

# GLOBAL MARKET UPDATE

## YIELDS IN THE US ON THE RISE: IS THIS FOR REAL?

- *Real yields are still deeply negative despite the recent US Treasury sell off*
- *Inflation is contained in EM countries*
- *India's economic recovery remains on track*

All eyes have been on the US Treasury market for over two weeks now, as the most frequently quoted tenor, the 10-year Treasury yield abruptly approached and swept through the 1.50% level, which triggered a repricing in global markets. Although the 10-year yield has been steadily rising for several months, markets were not concerned until now – in our view – for two key reasons:

1. The initial rise was very slow and gradual (it took almost six months to rise 60bp from around 0.5% to 1.1%)
2. Inflation expectations followed suit until the middle of February keeping forward-looking real rates stable at historical lows, in the range between -110 and -150bp (negative).

As opposed to the first episode between the summer of 2020 and February 2021, events sped up substantially in February: the 10-year Treasury yield jumped ca. 45bp in just a month, whilst inflation expectations decoupled from the yield's upward trend. Although the forward-looking 10-year real yield remained deeply negative at the end of the first week of March, the magnitude almost halved, to around -75bp (still negative).

These moves are attributable to the global vaccination drive and the healing of the US economy. But, one might argue that there is still a very long way to go, as evidenced by the February jobs report.

The latest metrics in the US revealed that the labour force participation rate was over 1.5ppt lower, whilst the unemployment rate was over 2.5ppt higher compared with the pre-crisis level (61.4% and 6.2% in February, respectively). Perhaps the most revealing number is the cumulative loss in payroll employment, which was around 9.5mn lower in February compared with the peak a year ago. In the context of these labour market figures, it should not surprise anyone that Mr. Powell on Thursday (4th March) said that “we’re still a long way from our goals of maximum employment” and promised to keep monetary policy steady (i.e. rates at the current zero lower bound) even as inflation rises.

We believe that the recent compression of negative real yields was triggered by growing inflationary fears (overwhelmingly in Developed Markets), which led many to (wrongly) believe that it will trigger rate hikes by the Fed as soon as 2022 and thus the era of abundant global liquidity would cease a lot sooner than previously expected. We disagree with this view, as building inflationary pressures are more likely to be supply-side driven and transitory, a combination which usually does not trigger a monetary response in post-GFC times. Therefore, we retain our core thesis that negative real interest rates will persist in the US (as well as in other relevant Developed Markets) for a very long period of time, which in turn will continue to support investing in riskier assets, such as EM equities.

## INFLATION REMAINED IN CHECK IN EM COUNTRIES IN FEBRUARY

The global composite PMI rose to 53.2 in February, up from 52.3 – the second highest print in 2.5 years. From a sectoral point of view, both manufacturing (up to 53.9) and services (up to 52.8) contributed to the improvement in the headline PMI figure. Although it is important to note that there was a broad-based improvement in the global cycle in February, it may be more interesting to point out how inflation has been evolving globally – as the change in inflation expectations have become one of the key drivers of global investor sentiment as well as asset prices. Details reveal a divergence in price trends

between developed and emerging markets. Whilst in developed countries input and output prices continued their steep ascension in February, prices took a breather in the emerging world – showing early signs of a peak. Therefore, we see building inflationary pressure as a phenomenon more relevant to Developed Markets as opposed to EM countries at this juncture. However, as we pointed out in the previous section, we do not think this would trigger an adjustment in the reaction function of the systemically relevant central banks, such as the Federal Reserve.

## BEYOND GROWTH: CHINA'S PURSUIT OF QUALITY OVER QUANTITY

Premier Li Keqiang announced that the Chinese government would set a GDP growth target for 2021 – surprising many who were not expecting an explicit target. The “above 6%” numerical objective is just slightly over China’s medium- to long-term GDP growth potential. This may sound like an unambitious plan by the administration, as there is a yawning gap between the target and Bloomberg’s survey of around 8%. But, in our opinion, the choice of a cyclically-neutral growth target is quite a clever solution, as:

1. It allows the government to break away from longstanding rigid growth targets, which in turn
2. Grants policymakers just enough room for manoeuvre to focus on longer-term priorities, such as promoting sustainable solutions and putting a greater focus on rural economic development
3. It will also allow for the initiation of gradual deleveraging on a macro level.

