Markets Recap 19/02/2021

USA

United States' major indexes evidence was mixed, but most of them ended lower in the holiday-shortened trading week (markets were closed on Monday in observance of Presidents' Day). This was mainly due to an increase in treasury yields that climbed to the highest levels seen in a year, this weighted particularly on technology stocks. Symmetrically, the increase benefited bank shares by boosting lending margins and helped value shares outperform.

These differences were reflected in the various performance of the most important indices. The S&P 500 diminished 0.71% during the week, closing at 3907. The DJIA rose 0.11%, while the Nasdaq and the Russell 2000 shrunk 1.57% and 0.93% respectively. Differently, counting the year-to-date performance, the S&P 500 is up 4.01%, the DJIA 2.90%, the Nasdaq 7.65%, and the Russell 2000 14.60%.

Developments were mixed during the week. Trading began Tuesday strongly, because of a combination of hopes for further fiscal stimulus, expansive monetary policy, better than expected earnings season, and progress in fighting the coronavirus. On Wednesday, the Labor Department's report stated that producer prices increased by 1.3% in January (the biggest increase since Dec. 2009). Retail sales also jumped 5.3% (the expectations were for a 1.1% gain), many attributed this huge increase to the 600$ direct payments to lower-and middle-income Americans. For this reason, some are worried that the Biden administration's new 1.9 trillion $ coronavirus relief plan could overheat the economy and result in a rebound in inflation. Furthermore, stocks decreased on Thursday, following Walmart's report of weaker-than-expected earnings and weekly jobless claims, which jumped to 861,000, the most since mid-January. Housing data also negatively surprised, with housing started falling from a 14-year high.

Inflation worries pushed the 10Y Treasury yield to its highest level in nearly a year, climbing 13 bps during the week and closing at 1.34% on Friday. Differently, the yield on the 2Y was stable and closed at 0.12%. The broad municipal bond market also posted negative returns. Concerns remain that the higher yields will undercut the rally in riskier assets, also for this reason, during the Fed policy meeting on Wednesday, officials indicated that they would remain committed to their massive asset purchase program for "some time".

Europe and UK

In Europe stocks ended the week slightly higher, supported by companies posting encouraging earnings. However, these gains were mitigated by concerns of rising inflation. In local currency terms, the STOXX Europe 600 Index advanced 0.21% (+3.66% YTD). Major indexes were mixed during the week: Germany's Xetra DAX Index decreased 0.40% (+2% YTD), France's CAC 40 added 1.23% (+4% YTD), and Italy's FTSE MIB lost 1.17% (+4.06% YTD). The UK's FTSE 100 Index increased 0.52% during the week (+2.53% YTD).

Core eurozone government bond yields rose. The 10Y German yield closed at -0.31% on Friday, its highest level since June 2020. This was mainly due to the already mentioned growing reflation expectations in the U.S. and PMIs numbers. Yields on peripheral eurozone bonds tracked core markets.

Most recent PMIs suggested that activity in the eurozone fell for a fourth consecutive month in February, despite this the contraction slowed more than expected, this was mainly due to the increase in manufacturing that offset a continuing decline in services. Business expectations for the remaining part of the year rose too and reached the highest level since April 2018 amid optimism on coronavirus vaccination programs. Moreover, the European Commission reached an agreement with Pfizer for another 200 million doses of their vaccine. However, the company still has not delivered 10 million doses due in December.

During the week, ex ECB chairman Mario Draghi received support from both houses of the Italian Parliament and became Italy's new Prime Minister. In Draghi's speech to the Senate, he pledged to speed up the vaccination program, summarized plans for investing the 210 billion euros destined to Italy from the EU recovery funds, and called for structural reforms to the legal system and public administration. The spread between 10Y Italian and German government bonds closed at 91 bps this week, similarly to Friday 12th and still at historical lows.

