

Amundi

Market Review– March 2021

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Reflation is now the name of the game

- Increasing spillover from US rates repricing
- The Biden 9% GDP package is the trigger, in a context of rapid vaccine rapid roll out and technical inflation spike due in April
- There is room for further repricing taking into consideration inflation forecasts / correlation between inflation expectations and nominal rates

Correlation between US 10Y & EZ GDP weighted 10Y		
Daily change (bp)		
	Beta	R ²
YTD	72%	71%
Since Nov 2020	61%	66%

US nominal yields vs inflation expectations: a lot of room for correction





Which may end up by an (unwelcome) increase in real rates

- Depending on the potential increase in euro inflation expectations, any further US rate increase may translate in another leg of an unwelcome euro zone real rate increase
- Real rates levels are still very low compared to history
- The issue is more the speed of the repricing



10 Year Bond Yield evolution since Dec 15, 2020 (bp)



German Real Rates





Market participants will monitor the ECB reaction

- Holistic approach to gauge the "favorable financing conditions" : what does it mean really ?
- Already some interventions (C. Lagarde, P. Lane, I. Schnabel, ...) as a tentative fight against the US spillover
- Market participants are monitoring any acceleration of the buying program
- Which type of intervention is expected ? Willingness / Feasibility / Credibility / Commitment





EURO 10 year (GDP weighted)



When will risky assets be impacted ?

- Credit valuation is already stretched, pricing already much higher economic momentum
- Increasing yields may this time induce a spread widening (weakening credit worthiness of issuers)
- Where does the painful threshold stand for investors & ECB ?



Euro Sovereign spreads versus Germany







Indices references and definitions

- Yield and duration indices

German Govt Bonds = JP Morgan GBI Germany Index; US Govt Bonds = JPMorgan GBI US Index; Euro IG Bonds = Bloomberg Barclays Pan European Aggregate Corporate; US IG Bonds = Bloomberg Barclays US Aggregate Credit; Euro HY bonds = Bloomberg Barclays Pan-European High Yield ISMA; US HY Bonds = Bloomberg Barclays US Corporate High Yield; EMBI Div = JPMorgan EMBI Global Diversified Blended; CEMBI BD = JPMorgan CEMBI Div Broad Composite Blended; CEMBI BD HY = JPMorgan CEMBI Broad Div High Yield; Euro Corp Short Term = Bloomberg Barclays Euro Corporate 1-3Yr; US Corp Short Term = Bloomberg Barclays US Corporate 1-3Yr; EMBI Corp Short Term = J.P. Morgan CEMBI Broad Diversified 1-3 Year.

Definitions

Basis points: one basis point is a unit of measure equal to one one-hundredth of one percentage point (0.01%).

Correlation: the degree of association between two variables; in finance, it is the degree to which assets or asset class prices have moved in relation to each other. Correlation is expressed by a correlation coefficient that ranges from -1 (perfectly negative correlated) through 0 (absolutely independent) to 1 (perfectly positive correlated).

Credit spread: differential between the yield on a credit bond and the Treasury yield. The option-adjusted spread is a measure of the spread adjusted to take into consideration possible embedded options.

Default rate: The share of issuers that failed to make interest or principal payments in the prior 12 months. Default rate based on BofA indices. Universe consists of issuers in the corresponding index 12 months prior to the date of default. Indices considered for corporate market are ICE BofA.

Duration: a measure of the sensitivity of the price (the value of principal) of a fixed income investment to a change in interest rates, expressed as a number of years.

External vulnerability index: this index is built by aggregating five different indicators that can monitor a country's dependence on overseas economies and capital flows.

FX: FX markets refer to the foreign exchange markets where participants are able to buy and sell currencies.

MOVE: the Merrill Lynch Option Volatility Estimate for the US Treasury.

VIX: the CBOE volatility index. The VIX index is a measure of market expectations of near-term volatility on the S&P 500 (US equity).

Volatility: a statistical measure of the dispersion of returns for a given security or market index. Usually, the higher the volatility, the riskier the security/market.



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