The overall messaging by the Chinese government is in line with our thesis on the economy’s favourable outlook and policy stance, which is slowly turning more hawkish. As a result, we continue to invest in sectors and names selectively when opportunities present themselves. Thus, the Chinese country weighting remains significant in the Alquity Asia Fund (34% as at 5th March) as well as in the Alquity Future World Fund (30.3% as at 5th March).

## INDIA IS BACK: THE BEAT GOES ON

After two consecutive quarters of economic contraction, annual real GDP growth in India returned to positive territory in 4Q20 in line with our expectation. The rate of GDP growth reached 0.4% YoY, whilst gross value added rose 1% YoY (gross value added is a measure capturing underlying economic growth trends, whilst ignoring indirect tax collection and subsidy payments by the government). From a production point of view, agricultural activity (+3.9% YoY), manufacturing production (+1.6% YoY) and construction (+6.2% YoY) all contributed to the recovery. From a demand point of view, investment activity was one of the key drivers, as private consumption is yet to fully normalise.

As the economy continued to emerge from the covid-induced slump, earnings momentum kicked into an even higher gear in 4Q20 compared with the previous quarter, due to the sharp demand recovery from the festive season and the re-opening of the economy. According to Motilal Oswal, 57% of the companies in their universe beat estimates, which resulted in the second consecutive quarter of significant upgrades in corporate earnings in India. Profits after tax for the Nifty 50 index rose 22.3% in 4Q20, surpassing broker expectations of 7%.

Looking forward, the latest manufacturing PMIs (57.7 in January and 57.5 in February) indicate that the unfolding recovery will persist in 2021. This view is also underpinned by datapoints for the rural economy, where output rose 5.8% YoY in January, accelerating from 5% YoY in the previous month, according to Bloomberg Economics. Escorts' latest tractor sales figures confirm that growth persisted in February, when tractor sales were up 30.6% YoY. Furthermore, GDP growth momentum will also be boosted by the central bank's accommodative monetary policy as well as the government's lax fiscal stance, which assumes a 35.7% YoY jump in budgetary spending (excluding interest and subsidy payments) in 1Q21.

Our view remains very positive on India's GDP growth, which we expect not only to further accelerate but the speed to support earnings momentum. Consequently, India's country weighting is 21.3% in the Alquity Asia Fund and 15.9% in the Alquity Future World Fund as at 5th March.

## CALENDAR OF MAJOR FORTHCOMING EVENTS

DATE	COUNTRY	EVENT
11 March 2021	Eurozone	ECB meeting
17 March 2021	US	FOMC meeting
18 March 2021	UK	BOE meeting
19 March 2021	Japan	BOJ meeting
March 2021	US	Debate on President Biden's economic relief bill
March 2021	India	Renewal of the RBI's primary mandate
March 2021	Pakistan	Senate elections for half of the seats
April 2021	ASEAN	38th Summit hosted in Brunei
April 2021	Mexico	Preliminary budget proposal for 2022
April 2021	Chile	Election of the convention delegated to draw up the new constitution
April 2021	Peru	General election
May 2021	Vietnam	National Assembly election
April/May 2021	India	State elections: Assam, Kerala, Puducherry, Tamil Nadu, West Bengal
June 2021	Mexico	Mid-term elections in both houses of Congress
2Q 2021	Pakistan	Resumption of the IMF programme
2Q 2021	Morocco	Restart of the follow up programme with the IMF
2Q 2021	Argentina	Negotiations with the IMF continue for a new credit line
2Q 2021	Indonesia	Implementation of the Omnibus Law on labour and investments
2Q 2021	Brazil	Progress on structural reforms, e.g. tax simplification
3Q 2021	Malaysia	Decision by FTSE Russell whether to keep Malaysia in the World Government Bond index
October 2021	Argentina	Mid-term elections in both houses
November 2021	Chile	General election

