Weekly Market Summary

April 9th, 2021

As Good as it Gets!!
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"*As Good as it Gets*" is a 1997 American romantic comedy film that starts Jack Nicholson as a misanthropic and obsessive-compulsive novelist, Helen Hunt as a single mother with a chronically ill soon, and Greg Kinnear as a gay artist assaulted in a robbery. An unlikely but strong relationship among the three develops throughout the movie, eventually leading to happy endings. The film was released in theatres on December 23rd and was an immediate box office hit – grossing $314.1 million. Nicholson and Hunt went on to win the Academy Award for Best Actor and Best Actress. As Good as it Gets was also nominated for Best Picture, but ultimately lost to Titanic.

Off-screen, financial markets continue to cheer more stimulus measures and positive economic releases. The world economy remains on course for its fastest growth in more than a half century this year, with the US leading the charge and pumping out trillions of dollars of budgetary boost as it resumes its role as guardian of the global economy following President Biden's defeat of "*America First*" President Donald Trump. Last Friday brought news of the biggest month for job increases since August 2020, with Non-Farm Payrolls rising by 916,000 in March, blowing away economists' median estimate of 660,000-job gains. Meanwhile, a measure of US service-industry activity released this week saw the fastest growth on record in March. China is doing its part too, building on its success in countering the coronavirus last year, even as it starts to pull back on some of its economic aid and liquidity conditions remain tight for a third month in a row.

The growth revival is likely to be very impressive. On Tuesday, the International Monetary Fund (IMF) raised its forecast for the world expansion to 6.0%, up from the 5.5% pace estimated in January and the most in four decades of data (coming after a 3.3% contraction last year that was the worst peacetime decline since the Great Depression). That follows a similar mark-up last month by the Organization for Economic Cooperation and Development. Still, the almost daily upgrades to growth forecasts are met with handwringing about how everyone is too dependent on the US and China. Surely one would want something more broadly balanced, with more of the developing world and the Eurozone sharing the spoils, but a bounce from 2020's severe contraction isn't going to happen without the US and China doing very well!

The IMF's optimistic projections are coming with a warning though: A potential surprise tightening by the US Federal Reserve could spur an increase in interest rates and capital outflows from emerging markets, underlining the need for clear central bank communication. So far, the Fed has said that it will maintain near-zero interest rates until the US economy hits maximum employment and inflation is on track to exceed 2.0% for some time (whichever materializes later 😊). However, if central banks in advanced economies were to suddenly signal greater concern for inflation risks, the world could see a surprise tightening of financial conditions similar to the 2013 "*taper tantrum,"* IMF economists Philipp Engler, Roberto Piazza and Galen Sher noted.

Overnight, US Fed Chair Jerome Powell pledged one more time to get the US back to a "*great economy*," playing down the risk that inflation could get out of control (reiterating "*the central bank has the tools to curb any inflation*" mantra; soon to be replaced with "*inflation is rising fast, but is that scary?"* 😊) and invoking a homeless encampment in downtown Washington to make the point that the recovery remains incomplete. Earlier this week, Federal Reserve officials had "*noted that it would likely be some time until substantial further progress toward the Committee's maximum-employment and price-stability goals would be realized*," according to minutes from the March 16-17th Federal Open Market Committee meeting published Wednesday. "*A number of participants also highlighted the importance of the Committee clearly* *communicating its assessment of progress toward its longer-run goals well in advance of the time when it could be judged substantial enough to warrant a change in the pace of asset purchases.*"

Elsewhere, Treasury Secretary Janet Yellen has stressed the need for the Group of Seven countries to "*go big*" with fiscal stimulus to support economic recovery from the global pandemic and outlined the case for a harmonized corporate tax rate across the world's major economies, part of an effort to restore global leadership and credibility with US allies following the unilateralist approach of the Trump era. In her first major speech on international economic policy, Yellen marked America's return to the global stage: "*America first must never mean America alone,*" she said in remarks to a conference last Monday. "*A lack of global leadership and engagement makes our institutions and economy vulnerable*." The US administration is laying out plans for a 21% minimum global levy, much higher than the 12.5% under discussions amongst nearly 140 countries at the Organization for Economic Cooperation and Development. A Group-of-20 finance chiefs and central bank governors have confirmed their commitment to "*reaching a global and consensus-based solution*" by mid-year (I am guessing another creative New World Order – One World Government initiative? 😊)

In other major news, Russia announced the start of mass military drills, ratcheting up tensions with neighboring Ukraine amid Western concerns about the risk of renewed fighting. From his end, Ukrainian President Volodymr Zelenskiy reiterated on Tuesday his country's desire to join the North Atlantic Treaty Organization (NATO) to protect itself against Russia, calling membership "*the only way to end the war*" in eastern Ukraine in a phone call with NATO Secretary General Jens Stoltenberg (good luck convincing comrade Putin of that 😊). The NATO chief was non-committal in a tweet later, saying the alliance remained "*committed to our close partnership*" with Ukraine. German Chancellor Angela Merkel had previously joined the growing diplomatic efforts to help avoid a potentially catastrophic miscalculation over the massing of troops on both sides of the border, calling Putin for a second time this week to request that Russia reverses it forces' build-up in the area of Eastern Ukraine to help achieve "*a de-escalation of the situation*."

Last, we end this weekly note with a fascinating "*As Good as it Gets*" market story: In the most detailed account yet of what happened in the fateful 24 hours between March 25th and 26th, when many – but not all – of Archegos' big prime brokers started dumping blocks of Bill Hwang's margined stock, CNBC's Hugh Sone writes that "*the night before the Archegos Capital story burst into the public view late last month, the fund's biggest prime broker quietly unloaded some of its risky positions to hedge funds*." That prime broker was Morgan Stanley and to avoid massive losses, the bank sold about $5 billion in shares from Archegos' holdings in media and Chinese tech names to a small group of hedge funds late Thursday, March 25th, roughly around the time a last-ditch negotiation between prime brokers including Credit Suisse failed to reach a compromise to avoid a fire sale. Morgan Stanley's scramble to "*be first*" shows the extraordinary steps some banks took to protect themselves from incurring heavy pain from a client's meltdown. After Morgan Stanley and Goldman sold the first blocks of shares with the consent of Archegos, the floodgates opened: Several prime brokers including Morgan Stanley and Credit Suisse then exercised their right under default, seizing the firm's collateral and launching a full-blown fire sale on Friday afternoon. The moves, Son reports, benefited Morgan Stanley (& GS), whilst banks that were slow to react - such as Credit Suisse and Nomura - saw billions in losses and widespread C-Suite layoffs. Credit Suisse said Tuesday it took a $4.7 billion hit after unwinding losing Archegos positions; The firm later announced it was cutting its dividend, halting share buybacks and firing its Chief Risk Officer and Investment Banking CEO (the irony of the situation, you might ask? "Archegos" is a Greek world for One Who Leads the Way 😊).

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