

## **Blackfort Insights 09.04.2021**

### **Fed Chair Powell pushed marked into the green**

He did it again. Fed chair Powell has managed to calm down markets after his recent remarks at the IMF panel discussion. US equities markets closed all up and treasury yields decreased pushing prices up. We might see 10-year UST go down to 1.5% before we resee the recently reached year high of 1.77%. Such a bond rally would push equity markets further up. The distance of European and US equity indices to its 200-day average is around 10-15% up, which is high but last year we have seen an overshooting to around 30-35% before a minor pullback. Therefore, we reckon that this April might follow the seasonality pattern and we could see much higher prices.

**Fig. 1:** New records at US equity markets while volatility reaches a multi-month low



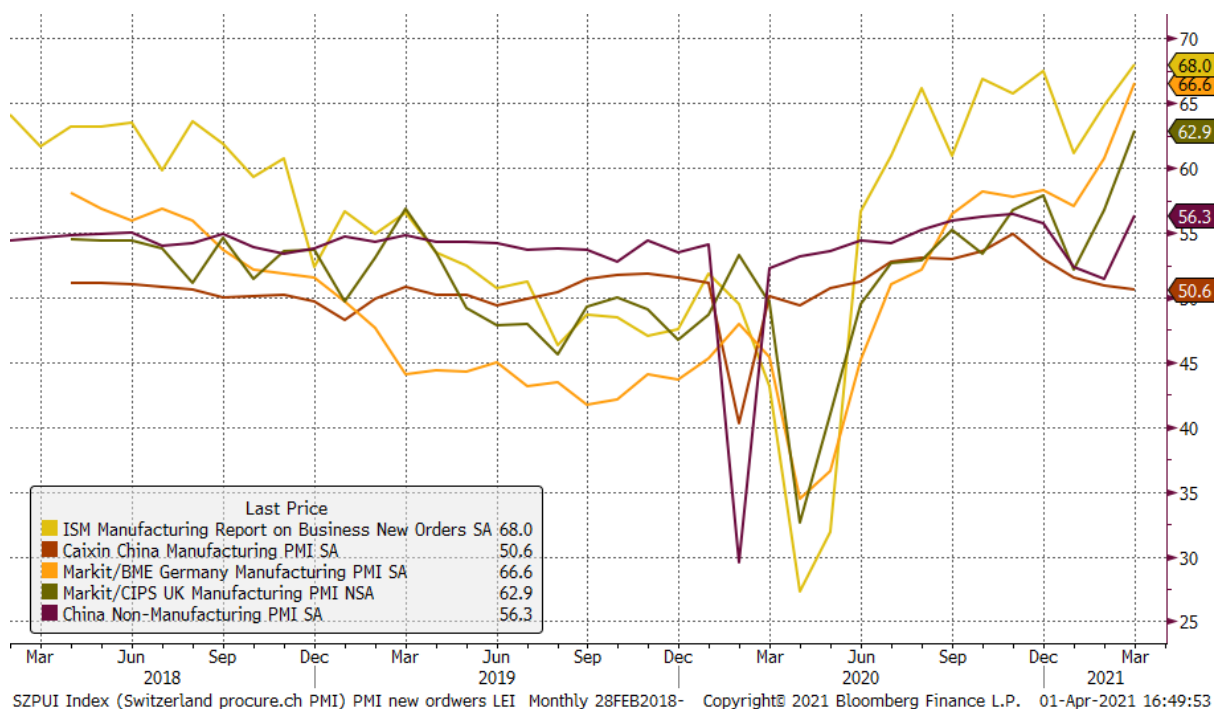
**Fig. 2:** Volatility in Asia decreases while equity markets consolidate



It is remarkable that across the globe we do see lower equity volatility indices as well. While in US and Europe markets are trading higher and most are even at record levels, in Asia we see an equity market consolidation with falling volatility, which is very unusual.

However, this bullish market sentiment is supported by very strong PMI data. Not only the industrial PMIs but also the service sector is anticipating a very strong economic recovery. Europe, where most countries are still in a lockdown and consider restricting further the public life (like in Germany) does show that the growth expectations due to the reopening are very high (based on PMI data or the German IFO). The IMF has just released its latest global growth outlook, which although stronger, is probably too conservative. Economists tend to underestimate the speed and power of economic recoveries in general and especially this one. The slowdown was artificially induced and therefore we cannot compare it with normal recessions, but we have unprecedented fiscal and monetary stimulus.

**Fig. 3:** PMI data surprised across the globe, only China Manufacturing was weaker



Speaking of USD bonds, we had an unprecedented year so far, global high yields are up around 2.4%, US high yields are up around 1.3%. At the same time US government bonds and US IG corporates lost more than 4% since the beginning of the year. High yield bonds behave like equities so far and there was even a spread tightening while equities have risen. Simultaneously safer IG corporates have seen rising yields and stable spreads.

Although we have seen rising government bond yields, the fact that amount of negative yielding debts is still at around 13 trillion USD is phenomenal and the real yields for 5- and 10-year US treasury bonds stay negative.

**Fig. 4:** US 10-year Treasury yields have risen more than 1.2% in one year



**Fig. 5:** US Real Government bond Yields (5Y and 10Y) are still negative



The recent decrease of nominal US yields has finally pushed gold up. After having tested lows below USD 1'700 per ounce twice we might have started a recovery rally. We have just reached the first resistance area at the 50-day average. Gold bulls expect that we soon get much higher prices to higher expected inflation data.

Today's Chinese PPI and CPI data were both higher due to a statistical base effect (oil was falling sharply one year ago), which is expected to unfold as well in the next data points in the US and Europe.

**Fig. 6:** Gold has risen since the beginning of April and trades at its 50-day average



We have seen higher equity and corporate (non-IG) bond markets across the globe (except for Asia) and are reaching both levels where a consolidation might be healthy. However, the momentum is still positive, and we might first see higher prices before "sell in May and go away" might cross the news wire. However, most likely we are going to see after a possible consolidation or minor correction a climbing the wall of worry into the summer.

The roaring twenties scenario is still one which might unfold over the coming years. With a disruptive economy, a strong move towards digitalization in combination with never seen fiscal and monetary stimulus a melt up in financial markets before a sharp correction is the most likely scenario for the coming years.

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