Financial assets in the first quarter rose on abundant central bank and government liquidity and persistently rock-bottom interest rates (0.47% for capitalised EONIA). The aim was to continue providing support to economies as the pandemic dragged on. On March 17 2020, a year ago, France went into its first lockdown. GDP then plunged by 8.2% over the year. INSEE is now expecting it to stabilise at more or less +1% in the first quarter of 2021 after a 1.4% contraction in the fourth quarter.

► 3. Estimated then forecast loss of economic activity until Q2 2021

	2020				2021		2020	ovhg mid-2021
	Q1	Q2	Q3	Q4	Q1	Q2		
Quarterly variation (in %)	–5.9	–13.5	18.5	–1.4	1	1	–8.2	5 1/2
Difference compared to pre-crisis level (Q4 2019)	–5.9	–18.6	–3.5	–4.9	–4	–3		

Forecast
How to read it: in Q1 2021, GDP is expected to be at –4% compared to the pre-crisis level, i.e. growth of 1% compared to Q4 2020
Source: INSEE calculations from various sources

In sharp contrast, global markets have surged on expectations of an end to the sanitary crisis in the summer. In the first quarter, Europe's STOXX 600 gained 7.66%, roughly in the same league as US markets (SP 500 +5.77%, DOW JONES +7.76%) while the CAC 40 jumped 9.29% and the DAX 9.40%, compensating a little for lagging behind US indices last year, and especially the Nasdaq. In fact, the Nasdaq underperformed in the first quarter of 2021, rising by "only" 2.78%. This was due to profit-taking on tech stocks. European indices, which are heavily biased towards cyclicals, energy stocks and banks, steamed ahead. The Dow also outperformed the Nasdaq for the same reasons as industrials, banks and oil stocks made up for lost ground. Boeing gained 10%, Caterpillar 28%, Goldman Sachs 24.5%, JP Morgan 20.7% and Chevron 25.8%. What took place was a massive sector rotation as interest rates rose. Commodities also rallied. Brent crude jumped 21% to $62.7 as OPEC, and especially Saudi Arabia, cut production and US shale oil producers were hit by a cold spell. The IEA's upward revision of demand forecasts also played a part. It now expects an increase of 5.5 million b/d compared to an 8.7 million drop last year. Even so, by the end of the year, demand should still be around 1.4 million b/d lower than at end 2019. And although global inventories have fallen, they are still high. Corporate bond spreads have tightened thanks to strong investor demand for yield, improving balance sheets and a dynamic new issue market.

Spead BBB 4Y EURO as of 03/31/2021

Thanks to vaccination campaigns, investor risk appetites are back. Leisure activities, hotels/restaurants and cultural events will probably reopen for business over the summer. More importantly, the gradual recovery scenario most US strategists were going for in January has now been supplanted by fears that successive stimulus plans could lead to the economy overheating. The Trump administration kicked off in December with a $900bn package. This was followed in March by Joe Biden's impressive $1.9 trillion plan. And now both look like being dwarfed by a gigantic $3 trillion infrastructure push designed to help the US, a big oil and coal producer, transition to cleaner energy and improve productivity. Meanwhile, as the Fed's monetary doctrine is now to get the country back to full employment rather than ward off inflation, the end of accommodating monetary policy has been pushed back a long way.

Last but not least, earnings are now on a favourable trend. To survive the crisis, companies made huge efforts in 2020 to increase cash flow, cut costs and investment and refinance balance sheets. As soon as demand picked up, results rose sharply. Fourth-quarter earnings were much better than expected. Of the 498 S&P500 companies to have reported by March 26, earnings were up by 3.8% on average. Back in January, they were still seen falling 8.5%. In Europe, out of the 277 STOXX 600 companies to have reported by March 30, earnings were down 14.5%, or better than the 26.7% plunge estimated in January. For 2021, Factset sees earnings rising by 26% for the SP500 and 35.7% for the STOXX 600.

The only catch in this positive first-quarter picture comes from rising government bond yields. Central banks view higher inflation as a temporary phenomenon but it has nevertheless triggered an incipient return to yield normalisation and curve steepening. Government bonds performed badly over the first quarter with the BOAML Global Gov euro index down 2.17%. The move was more marked in the US than in Europe. 10-year US Treasury yields gained 83bp to1.74% while the 10 year Bund yield rose 28bp to minus 0.29% and 10-year French government bonds 29bp to minus 0.05%. The difference is due to the eurozone lagging the global recovery after a vaccine shortage led to partial lockdowns in some areas. Higher interest rates are a bigger problem for emerging countries as they often have US dollar denominated debt. Brazil's Bovespa index ended the quarter 2% lower. The combined effect of higher long-term yields and US dollar appreciation makes emerging countries look vulnerable. Some, like Brazil, have been forced to raise rates to defend their currencies. Gold fell victim to the same trends, ending the quarter 9.47% lower at $1715,6 as the opportunity cost rose.

			Cumulated Performances								
NAV Date	UCITS	NAV	% 1 Week	%1 Month	%3 Months	%YTD	%1 Year	%2 Years	%3 Years	%5 Years
31/03/2021	HUGAU MONETERME I	120 671,20	0,00	-0,01	-0,01	**-0,01**	**0,31**	**-0,11**	**-0,32**	**0,07**
31/03/2021	HUGAU OBLI 1-3 I	1 404,20	+0,15	+0,46	+1,29	**+1,29**	**6,81**	**1,60**	**0,59**	**5,38**

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