Mutual Limited

Morning Mutterings: Friday 23 April, 2021

Quote of the day…

"You know you're ugly when you go to the proctologist and he sticks his finger in your mouth…" – ***Rodney Dangerfield***

"Biden breaks out the tax bat…"

- *Overview* – all was looking rosy mid-day through the US trading session, and then President Biden dropped a tax bombshell that saw stocks drop a percent. Was it really a bombshell though? Biden campaigned on higher taxes, promising to reverse former President Trump's 2017 tax cuts, so some action on that front can't be a surprise. So, what's new then? Biden proposes almost doubling of capital gains tax on people earning more than $1m a year to 39.6%. Add to this a 3.8% tax on investment income (existing) that funds Obamacare and Federal tax rates for investors could reach as high as 43.4%. Ok, we all hate tax increases, but at an aggregate economy level perspective, how significant is this? Using Google, the source of all modern era knowledge, I found for every 1,000 tax returns lodged in the US in 2018 (latest available), only 3.5 of them were for annual income of $1m or greater, or around 550,000 people…in a country with a population north of 330 million people. So, yes not a lot of people, but…how much of the market do these individuals own, that's the bigger question? Loosely, 1% of American's own around 40% of the country's wealth. While I Googled the answer to this question, a potentially spurious data source, the underlying data came from the Internal Revenue Service, aka the US tax department. As an amusing aside, former President Trump, not one to shy from commenting on his self-professed greatness, tweeted "MISS ME YET? LMAO! ENJOY PAYING TAXES." Elsewhere, in markets, bonds erased earlier losses with yields down a touch, while oil gained (modestly) and gold slipped. The little Aussie battler is stuck around the 0.77 level.

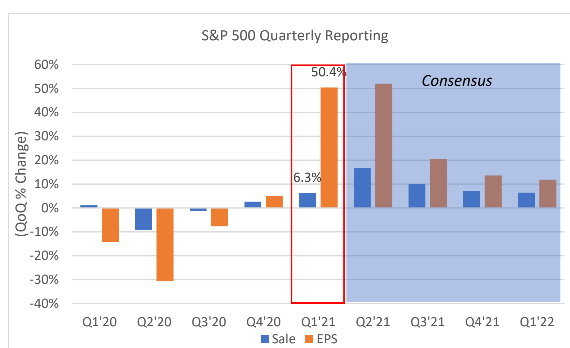
- *Offshore Stocks* – proposed tax announcements took the jam right out of the US market's donut last night. Whether the sell-off has legs remains to be seen, much will likely depend on whether the tax is retrospective, and if so, how far? I'll leave that there for the moment. The trading day opened on a positive footing, with positive leads out of Europe (+1.00% on average) and Asia (NIKKEI up +2.38%). The tax headlines snuffed that out with 72% of stocks (S&P 500) closing in the red and no sector spared the rod. Materials (-1.75%), Energy (+1.41%), and Tech (-1.18%) led the rout, while at the other end, still in the

"Fixed Asset…"

Source: www.hedgeye.com

	At a glance….	*Last*	*1D*	*7D*	*30D*
EQUITIES	ASX 200	7,055	0.8%	0.0%	4.1%
	DOW	33,816	-0.9%	-0.6%	4.3%
	S&P 500	4,135	-0.9%	-0.8%	6.3%
	NASDAQ	13,762	-1.2%	-1.9%	7.5%
	STOXX	440	0.7%	0.2%	3.8%
CREDIT	AusBond FRN (bps)	37.6	0.40	-1.00	-2.02
	AusBond Fixed (bps)	62.1	0.36	-0.21	0.54
	US Fin (OAS, bps)	75.8	-0.47	1.48	-3.34
	EU Fin (OAS, bps)	43.1	-0.27	-0.09	-0.58
BONDS	ACGB (10Y, %)	1.698	-0.03	-0.07	0.04
	ACGB (3Y, %)*	0.314	0.02	0.03	0.21
	UST (10Y, %)	1.538	-0.02	-0.04	-0.07
	UST (2Y, %)	0.149	0.00	-0.01	0.00
FX & CMDTY	Oil (Brent, $/bbl)	65.60	0.4%	-2.0%	1.8%
	Gold ($/oz)	1,784	-0.5%	1.2%	2.9%
	AUDUSD	0.77	-0.6%	-0.6%	1.7%
	AUDEUR	0.64	-0.4%	-1.0%	0.0%

