Global markets fear of rising inflation and comeback of COVID-19

Investment Markets	BCT's Investment Views	Summary
Equities	Overweight	
US	Neutral	We are neutral on U.S. equities. Massive fiscal support, easy financial conditions coupled with pent-up consumer demand and huge savings, provide a positive backdrop for U.S. equities. Investors should focus on strong selection, instead of exuberant areas where valuations are not justified by fundamentals. Corporate taxation is another area that deserves attention.
Europe	Neutral	We are neutral on European equities. Reacceleration of the vaccination campaign in the 2nd half of the year, and improving economy and earnings forecasts support a positive stance towards European equities, which appear attractively valued from a relative perspective. However, the region may witness some divergence across sectors as some areas benefit from reopening.
Japan	Overweight	We are positive on Japanese equities. In light of its cyclical and industrials tilt, it should benefit from an improving global economy and a weakening yen, which makes exports competitive.
Asia ex Japan	Overweight	We are positive on Asian equities. We believe the potential for growth is intact, but we acknowledge that the near-term headwinds in the form of a strengthening USD and the COVID-19 situation. This necessitates a more selective approach in the region, where domestic consumption remains an important theme.
China & HK	Overweight	We remain positive on China equities. Foreign fiscal boost in 2021 should support China's growth, as external demand for Chinese goods is increasing, benefitting exporters. We are neutral on Hong Kong equities. The vaccination program progress is not up to expectations. The timing of border opening is still unclear, which will affect Hong Kong's recovery pace.
Global Bonds	Overweight	
Government Bonds	Neutral	We are neutral on government bonds. Overall, we reiterate our preference for inflation linkers over nominal government bonds. We remain positive on credit, we keep a positive view on credit thanks to massive liquidity, low borrowing rates, strong earnings, and a reopening trajectory.
Credit	Overweight	

Scales of weighting	Underweight	Neutral	Overweight

U.S. EQUITIES

U.S. equities continued to gain in April, with the S&P 500 reaching new highs. The index went up by 5.3%. Thanks to the rebound in the overall economy supporting sentiment, U.S. equities outperformed the rest of the world as investors remained confident in economic recovery. The economy grew at an annualized pace of +6.4% in Q1. Demand was very robust and consumption, business and residential investment grew consistently. In other positive news, jobless claims fell to a pandemic low and consumer confidence was at its highest level since the beginning of 2020. Manufacturing also remained strong with the U.S. ISM Purchasing Managers' Index (PMI) moving to 64.7 in April, thanks to a sharp upturn in production across manufacturing sectors and a strong rise in new orders. In terms of monetary policy, the Federal Reserve's (Fed) meeting was dovish; Chair Jerome Powell reaffirmed that it was not yet the time to taper. They did not see the urgency to start withdrawing their ultra-accommodative monetary support, dismissing fears of economic overheating after Biden's stimulus.

Thanks to an extremely accommodative policy mix, the U.S. economy should return to pre-pandemic levels by mid-year. The easing of restrictions and broader vaccination campaigns, plus the build-up of extra savings, pose upside risks to 2021 growth and inflation projections. The Build Back Better plan, with USD2 - 4 trillion of infrastructure spending in 10 years, could lift GDP from next year while boosting potential growth in the medium to long term. Inflation is rising and should overshoot in the current quarter on transitory factors, before stabilising from 2022 at rates that should be slightly higher than that before the pandemic. The Federal Open Market Committee (FOMC) upgraded its projections of economic growth, employment and inflation but showed no change in the projected path of interest rates. We are neutral on U.S. equities. Massive fiscal support, easy financial conditions coupled with pent-up consumer demand and huge savings, provide a positive backdrop for U.S. equities. Investors should focus on strong selection, instead of exuberant areas where valuations are not justified by fundamentals. Corporate taxation is another area that deserves attention.

