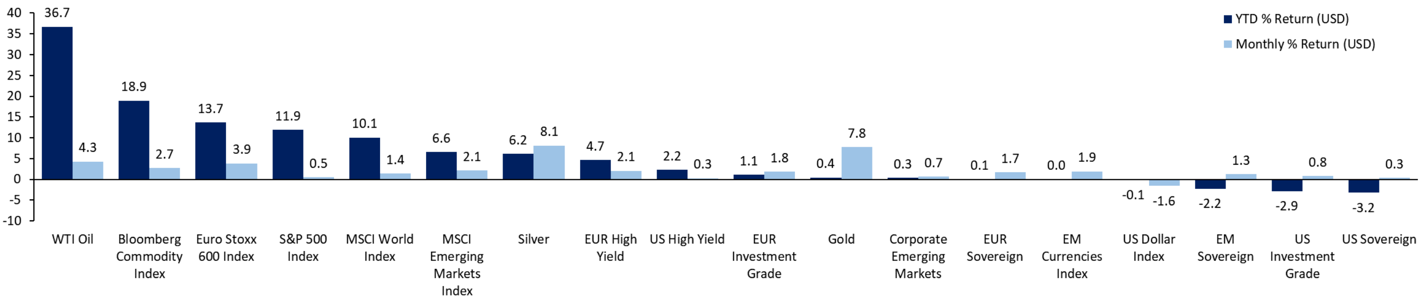
June 2, 2021

Monthly Market Wrap, May 2021

Economic data has been very strong last month, but markets have been more muted after an already strong start to the year. The ongoing vaccine rollout is allowing many economies to gradually reopen, which combined with sizeable fiscal support is supporting the bounce in economic activity. Markets were constrained in May over concerns that upside data surprises may result in persistent inflation, forcing central banks to think of a premature end to the growth rebound.

Chart 1. Asset Class Return YTD (USD Base)



Equities

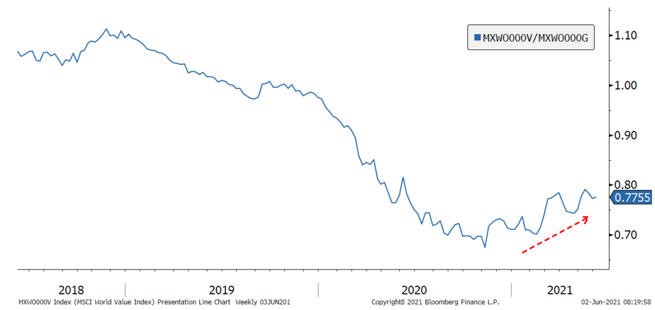
Developed market equities managed to gain 1.5% for the month. Expectations of stronger economic growth and inflation favoured value over growth. MSCI World Value rose 3.0% and MSCI World Growth fell 0.1% **(Chart 2)**.

US corporate earnings Q1 2021 were much stronger than expected. S&P 500 companies reported earnings growth of 47% (y/y) relative to consensus expectations for 20% growth. Despite the strong earnings performance, the S&P 500 Index **(Chart 3)** rose 0.7% in May, but the more expensive technology and consumer discretionary sectors – which make up 40% of the index – came under pressure.

After a relatively slow start, vaccination rates in Europe have picked up. Across the major economies, jabs are being provided to around 0.8% of the population per day – in line with the UK. At this pace, the eurozone will soon have provided at least one dose to the over 50s. The prospects for a strong growth rebound this year have therefore risen and this has helped European equities. The MSCI Europe ex-UK Index rose 2.8% in May – the best performing major equity index. EuroStoxx 600 **(Chart 4)** in the meantime was up 2.6% last month.

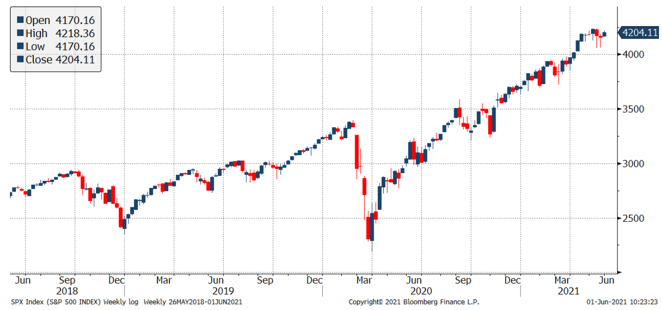
At a country level within the monetary union, France and Spain continued to build on their year-to-date momentum and were once again the best performing regional indices with the CAC 40 up 3.7% and the IBEX 35 up 3.9% bringing year-to-date performance to 18% and 15%, respectively.