S&P 500 – quarterly reporting (23% reported)…



Source: Bloomberg, Mutual Limited

red, but less so, were REITS (-0.38%), Healthcare (-0.43%), and Industrials (-0.47%). Despite the pull back, which was modest all things considered, US stocks are still up +10.09% YTD, led by Energy (+24.21%), Financials (+17.72%) and REITS (+15.19%). No sector is in the red YTD. European markets were buoyed by some comments from the ECB's Lagarde, stating the central bank was slightly more optimistic on the economic recovery than it was in March.

- ***Local stocks*** – a solid day of gains across the local markets, with a reasonably broad-based rally – 67% of stocks closing up and only two sectors in the red, Energy (-0.57%) and Utilities (-0.04%). Leading the gains were Healthcare (+1.74%), Tech (+1.51%), REITS (+1.33%). While the leads out of the US are negative, the catalyst to the sell-off was US centric and domestically oriented, and as such shouldn't have too much of an influence – if anything, we should take our leads from European markets, which were buoyant. Having said that, local futures are a touch in the red.

- ***Offshore Credit*** – US$4.55bn across five deals overnight, so modest by recent standards, taking week to date issuance to US$27.6bn, just shy of the US$30.0bn forecast by dealers. European markets saw similar volumes (€4.698bn), although spread across seven issuers. Deal metrics across both the US and EU primary markets remain constructive.

- ***Local Credit*** – from the traders…"*reasonably busy day, with the direction of flow skewed to better selling. We continue to see increased involvement from domestic accounts, though flows remain firmly in the bottom quartile*". Major bank senior paper remains unchanged with Jan-25's at +33 bps. Short of normal roll-down, the spread on these lines are not going anywhere. We had lunch with some traders yesterday – the first lunch in the post pandemic world, and the feedback was that flows in major bank senior paper, particularly the Jan-25's remains anaemic. The view was that a senior major bank line will likely come by mid-year, with a +45 – 50 bps range being the current implied senior 5-year curve. Elsewhere, in tier 2 space, the new BOQ Aug-26 call has settled around +154 bps, -6 bps inside initial pricing. Better selling in major bank tier 2 was noted, particularly the longer dated calls, which saw the NAB Nov-26 call (+133 bps) and ANZ Feb-26 call (+132 bps) drift a basis point wider. The rest of the major bank tier 2 curve closed unchanged.

- ***Bonds & Rates*** – range bound for now, with no macro data of any significance providing any incentive of catalyst to materially alter course. Next week will have bond traders glued to their screens with local CPI data set to be released (28th April). Consensus is expecting core CPI to come in at +0.9% QoQ (flat) and +1.4% YoY, up from +0.90% at the prior reading. Inflation has, and continues to garner a lot of attention, which has been particularly evidenced in steepening of yield curves – at least over January and February (+94 bps in the 10's, from 0.97% to 1.93%), while March and April have seen yields consolidate within a new range (1.64% – 1.85%). March quarter numbers are expected to remain well below the RBA's inflation target (2.00% - 3.00%), whereas consensus expectations have the inflation for the year to June to spiking to 3.1%, which is a direct consequence of the pandemic. The RBA, and consensus also, see this as a transitory spike with CPI expected to settle from Q3 at around 1.6% - 1.8% out to the end of 2022. Any overshoot in next week's reading could exert a renewed bout of curve steepening.

- ***Macro*** – Bloomberg…"*US jobless claims unexpectedly fell in the April employment survey week, marking a new pandemic low of 547K. The second-consecutive weekly decline in claims points to a brighter outlook for the labour market. Bloomberg Economics' preliminary payrolls forecast for April is 995K (moderately accelerating beyond the heady gains of 916K in March), with potential upside risk. In turn, we expect the unemployment rate to dip into 5.0% territory in the second quarter, beginning with 5.8% in April.*"