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Weekly market recap

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Summary for the week ending on Friday, 30 April

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Economic and political backdrop

The US

The rebound in the overall US economy seemed to support sentiment last week, although worries about faster growth prompting a rise in interest rates seemed to periodically drain the gains in the stock markets. On Thursday, the Commerce Department reported that GDP expanded at an annualised rate of 6.4% in the first quarter, supported by a healthy increase in government spending. T. Rowe Price Chief US Economist Alan Levenson expects growth in the second quarter to approach double digits on the recovery in consumer services, sturdy investment growth and the flow of direct government spending from the American Rescue Act.

In other positive news, weekly jobless claims fell to a pandemic-era low of 553,000, and the Conference Board reported that its index of US consumer confidence in April hit its highest level (121.7) since February 2020. This followed a report by the Board earlier in the month that its index of global consumer confidence reached a record high. Manufacturing signals also remained strong. Core (excluding defence and aircraft) capital goods orders rose 0.9% in March, reversing a 0.8% drop in February.

Markets did not appear to react strongly to the outcome of the Federal Reserve's policy meeting on Tuesday and Wednesday, although stocks reversed earlier gains after Fed Chair Jerome Powell referred to "froth" in equity markets in his post-meeting press conference. Nevertheless, Powell reiterated that the Fed would wait for "some time" before raising rates, while also saying that policymakers were not ready to begin planning for a reduction in asset purchases.

Progress in combating the pandemic also seemed to encourage investors. Daily case numbers suggested the "fourth wave" of infections was receding, President Joe Biden announced eased restrictions on wearing masks outdoors, and the mayor of New York City said the city would completely reopen on 1 July. The situation elsewhere, particularly in India, remained more concerning, and the US announced it would send 60 million doses of stockpiled AstraZeneca vaccine doses abroad.

Europe

French President Emmanuel Macron announced a four-step plan to begin lifting coronavirus restrictions on 3 May, with the aim of removing most restrictions and the night-time curfew by the end of June. The European chief of the World Health Organisation (WHO) Hans Kluge said the threat from the coronavirus "remains present" in Europe despite a drop in infection rates, hospitalisations and deaths in some countries. More than 133 million doses of vaccines have been administered across 30 European countries, according to the Centres for Disease Control and Prevention. The EU concluded negotiations with Pfizer and BioNTech, securing an additional 1.8 billion doses of their vaccine through 2023, Bloomberg reported.

The eurozone economy may have entered a recession, preliminary seasonally adjusted data from Eurostat showed. This early reading, which is subject to revision, estimated that first-quarter GDP decreased by 0.6% after contracting by 0.7% over the preceding three months. Germany's economy contracting by 1.7% was the main driver of this weakness, reflecting the imposition of additional lockdown restrictions. Despite the slowdown, eurozone inflation accelerated to 1.6% in April – up from 1.3% in March – mainly due to higher energy costs. In Germany, the inflation rate quickened to 2.1%.

Optimism about the outlook for the eurozone economy strengthened in April due to the rollout of vaccination campaigns, the European Commission's monthly survey showed. Sentiment strengthened markedly in manufacturing and turned positive in services. Optimism also grew among consumers. The German government increased its forecast for 2021 GDP growth to 3.5% from a previous estimate of 3%, citing the potential for household spending to support the economic recovery when coronavirus restrictions are lifted later in the year.

The UK

The UK's economy is forecast to grow at the fastest rate since 1941 this year after businesses adapted better to coronavirus restrictions and consumer spending booms as lockdown measures are relaxed.

With businesses and households preparing for looser controls this spring, the EY Item Club, a UK economic forecasting group, said it had upgraded its growth forecasts for 2021 after a stronger start to the year than expected and as rapid progress with the vaccine programme enabled a swift return to relative normality. The group said it now expected GDP to grow by 6.8% in 2021 – a sharp upgrade on the 5% growth rate it had estimated in January. The UK economy shrank by 9.8% in 2020, the worst performance in the G7.

Japan

The outcome of the April monetary policy meeting of the Bank of Japan (BoJ) largely matched expectations. The central bank left short- and long-term policy interest rates unchanged and reaffirmed its guidance to continue with quantitative and qualitative monetary easing with yield curve control, aiming to achieve the price stability target of 2%, as long as it is necessary for maintaining that target in a stable manner. It will closely monitor the impact of the virus and will not hesitate to take additional easing measures if necessary. Furthermore, policy rates are expected to remain at their present or lower levels.

In the Outlook Report, the BoJ raised its projected growth rates – mainly for the 2022 fiscal year – on the back of stronger domestic and external demand. It now expects 2.4% growth, compared with the 1.8% expansion it predicted in January.

Retail sales rose 5.2% year on year in March, ahead of the median market forecast for a 4.7% rise. This marked the first positive growth in four months, as consumer demand showed signs of recovering from the huge hit it took from the pandemic in 2020. However, Japan's slow vaccine rollout and the latest state of emergency declarations (prompted by a resurgence in COVID-19 cases) are expected to weigh on consumption in the near term.

