.66%
Nikkei	+6.32%
iShares MSCI Emerging Markets ETF	+3.23%
China CSI	-3.13%
Brent	+22.66%
Copper	+12.97%
Corn	+16.58%
US 10yr Treasury	+83 bps
German 10yr Bund	+28 bps
Japan 10yr JGB	+8 bps
Euro	-4% (dollar stronger)
Yen	-7.8% (dollar stronger)
Renminbi	-0.39% (dollar stronger)
VIX	-14.73%
MOVE interest rate volatility index	+45.51%

United States   back to top

This morning's jobless claims data weaker than forecasts. This made contacts nervous about tomorrow's payrolls report which is rumored to be much stronger than expected. Some "whisper" estimates go as high as one million jobs gained. A weak number would be a major disappointment for markets and could spur a major equity selloff. Treasury prices immediately following the data.

Key US Jobless Claims Data 8.30 am
Source: Bloomberg

Indicator	Consensus Forecast	Actual Outcome
Initial Jobless Claims	675K	719K
Continuing Claims	3750K	3794

President Biden unveiled the details of his new $2.25 tn infrastructure plan to be implemented over eight years. Most analysts think that the package can be passed through the budget reconciliation process without votes from Republicans, as occurred with the $1.9 tn American Rescue Plan. However, getting all 50 Democratic Senators to sign on could be a challenge. According to the US administration, the costs of the plan would be paid over the next 15 years by higher taxes on corporations. Goldman estimates that, if passed in its current form, the package could average $275 bn/year over the next eight years. The analysts also forecast that the plan could boost federal spending by $100 bn or 0.5% of GDP in 2022 and $150-200 bn or 0.7% of GDP in 2023.

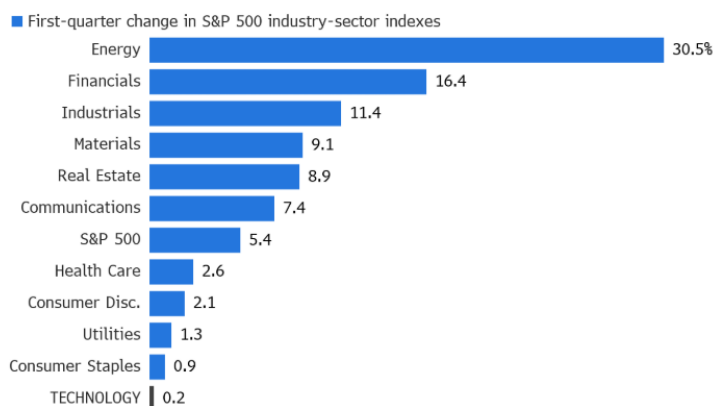### 2021 Infrastructure Plan: Selected Details
Source: Bloomberg

Transportation (incl. public transit)	$620 bn
Quality of life (high speed broadband, clean water)	$650 bn
Manufacturing	$580 bn
Care for elderly and disabled	$400 bn
Corporate taxation I	Corporate tax to be raised to 28% from 21%
Corporate taxation II	21% minimum tax on global earnings from 13%

In the US market, Q1 2021 was dominated by the "reflation trade" involving outperformance by cyclical sectors and also banks, which benefit from a steeper yield curve due to higher net interest margins. As a result, the best performing sectors were the ones benefiting the most from the reopening of the economy and increased mobility. Sectors that did well during the lockdown did worst in the first quarter, with the once dominant technology sector finishing dead last.

Dead Weight
S&P 500's biggest industry group is poised to finish last this quarter for a change

■ First-quarter change in S&P 500 industry-sector indexes

Energy	30.5%
Financials	16.4
Industrials	11.4
Materials	9.1
Real Estate	8.9
Communications	7.4
S&P 500	5.4
Health Care	2.6
Consumer Disc.	2.1
Utilities	1.3
Consumer Staples	0.9
TECHNOLOGY	0.2

Source: Bloomberg
Percentage figures are as of March 30.

Bloomberg

Europe   back to top

European equities are starting the month with a positive tone with most country indices edging up around 0.3%-0.4%. Stock markets shrugged off the **announcement of a new national lockdown in France** and tightening of restrictions in Italy. **European stock markets including Greece, Germany and Italy** were among the top performing financial assets in March despite concerns of about the slow rollout

of vaccines. The automotive sector (+16%), telecommunications (+11%) and chemicals (10%) outperforming. Banks (+6%) performed in line with the broader index.