EUROPEAN EQUITIES

The MSCI Europe was up by +2.4% in local total return terms for the month. The first half of the month saw the market rising on hopes of strong recovery but some worries that a rising COVID-19 caseload could slow the pace of recovery, limiting the gain over the month. The resurgence of COVID-19 infections weighed on economic activity. The decline in activity was pronounced in the services sector, while industrial activity confirmed its greater resilience. Economic activity shrank in the Eurozone by -0.6% quarter-over-quarter. Germany's GDP decline of -1.7% was the main driver of the Eurozone weakness and reflected the impacts of imposition of lockdown restrictions. The Eurozone inflation was 1.6% in April up from 1.3% in March mainly due to higher energy cost. The Eurozone PMI advanced to 62.9 in April, with operating conditions improving. Sentiment strengthened in manufacturing and turned positive in service. April meeting did not deliver any policy news, but the European Central Bank (ECB) remained dovish and confirmed its very accommodative monetary policy stance. The ECB's president indicated a likely guidance close to 85 billion euro monthly Pandemic Emergency Purchase Programme (PEPP) over the coming months.

The speed of vaccination campaigns remains key. While it was resilient during autumn-winter lockdowns, economic recovery is likely to suffer setbacks due to the extension of restrictions into Q1 and Q2, a continued bumpy road to recovery and a very gradual reopening. A significant acceleration in economic performance from the summer will probably take place. Governments will continue to offer fiscal support until recovery is on track, while the ECB remains accommodative. Inflation should progress upward, though volatile on transitory factors, while remaining below target at the end of the forecast horizon. For 2021 and 2022, we expect CPI change in the Eurozone to be 1.8% and 1.5%, respectively, which are below the ECB's target of just under 2%. We are neutral on European equities. Reacceleration of the vaccination campaign in the 2nd half of the year, and improving economy and earnings forecasts support a positive stance towards European equities, which appear attractively valued from a relative perspective. However, the region may witness some divergence across sectors as some areas benefit from reopening. Accordingly, investors should stay selective and focus on fundamentals.

JAPANESE EQUITIES

The Japanese equity market declined by 2.8% in April, weighting on investor sentiment, as the government re-imposed restrictions on activity due to the state of emergency pronounced in several cities. The yen initially moved sharply stronger against major currencies before retracing about half of the move by month-end. Industrial production data remained solid over the last three months despite various states of emergencies being in place for most of the period. The corporate results season began just before the end of April. The Bank of Japan (BoJ) made several small changes to its policies at the March meeting, stressing policy sustainability. It confirmed an exit from frequent purchases of ETFs and J-REITs, communicated a wider band for 10-year Japanese Government Bond at +/-0.25% around 0%, and enhanced the subsidy program to mitigate the impacts of Negative Interest Rate Policy.

Economic recovery is likely to outpace that of the Eurozone in 2021. We expect the export sector to remain the main driver of growth, benefiting from the global upcycle in capital expenditure. Economy growth was reflected in the surge of machinery orders early this year. However, the slow pace of vaccination and repeated outbreaks in major cities casted a shadow over the outlook for domestic demand. We expect inflation to stay close to zero. Even considering upside shocks from global commodity prices and further weakening in yen, a soft domestic demand outlook caused by renewed COVID-19 outbreaks and sluggish vaccination progress is not boding well for strong reflation. The BoJ also reduced JGB purchases and refrained from purchasing ETFs for most of April. In view of an export-led economic recovery amid a global capital expenditure upcycle in 2021, we expect the central bank to continue to roll down its asset purchases on average. We are positive on Japanese equities. In light of its cyclical and industrials tilt, it should benefit from an improving global economy and a weakening yen, which makes exports competitive.

ASIA EX-JAPAN EQUITIES

Asia ex-Japan equities advanced by +1.8% in total return terms, as the rollout of COVID-19 vaccines in many parts of the world boosted optimism for a return to economic normality. Taiwan was the strongest index market and outperformed, led by strong gains of non-technology equities. The Philippines's PSEi gave back 2.7% month-over-month in April, reflecting negative revisions on GDP growth forecasts, tighter mobility restrictions and an extension of the modified enhance community quarantine. In India, the number of new daily infections in the country reached new records, including 350,000 in late April. It weakened market sentiment as deaths surged during the month. Daily mobility figures strongly decelerated, and lockdown enforcements increased marginally. On 7 April, the Monetary Policy Committee unanimously held the policy repo rate at 4%. Recently, India went through a resurgence in COVID-19, weakening its economic recovery, and a still mild spike in prices.

