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Weekly Macro & Markets View

Highlights and View

- **China releases ambiguous economic statistics for Q1**

  Policy tightening and a rolling over of the credit impulse will impact China's growth path, but not hamper our positive growth outlook significantly.

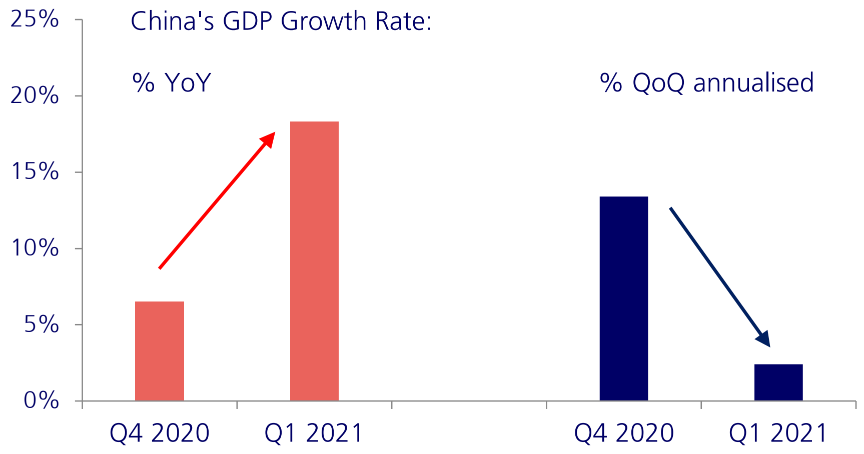
- **US retail sales soar by almost 10% MoM in March as households receive their stimulus checks**

  The fiscal stimulus measures and excess savings will support consumer spending in the months ahead, though current rates should not be extrapolated.

- **While new COVID-19 cases hit a record high globally, the pace of vaccination encouragingly accelerates, particularly in the EU**

  The EU is now on track to inoculate 70% of the adult population by September and EMs have also accelerated the pace of vaccinations, though they are still struggling to contain new cases and deaths.

China's economic boom or bust?



Source: NBS, Bloomberg

China's GDP statistics for Q1 leave scope for a variety of interpretations. The optimist will focus on the YoY rate of 18.3%, the highest since quarterly statistics began being released about 30 years ago, while somewhat neglecting the distortions of the base effect as national lockdown measures were peaking a year ago after the outbreak of the SARS-CoV-2 virus in Wuhan. The more faint-hearted economist will concentrate on the drop in the sequential growth rate from an upward revised 13.4% QoQ in Q4 last year to only 2.4% in Q1 in annualised terms. Looking at the compound annual growth rate of 5.1% compared to pre-COVID levels in Q1 2019, we believe the truth may be somewhere in the middle. We also need to acknowledge that there have been various distortions, like a crackdown on polluting industries, particularly during the National People's Congress, for example. Taking into account a series of economic statistics for March for industrial production, investment into infrastructure, property and manufacturing facilities as well as exports, imports and retail sales, we acknowledge that some policy tightening measures have indeed slowed economic growth and have contributed to the credit cycle rolling over. However, we currently do not see any major reason to change our outlook of decent growth and a stable labour market this year, even if activity should slow down somewhat in the second half of this year.

US: Retail sales soar fueled by fiscal stimulus

The S&P 500 gained for the fourth week in a row, the first such series since last August. The stock market was supported by strong economic data, confirming the current acceleration in activity. Retail sales soared by 9.8% MoM, fuelled by the latest round of fiscal stimulus, boosting the annual rate to 27.7%. As expected, base effects and a strong rebound in spending temporarily lifted inflation rates to multi-year highs with the headline CPI rising to 2.6% YoY in March. The first set of regional activity indicators points to a continuation of strong momentum in April though small business sentiment rose slightly less than expected, with capex plans falling back to the lowest since last May. Similarly, consumer confidence rose less than expected in April as expectations have not improved since March. Finally, industrial production also recovered less than expected in March following the dip in February while the NAHB home builder index and the number of building permits both signal a stabilisation in the housing market.