Southern European spreads managed to tighten in March, recouping most of the February losses. However, contacts are becoming concerned about the potential implications of the delay in the recovery fund disbursements as analysts have been shifting forward their expectations for recovery fund issuance and implementations. S&P was latest to revise its base case to Q4 2021 from Q2 2021 earlier.

Sustainability-linked loans see a record quarter with global issuance totaling $77bn, mostly dominated by European issuers. Key Performance Indicator (KPI) linked debt tied to specific performance targets (such as a reduction of debt cost if emissions are cut by a target amount) is becoming the norm in the region and accounted for about 35% of total high-grade debt sales. The trend is also picking up in the leveraged market with $15bn of deals signed this quarter as compared to $1bn last year.

Global sustainability-linked loans post strongest quarter

Source: Bloomberg
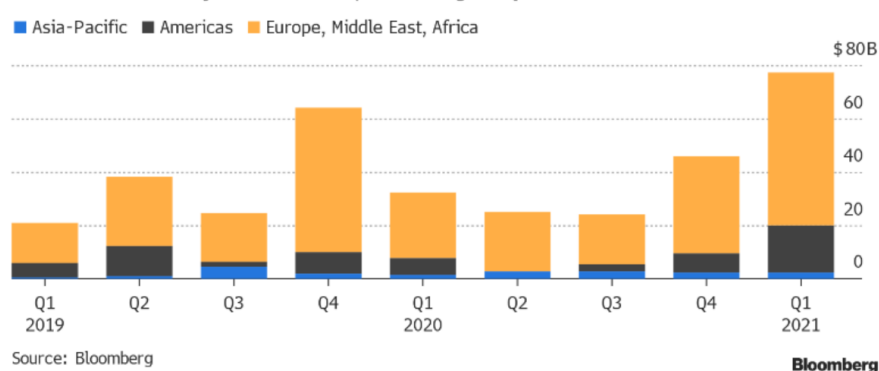
United Kingdom

The Federation of Small Businesses survey found that 23% of UK small business stopped exporting goods to the EU due increased costs and technical barriers to trade. The survey also found that 70% of business experienced delays when dealing with EU-based companies. The UK's trade with the EU was severely affected following the end of the Brexit transition at December 31st, 2020 with exports dropping about 38% yoy.
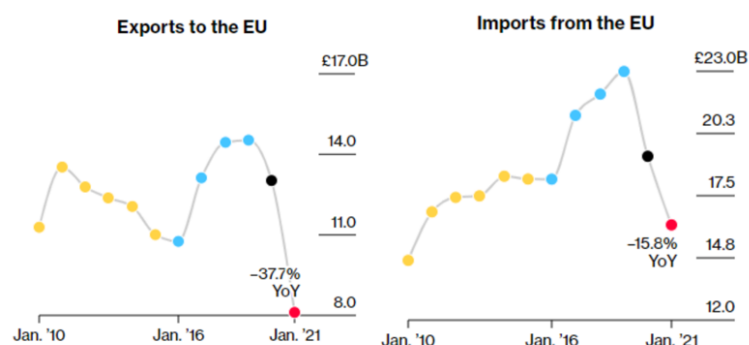
Other Mature Markets   back to top
**Australia**
The housing market boom ramped up in by 2.8% in March, the largest increase since October 1988. Analysts noted that the rise in property prices has been fueled by low borrowing costs, an improving

economic outlook, and a housing supply shortage. Other economic data such as manufacturing PMIs and retail sales also looked very promising.