In Singapore, we keep our optimism on the market on the expectation of a sharp economic recovery and a well-executed COVID-19 vaccination plan. We expect the recent surge in the new daily COVID-19 cases in the Philippines to continue over the next few weeks before cooling down thereafter. In Indonesia, in the short term, we expect continued volatility in the market as investors are concerned with the rising yields and the emergence of a more contagious COVID-19 strain. The Indian government did not enforce a national lockdown as it did during the first wave, the impact on the economy is expected to be more limited than in 2020. The vaccination campaign has lately accelerated, even though the lack of doses per day could reduce the campaign pace. We are positive on Asian equities. We believe the potential for growth is intact, but we acknowledge that the near-term headwinds in the form of a strengthening USD and the COVID-19 situation. This necessitates a more selective approach in the region, where domestic consumption remains an important theme.

CHINA & HONG KONG EQUITIES

The MSCI China was up by 1.2%, due to a temporary weakening of USD and less stretched valuations buoying market sentiment. Chinese GDP grew by 18.3% year-over-year, thanks to the low base last year. In sequential terms, growth eased to around 1.2% quarter-over-quarter, due to slower construction and services activities. The quarterly Central Politburo meeting on 30 April kept the overall policy stance largely unchanged. Policy priorities were given to industrial upgrade, digitalisation, carbon neutrality, new energy and domestic demand recovery. Policies to defuse debt risks gained traction, indicating that moderate deleverage would be likely in 2021 under the overarching goal to control macro leverage. The MSCI Hong Kong went up in April by +3.1%. Social distancing measures were relaxed, as the number of COVID-19 cases stayed at a low level. As a result, the unemployment rate improved from 7.2% in February to 6.8% in March.

In China, with vaccinations accelerating and the pandemic under control, we expect services sector growth to pick up again and drive the overall economy for the rest of the year. Recovering consumer demand and reduced slack in the labour market will strengthen core Consumer Price Index (CPI) gradually. Against the backdrop of tighter credit conditions, interbank liquidity is holding steady, and we expect the People's Bank of China to continue to anchor rates around its desired levels to avoid over-tightening. Growth will be less of a concern for policymakers, leading to cautious fiscal/credit policy tapering plus targeted tightening in the housing market. We remain positive on China equities. Foreign fiscal boost in 2021 should support China's growth, as external demand for Chinese goods is increasing, benefitting exporters. We are neutral on Hong Kong equities. The vaccination program progress is not up to expectations. The timing of border opening is still unclear, which will affect Hong Kong's recovery pace.

GLOBAL BONDS

Over the month, U.S. Treasuries ended a run of 4 consecutive monthly declines and the U.S. yield curve flattened with lower yields throughout the curve. The decline in yields followed a very strong payrolls report and better-than-expected ISM surveys and CPI data, highlighting that solid growth and expected inflation were already priced in. Overall, the U.S. 2-year yield was flat at +0.16%, the U.S. 10-year yield started the month at +1.74% and finished April at +1.63%. European yields rose and steepened over the month. The ECB President Christine Lagarde reaffirmed the overall dovish tone, the last ECB communication confirmed it was still early to withdraw monetary stimulus. The J.P. Morgan EMU Government short-dated bond indices had negative returns over the month, as yield in Europe generally rose with investors increasingly betting on stronger economic recovery.

In the U.S., we believe yields have already risen sharply and therefore investors should stay flexible if market volatility increases. On the other hand, the case for U.S. inflation and Treasury Inflation Protected Securities remained strong. In Europe, the central bank would not allow yields to rise too much in order to maintain accommodative financial conditions. Furthermore, the recent PEPP actions has affirmed ECB's support to prevent any fragmentation in European markets. While in the long run, hard currency emerging market debt supports investors' search for income, in the near term investors should watch out for rising US rates. Given the risks associated with a strengthening USD, we believe that emerging market debt in local currency is more vulnerable and expensive. We are neutral on government bonds. Overall, we reiterate our preference for inflation linkers over nominal government bonds. We remain positive on credit, we keep a positive view on credit thanks to massive liquidity, low borrowing rates, strong earnings, and a reopening trajectory.

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