13 MAY 2021

Pulse

By **Esty Dwek**, Head of Global Market Strategy, Natixis Investment Managers Solutions

IN SHORT

- The global growth outlook continues to improve, especially in Europe, where data and sentiment are catching up
- Sovereign yields have climbed on reflation expectations, but a lot of reopening is now priced in
- Our outlook remains constructive for risk assets given ongoing underlying fundamental support

Macroeconomic overview

- Recent US data has been strong, with two glaring disappointments. The April jobs report showed nonfarm payrolls expanding by only 266 thousand, a fraction of the 1 million jobs expected. The ISM PMI also came in lower than expected, although its Markit rival services gauge surprised modestly on the upside. On the other hand, the situation in Europe continues to point to a broad-based pickup in activity: retail sales climbed 2.7% in March, beating consensus estimates, as did German manufacturing orders (+3%). Overall, we remain confident in the strength of the US economy and believe that Europe should see a strong recovery during second half of the year.
- Some observers have pointed to the stimulus payments sent by the Biden Administration to households, the extension of unemployment benefits and the surge in average hourly earnings in April (+0.7% MoM) as the most likely reasons for the recent slowdown in hiring. Anecdotally, several business leaders have reported experiencing difficulties in attracting and retaining employees on the ISM surveys, though it may be a question of prices too.
- Most European countries have given at least a quarter of their populations a single dose of vaccine, with the European Union (EU) average at 28%. The Netherlands and Belgium began easing mobility restrictions, allowing outdoor hospitality to restart. Moreover, the European Commission announced plans to reopen the EU's borders again to holidaymakers from outside the bloc by June.
- Japan's government extended its current state of emergency in Tokyo until 31 May to curb a surge in daily infections – health authorities recently reported an all-time high level of severe cases– and gain time to accelerate its vaccination program. Furthermore, Japan and the UK agreed to strengthen their trade and security cooperation, following bilateral talks ahead of a G7 foreign ministers' meeting.
- Despite reduced government support, Chinese economic data was better than expected: the Caixin services PMI rose to 56.3 in April, the fastest growth pace this year; imports' two-year growth rate rose to 16.8% (stripping out the base effect of the pandemic) in April; and domestic tourism surged over the five-day Labour Day holiday and surpassed pre-pandemic levels.
- The US dollar, measured by the DXY Index, has retreated to just above 90 (its level in early March) after having strengthened to above 93 in late March – its highest point since last November. This weakness is likely to have been due to the resumption of the reflation trade in equity markets as well as the weak US job report, which gives the Federal Reserve a breather with regards to tapering talk. Overall, we still believe that although the reflation trade could add some

(Continued on page 2)

pressure to the US dollar in the short-term, it should be limited by better growth, higher carry, and strong earnings. In addition, hedging costs for European investors have declined significantly, which should also add support to the greenback.

Market outlook

- After some weeks of pause, the reflation trade has gathered steam again as cases roll over and reopening prospects improve. Technology shares are underperforming within the S&P 500, along with consumer discretionary, utilities, and real estate stocks. In fact, the technology-heavy Nasdaq recently recorded its worst weekly loss in two months. On the other hand, financials have vastly outperformed technology, and most cyclicals have also performed very well and outperformed defensives.
- With most of the Q1 earnings already behind us, analysts' estimates have been surpassed by a wide margin as the results have been very strong: 86% of S&P 500 companies and 70% of STOXX 600 companies have reported a positive EPS surprise.
- After peaking in late March, the US 10-year yield has since come down and found a range around 1.6%. We believe that, although yields could move higher in the short-term, a lot of fiscal stimulus and inflation expectations is already priced in and, as such, data disappointments could add downward pressure at some point. For instance, the weaker-than-expected April jobs report triggered a sharp but short-lived decrease to 1.52% (a two-month low) before returning to 1.58%.
- Core Eurozone sovereign yields have increased during the last few weeks as sentiment improved thanks to encouraging economic data and the reopening trade kicking back in. In addition, a member of the European Central Bank's (ECB) Governing Council, Martin Kazaks, recently said that the ECB could reduce its purchases as early as June, which added upward pressure on the euro and widened European spreads. Therefore, all in all, we continue to favour shorter durations and remain cautious on sovereign yields, both in Europe and the US.
- While spreads are already tight, we continue to prefer credit over duration risk, especially as credit spreads continue to prove resilient. Investment grade and HY spreads all narrowed across the US, Europe and EM. We are somewhat more cautious on IG given the longer duration of the indices, but we must also remain selective on HY. We continue to opportunities in hard currency emerging market corporate debt as the carry is attractive and there is further room for spread compression.
- Overall, we believe that as vaccination campaigns advance and reopening prospects improve, any correction should be seen as a "buy the dip" opportunity given the ongoing underlying fundamental support: fiscal stimulus, monetary support, and strong earnings. Cyclical sectors should continue to outperform, and Europe, Pacific ex Japan and Japan should also benefit.

