Market Snapshot

Equity Snapshot

United States

US equities advanced over March, with the broad-based large-cap S&P 500 Index closing the month at a new record high. Joe Biden's USD 1.9 trillion stimulus plan was signed into law after being ratified by Congress. The measures include direct payments of USD 1,400 to most US citizens, as well as an extension of jobless benefits and new child tax credits. Investors were also cheered by the new administration's additional plans to boost funding for scientific research and broadband, along with infrastructure and health care. In contrast, the tech-heavy Nasdaq Index barely rose over the month, as the rotation from growth to value continued. Smaller companies also disappointed, giving back some of their outperformance earlier in the year.

The Federal Reserve raised its forecasts for economic growth in 2021. The Fed also signalled that it expected the core personal consumption expenditure index, its preferred measure of inflation, to rise to 2.2% in 2021, before falling back towards 2.0% in 2022 and 2023. The Fed also reiterated that it would continue with the current pace of its monthly bond-buying programme until "substantial further progress" had been made towards its twin goals of full employment and higher inflation.

Europe

European equities rallied strongly over March (in EUR terms), ending the month within touching distance of the record high set in February 2020. Investors looked beyond a new wave of COVID-19 infections to focus on the longer-term outlook for Europe's globally focused companies. The European Central Bank also moved to protect euro-zone companies from the pressures of rising global bond yields, as it pledged to speed up its bond-buying programme. However, Germany, France and Italy were among countries that were forced to tighten restrictions and extend lockdowns in an attempt to tackle escalating COVID-19 infection rates. The rollout of inoculations remained problematic, with supply constraints prompting the EU to threaten restricting vaccine exports and conflicting messaging regarding the safety of the AstraZeneca vaccine.

In economic terms, the euro zone is now a two-speed economy. The flash estimate of euro-zone manufacturing activity, as measured by IHS Markit, jumped to a record high of 62.4 in March, as global demand continues to recover from the pandemic. The increase in activity added to pressures on supply chains, with suppliers' delivery times now the longest since the height of the pandemic last April. Input prices are also rising at the fastest pace since 2011, as a result of shortages. However, ongoing social distancing restrictions meant activity in the services sector contracted for the seventh consecutive month, although March's reading was the highest since last August.

Asia

Equity markets in Asia rose modestly over March. However, both China and Hong Kong equities retreated amid fears that a gradual rollback of easing fiscal policy would challenge equity market valuations, while certain tech shares were hit by the prospect of increased supervision. In Taiwan and Korea, a global chip shortage supported semiconductor companies against broad profit taking from technology stocks, although the news that Intel was to set up a rival semiconductor foundry caused some weakness towards the month-end. Elsewhere in the region, ASEAN market performances were mixed. Singapore recorded solid gains with stocks reaching the highest level in more than a year due to a strong rise of manufacturing production by 16.4% YoY in February. In contrast, Philippines market retreated as new daily COVID-19 infections reached a new record high. Sentiment was also dented by renewed tensions between Manila and Beijing relating to Chinese vessels massing in the South China Sea.

Allianz Global Investors

China/Hong Kong Both China and Hong Kong equities retreated over March. The annual National People's Congress set a target of "above 6%" for 2021 GDP growth – the target is generally viewed as being on the conservative side. While the timing of the Lunar New Year holiday continued to affect some economic data measures, of note was producer price inflation which jumped 1.7% YoY in February, the fastest rate of increase since 2018. Additionally, the country's banking regulator warned of asset bubbles, sparking fears that a gradual rollback of easing fiscal policy would challenge equity market valuations, while certain tech shares were hit by the prospect of increased supervision. In addition, hopes for an improvement in relations between the US and China were dashed when officials exchanged sharp rebukes in the first high-level talks between the Biden administration and Beijing.

Japan Japanese equity market rose in March supported by the US fiscal program and expectations on global economic recovery. The TOPIX index (total return) ended the month up 5.7% in local terms.

Japanese equities delivered solid return, boosted by US Congress' approval of Joe Biden's massive fiscal stimulus packages and a weakening Japanese yen against the US dollar. Although resurgent COVID-19 infections in Europe temporarily weighed on the market, the equity market continued to rise due to expectations on global economic recovery with the success of vaccine rollouts.

The Bank of Japan announced three policy changes at its monetary policy review in March: 1) the introduction of a new scheme named "Interest Scheme to Promote Lending"; 2) the new band set for the 10-year JGB yield target to be around ±0.25%; and 3) a removal of the basic annual guidelines for JPY 6tn ETFs purchases while maintaining its upper limits of about JPY 12tn.