Elsewhere on the economic data front, industrial production in March surprised on the upside, rising 2.2% month on month, better than expectations of a 2.0% decrease. Relatively strong output growth was helped by a jump in car production.

China

China's tech sector remained under a regulatory cloud after Beijing imposed wide-ranging restrictions on the financial divisions at 13 well-known internet companies, including Tencent and TikTok developer ByteDance. The move marked the latest in a crackdown on the country's online giants. Online retailer JD.com, e-commerce platform Meituan and ride-hailing company Didi were also summoned to a meeting with several of the country's watchdogs, including the central bank. E-commerce leader Alibaba, an early target of the government crackdown, was not included as the company already completed talks regarding Ant Group, its fintech division.

In bond markets, the yield on China's sovereign 10-year bond edged up two basis points to 3.20%. Moody's Investors Service lowered its A3 rating by a notch on China Huarong Asset Management, the troubled state-backed financial institution whose bonds sold off earlier in April after it delayed reporting its 2020 results. Market reaction to the Moody's downgrade was muted, however. Earlier last week, Bloomberg reported that Huarong had repaid its offshore SGD 600 million bond with a loan from China state-owned lender ICBC. News of the repayment reassured investors who had worried about whether the Chinese government would support Huarong, a major issuer in the offshore debt market. Analysts see this as a proxy of Beijing's willingness to pay off the liabilities of state-linked companies.

On the industrial front, China reportedly suspended some import tariffs on steel products as part of a campaign to shrink domestic production and increase energy efficiency. Import duties on crude steel, pig iron, recycled steel and some other products will temporarily be lifted from May, according to China's Customs Tariff Commission. However, the move is not expected to have a big impact on the steel sector in China, the world's lowest-cost steel producer.

Equity markets

Last week, MSCI All Country World Index (ACWI) was flat, returning -0.2% (4.4% in April, 9.3% YTD).

In the US, the S&P 500 finished unchanged (5.3% in April, 11.8% YTD). The S&P 500 and the Nasdaq Composite reached new highs before surrendering their gains on Friday. Returns within and among sectors varied widely as investors reacted to a flood of first-quarter earnings reports, although a rise in oil prices to six-week highs provided a general boost to energy stocks. The price of a barrel of Brent ended the week at USD 67.3, up from 66.1.

Communication services shares outperformed within the S&P 500, helped by earnings and revenue beats from Facebook and Alphabet (Google). Technology stocks underperformed, weighed down by a decline in Microsoft despite the company reporting earnings that exceeded consensus estimates. Healthcare shares were also weak, dragged lower by declines in several major drug makers. Growth stocks lagged value shares and small capitalisation stocks lagged large shares. Russell 1000 Growth returned -0.6% (6.8% in April, 7.8% YTD), Russell 1000 Value 0.4% (4.0% in April, 15.7% YTD) and Russell 2000 -0.2% (2.1% in April, 15.1% YTD).

It was the busiest week of first-quarter earnings season, with 180 constituents of the S&P 500 expected to report results, according to Refinitiv. Analysts polled by both Refinitiv and FactSet are currently expecting overall earnings for the S&P 500 to have increased by roughly a third compared with the first quarter of 2020, when the economy first felt the impact of the pandemic and lockdowns. If confirmed, this would be the fastest rate of growth in over a decade and significantly higher than earlier estimates, thanks to an unusually high percentage of earnings beats.

In Europe, the Euro Stoxx 50 slipped 0.7% (1.9% in April, 12.9% YTD), after an increase in eurozone bond yields prompted investors to take profits at near record levels. The major indexes posted mixed results. In local currency terms, Germany's DAX eased 0.9% (10.3% YTD), Italy's FTSE MIB slipped 1.0% (9.2% YTD) while France's CAC 40 advanced 0.3% (13.5% YTD). Switzerland's SMI returned -1.5% (5.6% YTD). The euro was weaker against the US dollar, ending the week at 1.20 USD per EUR, down from 1.21.

In the UK, the FTSE 100 gained 0.5% (4.1% in April, 9.3% YTD) and the domestically focused FTSE 250 returned 0.6% (4.9% in April, 10.5% YTD). The British pound lost ground against the US dollar, ending the week at 1.38 USD per GBP, down from 1.39.

Japan's stock markets finished the week lower, with the Nikkei 225 down 0.7% (-1.3% in April, 5.7% YTD). The broader TOPIX fell 0.9% (-2.9% in April, 6.1% YTD) and the TOPIX Small Index lost 1.1% (-3.1% in April, 5.7% YTD). Declines were notable on Friday, as some firms' worse-than-expected earnings releases exerted downward pressure on markets. Investors also adjusted positions ahead of the resumption of the Golden Week holiday, which sees markets close 3-5 May. The yen weakened against the US dollar, closing at JPY 109.3 per USD, compared to 107.9 at the end of the previous week.