msme@zurich.com

Japan: PM Suga meets US President Biden

PM Suga's US trip was the first foreign head-of-state visit since President Biden's inauguration. A variety of bilateral and geopolitical topics were discussed. Suga confirmed that the Olympics will start in less than 100 days, clarifying suggestions by LDP General Secretary Nikai that the event could still be cancelled. Meanwhile, the fourth wave of COVID-19 infections is underway, with new regulations announced for the Kansai and Greater Tokyo area to avoid spreading new strains of the virus. Less than 1% of the population has been vaccinated so far. The Reuters Tankan corporate survey has improved further in April, particularly for processing industries, but the outlook components suggest the pace of improvement will slow. We expect business investments to pick up speed and reach pre-COVID levels in the second half of this year despite the surprising fall of machinery orders in February, which was mainly related to the non-manufacturing sector. Producer price inflation turned positive in March for the first time in more than a year, driven by rising energy and material related prices.

Australia: Another strong job report

The labour market continued to show vigour in March. Even with the participation rate hitting a record high, the unemployment rate decreased further from 5.8% to 5.6%. Working hours were up by 2.2% MoM, while the underutilisation rate went down from 14.4% to 13.5%. The JobKeeper program expired at the end of March. Adverse effects of fiscal tapering will probably become visible from April onwards. However, given the current strength of Australia's recovery, the negative impact should be manageable. Meanwhile, the business condition index climbed from 15 to an all-time high of 25 in March. Business confidence remained at an elevated level, as did consumer confidence. The ASX 200 Index has rallied by around 5% since the end of March and is currently trading only a touch lower than the all-time high seen in February last year. Despite positive data, we envisage the RBA will stick to its dovish stance with an ongoing emphasis on the employment gap and weak wage growth.

Bonds: Lower nominal and real yields are supportive for the positive global macro backdrop

Last week saw further falls in Treasury yields, with the US 10yr yield down from 1.66% to 1.58%, following a decline from 1.74% in the prior week. Yields in other government bond markets were largely unchanged, continuing to trade within a narrow range. Declining US yields reflected lower real yields as inflation expectations edged higher amid a small upside surprise in CPI inflation. Just as Treasury yields can overshoot on the upside, we suspect they may now be undershooting on the downside. Risk appetite is firm and risk assets continue to do well amid a positive macro backdrop, with global growth expectations continuing to be revised higher. Inflation concerns also appear to have subsided. We do not expect inflation to become a problem, but headline rates will rise sharply over coming months and inflation will likely come back into focus at some point. There is also positive news on the pace of COVID vaccinations, which has accelerated in the EU and is improving in EMs. Given this backdrop, we suspect the direction of travel for yields is up, although sharply rising global infection rates may weigh on yields near term.

Credit: US ABS credit remains robust

Spreads continue to grind tighter for most US ABS sectors, after a strong performance in Q1 2021. US ABS returned 1.4% of excess returns during the first quarter of 2021, outperforming comparable corporate bonds. Issuance has also strongly rebounded and Q1 recorded the second-highest quarterly supply over the past 14 years. Strong demand from investors enabled issuers to upsize deals and price well inside initial guidance. Given recent stimulus measures and economic recovery, we expect loan origination in the US to remain solid, as reported by the Fed in February, and support the recent trend in ABS issuance. Underlying loan performances have also improved with delinquencies and loss rates declining to below pre-COVID levels, especially for subprime borrowers. As highlighted in recent bank earnings reports, better credit performances led to provisions release during Q1 and should also support ABS performance in the coming months.

What to Watch

- The G3 PMIs, to be published this week, will show whether global growth momentum has remained strong in April.
- No change is expected from the ECB at their meeting on Thursday given weak underlying inflation and ongoing COVID restrictions.
- In APAC, Bank Indonesia is expected to hold its policy rate unchanged. Australia's March PMIs, Q1 NAB business confidence and March retail sales data will be released. Taiwan's March export orders and industrial production data are likely to remain elevated. Inflation data for Japan, Hong Kong, Singapore, and Malaysia as well as exports for Japan and Thailand are also worth watching.
- After being approved in the Lower House in Chile, the discussion about the third pension fund withdrawal will continue in the Senate and probably in the Constitutional Court. In Brazil, the economic team and Congress should finalise the budget discussion this week.

Disclaimer and cautionary statement

Zurich Insurance Company Ltd
Investment Management
Mythenquai 2
8002 Zurich

173001566 (01/16) TCL

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