In terms of sector, cyclical sectors from materials to consumer discretionary including automobiles outperformed as the market focused on a recovery of global economy activities. On the other hand, communication services underperformed due to the market rotation from growth/stable stocks to value stocks.

Bond

US bonds sold off over March with yields continuing on an upward trend as Joe Biden's USD 1.9 trillion stimulus measures stoked inflationary fears. The 10-year Treasury yield reached 1.75%, its highest level since January 2020, while the 30-year bond yield briefly approached 2.45%, a level last seen in the spring of 2019. With short-term bond yields pegged by ultra-low interest rates, the yield curve continued to steepen. The yield spread between three-month notes to 10-year bonds reached the widest level in four years. The Federal Reserve (the Fed) raised its forecasts for economic growth in 2021. It now forecasts an average growth rate of 6.5%, up from the rate of 4.2% it predicted last December. The Fed also signalled that it expected the core personal consumption expenditure index to rise to 2.2% in 2021. Nonetheless, the dot plot of policymakers' future interest rate projections indicated that rates were expected to remain close to zero until at least 2024. The Fed also reiterated that it would continue with the current pace of its monthly bond-buying programme until "substantial further progress" had been made towards its twin goals of full employment and higher inflation. Economic news signalled that the US economy may be picking up steam with some states relaxing restrictions as vaccines are rolled out. Non-farm payrolls increased by a stronger-than-expected 379,000 in February, driven by rising hospitality employment. While the Institute of Supply Managers non-manufacturing survey slid in February, this was mainly due to the impact of winter storms. In contrast, the manufacturing index hit the highest level since 2018, with prices paid by companies surging to the highest level in more than 12 years. Additionally, preliminary data for March indicated that the University of Michigan's consumer sentiment index had jumped to a one-year high, boosted by the improving jobs market and one-off relief payments.

Eurozone bonds outperformed US Treasury in March as the European Central Bank pledged to speed up its bond purchases to counter the sell-off in the US Treasury bond market. 10-year German Bund yield moved slightly lower, while yields on peripheral eurozone debt fell more. Fears that escalating COVID-19 infection rates may derail the region's recovery also underpinned demand for eurozone bonds, with Germany, France and Italy among countries that were forced to tighten restrictions and extend lockdowns. In economic terms, the eurozone is now a two-speed economy. The flash estimate of eurozone manufacturing activity, as measured by IHS Markit, jumped to a record high of 62.4 in March as global demand continues to recover from the pandemic. However, ongoing social distancing restrictions led to the services sector contracting for the seventh consecutive month.

Outlook

Global equity markets continue to run with the reflation narrative. Led by the US, strong GDP and PMI numbers are boosting earnings expectations across the board, with more cyclical service sectors are catching up with their manufacturing counterparts. Already, some commentators have moved on to the question of when monetary policy must inevitably tighten and bring the party to an end.

The advanced state of this discourse should in and of itself give investors reason to pause. Sustained inflation has variously failed to manifest in the years since the 2008 financial crisis, most famously after the election of Donald Trump in 2016. And while the unprecedented depth of economic inactivity sets the stage for this year's expected bounce, key long-term deflationary forces remain in place.

Digitalisation continues to disrupt old industries, passing on value to consumers, while concentrating growth in a handful of successful companies. Demographic shifts, meanwhile, are reshaping global populations. In developing countries a new middle class is emerging. More advanced economies are instead learning to cope with increasingly elderly populations dedicating their spending to healthcare. At the same time, government debt is growing substantially, acting as a drag on growth and interest rate rises.

These factors continue to support our guiding investment philosophy: that a concentrated portfolio of quality companies, generating sustainable growth purchased at a reasonable price remains the best way of outperforming global equity markets over the long term. Rather than try to time markets, we have thus taken advantage of recent volatility to increase our positions in high conviction names and initiate new positions in stocks that meet our key criteria.

Strong style headwinds could therefore remain a challenge in the short-term. However, an uncertain road out of the pandemic, very high expectations for certain sectors of the market and the simple fact that earnings growth tends to drive share prices, will ensure a return to fundamentals in due course. We are therefore confident that the actions we have been taking will stand us in good stead.

Sources: 1 Eurostat 2 Bloomberg 3 Office for National Statistics