Emerging markets and other markets

MSCI Emerging Markets Index returned -0.4% last week (2.5% in April, 4.8% YTD).

Chinese shares recorded a weekly loss as the government's continued crackdown on technology firms' dampened buying sentiment. The large-cap CSI 300 Index declined 0.2% for the week (1.6% in April, -1.6% YTD), while the country's benchmark Shanghai Composite Index shed 0.8% (0.2% in April, -0.7% YTD). Slightly weaker-than-expected Purchasing Managers' Index readings for April disappointed investors. Additionally, reports that a state-owned asset manager was selling positions in growth stocks and that several state banks were delaying the release of their 2020 financial results gave investors little incentive to buy ahead of a three-day Labour Day holiday.

In Turkey, the BIST-100 Index returned 4.1% (1.2% in April, -2.9% YTD). Several cryptocurrency exchanges in Turkey stopped operating or experienced financial difficulties in the wake of the central bank's announcement at mid-month that using digital currencies as a form of payment will be forbidden, effective 30 April. With Turkish authorities and regulators investigating possible fraud related to at least one of the cryptocurrency operators, T. Rowe Price sovereign analyst Peter Botoucharov believes the government may attempt to use this situation as an opportunity to stop Turkish citizens' active use of digital currencies as a store of value – due to low confidence in the lira – or as a regulatory arbitrage instrument.

With the collapse of a few cryptocurrency exchanges that has caused considerable household losses – with early estimates of as much as USD 2 billion that could go higher if other exchanges fold – the lira has strengthened recently as local investors scramble to close out their positions. Longer term, according to Botoucharov, the government's clampdown on the use of digital currencies could severely hinder this means of transferring wealth. He also believes other countries with similar circumstances will be closely watching how Turkey and its financial markets react to this evolving situation.

In Peru, assets were under pressure, in part because of polls showing the socialist candidate Pedro Castillo has a solid, if not widening, lead over the conservative politician and former presidential candidate Keiko Fujimori in the next round of presidential elections. According to T. Rowe Price emerging markets sovereign analyst Aaron Gifford, Castillo's platform includes creating a new constitution, nationalising key industries and significantly increasing the state's influence in the economy. While these two candidates fared best in the first round, a substantial portion of the electorate still remains undecided or would vote for neither candidate (voting is compulsory in Peru) in the upcoming runoff election on 6 June.

Another factor that may be weighing on Peruvian assets is that Congress recently approved a law allowing the withdrawal of 100% of Service Time Compensation funds. These funds exist to provide workers with unemployment benefits at the time of separation and are funded by employers. The bill is intended to provide an extra financial buffer for households suffering because of the pandemic, and Gifford says workers are allowed to withdraw the funds through the end of the year, even if they are not actually unemployed.

A third factor weighing on the financial markets is that the government is on the verge of approving its third pension withdrawal legislation since the beginning of the pandemic more than one year ago. While President Francisco Sagasti has vetoed the most recent bill as unconstitutional because he believes it jeopardizes social security and the private pension system, Gifford believes the legislature is likely to overturn the veto with a simple majority.

Fixed income markets

Last week, Bloomberg Barclays (BB) Global Aggregate Index (hedged to USD) returned -0.3% (0.3% in April, -2.2% YTD), BB Global High Yield Index (hedged to USD) 0.2% (1.5% in April, 1.3% YTD) and BB Emerging Markets Hard Currency Index -0.1% (1.3% in April, -2.2% YTD).

The solid economic data pushed the yield on the benchmark 10-year US Treasury note higher for the week, but the generally dovish tone of Powell's press conference on Wednesday appeared to help moderate the increase. The 10-year Treasury yield ended the week at 1.63%, up seven basis points from 1.56% (71 basis points higher YTD).

Core eurozone bond yields trended higher amid concerns that the US Federal Reserve might consider tapering its bond purchasing programme. Higher-than-expected German inflation data published also pushed up core yields. German 10-year bund yield ended the week six basis point higher at -0.20%, up from -0.26% (37 basis points higher YTD). Yields in peripheral eurozone bond markets also climbed higher, largely tracking the movements in US Treasuries and core eurozone bonds.

Yields in the UK moved higher. The 10-year gilt yield ended the week at 0.84%, up 10 basis points from 0.74% (65 basis points higher YTD).

Trading volumes were relatively light in the investment-grade corporate bond market. Earnings releases resulted in mixed performance across sectors and individual issuers. Activity on the primary calendar was light, but the deals that reached the market were met with strong demand. The high yield market took the dovish tone of Powell's statement in stride and remained focused on new deals and earnings releases. President Biden's address to Congress, GDP data and expectations for continued economic growth were generally supportive for broader risk markets. High yield funds industrywide reported positive flows.

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