# GLOBAL MARKET DATA

8 MARCH





Equities				Return (USD)				
Name	BBG Code	Country	Price	1 Week	MTD	3M	YTD	1Y
<b>North America and Developed Europe</b>								
S&P 500 INDEX	SPX Index	US	3,877,02	0,81%	0,81%	3,86%	2,29%	27,05%
RUSSELL 2000 INDEX	RTY Index	US	2,226,13	-0,40%	-0,40%	15,84%	11,01%	48,24%
NASDAQ COMPOSITE	CCMP Index	US	12,953,90	-2,06%	-2,06%	3,66%	0,25%	47,85%
Euro Stoxx 50 Pr	SX5E Index	Europe	3,762,40	-0,49%	-0,49%	1,70%	0,65%	15,89%
FTSE 100 INDEX	UKX Index	UK	6,706,22	1,39%	1,39%	3,87%	3,94%	5,65%
<b>Asia Pacific</b>								
NIKKEI 225	NKY Index	Japan	28,743,25	-1,85%	-1,85%	3,75%	0,29%	32,80%
S&P/ASX 200 INDEX	AS51 Index	Australia	6,739,57	-0,09%	-0,09%	4,37%	1,59%	22,08%
Straits Times Index STI	STI Index	Singapore	3,071,16	1,43%	1,43%	5,40%	4,31%	3,04%
HANG SENG INDEX	HSI Index	Hong Kong	28,540,83	0,30%	0,30%	8,23%	6,71%	8,83%
SHANGHAI SE COMPOSITE	SHCOMP Index	China "A"	3,421,41	-0,56%	-0,56%	2,21%	1,30%	21,73%
HANG SENG CHINA ENT INDX	HSCEI Index	China "H"	11,014,79	0,30%	0,30%	6,09%	5,01%	5,38%
Nifty 50	NIFTY Index	India	14,956,20	3,78%	3,78%	13,52%	6,62%	34,04%
TAIWAN TAIEX INDEX	TWSE Index	Taiwan	15,820,11	-0,70%	-0,70%	13,47%	8,37%	47,67%
KOSPI INDEX	KOSPI Index	Korea	2,996,11	0,28%	0,28%	6,37%	1,50%	52,90%
JAKARTA COMPOSITE INDEX	JCI Index	Indonesia	6,248,47	-0,13%	-0,13%	5,67%	1,92%	10,55%
PSEi - PHILIPPINE SE IDX	PCOMP Index	Philippines	6,756,92	1,28%	1,28%	-4,62%	-4,84%	4,46%
STOCK EXCH OF THAI INDEX	SET Index	Thailand	1,543,76	2,17%	2,17%	5,22%	4,56%	14,86%
FTSE Bursa Malaysia KLCI	FBM KLCI Index	Malaysia	1,611,81	0,86%	0,86%	-1,58%	-2,90%	9,67%
HO CHI MINH STOCK INDEX	VNINDEX Index	Vietnam	1,168,27	-0,04%	-0,04%	14,85%	6,17%	31,86%
KSE-100 INDEX	KSE100 Index	Pakistan	45,051,05	0,78%	0,78%	10,43%	6,90%	14,05%
DSE 30 Index	DS30 Index	Bangladesh	2,168,00	2,27%	2,78%	22,25%	7,38%	44,65%
<b>Latin America</b>								
BRAZIL IBx INDEX	IBX Index	Brazil	49,203,62	2,97%	2,97%	-6,51%	-10,66%	-6,57%
S&P/BMV IPC	MEXBOL Index	Mexico	46,841,28	2,30%	2,30%	-1,31%	-1,39%	2,50%
S&P Merval TR ARS	MERVAL Index	Argentina	46,830,36	-3,04%	-3,04%	-22,01%	-14,13%	-11,26%
S&P/CLX IPSA (CLP) TR	IPSA Index	Chile	4,690,18	2,14%	2,14%	14,09%	9,39%	22,50%
S&P/BVLPeruGeneralTRPEN	SPBLPGPT Index	Peru	22,514,78	-1,12%	-1,12%	6,36%	6,08%	12,58%
COLOMBIA COLCAP INDEX	COLCAP Index	Colombia	1,340,05	-0,74%	-0,74%	-4,40%	-11,88%	-15,30%
<b>Emerging Europe, Middle East and Africa</b>								
WIG 20	WIG20 Index	Poland	1,965,06	-1,17%	-1,17%	-4,84%	-5,43%	6,16%
