

OBSERVATIONS

- COVID-19: CDC confirmed 6k cases of Covid-19 among the fully vaccinated, representing just 0.007% of the estimated 84 million Americans presently fully vaccinated. Of the 6k occurrences, nearly 30% were asymptomatic.¹ India experiences a global daily record of nearly 350k new cases over a 24-hour period as the virus surge continues.²
- Record breaking bond issuance by big banks following strong earnings reports: BNY Mellon, Goldman Sachs, Morgan Stanley, J.P. Morgan, and Bank of America sell a combined \$43bn in debt. Bank of America's \$15bn debt raise stands as the largest bank offering ever.²
- Too much too soon? The S&P Global Clean Energy Index gained over +304% from the pandemic lows and has since declined -30% from its 2021 highs reached in January this year. Blackrock notes that the median valuation in the Index is trading at a 70% premium relative to the broader market – the highest in a decade.³
- Last week the S&P 500 notched yet another record, this time in terms of breadth for the recent rally. Last week, 487 S&P 500 constituents traded above their respective 200 day moving averages, the most since at least 1991 and more than during the dot-com bubble and the pre-financial crisis peak.²
- The Bank of Canada accelerated the timing for possible interest rate hikes and started pairing back bond purchases – the first major economy to indicate such steps. Meanwhile, the European Central Bank (ECB) kept monetary policy unchanged, keeping the size of its quantitative easing program unchanged while increasing the pace of bond buying. The ECB kept its main policy interest rate unchanged at -0.50%.²
- Travel bookings by air improving but still below 2019 levels. American Air and Southwest plan to operate Q2 capacity that's 15-25% less than this time in 2019.⁴
- Initial jobless claims declined to 547k and the 4-wk moving average dropped to 651k, both new post-crisis lows.²

EXPECTATIONS

- As authorities worldwide contend with how to regulate and more broadly address crypto assets, China's central bank (the People's Bank of China – PBOC) makes significant change in tone regarding certain crypto assets. Li Bo, deputy governor of the PBOC noted that “we regard Bitcoin and stablecoin as crypto assets...these are investment alternatives.”⁵

ONE MORE THOUGHT: *Uncertainty as a driver of U.S. interest rates, a technical perspective on rising rates*⁶

On 1-Jan of this year the U.S. 10-year Treasury was trading at 0.92% and by the end of March the yield on the 10-year Treasury had risen to 1.74% - it has since fallen back to 1.54% (as of 22-April). This rise of over 80 basis points spurred the repricing of risk assets globally and is part of the reason for value-oriented stocks having performed better than growth stocks over the first three months of the year. IMF economists recently examined this increase in the U.S. 10-year yield. Their conclusion was that it was not primarily a rise in inflation expectations that drove the yield higher, but increased uncertainty over both the path of inflation as well as the prospect of longer-term growth in the U.S. economy. The 10-year yield can be thought of in two parts; first, a 5-year bond yield (short term; covering the first half of a 10-year bond) and second, a 5-year-5-year forward (long-term; covering the back half of a

¹ <https://www.cdc.gov/vaccines/covid-19/health-departments/breakthrough-cases.html>

² Bloomberg LP

³ Blackrock Risk and Quantitative Analytics, Bloomberg LP

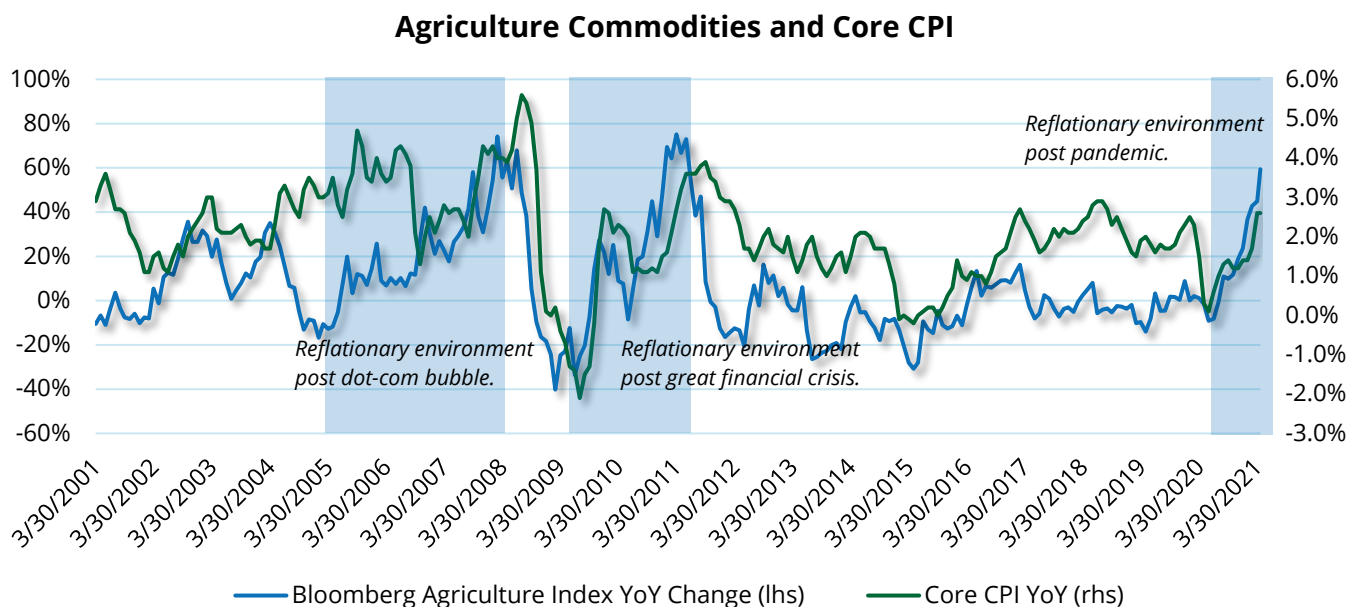
⁴ <https://www.cnbc.com/2021/04/22/southwest-airlines-luv-and-american-airlines-aal.html>

⁵ <https://www.cnbc.com/2021/04/19/china-calls-bitcoin-an-investment-alternative-marking-shift-in-tone.html>

⁶ IMF Global Economy Blog “Understanding the Rise In Long-Term Rates” April 22, 2021

10-year bond). One of the largest drivers of the recent rise in the 10-year yield was an increase in the U.S. 5-year yield, and the preponderance of the move in the 5-year yield was a result of the sharp rise in the 5-year inflation breakeven—a proxy for the near-term inflation outlook. However, the rise in the 5-year inflation breakeven reflected both an increase in expected inflation over the next five years but also a nearly equal rise in the inflation risk premia (uncertainty around the path of inflation). The other driver of the rise in the 10-year yield was the rising risk premia—uncertainty over longer-run economic growth—associated with 5-year-5-year forwards. The Fall of 2021 is likely to bring greater clarity around U.S. inflation dynamics as well as a clearer view the economic outlook for 2022, perhaps some of this uncertainty will dissipate; yields may move accordingly.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, Data as of 20-April

Amidst a backdrop of droughts and freezes across Brazil, Europe, Canada, and the U.S., agriculture prices have reached 8-yr highs and have increased nearly 60% YoY. Corporations have begun to adjust as Coca-Cola joins Kimberly-Clark, J.M. Smucker, Proctor and Gamble, and General Mills in raising prices to protect profit margins. Importantly, food and beverage only accounts for approximately 15% of core inflation measures (CPI), while it does not serve as a significant driver of inflation it could seep into broader consumer expectations towards inflation.

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