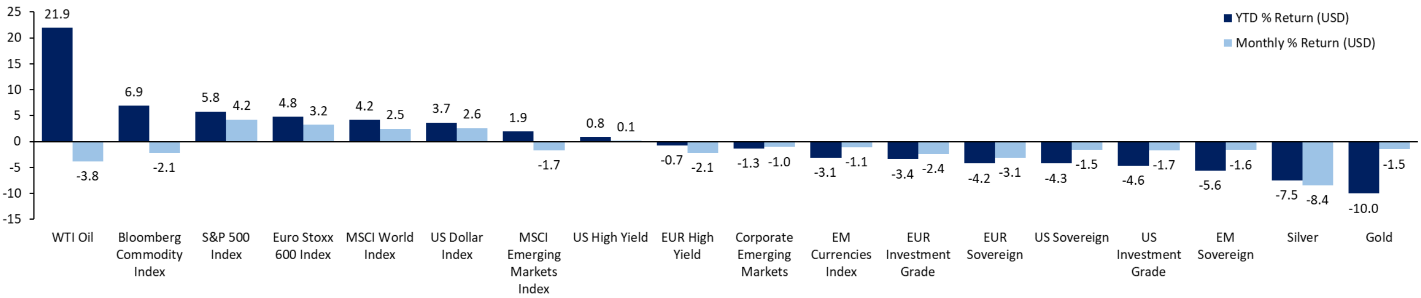
April 1, 2021

# Monthly Market Wrap, March 2021

Headlines were dominated by rising bond yields and a value-driven market rally so far this year. Key performance drivers were the Democratic victory in the Georgia runoff, paving the way for further massive US fiscal stimulus, and successful vaccine rollouts in both the US and UK. The rise in bond yields was correlated with the significant outperformance of financials and value stocks, further supported by higher commodity prices. A common theme driving most of these moves has been rising optimism about the global growth outlook on the back end of the pandemic.

**Chart 1**. Asset Class Return YTD (USD Base)




## Equities

A little over a year after the US Federal Reserve pledged to buy an unlimited amount of US Treasuries and purchase companies' bond for the first time in the central bank's history, the S&P 500 rose 74.9% between March 23 of last year and the same date in 2021 thus marking the best 12-month performance since 1936 **(Chart 2)**.

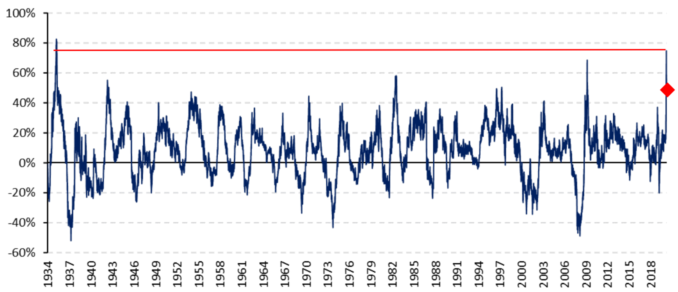
Building on the year-to-date momentum, the MSCI World closed the quarter up 4.9% and up 3.3% in March 2021.

The S&P 500 was up 4.8% **(Chart 3)**, outperforming the Nasdaq and Russell 2000 by 2.9% and 3.4%, respectively. At a sector level, non-tech equities were the clear winner this past month with utilities (+10.1%) leading the way, followed by industrials (+8.8%), staples (+7.7%), materials (+7.3%), real estate (+6.4%), and financials (+5.6%).

Across the Atlantic, the EuroStoxx 600 ended the month up 6.4% **(Chart 4)** outperforming the MSCI World by 3.1%. German equities were the top performer (+8.9%) followed by French equities (+6.5%). At a sector level, we observed a similar pattern to the one seen in the US with non-tech equities beating the regional index. Automotive (+16.9%) topped list while telecommunications (+10.9%), chemicals (+10.2%), construction (+10.1%), and personal household goods (+7.9%) followed.

As risk assets edged higher, volatility dampened through the month with the VIX index now lower at 18.6%.

**Chart 2**. US Stocks Mark Best 12-Month Return since 1936

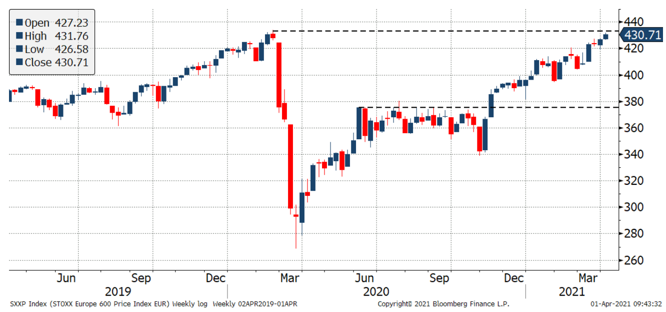


*Source. Bloomberg, MAM Research*

**Chart 3**. S&P 500 Index (Weekly)


*Source. Bloomberg, MAM Research*

**Chart 4**. EuroStoxx 600 Index (Weekly)




*Source. Bloomberg, MAM Research*

## Fixed Income

US 10-Year treasury yields dipped in the last few sessions. Yet, Q1 2021 marked the worst quarterly performance for the Bloomberg Barclays Index tracking US government bonds since 1980. While shorter duration yields remained near zero after the Fed reiterated its commitment to keep rates lower for longer, longer tenor yields continued to rise. The US 10-Year closed at 1.73% **(Chart 5)**, up 32bps in March. The yield curve steepened further with the 2-10 Year spread now standing at 1.52%.