Chart 2. Global Value vs. Growth Equities



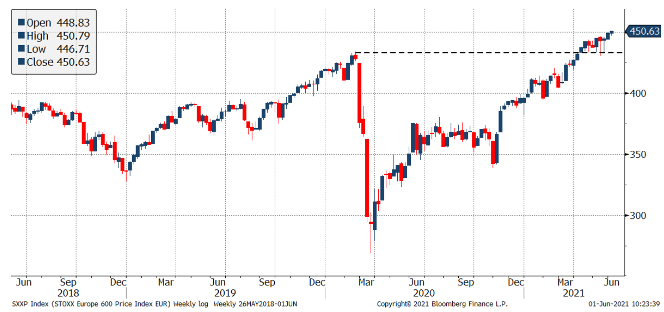
Source. Bloomberg, MAM Research

Chart 3. S&P 500 Index (Weekly)



Source. Bloomberg, MAM Research

Chart 4. EuroStoxx 600 Index (Weekly)



Source. Bloomberg, MAM Research

Fixed Income

The Fed acknowledged it will need to think about tapering its bond purchases at some point. April minutes showed it was broadly unmoved in its view on the economic outlook thus calming fears of potential liquidity tightening. While the inflation data print was a bit of a surprise to the Fed, some of the details suggested there are temporary factors at play – the rise in prices of used car sales which is not expected to last. All in all, this meant rates markets in the US were relative range bound and fairly unchanged last month. The yield curve flattened by 1bp on the 2-10, but steepened by 3bps on the 5-30. The US 5-Year rates was where the decline was most pronounced with yields now down 4.6bps. In the meantime, the US 10-Year inflation expectations rose by 2.8bps last month to 2.45% **(Chart 6)**.

In Europe, PMIs for May were also positive. Vaccinations appear to now be boosting confidence in the services sector, as evidenced by the improvement in the services PMI business survey to a level above 55. Any tapering or rising yields are still very far off. Inflation expectations for the Eurozone are on the rise (+6bps), supporting slightly higher yields on Bunds (avg. +1bp).

Currencies

G10 currencies remains caught between challenging cross -currents. On the one hand, the Fed is likely more dovish than markets expect, the global economy (outside the US) has further room to rebound, and liquidity conditions remain robust. On the other hand, US real and nominal yields are likely to rise in relative and absolute terms as the Fed normalizes faster than most other major central banks, and the pace of risk asset gains is likely to slow.

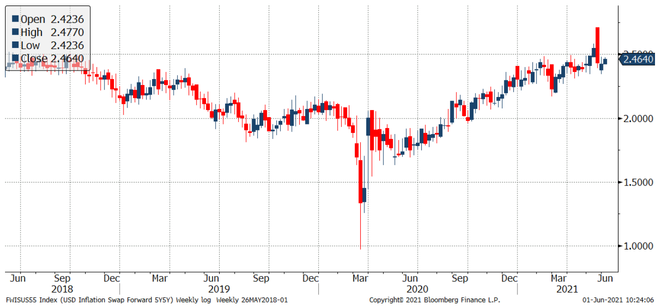
Markets seem to have fully priced the US rebound, but there's still scope for the rest of the world recovery to surprise to the upside in the coming weeks, which should give us a bit more USD weakness. If the Fed fails to announce tapering conditions this summer despite growing market impatience, a near-term consolidation in US yields should also support USD shorts. USD **(Chart 7)** pointed lower in May, down 1.6%, erasing all YTD gains.

Elsewhere, as a function of a weaker dollar, we have been seeing some strengthening in the Euro **(Chart 8)**, up 1.7%, and the Pound **(Chart 9)**, up 2.8%. We expect the trend to continue in the near future.