Hot Property

Australia house prices rise most in 32 years

■ Month-on-month change in Australia hedonic home value index
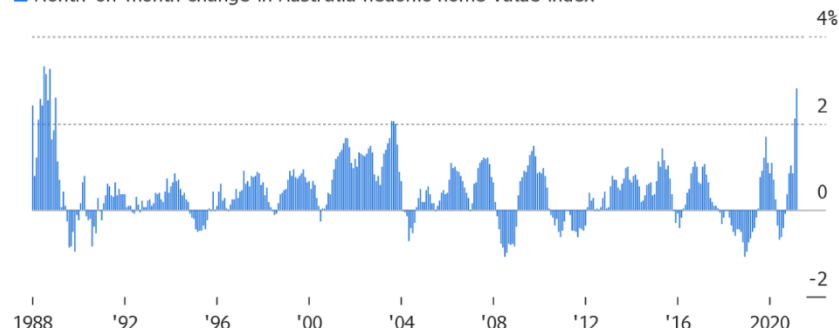
Source: CoreLogic Inc.

Bloomberg

Emerging Markets   back to top

Asian markets did well overnight, with the positive sentiment spilling over into EEMA and euro area trading. However, the growing COVID-19 crisis in Latin America put a dent in sentiment there, leading to losses in equity markets across the region. Lower commodities prices also played a role. In **China**, the **Caixin manufacturing PMI weakened more than expected in March.** This measure is oriented towards small and medium enterprises (SMEs) and exporting firms. It fell from 50.9 in February to 50.6 in March, well below the consensus market forecast of 51.4. despite the data, many analysts remain very bullish on China, pointing to strong export orders and improved employment conditions. However, rising inflation is a concern.

Key Emerging Market Financial Indicators

Last updated:	Level		Change				YTD
4/1/21 8:07 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		53.34	1.5	3	-3	63	3
MSCI Frontier Equities		29.49	0.8	1	0	39	4
EMBIG Sovereign Spread (in bps)		353	-5	-2	-4	-274	3
EM FX vs. USD		56.31	0.3	0	-1	7	-3
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.57	-0.3	0	-2	8	-1
Indonesian Rupiah		14525	0.0	-1	-2	13	-3
Indian Rupee		73.44	-0.5	-1	0	4	-1
Argentine Peso		91.99	0.0	0	-2	-30	-9
Brazil Real		5.61	0.4	1	0	-6	-7
Mexican Peso		20.32	0.5	2	2	19	-2
Russian Ruble		76.26	-0.8	0	-3	3	-3
South African Rand		14.63	1.0	3	3	25	0
Turkish Lira		8.16	1.1	-3	-11	-18	-9
EM FX volatility		10.99	0.0	0.0	0.7	-1.5	0.3

Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

Peru

Peru's newest bill to allow private pension fund withdrawals boosted currency appreciation expectations. Peru's Congress agreed for a third time to a bill granting citizens the option to withdraw cash

from their accounts with private pension funds, this time up to $4,665 per person. Customers over 40 years, who have not paid in within the last five years, can redeem their entire balance. J.P. Morgan calculates that

total outflows linked to the three bills could amount to 11% of Peru's GDP. With a sizeable part of Peru's private pension funds' portfolios invested in foreign assets, the associated liquidation of foreign holdings has generated appreciation pressures in the country's currency forward curve, which in turn has supported the sol's spot price.

Decapitalization of Peru's private pension funds

Source: J.P. Morgan.
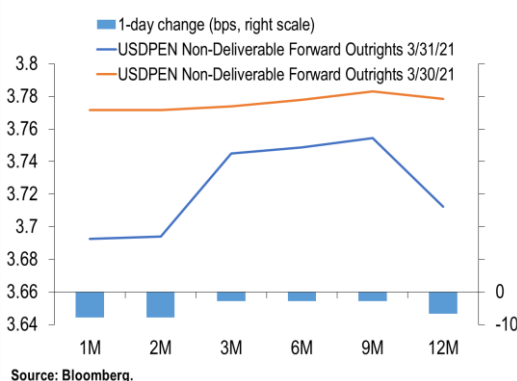
Turkey

Turkish authorities have extended a tax cut benefiting lira deposits until end of May 2021. The cuts were introduced on Sept. 30 to support the lira and applied to new and renewed lira accounts. The tax rate was cut from 15% to 5% for deposits of up to 6-month maturity, and from 12% to 3% for those of up to one-year maturity. The Turkish lira has been under pressure since end-2019, depreciating from around 6 lira/dollar to 8.2/dollar.

