15 March, 2021

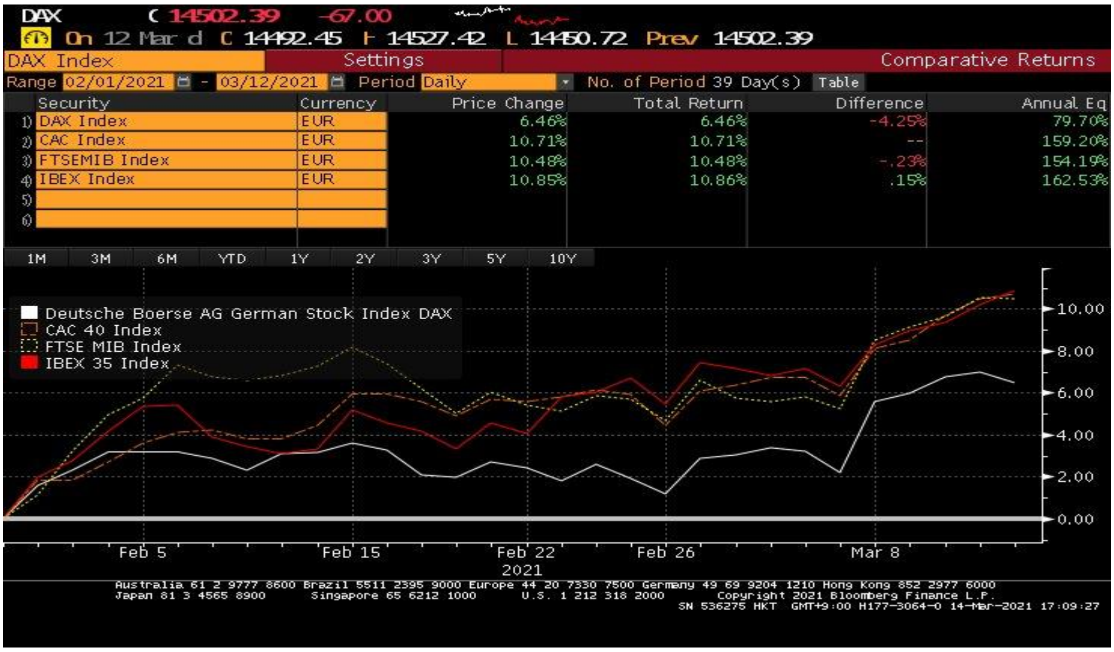
European market is on its pace to recovery in 2021?

Bond yields are climbing to 14-month high at a fast pace on the hopes of economic recovery and further stimulus plan. Recently, growth stocks and tech stocks are indeed susceptive and lagged amid concern over rising interest rates, while rotation to cyclical, financial and energy sectors are holding up better. However, the European stock market has been surged near 10% since February, most of the European countries stock market indices have almost reached the level before outbreak.

US 10 Years Treasury Yield: rose from 0.5% in July 2020 to 1.74% on 19 March, the highest in 14-month

Source: Bloomberg

European stock market performance since February (white: Germany; pink: France; yellow: Italy; dark red: Spain)