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 continue to be the best performing asset class so far this year with the broader index up 18.9% YTD. Inflation has certainly been a topic of conversation among investors and economists with some arguing the prices increases observed are temporary and others are anxious about elevated costs in the long-term. As a result, gold and silver replaced industrial metals as the commodities posted some the best performance. Going forward, we see the two metals continuing to benefit from low real rates and further US Dollar weakness. Gold **(Chart 10)** was up 7.8% and Silver **(Chart 11)** up 8.1%.

Agriculture commodities came under pressure after the strong rally they had very recently. The sector was down 30bps last month driven for the most part by declining prices in Corn (-11.3%), Wheat (-10.6%), Cotton (-6.1%), and Soybean Meal (-12.2%).

Energy and industrial commodities continue to rise on the other hand, despite pressure on prices after comments from the Chinese government and OPEC members. Copper **(Chart 12)** was up 4.4% and Crude Oil +3.1%.

Emerging Markets

The MSCI EM **(Chart 13)** delivered returns of 2.3% over the month, while Asian equities were up 1.2%. After a very strong run between the start of last year and February of this year, Asian equities have given back some of their gains in the last few months before rallying in the latter half of May. Growth stocks have led the decline since February, and the reversal of their fortunes in May helped Asian markets to move higher again.

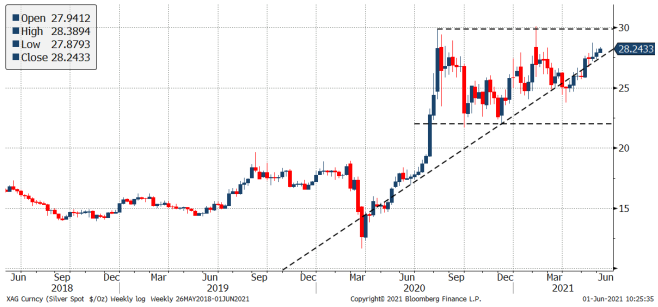
LATAM equities have been particularly strong last month with Mexican and Brazilian equities respectively up 8.1% and 9.6%, supported in part by stronger local currencies. In Asia, we note the strong performance of Indian equities recovering from the sell-off after rising virus cases.

On the currency side, the sustained weakness of the dollar continues to be supportive with the broader EM FX Index **(Chart 14)** up 1.9% last, further erasing its year-to-date decline. Despite weaker commodity prices, Brazilian Real was up 4% against the greenback.

Chart 10. Gold Spot Prices (Monthly)

Source. Bloomberg, MAM Research

Chart 11. Silver Spot Prices (Weekly)

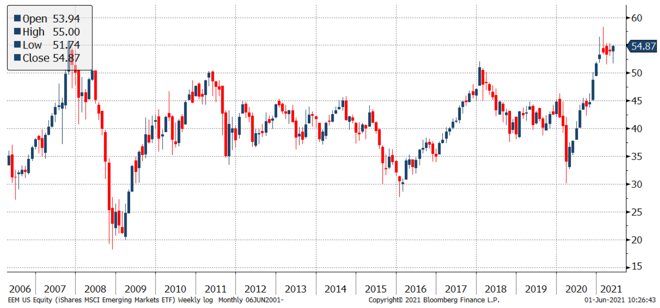


Source. Bloomberg, MAM Research

Chart 12. Copper Front Month Rolling Futures (Monthly)

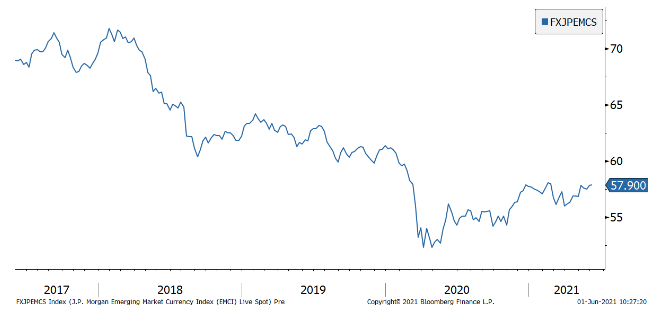
Source. Bloomberg, MAM Research

Chart 13. MSCI EM Index (Weekly)



Source. Bloomberg, MAM Research

Chart 14. MSCI EM FX Index (Weekly)



Source. Bloomberg, MAM Research