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Economic Research

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Market Monitor- United States

Prospects of Fiscal Stimulus and Corporate Earnings Boost Market Optimism

US retail sales saw a strong 5.3% month-on-month growth in January mainly due to the stimulus check distributed to individuals in early January. Yet the University of Michigan's consumer sentiment index slipped to a reading of 76.8 in February, down from a final reading of 79 in January. Diving deeper into the data, one can see a growing income inequality between households due to the pandemic. Consumer sentiment was mainly dragged down by the lower income group, with only 23% of households in the bottom third of incomes saying their financial situation has improved. In contrast, among those with incomes in the top third, 54% reported their finances had improved.

- The weaker consumer sentiment comes as hiring cooled in December and January, but will pick up again when the economy can be reopened.

The weaker consumer sentiment comes as hiring cooled in December and January, Nonfarm payrolls only added 49,000 jobs in January and job losses in December 2020 were revised down to 227,000. The unemployment rate edged down by 0.4 percentage points to 6.3% during the month.

- Progress in US$1.9 trillion stimulus and company positive earning surprise boosted market optimism.

With the Covid-19 vaccination programme in swing, numbers of newly reported cases have been trending down. As of 23rd February, the seven-day average of new cases was about 65,400, down from over 145,000 cases at the end of January. General market expectation is that consumer confidence will pick up again when the economy reopens after a widespread vaccine rollout.

- The recovery trajectory of the US economy will be impacted by the pace and continuation of rebound in consumer spending

On 17th February, the Federal Reserve Bank of Atlanta predicted that the economy will grow at a seasonally adjusted annual rate of 9.5% in Q1 2021 compared to the previous quarter, up sharply from an estimate of 4.5% just one week earlier. The recovery trajectory of the US economy will be impacted by the pace and continuation of the rebound in consumer spending, which will hinge on job creation momentum and the timing of additional fiscal aid.

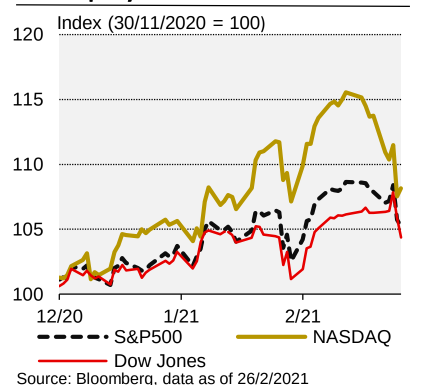
Progress in fiscal stimulus and corporate earnings support optimism in equity market

The Senate and House of Representatives approved a budget plan for President Biden's US$1.9 trillion Covid-19 relief package in early February. Speaker of the US House of Representatives, Nancy Pelosi, predicted that the final relief legislation could be passed before mid-March, when special unemployment benefits are set to expire.

Meanwhile, about 79% of the companies in the S&P 500 Index that announced quarterly results for the fourth quarter of 2020 reported better than expected earnings, according to Bloomberg data as of 25th February. The telecommunications, technology, consumer discretionary, and financial sectors were key contributors to the unexpectedly positive earnings. These sectors have seen increased deployment of their services and products, or managed to migrate business operations online during the pandemic.

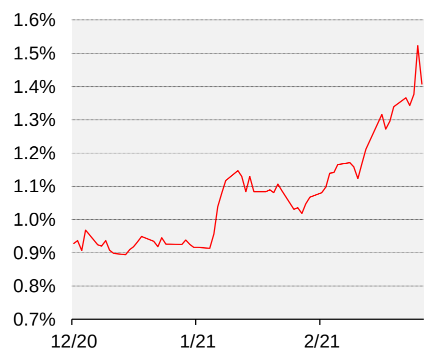
Against this backdrop, benchmark indices hit record highs in February. Nonetheless, the stock market momentum faltered towards the end of the month amid higher treasury yields. As of 26th February, the Nasdaq only recorded a 0.9% gain from the level at the end of January, while the S&P 500 Index registered a 2.6 % gain and the Dow Jones was up 3.2% over the same horizon.

US Equity Indices



Source: Bloomberg, data as of 26/2/2021

US 10-year Treasury Yield



Source: Bloomberg, data as of 26/2/2021

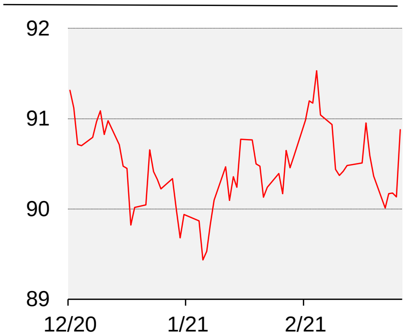
Bond yields and US dollar rise with improving outlook

The diminishing infection rate and the upcoming US$1.9 trillion relief package spurred expectation of a better economic outlook in the second half of 2021 and a boost to inflation, driving down the demand for bonds.

As of 26th February, the 10-year treasury yield rose to 1.407%, about 34 basis points above the level at the end of January.

The US dollar index climbed above 91 at the beginning of February as the US economic outlook brightened and treasury yields surged higher. Towards the end of the month, the easing momentum in stock market triggered some risk aversion in market, providing support for the US dollar. As of 26th February, the dollar index still stood at 90.879, about 0.3% higher than the level at the end of January.

Dollar index



Source: Bloomberg, data as of 26/2/2021

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