Turkey: Selected Variables
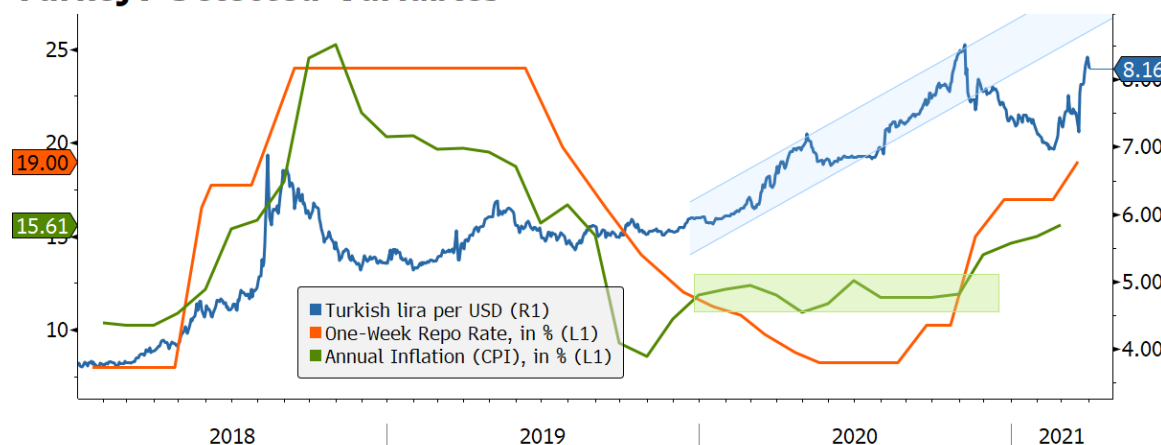
Source: Bloomberg
TRY Curncy (Turkish Lira Spot) EM FX: Turkish lira Daily 02JAN2018-01APR2021   Copyright© 2021 Bloomberg Finance L.P.   01-Apr-2021 09:55:04
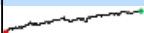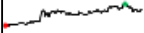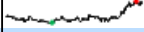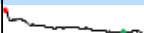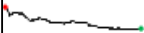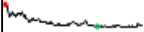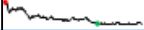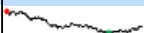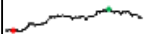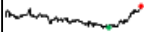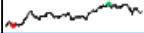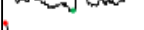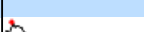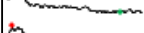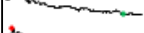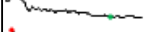
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Global Financial Indicators

Last updated: 4/1/21 8:06 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		3986	0.4	2	2	61	6
Europe		3936	0.4	3	6	47	11
Japan		29389	0.7	2	0	65	7
China		3466	0.7	3	-1	25	0
Asia Ex Japan		93	0.3	3	-5	62	3
Emerging Markets		53	0.5	3	-3	63	3
Interest Rates			basis points				
US 10y Yield		1.70	-3.7	7	29	112	79
Germany 10y Yield		-0.32	-2.4	7	2	14	25
Japan 10y Yield		0.11	1.8	3	-4	10	9
UK 10y Yield		0.81	-3.5	8	5	50	61
Credit Spreads			basis points				
US Investment Grade		90	-3.7	-9	-2	-182	-5
US High Yield		338	-0.1	-16	-11	-569	-42
Europe IG		51	-1.5	-4	2	-53	3
Europe HY		247	-7.0	-24	-2	-356	6
Exchange Rates			%				
USD/Majors		93.19	0.0	0	2	-7	4
EUR/USD		1.17	0.1	0	-3	7	-4
USD/JPY		110.7	0.0	1	4	3	7
EM/USD		56.3	0.3	0	-1	7	-3
Commodities			%				
Brent Crude Oil ($/barrel)		63	0.3	2	-1	154	21
Industrials Metals (index)		143	-0.1	0	-3	56	7
Agriculture (index)		52	0.5	1	0	43	7
Implied Volatility			%				
VIX Index (%, change in pp)		18.5	-0.9	-1.3	-4.9	-38.6	-4.3
US 10y Swaption Volatility		90.5	1.5	14.2	12.5	-5.7	30.4
Global FX Volatility		7.8	0.0	-0.1	0.0	-3.3	-0.2
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		115	-1.1	-9	-19	-109	-5
Italy		96	-0.5	-1	-4	-101	-16
Portugal		52	0.4	-1	-3	-83	-8
Spain		63	-0.2	-2	-3	-53	1

Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

back to top

Emerging Market Financial Indicators

Last updated: 4/1/2021 8:13 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.57	-0.3	-0.4	-2	8	-1		3.3	-0.8	-1	-6	64	3
Indonesia		14525	0.0	-0.7	-2	13	-3		6.7	-1.7	2	7	-127	65
India		73	-0.5	-1.1	0	4	-1		6.4	-0.7	0	-5	-6	44
Philippines		49	0.0	0.1	0	5	-1		3.9	1.9	-4	38	-102	21
Thailand		31	-0.1	-0.3	-3	6	-4		2.0	0.6	4	18	31	65
Malaysia		4.15	-0.1	-0.1	-2	5	-3		3.3	8.2	5	30	2	76
Argentina		92	0.0	-0.4	-2	-30	-9		46.3	-27.3	83	474	-1390	-987
Brazil		5.61	0.4	0.7	0	-6	-7		8.1	-2.4	-18	84	181	253
Chile		717	0.3	1.5	1	20	-1		3.5	0.9	20	40	-16	76
Colombia		3663	1.8	-0.5	-1	11	-6		6.5	-5.9	15	95	-34	145
Mexico		20.32	0.5	1.7	2	19	-2		6.7	-2.8	-10	64	-44	116
Peru		3.7	0.8	-0.5	-2	-8	-3		4.8	-5.5	22	55	-25	119
Uruguay		44	0.3	-0.1	-2	-2	-4		7.4	-8.1	-3	36	-584	13
Hungary		308	0.2	0.5	-2	8	-4		2.1	7.1	13	4	24	59
Poland		3.92	0.7	0.4	-4	7	-5		0.9	-1.4	5	1	-39	29
Romania		4.2	0.4	-0.6	-3	5	-5		2.6	-2.0	-1	-28	-179	-11
Russia		76.3	-0.8	0.0	-3	3	-3		6.7	-3.9	-15	25	14	103
South Africa		14.6	1.0	2.7	3	25	0		10.3	-6.2	4	49	-92	65
Turkey		8.16	1.1	-2.7	-11	-18	-9		18.4	-17.2	26	484	573	526
US (DXY; 5y UST)		93	-0.1	0.3	2	-7	4		0.93	-1.4	9	23	57	56

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
								basis points						
China		5111	1.2	4	-4	37	-2		199	0	-2	-9	30	-9
Indonesia		6011	0.4	-2	-5	33	1		158	0	-9	-25	-5	-29
India		50030	1.1	2	-1	77	5		148	-5	-3	0	-226	-3
Philippines		6443	0.0	-1	-6	19	-10		83	0	-9	-17	13	-22
Malaysia		1583	0.6	-1	1	19	-3		113	0	-2	-3	9	3
Argentina		47982	0.0	-1	-2	89	-6		1459	0	19	8	-570	91
Brazil		116634	0.0	4	6	64	-2		253	0	0	-16	58	3
Chile		4898	0.0	3	6	43	17		126	0	-6	-16	-14	-18
Colombia		1317	0.0	-1	-3	24	-8		207	0	-4	-15	44	2
Mexico		47246	0.0	1	5	40	7		348	0	-9	-34	55	-12
Peru		21372	0.0	-1	-6	54	3		133	0	-4	-3	22	1
Hungary		44466	0.3	1	-1	37	6		65	0	-6	-15	-42	-31
Poland		58602	0.9	4	1	43	3		-22	0	-4	-11	-54	-21
Romania		11309	1.0	3	11	52	15		189	-4	-3	-20	-195	-14
Russia		3551	0.3	3	5	44	8		159	0	-5	-3	19	-7
South Africa		67070	0.9	4	-1	53	13		357	0	-4	-35	25	-23
Turkey		1421	2.1	2	-7	59	-4		421	0	-5	-47	34	-24
Ukraine		517	0.0	0	-1	1	4		479	0	12	-21	127	-12
EM total		53	1.5	3	-3	63	3		421	0	17	-10	97	128

Colors denote tightening/easing financial conditions for observations greater than ±1.5 standard deviations. Data source: Bloomberg.

back to top