This material has been provided for information purposes only to investment service providers or other Professional Clients, Qualified or Institutional Investors and, when required by local regulation, only at their written request. This material must not be used with Retail Investors.
Please read the prospectus and Key Investor Information carefully before investing, available, if registered in your jurisdiction, from Natixis Investment Managers' offices (im.natixis.com) and the following Paying Agents/Representatives: France: CACEIS Bank France, 1-3, Place Valhubert, 75013 Paris. Germany: Rheinland-Pfalz Bank, Große Bleiche 54-56, D-55098 Mainz. Italy: State Street Bank SpA, Via Ferrante Aporti, 10, 20125, Milano. Switzerland: RBC Investor Services Bank S.A., Esch-surAlzette, Zurich Branch, Bleicherweg 7, CH-8027 Zurich.
In the E.U. (outside of the UK and France): Provided by Natixis Investment Managers S.A. or one of its branch offices listed below. Natixis Investment Managers S.A. is a Luxembourg management company that is authorized by the Commission de Surveillance du Secteur Financier and is incorporated under Luxembourg laws and registered under n. B 115843. Registered office of Natixis Investment Managers S.A.: 2, rue Jean Monnet, L-2180 Luxembourg, Grand Duchy ofLuxembourg. **Italy**: Natixis Investment Managers S.A., Succursale Italiana (Bank of Italy Register of Italian Asset Management Companies no 23458.3). Registered office: Via San Clemente 1, 20122 Milan, Italy. **Germany**: Natixis Investment Managers S.A., Zweigniederlassung Deutschland (Registration number: HRB 88541). Registered office: Im Trutz Frankfurt 55, Westend Carrée, 7. Floor, Frankfurt am Main 60322, Germany. **Netherlands**: Natixis Investment Managers, Nederlands (Registration number 50774670). Registered office: Stadsplateau 7, 3521AZ Utrecht, the Netherlands. **Sweden**: Natixis Investment Managers, Nordics Filial (Registration number 516405 -9601 - Swedish Companies Registration Office). Registered office: Kungsgatan 48 5tr, Stockholm 111 35, Sweden. **Spain**: Natixis Investment Managers, Sucursal en España. Serrano n°90, 6th Floor, 28006 Madrid, Spain. **Belgium**: Natixis Investment Managers S.A., Belgian Branch, Gare Maritime, Rue Picard 7, Bte 100, 1000 Bruxelles, Belgium. **In France**: Provided by Natixis Investment Managers International – a portfolio management company authorized by the Autorité des Marchés Financiers (French Financial Markets Authority - AMF) under no. GP 90-009, and a public limited company (société anonyme) registered in the Paris Trade and Companies Register under no. 329 450 738. Registered office: 43 avenue Pierre Mendès France, 75013 Paris. In Switzerland: Provided for information purposes only by Natixis Investment Managers, Switzerland Sàrl, Rue du Vieux Collège 10, 1204 Geneva, Switzerland or its representative office in Zurich, Schweizergasse 6, 8001 Zürich. **In the British Isles**: Provided by Natixis Investment Managers UK Limited which is authorised and regulated by the UK Financial Conduct Authority (register no. 190258) - registered office: Natixis Investment Managers UK Limited, One Carter Lane, London, EC4V 5ER. When permitted, the distribution of this material is intended to be made to persons as described as follows: **in the United Kingdom**: this material is intended to be communicated to and/or directed at investment professionals and professional investors only; **in Ireland**: this material is intended to be communicated to and/or directed at professional investors only; **in Guernsey**: this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Guernsey Financial Service s Commission; **in Jersey:** this material is intended to be communicated to and/or directed at professional investors only; **in the Isle of Man**: this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Isle of Man Financial Services Authority or insurers authorised under section 8 of the Insurance Act 2008. **In the DIFC**: Provided in and from the DIFC financial district by Natixis Investment Managers Middle East (DIFC Branch) which is regulate d by the DFSA. Related financial products or services are only available to persons who have sufficient financial experience and understanding to participate in financial markets within the DIFC and qualify as Professional Clients or Market Counterparties as defined by the DFSA. No other Person should act upon this material. Registered office Unit L10-02, Level 10, ICD Brookfield Place, DIFC, PO Box 506752, Dubai, United Arab Emirates. **In Taiwan**: Provided by Natixis Investment Managers Securities Investment Consulting (Taipei) Co., Ltd., a Securities Investment Consulting Enterprise regulated by the Financial Supervisory Commission of the R.O.C. Registered address: 34F., No. 68, Sec. 5, Zhongxiao East Road, Xinyi Dist., Taipei Ci ty 11065, Taiwan (R.O.C.), license number 2020 FSC SICE No. 025, Tel. +886 2 8789 2788. **In Singapore**: Provided by Natixis Investment Managers Singapore Limited (company registration no. 199801044D) to distributors and institutional investors for informational purposes only. I**n Hong Kong**: Provided by Natixis Investment Managers Hong Kong Limited to institutional/ corporate professional investors only. **In Australia**: Provided by Natixis Investment Managers Australia