During the week, Boris Johnson stated that England's lockdown would be eased in stages, the Prime Minister, who will define plans for reopening the economy next week, might start by permitting children to return to school in early March. Despite UK data showed that the number of coronavirus cases dropped to their lowest levels since early October, the lockdown continues to influence the UK economy.

The UK Office for National Statistics showed retail sales tumbled sharply last month, and the volume of sales between January and the month prior decreased 8.2%. Also, growth in manufacturing activity dropped to a nine-month low. The UK's exit from the EU single market has resulted in trade barriers between Britain and the Union, moreover, the preliminary manufacturing PMI based on data collected between February 11th and 17th underlined the negative impact of the new arrangements. For these reasons, the 10Y UK Government Bond yields closed at 0.70% on Friday, up from 0.52% of the previous week, the highest in almost one year.

Rest of The World

Japan's Nikkei 225 rose 1.7% during the week and closed at 30,017.92, posting YTD gains of 9.38%. This was the first time the index exceeded 30,000 in 30 years, although remaining well below the all-time high of 38,597 reached in 1989. Differently the large-cap TOPIX Index and the TOPIX Small Index, slightly drop during the week. Vaccine distributions have led to optimism about rising economic activity in the upcoming months and for this reason, Japan's equity markets, which underperformed in 2020, have done well YTD. Japan began the vaccination rollout during the week, and the 10Y Japanese government bond yield closed the week at 0.11%, the highest since November 2018.

Evidence from Chinese shares was mixed. The large-cap CSI 300 Index decreased 0.5% during the week (+10.89% YTD), while the Shanghai Composite Index rose 1.1% (+6.42% YTD) and the Hong Kong's Hang Seng soared 1.56% (+12.54% YTD). Chinese financial markets reopened Thursday, after the Lunar New Year holiday. During the week, the People's Bank of China drained 260 billion renminbi from the financial system, which reduced the buying momentum. Analysts expect that the PBOC will gradually withdraw stimulus measures implemented during the pandemic. The 10Y Chinese Gov bond yield closed at 3.31% on Friday, up from 3.26% of the week prior.

Turkish stocks rose because the central bank left its benchmark lending rate at 17% on Thursday. Policymakers kept rates steady despite rising inflation, and Turkish bonds gained after the announcement too. South Africa's stocks gained during the week because the strength in commodities prices offset the political concerns that plague the country at the moment. South Korea Kospi closed 0.23% higher during the week, bringing the year-to-date performance to +8.15%. Brazil Bovespa Index decreased about 0.84%, bringing the year-to-date performance to -0.49%.

FX and Commodities

Oil prices rally lost pace. Brent crude increased 0.21% during the week and 21.50% YTD closing at 62.84$ a barrel on Friday, near its highest level since January 2020. Differently, West Texas Intermediate crude dropped 0.82% during the week (+21.5% YTD) to $59.24 a barrel, still near the two years high. Prices were being pondered down by the resumption of Texas oil production and news that the White House was willing to negotiate with Iran over a return to the nuclear deal that could pave the way for a rise in the country's crude exports.

Gold dropped 2.29% during the week, to $1,783.10 on Friday, and is down 6.23% YTD. While silver decreased 0.29% during the week to $27.37 and is up 3.19% YTD. Differently, the price of bitcoin hit $50,000 for the first time this week and at the moment of writing (Saturday morning) is exchanged at $57,184 up 19.50% weekly and 97.41% YTD.

On the currency side, the dollar was slightly weaker, and the Bloomberg Dollar Spot Index decreased 0.13% last week closing at $90.36, with the change EUR/USD stable at 1.21. The Yen depreciated against the dollar 0.5% during the week, closing at 105.44. GBP/USD advanced 1.16% during the week, closing at 1.40, its highest level since March 2018. Sterling was undervalued since the period before the Brexit referendum, and currently, there is a general view that the United Kingdom is ahead of Europe in terms of its response to Covid-19. The renminbi closed at 6.49 against the U.S. dollar on Friday, slightly weaker from its pre-holiday level of 6.46.

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