April 30, 2021

Fed Signals It's in No Hurry

A review of the week's top global economic and capital markets news.

Investment Solutions Group

For the week ending 30 April 2021

Global equities were little changed on the week as stocks consolidated near record highs, underpinned by exceptionally strong Q1 US earnings reports. The yield on the benchmark US 10-year Treasury note climbed eight basis points to 1.64% amid firmer commodity prices and higher inflation expectations. The price of a barrel of West Texas Intermediate crude oil rose $2 to $63.85 while volatility, as measured by the Cboe Volatility Index (VIX), rose to 18.6 from 17.4 a week ago.

MACRO NEWS

Fed stands pat as economy strengthens
The US Federal Open Market Committee met this week, and while acknowledging improved economic performance, it stopped short of indicating that it will begin tapering its asset purchase program soon. US Federal Reserve Chair Jerome Powell said that now is not the time to discuss tapering its bond buying. He added that while the economy has improved since December, it needs to make substantial further progress, and that will take more time to achieve. Powell repeated that the FOMC expects that near-term price pressures resulting from pandemic-driven bottlenecks will be transitory. Economists expect the FOMC to hint that it will eventually scale back asset purchases late this summer before beginning to taper in late 2021 or early 2022. Futures markets continue to anticipate an earlier Fed rate liftoff than policymakers.

US growth accelerated in Q1
Gross domestic product in the United States expanded at a 6.4% annual rate in the first quarter of the year, building on the 4.3% growth rate recorded in the last quarter of 2020. At the present pace, the economic slack caused by the pandemic will be absorbed by the middle of this year. Helping to fuel the rebound was a notable jump in personal consumption as more sectors of the economy reopened. On Friday, the US reported a record-setting 21.1% rise in personal incomes in March and a 4.2% rise in personal spending, fueled by another round of stimulus checks. The savings rate rose to 27.6% in March from 13.9% in February as the payments hit Americans' checking accounts. This suggests consumers have plenty of spending power at their disposal as the economy continues to reopen. The savings rate peaked at 33.7% in April of last year, following the first round of government relief checks.

India reels amid COVID crisis
India has become the epicenter of the global pandemic as it struggles to vaccinate its massive population amid a surge of COVID-19 cases. The country's medical system is under intense strain and faces shortages of personnel and supplies. Foreign aid has been mobilized from around the world to provide India with supplies of vaccines, oxygen and other medical equipment, but officials fear that shortages will persist given the enormity of the crisis. Around 385,000 Indians a day are now being diagnosed with COVID-19, though it is feared the true rate of infection is many times that level.

Biden introduces plan focused on education, childcare
Before a joint session of Congress, US President Joe Biden unveiled a $1.8 trillion spending plan designed to bolster education and childcare and to provide paid family leave. Biden wants to pay for part of the new spending through a hike in the capital gains and dividends tax on those earning more than $1 million annually from 20% to 43.4%, including a Medicare surcharge for high earners. The top income tax rate would rise to 39.6% from 37%. Biden this week rejected an alternative infrastructure plan offered by Republican lawmakers that was smaller and more-targeted than his own. Democratic Senator Joe Manchin of West Virginia, a pivotal vote in an evenly divided

Senate said this week that he is uncomfortable with cost of the White House's American Families Plan and voiced skepticism over some of its provisions.

QUICK HITS

The eurozone economy contracted 0.6% quarter over quarter (or -1.8% on an annualized basis) in Q1 as lockdowns dragged on. However, forward-looking sentiment indicators are rebounding strongly. Inflation rose to a 1.6% annual rate in April, mainly on base effects.

Japan's jobless rate fell to 2.6% in March, though the data do not reflect the third national state of emergency, declared this week. Japan has been subsidizing employers so they can maintain their payrolls rather than lay off workers. The country's economy is expected to grow around 4% this year after contracting 4.8% in 2020.

Stock buybacks in Europe are expected to accelerate to €150 billion over the next year compared to an average rate of €120 billion annually over the five years preceding the pandemic. Cash held on corporate balance sheets surged during the crisis.

China's manufacturing purchasing managers' index decelerated to 51.1 in April from 51.9 in March.

A global semiconductor shortage is reportedly spreading to makers of smartphones, televisions and home appliances. Several automakers said this week that they will undertake significant production cuts in the next few quarters due to the bottlenecks.

Increased regulatory scrutiny has resulted in only six new SPACs coming to market so far this quarter compared with 55 at this point in Q1.

S&P Global projects that the EU recovery fund will boost the bloc's economic growth rate by between 1.5% and 4.1% over five years while supporting the credit rating of some of its most indebted member states.

EARNINGS NEWS

With about 60% of the constituents of the S&P 500 Index having reported for Q1 2021, blended earnings per share (which combines reported data with estimates for those that have yet to report) shows that earnings growth is running at an astonishing 45.7% while sales rose 9% compared with the same quarter a year ago, when the effects of the pandemic were first being felt, according to data from FactSet Research. About 84% of companies are beating analysts' estimates this quarter, compared with the typical 75%. At the start of the reporting season, earnings were expected to increase 24.5%.

Stay focused and diversified
In any market environment, we strongly believe that investors should stay diversified across a variety of asset classes. By working closely with your investment professional, you can help ensure that your portfolio is properly diversified and that your financial plan supports your long-term goals, time horizon and tolerance for risk. Diversification does not guarantee a profit or protect against loss.

Sources: MFS research, Wall Street Journal, Financial Times, Reuters, Bloomberg News, FactSet Research, CNBC.com.

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