Mutual Limited

Morning Mutterings: Monday 24 May, 2021

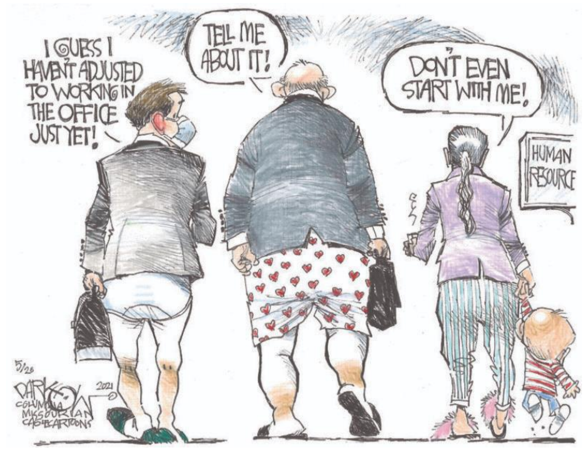
Quote of the day…

"Whatever you do, always give 100%. Unless you're donating blood" – **Bill Murray**.....

Overview…"…I got nothing".

- A tumultuous week of volatility marked by inflation fears and a selloff in risk assets…so says the narrative. And, on the back of this, investors are heading back into government-bond funds, with inflows at the fastest rate in six months. This suggests investors have already priced in tighter monetary policy. Which is somewhat logical – inflation is coming back, monetary policy will have to tighten, but it will still likely remain highly accommodative in a historical context. Some decent macro data out to end the week, with US PMI's and UK retail on the stronger side. Some positive vaccine headlines, with news that current batch of COVID-cure-alls are effective against the current mutations. Bond yields fell despite price pressures.
- Stocks were mixed on the week, generally up in European markets, but gains were very modest, and the FTSE actually reversed course a touch. US investors witnessed a down week for the DOW and SPX, while the NASDAQ was able to poke its nose above water. Zeroing in on Friday, and it was also a mixed session – DOW up, SPX and NASDAQ down, reflecting value over growth, while Europe was generally firmer, just. Asian markets (ex-China) were firmer on the day and week.
- Bitcoin and the other crypto cool kids continue to be bullied, taken behind the wood shed for a thorough beating. Now pricing around US$34K, give or take, Bitcoin is down over -40% month to date, with double-digit % daily moves. Before you feel too sorry for holders, the crypto-currency is up +250% over the past 12 months. The turbulent stretch began after Elon Musk said Tesla would no longer accept Bitcoin as payment for its electric vehicles, citing the coin's intensive energy use. Another blow came Friday when China reiterated a warning that it intends to crack down on cryptocurrency mining as part of an effort to control financial risks.
- Talking heads…on crypto…"*it is no surprise that governments are not inclined to give up their monetary monopolies. Throughout history, governments first regulate and then take ownership…as cryptocurrencies begin to seriously compete with regular currencies and fiat currencies, regulators and policymakers will crack down.*"

"Transition…"



Source: www.theweek.com

	At a glance….	*Last*	*1D*	*7D*	*30D*
EQUITIES	ASX 200	7,030	0.2%	0.2%	0.5%
	DOW	34,208	0.4%	-0.5%	0.2%
	S&P 500	4,156	-0.1%	-0.4%	-0.4%
	NASDAQ	13,412	-0.6%	0.1%	-3.8%
	STOXX	444	0.6%	0.4%	1.8%
CREDIT	AusBond FRN (bps)	36.5	0.03	0.44	-0.73
	AusBond Fixed (bps)	60.7	-0.47	-0.88	-0.99
	US Fin (OAS, bps)	70.7	-0.76	-1.21	-5.60
	EU Fin (OAS, bps)	46.5	-0.65	1.58	3.13
BONDS	ACGB (10Y, %)	1.734	-0.03	-0.06	0.00
	ACGB (3Y, %)*	0.284	-0.03	-0.02	-0.02
	UST (10Y, %)	1.622	0.00	-0.01	0.07
	UST (2Y, %)	0.153	0.01	0.01	0.01
FX & CMDTY	Oil (Brent, $/bbl)	66.44	2.0%	-3.3%	1.7%
	Gold ($/oz)	1,881	0.2%	2.1%	4.9%
	AUDUSD	0.77	-0.6%	-0.5%	-0.3%
	AUDEUR	0.63	-0.2%	-0.9%	-1.5%

Public Service Announcement…

There'll be no 'Morning Mutterings' on Wednesday through to Friday this week as I'll be in Sydney at the ANZ Debt Investor Conference. Also, Mutual is moving office, which will require some working from home time as the new digs are fitted out. That kicks off next week – shouldn't impact my daily note though.

