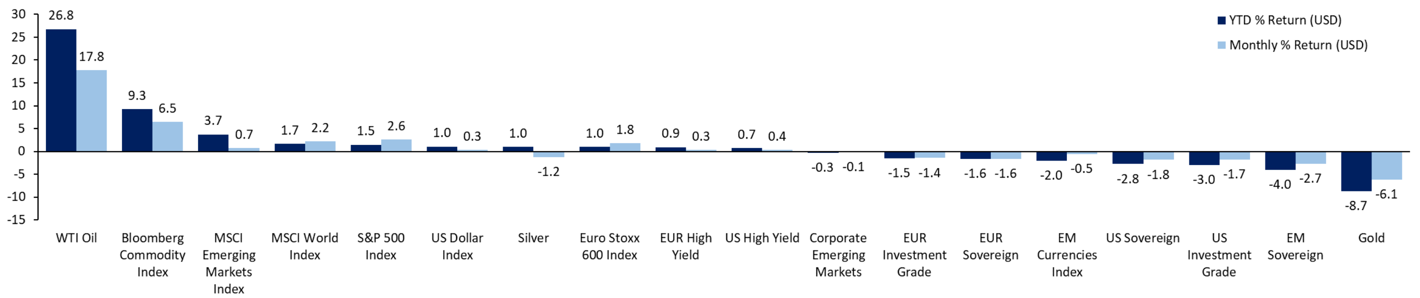
Global Research &
Investment Strategy

March 1, 2021

Monthly Market Wrap, February 2021

Global growth is improving, yields are rising, and expensive assets are underperforming. A "normal" early-cycle behaviour is growth improvements paired with policy lags - remaining easy. Stocks and credit rally, cyclicals and commodities do relatively well, and the yield curve steepens. Since March 2020, this has been a good playbook with yields as notable laggards. This is changing. Powell's speech later this week could be decisive a decisive moment.

Chart 1. Asset Class Return YTD (USD Base)



Equities

Rising interest rates sent tremors through equity markets last week with indices erasing a substantial share of their month-to-date returns. Still, the MSCI World was up 2.6%.

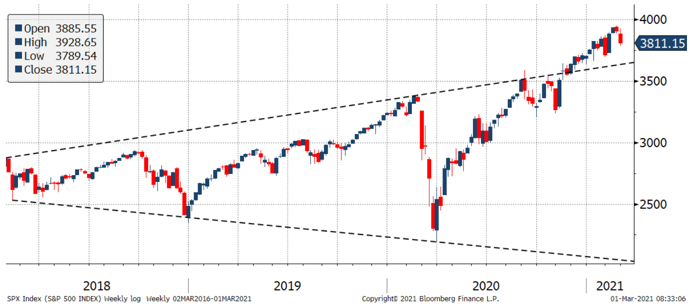
In the US, tech was a clear laggard with the Nasdaq down 4bps meanwhile the S&P 500 was up 2.76% **(Chart 2)**. However, once again, small caps was where most of the action was happening with the Russell 2000 up 6.23%, outperforming larger caps by 3.47% **(Chart 3)**. On a sector basis, the reflation and re-opening trade were clear winners with energy, financials, and industrials leading, respectively up 21.5%, 11.4%, and 6.6%. Thus beating the broader index by 18.7%, 8.6%, and 3.9%.

The picture was relatively similar in Europe. The regional index (EuroStoxx 600) was up 2.4% **(Chart 4)**, admittedly lagging the financials and energy heavy EuroStoxx 50, up 4.5%. On a regional basis, France and Spain were among the top performing regions in Europe, up 5.6% and 6.0%. On a sector basis, banks, travel and leisure, basic resources, and insurance were among the strong winners, respectively up 15.8%, 15.6%, 12.1%, and 9.2%.

In the UK, the smaller cap and more domestic focused index (FTSE 250) outperformed the more internationally exposed index (FTSE 100) by 1.9% with each respectively up 3.5% and 1.6%.

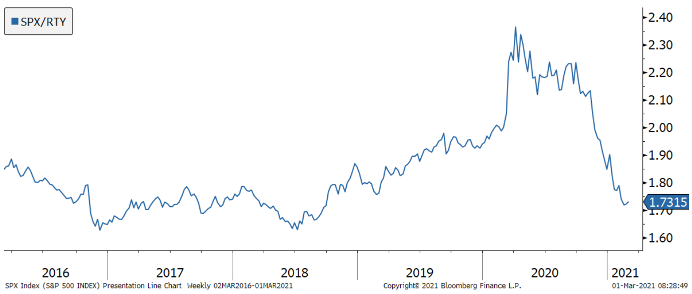
After weeks of trading sideways near 20 in mid-February, the volatility index (VIX) rose again last week to 27.95%.

