May 10, 2021

Weekly Macro & Markets View

Highlights and View

- **US nonfarm payrolls grow far less than expected in April**

  Lingering fears about COVID-19 and generous government support may help explain part of the disappointing pickup though other labour market indicators provide a better picture.

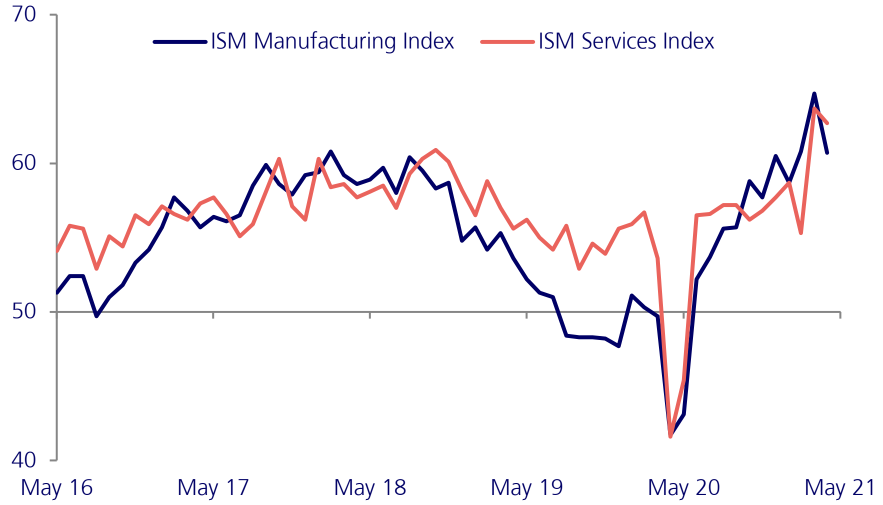
- **Global PMIs accelerate in April, led by booming conditions in manufacturing and an impressive catch-up in services**

  The data support our view of a very strong rebound in the global economy, with services now expected to take over the growth baton.

- **The US corporate bond market sees the first 100yr bond since 2018 from railroad operator Norfolk Southern**

  The BBB+ rated bond was well received by investors and highlights an underlying dynamic of companies increasingly printing longer dated debt, which is a positive fundamental trend for creditors.

US business activity remains strong, but momentum is weakening



Source: Bloomberg

Last week provided a rather mixed picture of the current state of the US economy. Both the ISM Manufacturing as well as the ISM Services surveys fell back from their multi-year highs, though both remain at levels that indicate a strong expansion of business activity. April's rise in nonfarm payrolls was far below expectations with only 266'000 new jobs created. Given that several recent indicators reflect companies' difficulties in filling open positions and that wages have risen markedly in some sectors, lingering worries about COVID-19 and generous government support may help to explain the modest growth in the number of payrolls. While the unemployment rate ticked up to 6.1%, the participation rate also rose by 0.2%. At the same time, the broader underemployment rate improved to 10.4% from 10.7%, better reflecting the current situation. Treasury yields tumbled right after the employment report before rising back above the initial level. Longer-term inflation expectations rose to the highest level in more than three years as investors seem to focus more on the bottlenecks visible in some areas. Finally, the S&P 500 reached another record high last week despite the weaker economic data as the disappointing payroll numbers lower the risk of any tapering discussions by the Fed in the near term.

Global: Expansion steps up as the recovery broadens out

The global economic recovery picked up steam in April, led by booming conditions in manufacturing and an impressive catch-up in services activity. As a sign of normalisation, services output rose above that of manufacturing for the first time since the early days of the pandemic. Further upside is expected as global new orders and order backlogs accelerated. Solid demand and improved confidence are also showing up in hiring, with employment growth at the highest pace since 2007, albeit starting from a low level. Bottlenecks are intensifying though, visible in rising input and output prices and surging manufacturing delivery times. Emerging markets lag behind, particularly in services, reflecting a lack of vaccines and a difficult virus situation. Despite this, we are encouraged by the latest data, which confirm our view of very strong growth in 2021 with services now expected to take over the growth baton.