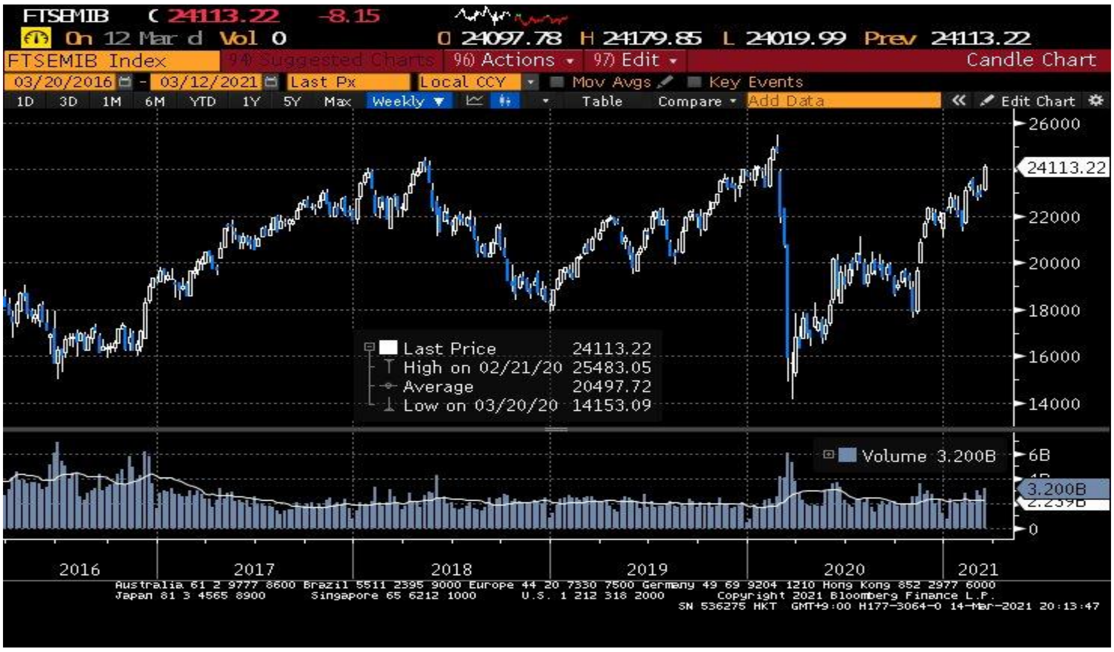


Source: Bloomberg

French stock market: it rose over 6,000 points last week, which is very close to the highest point before the outbreak

Source: Bloomberg

Italian stock market: rose over 24,000 points last week, which is pretty close to the highest point before the outbreak



Source: Bloomberg

The global economy is expected to further rebound in the second half of this year despite volatile markets due to the spread of COVID-19. The European stock market still lags behind US and Asian markets, the EU will continue to support the EU economy as regards to fiscal and monetary policy. Some analysts are stressed about the COVID-19 impacts to EU economy cannot be underestimated. Amid the increasing infections in EU countries, most governments were reinforcing lockdowns or restrictions temporarily controlled the pandemic in Feb 2021. However, the economy damage has suffered no less at the same time.

Economic growth in the EU: the EU economy recorded a -0.7% recession in Q4 2020

Source: Bloomberg

While ECB President Christine Lagarde said the central bank's data suggested that Covid-19 would have a more pronounced impact in the opening months of 2021 than previously expected. Many businesses have closed and unemployment is rising sharply due to the re-enforcement of lockdown measures, Europe could lose 15 million jobs without the approval of new support, according to IMF, even could be worse than Q4 2020.

EU PMI data showed that economic recovering momentum has slowed down since Q4 2020 as the extensions of lockdowns and mobility restrictions implemented in 2020 weigh on growth. The ECB predicts Eurozone growth of 3.9% for 2021. While that sounds quite reasonable, it represents a disappointing bounce back from the disastrous 2020 performance that was hit heavily by lockdowns, Eurozone GDP contracted by 6.6% in 2020, also downgrade from an earlier forecast of contraction of 5.5%, according to Europe's statstics.

Germany

Germany is facing third wave of coronavirus and enforced new lockdown measures as new infections rise, the number of new inflections reached 10k+ per day again, higher than the average in February according to German Federal Ministry of Health. The official explained that the resurgence of epidemic in Germany is likely to be related to variant virus, as 46% of the new cases were variant virus. German experts have warned that the government should increase rather than decrease the lockdown measures at this moment, in particular during Easter holiday, as a looser measure may risk the epidemic out of control again.