MOEX Russia Index	IMOEX Index	Russia	3,414,13	2,52%	2,52%	6,56%	4,09%	10,28%
FTSE/JSE AFRICA TOP40 IX	TOP40 Index	South Africa	62,910,60	1,94%	1,94%	13,74%	10,19%	33,91%
EGYPT HERMES INDEX	HERMES Index	Egypt	1,202,44	-2,68%	-1,96%	4,67%	5,89%	5,26%
MASI Free Float Index	MOSENEW Index	Morocco	11,332,02	-1,00%	-1,00%	3,02%	-0,55%	1,48%
NIGERIA STCK EXC ALL SHR	NGSEINDX Index	Nigeria	39,396,57	-1,10%	-1,10%	7,13%	-4,69%	32,64%
DFM GENERAL INDEX	DFMGI Index	Dubai	2,540,39	1,66%	0,70%	6,19%	3,10%	4,42%
<b>FX (vs USD)</b>				<b>Return +ive=USD Stronger</b>				
Name	BBG Code	Price	1 Week	MTD	3M	YTD	1Y	
DOLLAR INDEX SPOT	DXY Index	92,24	1,21%	1,21%	1,41%	2,27%	-5,00%	
USD-EUR X-RATE	USDEUR Curncy	0,84	1,41%	1,41%	1,94%	2,65%	-5,84%	
USD-GBP X-RATE	USDGBP Curncy	0,72	0,85%	0,85%	-2,55%	-1,24%	-6,39%	
USD-AUD X-RATE	USDAUD Curncy	1,30	0,65%	0,65%	-3,09%	0,27%	-14,06%	
USD-JPY X-RATE	USDJPY Curncy	108,83	1,53%	1,53%	4,00%	4,82%	1,90%	
Bloomberg JPMorgan Asia Dollar	ADXY Index	107,95	-0,30%	-0,30%	-0,39%	-0,69%	4,51%	
USD-CNY X-RATE	USDCNY Curncy	6,53	0,36%	0,36%	-0,53%	-0,46%	-6,34%	
USD-INR X-RATE	USDINR Curncy	73,33	-0,93%	-0,93%	-0,75%	0,20%	-1,11%	
USD-TWD X-RATE	USD TWD Curncy	28,15	0,08%	0,08%	-1,13%	-0,69%	-6,76%	
USD-KRW X-RATE	USD KRW Curncy	1,139,62	0,16%	0,16%	4,16%	3,79%	-5,09%	
USD-IDR X-RATE	USD IDR Curncy	14,491,00	0,40%	0,40%	1,94%	3,53%	0,41%	
USD-PHP X-RATE	USD PHP Curncy	48,72	0,00%	0,00%	1,12%	1,28%	-4,32%	
USD-BRL X-RATE	USD BRL Curncy	5,71	2,01%	2,01%	10,07%	9,58%	22,28%	
USD-MXN X-RATE	USD MXN Curncy	21,45	1,59%	1,59%	7,58%	6,65%	6,78%	
USD-ARS X-RATE	USDARS Curncy	90,58	0,60%	0,60%	10,68%	7,40%	44,77%	
USD-PLN X-RATE	USD PLN Curncy	3,88	2,90%	2,90%	4,65%	3,04%	0,23%	
Russian Ruble SPOT (TOM)	USD RUB Curncy	74,49	-0,49%	-0,49%	0,60%	0,17%	9,91%	
USD-ZAR X-RATE	USD ZAR Curncy	15,45	1,39%	1,39%	1,29%	4,79%	-1,53%	
<b>Commodities</b>				<b>Return (USD)</b>				
WTI CRUDE FUTURE Apr21	CLA Comdty	65,24	7,46%	7,46%	41,82%	35,74%	40,20%	
BRENT CRUDE FUTR May21	COA Comdty	68,51	7,67%	7,67%	41,09%	33,95%	34,21%	
Baltic Dry Index	BDIY Comdty	1,829,00	9,19%	9,19%	52,80%	33,89%	205,34%	
Natural Gas Futures	NG1 Comdty	2,63	-2,53%	-2,53%	4,89%	6,38%	52,43%	
Gold Spot \$/Oz	XAU Curncy	1,681,22	-1,37%	-1,37%	-7,16%	-10,11%	2,14%	
Silver Spot \$/Oz	XAG Curncy	25,14	-4,32%	-4,32%	4,43%	-4,45%	44,65%	
LME COPPER 3MO (\$)	LMCADSO3 Comdty	8,895,50	-2,00%	-2,00%	14,63%	14,54%	56,78%	



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