In Europe, a third infection wave forced local authorities to re-introduce social and travel restriction measures. As a result, bond yields dropped slightly. German 2-Year bonds were down 3bps while the -Year note's yield was down by 8bps. The yield curve flattened ever so slightly on the German 2-10 Year with the spread now standing at 38bps. We expect the trend to start inverting on the back end of the new lockdowns as the economy progressively reopens and vaccines make their way to the broader population

In the US, forward breakeven rates indicate that inflation expectations were slightly higher by 18bps **(Chart 6)**.

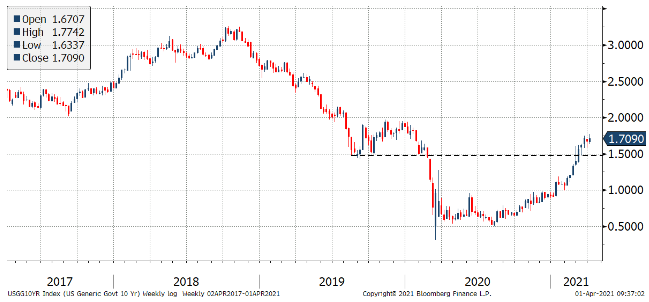
## Currencies

The dollar is currently benefiting from widening interest rate differentials. A growing list of headwinds, including a tighter Chinese credit impulse, could lead to a temporary setback in the global manufacturing sector. Ultimately, it may fuel another rally for the greenback in the near-term. The dollar has been the best performing currency so far, up 3.7% YTD and 2.6% last month **(Chart 7)**.

The Euro **(Chart 8)** ended the month lower at 1.17 against the dollar. The pair should continue to edge lower as long as local governments fail to successfully implement a vaccine rollout strategy to curb down the spread of the virus in the region. The slow rollout and rising infections continues to weigh on the local economies, currency, and any form of meaningful recovery. However, we expect the trend to invert as summer nears and the latest restrictions are eased and vaccines make their way to the population.

Elsewhere, the GBP **(Chart 9)** was relatively stable, down 40bps vs. USD. Vaccine tensions with the EU trying to block deliveries to the UK could weigh on the local economy and the currency over the next couple months.

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

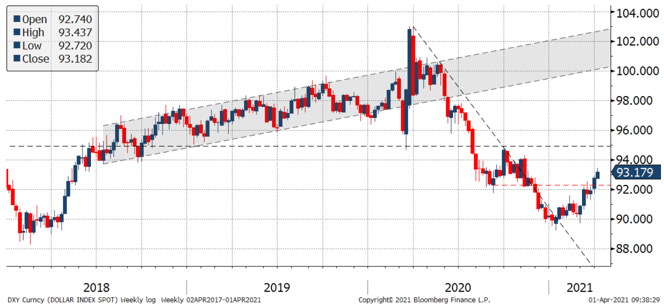



*Source. Bloomberg, MAM Research*

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

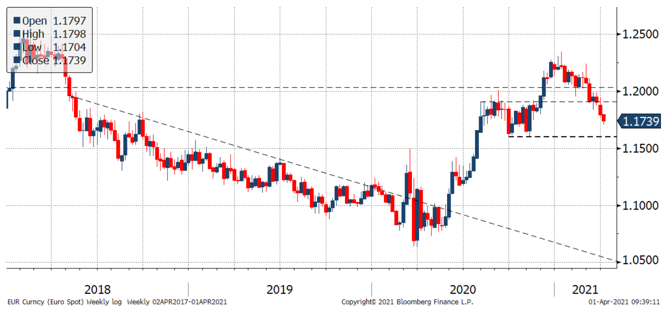

*Source. Bloomberg, MAM Research*

**Chart 7**. US Dollar Index (Weekly)



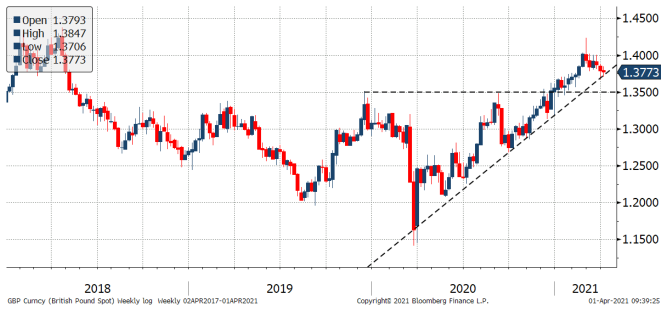

*Source. Bloomberg, MAM Research*

**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

After rising by more than 40% since the March 2020 lows on the backdrop of a weaker dollar and substantially higher global growth expectations, broad commodities took a breather and were down 90bps last month.