Pty Limited (ABN 60 088 786 289) (AFSL No. 246830) and is intended for the general information of financial advisers and wholesale clients only. **In New Zealand:** This document is intended for the general information of New Zealand wholesale investors only and does not constitute financial advice. This is not a regulated offer for the purposes of the Financial Markets Conduct Act 2013 (FMCA) and is only available to New Zealand investors who have certified that they meet the requirements in the FMCA for wholesale investors. Natixis Investment Managers Australia Pty Limited is not a registered financial service provider in New Zealand. **In Latin America**: Provided by Natixis Investment Managers S.A. **In Chile:** Esta oferta privada se inicia el día de la fecha de la presente comunicación. La presente oferta se acoge a la Norma de Carácter General N° 336 de la Superintendencia de Valores y Seguros de Chile. La presente oferta versa sobre valores no inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la Superintendencia de Valores y Seguros, por lo que los valores sobre los cuales ésta versa, no están sujetos a su fiscalización. Que, por tratarse de valores no inscritos, no existe la obligación por parte del emisor de entregar en Chile información pública respecto de estos valores. Estos valores no podrán ser objeto de oferta pública mientras no sean inscritos en el Registro de Valores correspondiente.
In Uruguay: Provided by Natixis Investment Managers Uruguay S.A., a duly registered investment advisor, authorised and supervised by the Central Bank of Uruguay. Office: San Lucar 1491, Montevideo, Uruguay, CP 11500. The sale or offer of any units of a fund qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627**.**
In Colombia: Provided by Natixis Investment Managers S.A. Oficina de Representación (Colombia) to professional clients for informational purposes only as permitted under Decree 2555 of 2010. Any products, services or investments referred to herein are rendered exclusively outside of Colombia. This material does not constitute a public offering in Colombia and is addressed to less than 100 specifically identified investors.
In Mexico Provided by Natixis IM Mexico, S. de R.L. de C.V., which is not a regulated financial entity, securities intermediary, or an investment manager in terms of the Mexican Securities Market Law (Ley del Mercado de Valores) and is not registered with the Comisión Nacional Bancaria y de Val ores (CNBV) or any other Mexican authority. Any products, services or investments referred to herein that require authorization or license are rendered exclusively outside of Mexico. While shares of certain ETFs may be listed in the Sistema Internacional Cotizaciones (SIC), such listing does not represent a public offering of securities in Mexico, and therefore the accuracy of this information has not been confirmed by the CNBV. Natixis Investment Managers is an entity organized under the laws of France and is not authorized by or registered with the CNBV or any other Mexican authority. Any reference contained herein to "Investment Managers" is made to Natixis Investment Managers and/or any of its investment management subsidiaries, which are also not authorized by or registered with the CNBV or any other Mexican authority. The above referenced entities are business development units of Natixis Investment Managers, the holding company of a diverse line-up of specialised investment management and distribution entities worldwide. The investment management subsidiaries of Natixis Investment Managers conduct any regulated activities only in and from the jurisdictions in which they are licensed or authorized. Their services and the products they manage are not available to all investors in all jurisdictions. It is the responsibility of each investment service provider to ensure that the offering or sale of fund shares or third-party investment services to its clients complies with the relevant national law.
The provision of this material and/or reference to specific securities, sectors, or markets within this material does not constitute investment advice, or a recommendation or an offer to buy or to sell any security, or an offer of any regulated financial activity. Investors should consider the investment objectives, risks and expenses of any investment carefully before investing. The analyses, opinions, and certain of the investment themes and processes referenced herein represent the views of the portfolio manager(s) as of the date indicated. These, as well as the portfolio holdings and characteristics shown, are subject to change. There can be no assurance that developments will transpire as may be forecasted in this material. The analyses and opinions expressed by external third parties are independent and does not necessarily reflect those of Natixis Investment Managers. Past performance information presented is not indicative of future performance. Although Natixis Investment Managers believes the information provided in this material to be reliable, including that from third party sources, it does not guarantee the accuracy, adequacy, or completeness of such information. This material may not be distributed, published, or reproduced, in whole or in part.
All amounts shown are expressed in USD unless otherwise indicated.