M Mutual Limited

Morning Mutterings: Tuesday 16 February, 2021

Quote of the day…

"Never lend money to a friend. It's dangerous. It could damage his memory" – ***Sam Levenson***

"Risk is big in Europe right now…"

- ***Overview*** – I made the claim yesterday that I would run naked through the office if we were in fact back in the office by Thursday, the first 'official' day that Dictator Dan might deem us adult enough to go about our normal daily lives. Fortunately for all involved, our diligent Rick & Compliance Manager has intervened, stating that my intended exhibition of nature would likely breach OH&S. Accordingly, I regrettably retract said statement. US markets (bonds & stocks) were shut overnight for Presidents Day, but that didn't stop the running of the bulls. Global stocks and US equity futures rallied as investors took comfort in progress on the vaccine rollout, while an artic blast ripped through Texas, disrupting oil production and sending oil prices higher (WTI +2.5%). The reflation trade remains alive and kicking, with bond futures indicating further losses for bonds. The US treasury yield curve is testing their steepest levels in more than five years. The risk narrative remains firmly entrenched on the expectation that US government spending and vaccines will safely and smoothly drive the economy out of the pandemic. With a rising US deficit expected (because of fiscal largesse), the USD continues to soften, which has seen the little Aussie-battler rally strongly, now a smidge under 0.7800 and at post pandemic highs to the USD. When risk markets are on the good foot, the Aussie typically rallies as we're an economy that is seen to perform well through strong global growth phases (i.e. higher commodity usage and sales).

- ***Offshore Stocks*** – obviously the US shut, but Europe partied on with solid gains across the continent including a +2.5% surge in the Footsie (FTSE), underpinned by reports that 15 million Brits had been vaccination, that's around 23% of them. A solid and welcome start given their recent experience…makes our lockdown (even though it's the third one!) seem like a walk in the park. The broader STOXX index closed up +1.9% on the day and is now +50.0% off its pandemic lows. A touch under 80% of STOXX stocks rallied, with Financials (+2.2%) up strongly and contributing around 20% of the index's gains.

"Prophets…"

Source: www.hedgeye.com

At a glance….		*Last*	*1D*	*7D*	*30D*
EQUITIES	ASX 200	6,869	0.9%	-0.2%	2.3%
	DOW	31,458	0.0%	0.2%	2.1%
	S&P 500	3,935	0.0%	0.5%	4.4%
	NASDAQ	13,808	0.0%	0.8%	7.8%
	STOXX	419	1.3%	2.1%	2.8%
CREDIT	AusBond FRN (bps)	34.0	-0.20	0.13	-2.30
	AusBond Fixed (bps)	57.9	-1.17	-2.70	-9.09
	US Fin (OAS, bps)	66.2	0.00	-35.83	-8.21
	EU Fin (OAS, bps)	40.9	1.35	1.25	1.31
BONDS	ACGB (10Y, %)	1.322	0.10	0.05	0.24
	ACGB (3Y, %)	0.112	0.00	0.01	0.01
	UST (10Y, %)	1.208	0.00	0.04	0.12
	UST (2Y, %)	0.109	0.00	0.00	-0.02
FX & CMDTY	Oil (Brent, $/bbl)	63.26	1.3%	4.5%	14.8%
	Gold ($/oz)	1,819	-0.3%	-0.7%	-0.5%
	AUDUSD	0.78	0.3%	1.1%	1.1%
	AUDEUR	0.64	0.2%	0.4%	0.6%

Source: Bloomberg, Mutual Limited (shaded data = Friday's close)

- ***Local Stocks*** – a solid day in the local trenches with Materials up +1.5% and accounting for about a third of gains in the ASX 200, ably supported by Financials, up +0.8%, or a quarter of gains. Utilities and REITS were the only laggards on the day, both in the red. Futures are indicating another day for the bulls, albeit modest gains at this stage (+0.3%). Local reporting season, comprising mainly of interim results is gathering pace. A third of the ASX 200 have reported now with aggregate sales down -2.9% HoH and aggregate earnings down -17.5% HoH. Only two sectors have been able to grow HoH across sales and earnings, and they won't surprise. Healthcare has seen aggregate sales up +36% HoH and earnings up +75% HoH, while Telcos have reported sales up +9% HoH and earnings up +49% HoH.

- ***Offshore Credit*** – not a lot to talk about in the US sense, while in Europe there were a handful of deals, dominated by SSAs (Supranationals). No change to US spreads in secondary, while EU spreads drifted wider a touch. In synthetics, MAIN was a basis point tighter, as were Snr Fins, while Sub Fins dropped 2 bps.

- ***Local Credit –*** hot-diggity-dog, we have some issuance! Suncorp-Metway has brought some sunshine to the local primary markets, announcing their intention to do a 5-year senior deal, only the third (if memory serves) local bank senior deal over the past 12 months (MQG and BEN being the other two). Timing is somewhat of a head scratcher given they still have $2.1bn of their TFF allocation undrawn, and more than four months to draw it, and they advised they will draw it. Add to this the fact their lending growth isn't exactly setting the world on fire. They want the tenor apparently…hmm, ok. They could borrow 3 years at 0.10% from the RBA, i.e. a 2024 maturity, or come to markets and pay 0.35% - 40% extra for the two year extension. Either way, they're issuing, perhaps to get ahead of the majors that will possibly return to markets later this year. Suncorp's existing curve suggests +45 – 50 bps is the likely pricing point….that's an expensive 3s5s curve. Moving to tier 2, some comments from the street…"*the march tighter in spreads just keeps on going! On incredibly little volume, the ongoing investor demand is having an outsized impact on spreads. There is essentially no inventory in the street. Traders are then readily marking spreads tighter when demand comes through and correspondingly bidding aggressively on any client sales. The cycle continues when Yieldbroker marks start moving tighter and then traders adjust tighter again in reaction to this transparent benchmark. Today spreads closed 1-2bps tighter. Investor profit taking or primary supply will be the only factors to stop the T2 tightening juggernaut*"
- ***Bonds*** – no action in treasuries overnight with markets closed, but the broad thematic remands. Talking heads…."*the reflation trade is set to continue to gather steam with vaccine deployment and massive fiscal spending by the Biden administration….yields are likely to rise further and the catch-up of cyclical sectors should continue*". A tough day on the tools for longer bond holders in local markets. The ACGB 10-year yields increased 10 bps yesterday, out to 1.33%, with the curve now at its steepest in at least five years. From CBA's Daily Wrap yesterday…"*the Australian market, in particular, faces a Central Bank continuing to forge ahead with easy policy against the backdrop of a recovery with the aim of stimulating inflation along the way too. This is hardly unique to Australia, but it's a situation where the longer dated bonds are being eyed warily*"
- ***Macro*** – I found this nugget from JPM (via Bloomberg) interesting…"*investors are the least fearful they've been in two decades….a gauge of cross-asset complacency based on valuations, positioning and price momentum is nearing its highest since the dot-com bubble burst. JPM said there's no reason to expect a substantive pullback; the main risk is the Fed tapering bond-buying, which probably won't occur until later in the year…*" This strikes a chord with me.

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