Eurozone: Increasing signs of recovery as corporate earnings pick up

The data from the Eurozone continues to be consistent with an economy that is gradually on the mend with better growth also evident in improving corporate earnings as well. On the economic side, the final PMIs confirmed the robust picture from the flash estimates. Eurozone manufacturing confidence remains close to record highs, while services confidence is also recovering. Industrial production data for Germany and France in March showed output increasing 2.5% MoM and 0.8% MoM respectively. German factory orders data were also strong. Meanwhile, around two-thirds of EURO STOXX companies that are due to report Q1 earnings have done so. Thus far, around 75% have beaten earnings estimates, the highest percentage since late 2009. Overall earnings growth was up around 53% YoY, a positive surprise of 29% versus consensus estimates (source: JP Morgan). The EURO STOXX equity market index was up 1.5% last week and is up around 12% year-to-date.

Greater China: Favourable economic data across the board

A record-high 230 million domestic tourists travelled within Mainland China during the 'Golden Week' labour holidays, following a travel ban during the Lunar New Year holidays due to localised outbreaks of COVID-19 at the time. However, spending per person was about one fifth lower than during the comparable period two years ago as travellers avoided longer distance trips by plane or train. April exports were about one third higher than last year but seem to be levelling off in sequential, seasonally adjusted terms, and we believe that export growth will calm down in the second half of the year. A strong export performance was also behind Hong Kong's first positive GDP growth in YoY terms (+7.8%) since Q2 2019. Sequential growth reached an 18-year high of 5.3% QoQ. Private consumption remained lacklustre, and retail sales will only recover once Mainland tourists can travel to Hong Kong once again. Meanwhile, Taiwan's economic statistics continue to surprise on the upside with Q1 GDP growth, April PMI and April export statistics all coming in even stronger than already optimistic consensus expectations.

Australia: Significant forecast upgrades by the RBA

The Reserve Bank of Australia (RBA) raised its economic forecasts materially in its meeting last week. The annual GDP growth rate was revised up from 4% to 5.25%, and the unemployment rate was revised down from 6% to 5% for this year. These upgrades are more bullish than both consensus forecasts and our expectations. Despite the strong growth outlook, the RBA does not envisage inflation rising sustainably above 2% in the next few years due to subdued wage growth. Indeed, Q1CPI was up only 0.6% QoQ and 1.2% YoY, surprising the consensus to the downside. Hence, the RBA maintained its stance on no rate hikes until at least 2024. Meanwhile, housing data for March and April continued to suggest strong momentum. House prices were up by 1.8% MoM and 7.8% YoY in April, not yet showing signs of slowing down despite the withdrawal of fiscal support. Building approvals advanced by 17.4% MoM, materially beating market expectations. We suspect that rising demand has encouraged further supply, which should eventually help balance out the heat coming from strong demand.

LatAm: Commodity prices continue to drive financial markets while inflation accelerates

The increase in commodities prices and economic recovery boosted equity markets and, led by Brazil, outperformed emerging and global markets. In Brazil, the BCB increased the Selic rate by 75bps to 3.5%. The statement mentioned that the inflationary shock is temporary and projected a new increase of the same magnitude at their next policy meeting. In Chile, economic activity grew 6.4% YoY in March, which was above market expectations, with all sectors contributing positively. Despite sanitary restrictions, the seasonally adjusted series contracted only 1.6% MoM, which accounts for the lower impact of lockdowns on the economy. Inflation in April accelerated to 3.3%, mainly explained by the increase in food and energy prices. We estimate that inflation will continue to accelerate due to the low base of comparison a year ago. In Mexico, inflation continued to accelerate in April, reaching 6.08% YoY, mainly due to the unfavourable base effect given the drop in energy prices last year. Inflation is likely to have peaked, but it should remain above the target range during the year.

What to Watch

- In the US, small business and consumer sentiment should continue to show an improving environment, while retail sales growth is expected to slow from very strong levels seen the month before.
- In APAC, the central bank of the Philippines is likely to keep its policy rates unchanged. Malaysia's and the Philippines' GDP are expected to remain weak on the back of additional lockdowns in Q1. Australia's budget for 2021-2022 is likely to show more narrow fiscal deficits than previously estimated. April CPI data will be published in both China and India, while Japan's household survey for March will also be released. Indonesia's markets will be closed from Wednesday to Friday due to the Hari Raya Aidilfitri festival.
- Inflation in Brazil will continue to accelerate while Chile will hold elections for mayors, regional governors, and constituent assembly members to draft the new constitution.

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Investment Management
Mythenquai 2
8002 Zurich

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