Details….

- **Offshore Stocks –** US markets oscillated between gains and losses, and much like the Pies vs Port game yesterday, where the Pies led for 90% of the game, but just not when the siren went. Same for US stocks, up for most of the day, but at the close, down…just. A fraction over half of the SPX stocks actually gained, but across the sectors winners were only marginally outgunned by the losers, 5:6. Fighting the good fight was Financials (+0.9%), Utilities (+0.5%) and Industrials (+0.4%), amongst a couple of others, while sectors looking to bring the system down included Discretionary (-0.6%), Tech (-0.5%) and Telcos (-0.3%). On the week, REITS (+0.9%), Healthcare (+0.7%), and Utilities (+0.3%) dominated the leader's board, while Energy (-2.8%), Industrials (-1.7%), and Materials (-1.4%) failed to fire. Futures are mixed, DOW up, SPX and NASDAQ down.
- **Local stocks** – modest gains on Friday and on the week for the ASX 200, up +0.2% both on the day and the week. A touch over half of the index gained, and only three sectors were red-faced, Energy (-2.0%), Materials (-1.1%) and Discretionary (-0.2%). Top of the pops was Healthcare (+1.8%), followed by Staples (+1.7%), and Tech (+1.6%). Over the week, Tech (+6.0%), Healthcare (+1.6%), and Staples (+1.4%) led the charge, while at the other end of the table, Utilities (-2.3%), Materials (-2.2%) and Energy (-2.2%) were all dragging the chain. Futures are down a touch.
- **Offshore Credit** – US junk bonds, aka high yield, posted losses for the second straight week, while those in Europe are on track for their first monthly loss since September (based on Bloomberg Barclays Indices). Both regions have seen fund withdrawals, with those in the US reporting a third consecutive week of outflows. Given the COVID pandemic and subsequent recession etc, it might seem logical to assume these outflows reflect default risk concerns. Apparently not – rather, the narrative is suggesting the previous strong inflows were an inflation hedge and that its now reversing. Despite the outflows, spreads remain resilient, tighter on the day and week, across both high yield and investment grade.
- **Local Credit** – from the traders…"*quiet end to the week with spreads mostly unchanged. Pleasingly we did see a modest uptick in flows this week, something we hope persists despite the onset of the Northern hemisphere summer. Anecdotally we hear that the primary pipeline is building and we anticipate a busy June*". No change in major bank spreads, again, and as one trader said, "difficult to get too excited by spreads at these levels." Major bank Jan-25's, the longest dated senior A$ paper was unchanged at +35 bps, while the 3-year part of the curve is hovering around +25 bps. In the tier 2 space, spreads were unchanged to a basis point tighter on the day, but -5 – 7 bps tighter on the week as NAB's US$ tier 2 deal shot down any imminent chance of a new A$ deal.
- **Bonds & Rates** – despite further evidence of price pressure, treasury yields fell and curves flattened over the week. The US curve, 2s10s, bull-flattened -3 bps, while in ACGB it was more a parallel shift lower, -1 – 2 bps. Break evens fell over the week, with US 10Y break-evens down -9 bps to 2.83% on the week and ACGB 10Y break-evens down -8 bps to 2.24%. Some issuance this week with the US Treasury set to sell 2Y and 7Y notes, whilst the AOFM tenders May-32s, Apr-27s, ix40s and $2bn of T-notes. Tonight, a band of Fed speakers are out and about, spruiking their brand of monetary policy.
- **Macro** – a strong set of macro numbers out at the end of the week, with PMI reads generally solid, and UK retail bounced back. The Euro came under pressure on Friday as ECB President Lagarde refused to commit to any taper talking, or timing thereof. On the other hand, 'Team-Taper' in the US is gaining a decent support base, with more evidence of rising costs in the PMIs. As for the week ahead, locally we have the first GDP partials – construction (Thursday) and capex (Friday). Offshore, in the US we get the PCE spending and deflator on Friday.