Italy

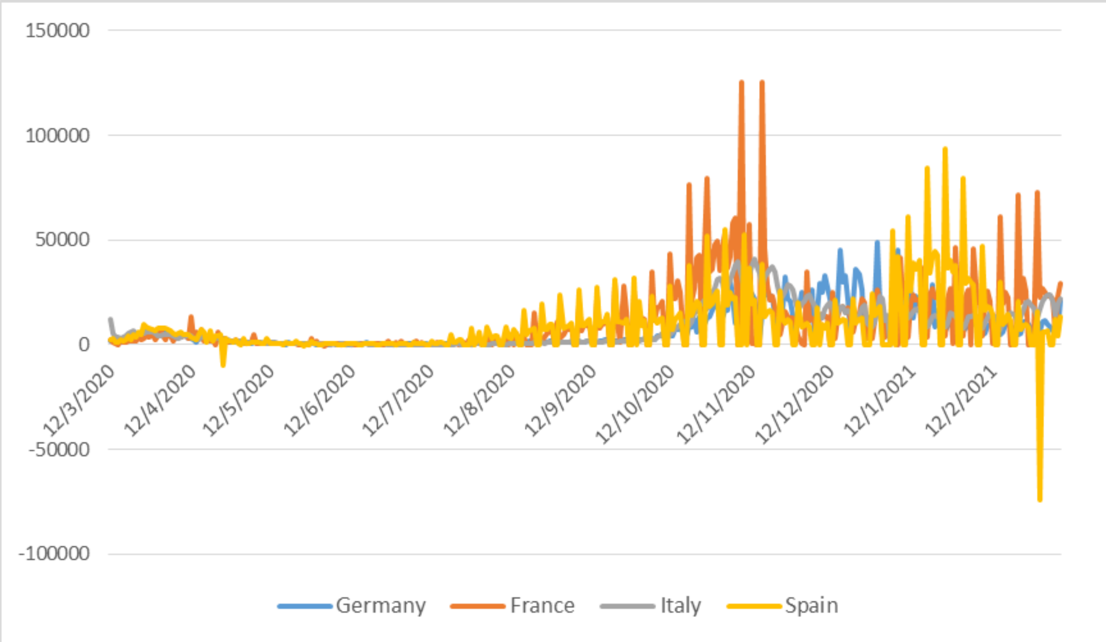
Meanwhile in Italy, which was the first country to enter into a nationwide lockdown in Europe back in March 2020, imposed new restrictions on March 15, 2021, to battle the third wave of coronavirus infections. It is one of the European countries that has been worst hit by coronavirus, with more than 100,000 deaths, a figure second only to the UK. Italy's seven-day average of new cases has increased steadily in March.

Former Italian Prime Minister Conte previously divided the epidemic situation into three areas: red, orange and yellow according to the severity of the epidemic. The most severely affected areas will be defined as "red areas." People are prohibited from entering and leaving cities without approval, bars and restaurants are not allowed to open. Shops business hours are shortened, and group activities are banned. The lockdown measures has greatly damaged Italy's economy, GDP was shrank almost 9% in 2020 according to statista.

France

France resisted pressure to impose another lockdown as of 17 Mar. Emergency resuscitation units in France are at the highest capacity since November. However, President Emmanuel Macron eventually imposed a lockdown for several regions in an effort to contain resurgence, and said failing to do so would cost lives.

Epidemic in Europe: Comparing to November and December in 2020, the number of new infections has declined in some European countries, but still not enough for economic activities to fully restart (the hope for restart is further deteriorating recently as the new inflections had been bounded back in the past weeks)



Source: Bloomberg

In the past week,

Germany: An average of nearly 10,000 new inflections per day;

France: An average of nearly 22,000 new inflections per day;

Italy: An average of nearly 21,000 new inflections per day;

Spain: An average of nearly 6,000 new inflections per day.

Comparing to the bond interest rate before the outbreak, the current bond interest rate may not be too supportive to European stock markets.

Long-term bond yields in Europe are no longer as low as last year (the current 10-year bond yields in Germany, France, and Spain are similar to before the outbreak except Italy, the current 10-year bond yield is still about 0.8% lower than before the outbreak. Therefore, we cannot really say that the European stock market is still significantly benefiting from the ultra-low interest rate environment

Source: Bloomberg

Powell said that US-driven global recovery could help lift laggards like Europe. However, Europe, where the inoculation effort is lagging and relief funds approved months ago remain in limbo, the economic outlook in Europe had been remained not very promising. The outlook had been further jeopardized due to further extension of lockdown measures this year, delays with vaccine rollouts across the 27 nations and also a number EU country had recently suspended the use of the Oxford-AstraZeneca vaccine over safety issues. It made EU vulnerable to crippling lockdowns even as the US economy resumed to life.

Source: Insider, Reuters, Financial Times, Bloomberg

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