BEA 東亞銀行

**Economic Research** **May 2021**

*Market Monitor – United States*

# Strong Economic Data Creates Market Optimism

## Overall economy improves with vaccination progress and fiscal stimulus

As the number of Covid-19 infections trended downward, the US has seen its best improvement in jobs numbers since last August, with 916,000 nonfarm jobs added to payrolls in March. The unemployment rate edged lower to 6.0% in March, down from 6.2% in the previous month. Retails sales during the month also rose 9.8% month-on-month as a fresh batch of stimulus cheques were sent to most citizens.

Against this backdrop, US GDP grew 6.4% on an annualised quarter-on-quarter basis in Q1 2021, according to a preliminary estimate, mainly due to consumption driven up by easing business restrictions and stimulus measures. Inflation edged higher in March, with headline CPI registering a 2.6% year-on-year growth. The market generally expects inflation to soar above 3% in the coming months, with the base effect playing a key role.

At the end of March, President Biden proposed another USD 2.3 trillion 8-year spending plan focusing on upgrading infrastructure and jobs, after the USD 1.9 trillion stimulus package. The aim is to boost the electric vehicle market, upgrade the country's infrastructure against climate change, and provide job training. The plan will also make investments in research and development in areas like artificial intelligence and biotechnology, aimed at improving the country's competitiveness against China. Later, he further proposed another spending plan worth about USD 1.8 trillion targeting families and children. The two plans with a total value of more than USD 4 trillion are expected to be funded mainly by raising tax rates. For example, the corporate tax rate may be raised to 28% (up from the current 21%), and tax credits and subsidies for fossil fuel producers will be eliminated. Capital gain tax for wealthy class will also be raised.

Looking ahead, Biden's proposed spending to upgrade infrastructure and invest in research & development should improve US productivity in the long run. Yet the upside will be partially offset by a rise in corporate taxes.

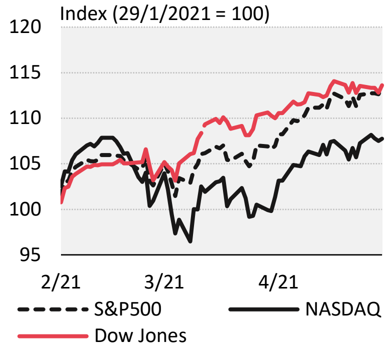
- **GDP growth improves in Q1 as business restrictions are eased and stimulus measures rolled out.**
- **President Biden's new infrastructure spending plan funded by tax hikes could boost economic growth in the long run.**
- **Fed's reversal of policy stance earlier than projected will cause volatility in the financial markets.**

## Benchmark equity indices rebound with improving economic data

Improving economic data boosted equity market confidence in April. Investors also showed a renewed interest in tech companies as bond yields fell. As of 29th April, both the S&P 500 and Nasdaq indices were up 6.0% and 6.3%, respectively, from end-March, while the Dow Jones Index rose 3.3%.

Looking ahead, with vaccinations on track in the US, the economic recovery will be boosted going further into the year. As of 29th April, about 43% of the US population had received at least one dose of vaccine. The profit outlook for US corporations should stay bright in the coming months. However, a rise in the US corporate tax rate will have a negative impact on their profitability and thus on their stock performance.

**US Equity Indices**




Source: Bloomberg, data as of 29/4/2021

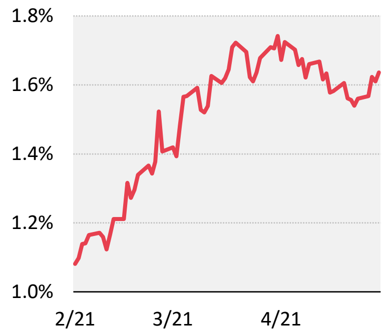
## Worries over Covid-19 infections and geopolitical tensions driving down treasury yields

Covid-19-related volatility prompted some risk aversion in the bond market in April, especially as emerging-market countries continued to see a resurgence in Covid-19 cases. In addition, US regulators called for a pause in the use of Johnson & Johnson vaccines due to some cases of blood clots. Meanwhile, President Biden announced retaliatory measures against Russia over election interference. As of 29th April, the US 10-year Treasury yield stood at 1.636%, about 11 basis points lower than the level at the end of March.

Meanwhile, the US dollar weakened as treasury yields eased and demand for safe haven assets diminished amid a continued rise in the stock market. At the policy meeting in April, the Federal Reserve (Fed) also maintained key interest rates at the current level and said it plans to continue supporting the economic recovery. The Fed chair affirmed that the US central bank was not yet ready to discuss tapering its bond-buying programme. These added further downward pressure on the US dollar. As of 29th April, the dollar index had dropped by 2.8% when compared to the level at the end of March.

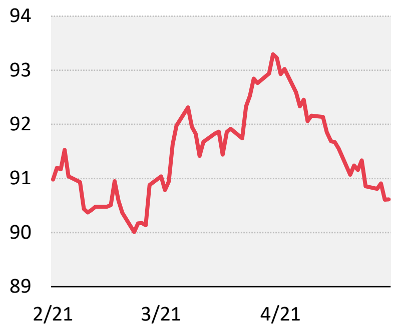
Regarding the timing of normalising monetary policy, St. Louis Federal Reserve president James Bullard has previously mentioned that the Fed could begin to discuss tapering off its bond-buying programme once 75% or 80% of the US population has been vaccinated. With the current pace of vaccination, that goal might be reached by this summer. The question of whether or not the Fed will reverse its policy stance earlier than previously projected will spur volatility in the financial markets going forward.

**US 10-year Treasury Yield**




Source: Bloomberg, data as of 29/4/2021

**Dollar index**




Source: Bloomberg, data as of 29/4/2021

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