Precious metals were the only positive sector with gold (+65bps) **(Chart 10)** leading the way among precious.

Energy commodities were down 2.1%. However, we see some strong divergence in prices with natural gas prices down over 8.5% while crude oil prices were flat **(Chart 11)**.

Industrial metal were relatively unchanged, down -30bps. Nickel was the key negative contributors with the metal down 12.3%. Copper **(Chart 12)** and aluminium continue to be supported by strong global growth expectations. The metals were, respectively, up by 71bps and 5.5%.

Agriculture commodities were slightly down by 66bps with sugar (-10.1%) leading the declines and lean hogs (+8.2%) contributing the most to the segment.

Outside the "basic" commodities scope, carbon emissions prices rose by 12.4% last month and 29.4% YTD.

## Emerging Markets

Emerging market equities were down 10bps **(Chart 13)**, underperforming global equities by more than 2.7%.

A lion share of the underperformance is attributed to both China and the Philippines, respectively down 2.6% and 5.0%. Among EM, LATAM was host to some of the best performing equities. Brazilian and Mexican equities were up 7.6% and 7.1%. In Asia, Indian equities continue to show relative strength with the local index up 3.1%.

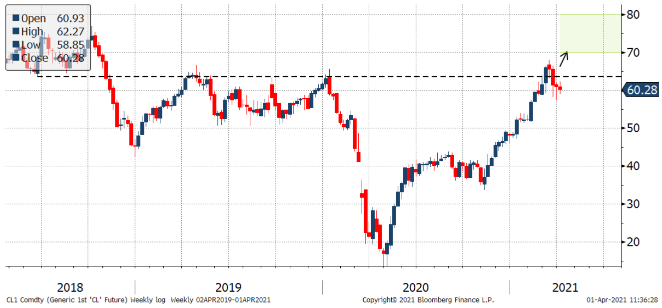
Chinese equities have been suffering from a sell off since mid-February. However, we believe that concerns around moderate policy tightening could be overdone. Given the attractive long-term outlook for Asia with favourable trends in urbanisation and the rapid growth of the middle class providing a strong growth backdrop for the region, we could argue the recent pullback offers a tactical entry opportunity for long-term investors.

The EM FX Index **(Chart 14)** was up 91bps, despite higher dollar prices. Most of the performance can be attributed to the appreciation of the Brazilian Real and Mexican Peso against the dollar, each respectively up 2.0% and 1.7%

**Chart 10**. Gold Spot Prices (Monthly)


*Source. Bloomberg, MAM Research*

**Chart 11**. Oil Spot Prices (Weekly)

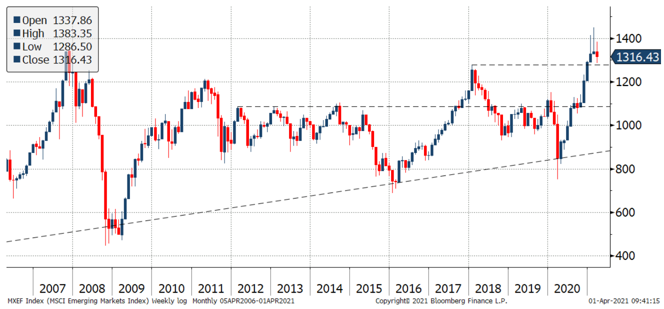



*Source. Bloomberg, MAM Research*

**Chart 12**. Copper Front Month Rolling Futures (Weekly)

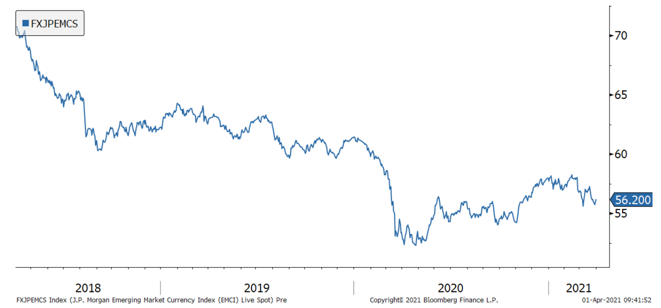

*Source. Bloomberg, MAM Research*

**Chart 13**. MSCI EM Index (Weekly)




*Source. Bloomberg, MAM Research*

**Chart 14**. MSCI EM FX Index (Weekly)




*Source. Bloomberg, MAM Research*