# Markets Recap 12/02/2021

## *USA*

US stock indexes closed at all-time highs also this week, showing modest weekly gains. This was mainly due to expectations for a fresh round of stimulus spending, strong corporate earnings, and progress in the rollout of Covid-19 vaccines.

The S&P 500 rose 1.2% for the week, closing at 3934. The DJIA rose 1% and the Nasdaq 1.7%. Differently, counting the year-to-date performance, the S&P 500 is up 4.8%, the DJIA 2.78%, the Nasdaq 9.4%, and the Russell 2000 16%.

This performance was also fuelled by stronger-than-expected reports. With quarter results out from about three-quarters of S&P 500 companies, and more than 80% have surpassed estimates, according to FactSet.

10-year government bond yields steepened during the week after Chairman Jerome Powell said on Wednesday that the Fed is unlikely to consider raising rates or reducing bond purchases for the foreseeable future, underscoring the importance of "patiently accommodative" monetary policy to boost the US labor market. The yield on the 10-year U.S. Treasury note closed up to 1.21% Friday, while the yield on the two-year US Treasury bond briefly slipped below 0.1% for the first time, and closed Friday at 0.11%.

First-time claims for unemployment benefits fell to 793,000 in the week ending Friday 5th, as the US labor market showed some humble signs of improvement. The data were released on Thursday and the number of jobless claims filed for regular state programs dropped by 19,000 from the previous week. This means that there are roughly 10m fewer employed Americans compared with one year ago, and more than 20m are still seeking jobless aid. The gradual improvement in unemployment comes as Congress debates a new $1.9tn economic stimulus plan being pushed by Joe Biden.

## *Europe and UK*

In Europe, equities climbed as political developments in Italy took center stage, pushing the 10Y yield of Italian government bonds to a historical low.

European equities ended generally higher, this was mainly due to the improving coronavirus infection rates, the rollout of vaccination campaigns, and the already mentioned hopes of a large U.S. economic stimulus. In local currency terms, the pan-European STOXX Europe 600 Index gained 1.09%. Major indexes were mixed: Germany's Xetra DAX Index was flat, France's CAC 40 added 0.78%, and Italy's FTSE MIB rose 1.42%. The UK's FTSE 100 Index increased 1.55%.

Core eurozone government bond yields slightly fell, while Germany's 10Y yield closed at -0.43% on Friday, the highest in more than five months. The causes were: the softer-than-expected U.S. inflation, which the market interpreted as pushing back any moves from the Fed to wind down its accommodative policies, the ECB perceived dovishness, and the European Commission's gloomy economic outlook. Peripheral eurozone government bond yields also fell.

Easing political tension in Italy helped the country's 10Y yield hit a historical low. Mario Draghi, the former president of the ECB, was poised to become Italy's prime minister after receiving the backing of most political parties. The yield on Italy's 10-year debt fell to a record low of 0.42%, before ending Friday at 0.49%.

Countries continued to extend their lockdown restrictions despite implementing vaccination programs. Germany extended the country's coronavirus lockdown until March 7th amid concern that virus variants could increase infections.

UK's Office for National Statistics said on Friday that the gross domestic product shrank 9.9% over the year, the largest annual decline among the G7. France's economy shrank 8.3% and Italy's contracted 8.8%, according to provisional estimates. German GDP declined 5% and the U.S. one shrank 3.5%. The UK suffered one of the worst Covid-19 outbreaks, with more than 120,000 deaths. However, Britain is ahead of many other advanced countries in its vaccine rollout, the Bank of England said this month that it expects a sharp rebound in consumer spending in the second half of the year, and Boris Johnson said he planned to define a plan for reopening the economy in two weeks. Despite this, Britain's 10-year yield rose 4 basis points this week to 0.52%, the highest in 11 months.

### ***Rest of The World***

Japan's equities markets recorded a week of gains. The Nikkei 225 Stock Average rose 2.6% (+7.56% YTD) and closed at 29,520.07. The large-cap TOPIX Index and the TOPIX Small Index also gained during the week and the yen was slightly stronger for the week.

The pace of new coronavirus cases has slowed, but the impact of the virus on Japan's economy continued to be seen in recent data. The "economy watchers" survey declined for the third month and reached its lowest since April. Household spending decreased and much of Japan is under a state of emergency due to the pandemic, but vaccine distributions could begin as soon as next week. Moreover, Bank of Japan board member Toyoaki Nakamura gave a speech saying that is vital to pay attention to the negative impact of large asset purchases (the central bank is currently the largest owner of Japanese equities). Japan's 10Y yield increased to 0.080% during the week, the highest since March 2020, but traded at 0.064% at Friday's close.

Chinese markets improved ahead of the Lunar New Year holiday. The Shanghai Composite rose 4.5% (+5.24% YTD) and the large-cap CSI 300 (+11.44% YTD) gained 5.9% in a week that ended Wednesday because of the holiday. Most Asiatic markets were closed on Friday for the holiday that started on February 12th. Hong Kong's Hang Seng ended higher during the week (+3%), as of the end of the week, record southbound inflows from mainland investors had propelled Hong Kong's Hang Seng stocks up 10.8% year to date. The yield on China's 10-year government bond stayed flat for the week, up just one bp and closed at 3.26%. China's stock, bond, and currency markets will reopen on February 18th.

South Korea Kospi closed 0.7% lower in the week ended earlier on Wednesday, bringing the year-to-date performance to +7.9%. Brazil Bovespa Index decreased about 0.7%, bringing the year-to-date performance to +0.35%. President Bolsonaro seems in favor of providing additional support to low-income households.

The IPC Index of Mexican stocks was little changed for the week, and the year-to-date performance is +0.3%. On Thursday, during the first monetary policy meeting of the year, Mexican central bankers unanimously decided to cut the overnight interbank interest rate from 4.25% to 4.00%, the rate cut was not unexpected, and the policymakers left some space for further cuts.

### *FX and Oil*

Brent crude oil closed near its highest level since January 2020, rising 5.7% in the week and 21% YTD to just above $62.7 a barrel. While West Texas Intermediate crude jumped 5% during the week (22.5% YTD) to $59.73 a barrel, the highest in more than two years.

Gold slightly rose during the week (+0.65%), to $1,824.80 an ounce, while silver increased 1.6% to $27.45.

On the currency side, the dollar was weaker, and the Bloomberg Dollar Spot Index decreased 0.6% last week closing at $90.48, with EUR/USD reaching 1.21. Also, the Yen appreciated during the week, closing at 104.92 per dollar. The same is true for the Pound and for the Swiss Franc that closed respectively at 1.39 and 1.12 per dollar. The renminbi was largely unchanged, closing at 6.46 per dollar.

TAGS: market recap; finance; markets; Europe; US.