

# Monthly Market Summary

May 2021



## Summary: Equities withstand higher inflation

Global equities recorded a fourth consecutive month of gains in May, rising +1.6% (in USD terms). Global investment grade bonds also rose +0.5% (in USD). Key events saw:

- Equities add to YTD gains, driven by cyclical sectors as restrictions eased further;
- Central banks remain dovish but higher US inflation add to tapering concerns;
- Reopening in many countries and Covid-19 vaccination campaigns accelerate.

Global stocks reached new highs in May, although at a more muted pace vs. prior months. Positive sentiment was driven by the progress in COVID-19 vaccination programmes, falling case numbers and economies reopening. Strong macro-economic indicators and the commitment by leading central banks to maintain key bond-buying programmes supported markets. Nevertheless, a sharp rise in US inflation figures fuelled concerns of tapering measures. Higher inflation weighed particularly on growth stocks, with the Nasdaq declining. The US 10Yr yield fluctuated sideways around 1.6%. Supported by inflation concerns, Gold staged a comeback and reached a 4-month high whilst Brent crude oil rose to a 3-month high benefiting from higher demand as economies reopened.

### US: Economy booms, inflation rises sharply, Biden proposes \$6tr. package

US economic momentum remains strong, supported by reopenings with more than 40% of the population now fully vaccinated. The US Composite PMI survey climbed to a new all-time high (68.1) and the US labour market continued to recover with initial jobless claims falling to their lowest level since the start of the pandemic. However, some April data came in below expectations: new home sales, durable goods orders and retail sales missed. These data points reduced concerns of an imminent tapering of interest rates by the Fed despite April seeing the largest month-on-month increase in the core consumer price index since 1981. As the month closed, the White House proposed a US\$6 trillion budget aimed at ramping up spending on infrastructure, education and combating climate change.

### Europe: Improving economic outlook, ECB remains supportive

European countries made progress with their vaccination programmes, resulting in falling contagion rates in May and further easing of restrictions. The Eurozone Composite (PMI) reached its highest level since February 2018 driven by a jump in the Services PMI, which benefited from these measures. The economic outlook for 2021 improved further with consumer confidence and industrial sentiment reaching new highs. As in the US, inflation rose, reaching 2% in May for the Eurozone and 2.5% in Germany in May. Nevertheless, the ECB confirmed it will continue its pandemic emergency bond purchases (PEPP) to address rising bond yields. Elsewhere, tensions flared between European nations and Russia over Belarus with the EU imposing sanctions against Lukaschenko's regime.

### ROW: Steady recovery in China; mixed economic data in Japan

In China, the Caixin Manufacturing PMI for May reached a five-month high (52.0), signalling a steady recovery for the Chinese economy from the pandemic. However, April data capturing industrial production and retail sales indicated slowing momentum for economic growth. Meanwhile, new COVID-19 cases in India started to ease towards month-end after a traumatic 2<sup>nd</sup> wave. In Q1, the Indian economy grew by 1.6% QoQ, but economists have reduced their outlook for the full year due to the impact of the pandemic. Turning to Japan, latest economic data was mixed. While industrial production expanded by 2.5% MoM, the Composite PMI declined to 48.1, dragged down by the service sector which suffered from new COVID-19 restrictions in April as cases rose.

Performance figures (as of 05/31/2021 in local currency)

Fixed Income	Yield	1M %	YTD %
US 10 Yr	1.60%	0.6%	-4.2%
UK 10 Yr	0.79%	0.5%	-4.3%
Swiss 10 Yr	-0.16%	-0.3%	-2.3%
German 10 Yr	-0.19%	-0.1%	-2.6%
Global IG (hdg \$)	1.62%	0.5%	-2.0%
Global HY (hdg \$)	4.32%	0.6%	1.9%

Equity Index	Level	1M %	YTD %
MSCI World (\$)	364	1.6%	10.8%
S&P 500	4,204	0.7%	12.6%
MSCI UK	11,957	1.3%	10.9%
SMI	11,363	3.3%	9.1%
Eurostoxx 50	4,039	2.5%	15.8%
DAX	15,421	1.9%	12.4%
CAC	6,447	4.0%	18.1%
Hang Seng	29,152	2.1%	8.1%
MSCI EM (\$)	669	2.3%	7.3%

Currencies (trade-weighted, nominal)			
US Dollar		-0.7%	1.1%
Euro		-0.2%	-0.7%
Yen		-1.6%	-7.7%
Pound Sterling		1.1%	3.4%
Swiss Franc		0.3%	-2.7%
Chinese Yuan		0.8%	2.2%

Commodities	Level	1M %	YTD %
Gold (\$/oz)	1,907	7.8%	0.4%
Brent (\$/bl)	69.32	3.1%	33.8%
Copper (\$/t)	10,248	4.3%	32.3%

Quelle: Bloomberg, Rothschild & Co

## Purchasing Managers' Index (PMI) Heatmap

	2020												2021				
	5	6	7	8	9	10	11	12	1	2	3	4	5				
<b>MANUFACTURING</b>																	
US	40	50	51	53	53	53	57	57	59	59	59	61	62				
UK	41	50	53	55	54	54	56	58	54	55	59	61	66				
Eurozone	39	47	52	52	54	55	54	55	55	58	63	63	63				
China	51	51	53	53	53	54	55	53	52	51	51	52	52				
Japan	38	40	45	47	48	49	49	50	50	51	53	54	53				
<b>SERVICES</b>																	
US	38	48	50	55	55	57	58	55	58	60	60	65	70				
UK	29	47	57	59	56	51	48	49	40	50	56	61	62				
Eurozone	31	48	55	51	48	47	42	46	45	46	50	51	55				
China	55	58	54	54	55	57	58	56	52	52	54	56					
Japan	27	45	45	45	47	48	48	48	46	46	48	50	46				

Source: Bloomberg, Rothschild & Co, 05/2020- 05/2021



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