Chart 2. S&P 500 Index (Weekly)



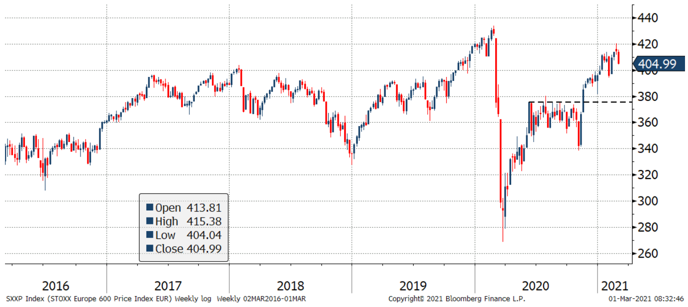
Source. Bloomberg, MAM Research

Chart 3. S&P 500 vs. Russel 2000 Ratio (Weekly)



Source. Bloomberg, MAM Research

Chart 4. EuroStoxx 600 Index (Weekly)



Source. Bloomberg, MAM Research

Fixed Income

The rise in long-term, and most recently short-term, bond yields follow good news about economic activity and rising inflation expectations - which has been our view over the past 12 months. Last week, the US 10-Yr **(Chart 5)** shot as high as 1.6% in the session before closing at 1.4%, breaking a 7+ month range for US 10-Yr real yields. The US yield curve steepened with short-term rates still anchored near the zero-lower bound with US 2-Yr yielding 12bps. Despite headwinds from virus cases still failing to inflect substantially in February, US inflation expectations remain relatively high **(Chart 6)**.

In Europe, despite lasting social and travel restrictions, bond yields followed a rather similar pattern. The German 10-Yr and 30-Yr yields were, respectively, up 26bps and 27bps to -0.30% and 0.17%. Shorter tenors remained relatively anchored with German 2-Yr yields up only 7bp meaning the yield curve also steepened in the region.

In the UK, we observed a similar pattern than in the US and Europe. However, the yield curve both shifted higher and steepened with the UK 2-Yr rising by 23.5bps.

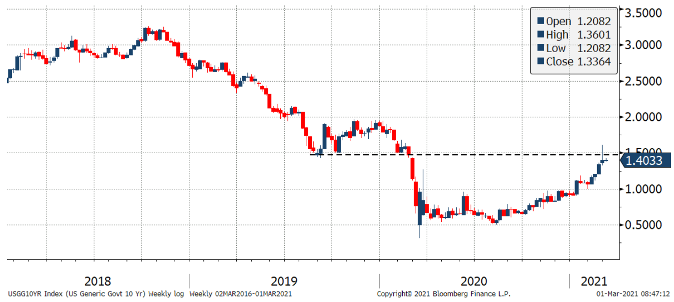
Currencies

The dollar outperformed its G10 counterparts last Friday and headed for its best weekly gain since October with US Treasury yields rising close to 1-Year highs. The greenback was also supported by stop-loss and month-end flows. It ended the month up 33bps **(Chart 7)**, continuing to consolidate near its 90.0 level that marked the bottom in a dollar decline back in 2017-2018.

The Euro **(Chart 8)** remain anchored close to 1.20 vs. USD. The pair should continue to trade within its 1.20-1.24 range for the time being. The slow vaccine rollout in the Eurozone has weighted on the currency, notably against GBP. This is starting to change and should allow markets to turn optimistic on a Eurozone economic reopening.

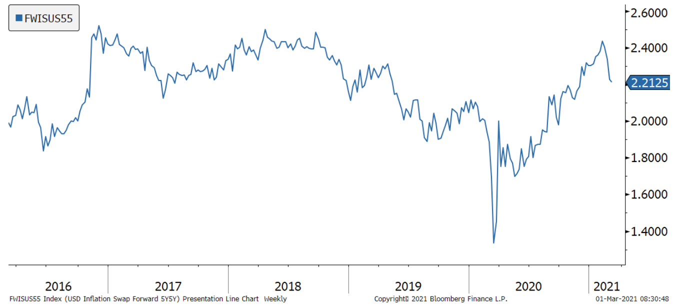
Elsewhere, the UK continues to progress on the vaccine rollout and now works to progressively easy restrictions. The recent developments have been supportive to the local currency, which continued to gain in February and build on the wedge technical break observed back in January **(Chart 9)**. The Japanese Yen weakened a bit, down 1.8% to 106.65 vs. the dollar.

Chart 5. US 10-Yr Treasury Bonds (Weekly)



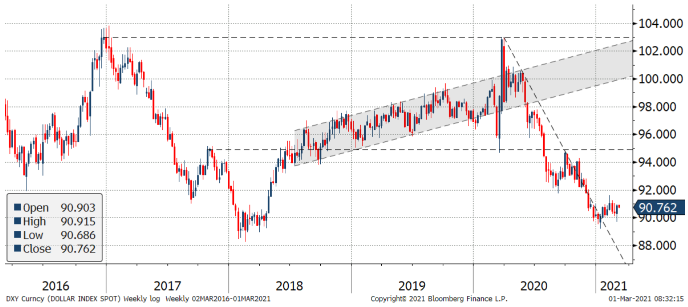
Source. Bloomberg, MAM Research

Chart 6. US 5Yr5Yr Forward Breakeven Rate (Monthly)



Source. Bloomberg, MAM Research

Chart 7. US Dollar Index (Weekly)



Source. Bloomberg, MAM Research

Chart 8. USD/Euro Spot Exchange Rate (Weekly)

Source. Bloomberg, MAM Research

Chart 9. USD/GBP Spot Exchange Rate (Weekly)

Source. Bloomberg, MAM Research

Commodities

Commodities were the best performing asset last month with the Bloomberg commodity index up 6.5%.

Precious metals dragged with rising yields and a slightly stronger dollar. Investors took a more risk-on approach across asset classes. As such, Gold **(Chart 10)** and Silver **(Chart 11)** were respectively down 6.2% and 1.2%.

Energy commodities, up 15.4%, were supported by a mix of economic re-opening optimism and supply disruptions in the US, while OPEC maintained tight supply. Extremely cold weather paralyzed several states for days, including Texas. Crude oil was up 17.8% and natural gas 8%.

Industrial commodities were the second best performing sector, up 10.1%. Copper **(Chart 12)** led the gains, up 15.1%, followed by Aluminium, up 8.1%, with investors anticipating large infrastructure spending globally.

Agriculture commodities continue to benefit from higher inflation expectations, up 3.7%. As China keeps on feeding a recovering hog herd, soybean was up 2.6% and corn 1.6%. Coffee and sugar prices surged 11.3% and 10.7%.

Emerging Markets

The MSCI Emerging Market Index was up 0.8% last month **(Chart 13)**, thus underperforming global equities by 1.8%.

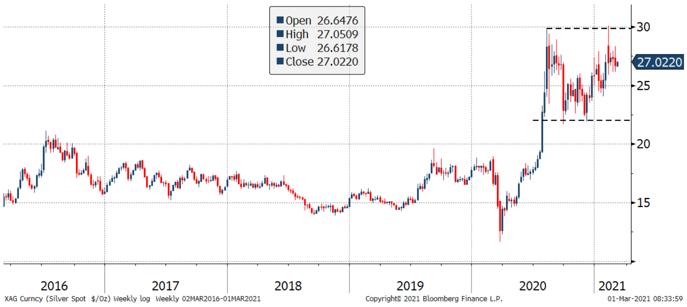
A large portion of the lagging performance is attributed to both China and Brazil, respectively down 1.0% and 5.9%. Nonetheless, within the region, we will highlight some strong performers such as India, up 5.2%, benefiting from inflows as investors begin to bet on India becoming the primary beneficiary of a global supply chain diversification outside of China. Arguably, most of the decline in Brazilian equities should be attributed to a stock specific risk over a broader regional weakness. Petrobras contributing -2.0%.

The EM FX Index **(Chart 14)** was down 55bps, suffering from the headwinds associated with a stronger dollar and rapidly rising yields in the US and Europe. FX strategists hint the rise in global yields may reduce the use of EUR to fund longs in high-yielding EM currencies. Investors should remain attentive to any ECB comments on the rise in bond yields and whether it could result in more easing. Rising commodity prices balanced out the impact of yields in commodity-sensitive currencies with for instance the RUB up 1.5% against the dollar.

Chart 10. Gold Spot Prices (Weekly)

Source. Bloomberg, MAM Research

Chart 11. Silver Spot Prices (Weekly)

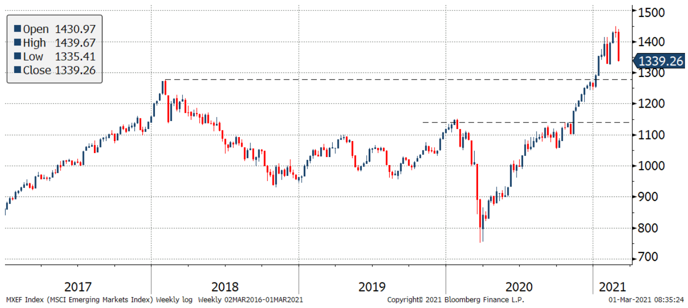


Source. Bloomberg, MAM Research

Chart 12. Copper Front Month Rolling Futures (Monthly)

Source. Bloomberg, MAM Research

Chart 13. MSCI EM Index (Weekly)



Source. Bloomberg, MAM Research

Chart 14. MSCI EM FX Index (Weekly)

Source. Bloomberg, MAM Research