MARKETS WEEKLY

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GLOBAL ECONOMY

U.S. service sector activity index hits record high in March

A measure of U.S. services industry activity surged to a record high in March amid robust growth in new orders, in the latest indication of a roaring economy that is being boosted by increased vaccinations and massive fiscal stimulus. The upbeat survey from the Institute for Supply Management (ISM) on Monday followed news on Friday that the economy added 916,000 jobs in March, the most in seven months. Economic growth this year is expected to be the strongest in nearly four decades. "Vigorous services activity in March sets the stage for robust expansion in the second quarter," said Oren Klachkin, lead U.S. economist at Oxford Economics in New York. "All the right pieces for a faster services recovery – expanded vaccine eligibility, reopenings, and historic fiscal expansion – are falling into place." The ISM's non-manufacturing activity index rebounded to a reading of 63.7 last month also due to warmer weather. That was the highest in the survey's history and followed 55.3 in February. A reading above 50 indicates growth in the services sector, which accounts for more than two-thirds of U.S. economic activity. Economists polled by Reuters had forecast the index rising to 59.0 in March. The ISM said comments from services industries indicated that "the lifting of COVID-19 pandemic-related restrictions has released pent-up demand for many." It, however, noted that "production-capacity constraints, material shortages, weather and challenges in logistics and human resources continue to cause supply chain disruption." The survey added to a raft of reports from manufacturing to consumer confidence and employment in suggesting that the vastly improved public health situation and the White House's $1.9 trillion COVID-19 pandemic rescue package were providing a powerful tailwind to the economy. The ISM reported last week that its measure of national manufacturing activity soared to its highest level in more than 37 years in March. The services industry, hardest hit by the pandemic, could accelerate further as the economy re-opens. The U.S. Centers for Disease Control and Prevention said on Friday fully vaccinated people could safely travel at "low risk." *(Source: Reuters)*

Yellen says global minimum tax needed, too soon to declare victory over pandemic

U.S. Treasury Secretary Janet Yellen said on Monday that she is working with G20 countries to agree on a global corporate minimum tax rate to end a "30-year race to the bottom on corporate tax rates." The global minimum tax is a key pillar of President Joe Biden's $2 trillion infrastructure spending plan, which calls for an increase in the U.S. corporate tax rate to 28%. Without a global minimum, the United States would again be at a disadvantage to a number of other major economies with lower tax rates, tax experts say, with U.S. commitment helping to jump start negotiations for a tax deal among a number of major economies. Yellen, speaking to the Chicago Council on Global Affairs, said she also would use her participation in International Monetary Fund and World Bank annual meetings this week to advance discussions on climate change, improve vaccine access and encourage countries to support a strong global recovery. The new Treasury chief said it was important to "end the pressures of tax competition" and make sure governments "have stable tax systems that raise sufficient revenues in essential public goods and respond to crises, and that all citizens fairly share the burden of financing government." Separately, a U.S. Treasury official told reporters that it was important to have the world's major economies on board with a global minimum tax to make it effective. The official said the United States would use its own tax legislation to prevent companies from shifting profits or residency to tax haven countries and would encourage other major economies to do the same. The Biden plan proposes a 21% minimum corporate tax rate, coupled with eliminating exemptions on income from countries that do not enact a minimum tax. The administration says the plan will discourage the shifting of jobs and profits overseas. Yellen said in her remarks that while advanced economies had successfully supported their economies through the COVID-19 pandemic, it was too early to declare victory, and more support for low income countries to gain access to vaccines was needed. "I am urging our partners to continue a strong fiscal effort and avoid withdrawing support too early, to promote a strong recovery and help avoid the emergence of global imbalances. *(Source: Reuters)*

Euro zone factory activity soared in March but supply issues loom

Euro zone monthly factory activity growth galloped at its fastest pace in the near 24-year history of a leading business survey last month, but supply chain disruptions and renewed lockdowns in the region may rein it in soon. With Europe suffering a third wave of coronavirus infections, governments have re-imposed tough controls on their citizens, hurting the bloc's dominant service industry and leaving it to manufacturers to drive the economic recovery. IHS Markit's final Manufacturing Purchasing Managers' Index (PMI) jumped to 62.5 in March from February's 57.9, ahead of the initial 62.4 "flash" estimate and the highest reading since the survey began in June 1997. An index measuring output, which feeds into a composite PMI due on Monday that is seen as a good gauge of economic health, climbed to 63.3 from 57.6, well above the 50 mark separating growth from contraction and easily a survey high. "Euro zone manufacturing is booming," said Chris Williamson, chief business economist at IHS Markit. "Although centred on Germany, which saw a particularly strong record expansion during the month, the improving trend is broad based across the region as factories benefit from rising domestic demand and resurgent export growth." But supply chain issues, likely exacerbated by the recent blockage of the Suez Canal which has caused disruption to global shipping and at ports that could take months to resolve, has driven a surge in prices and the biggest increase in suppliers' delivery times since the survey began. Both the readings for input and output prices were near record highs. The input price index jumped to 79.7 from 73.9, a level not seen in a decade. "While the forces driving prices higher appear to be temporary, linked to the initial rebound from COVID-19 lockdowns, any further upward pressure on firms' costs and selling prices is unwelcome," Williamson said. Still, as factories struggled to meet flourishing demand they increased headcount sharply and built up a solid backlog of work. *(Source: Reuters)*

CENTRAL BANKS

After firing Turkey's cenbank chief, Erdogan also removes deputy

President Tayyip Erdogan removed a central bank deputy governor, Murat Cetinkaya, from his post on Tuesday, 10 days after he fired the bank’s hawkish governor in a shock move that sent the lira down some 13%. Banker Mustafa Duman was appointed to the post, according to the Official Gazette. He has held executive positions at Morgan Stanley Securities and also had treasury, risk and auditing jobs in the financial sector, the central bank said. The decree gave no reason for the change. Cetinkaya, a former CEO of the Istanbul stock exchange, had served since mid-2019 at the central bank, which has seen rapid turnover in its upper ranks including four governors in two years. The lira weakened in response and touched 8.29 against the U.S. dollar. On March 20, Erdogan ousted Naci Agbal, an orthodox governor who hiked the key interest rate to 19% to address double-digit inflation. Sahap Kavcioglu, who has supported the president’s view that high rates cause inflation, was named the new chief. The move led to market turmoil amid concerns Turkey may return to unorthodox economic policies and rapid rate cuts. Inflation stood at 15.6% in February. Deutsche Bank estimated foreigners dumped between $750 million and $1 billion of Turkish equities last week, in addition to $500 to $750 million in local bonds. In an interview with Bloomberg, new Central Bank Governor Sahap Kavcioglu dismissed “prejudiced” expectations of an early rate cut in April or the following months. Responding to speculation that Turkey could impose capital controls to protect its currency, Erdogan’s chief economic adviser, however, told Reuters it was not considering them. *(Source: Reuters)*

CZECH REPUBLIC

Death of Petr Kellner opens debate on his legacy and future of PPF business empire

The death of Petr Kellner, a reclusive Czech billionaire and the head of PPF group, came as a big shock in the Czech Republic on Monday morning. As further details of his death in a helicopter crash in Alaska emerge, Czechs are looking back at the billionaire's legacy and what his death means for the future of PPF Group. Alaska police officer Austin McDaniel told Czech Radio that the search was launched when reports came in about a delayed helicopter and debris seen in the mountains on Saturday night. The search party found and rescued one survivor - snowboarding champion David Horváth. The next day, the Alaska rescue service found the remains of five bodies, among them was Petr Kellner. An investigation into what caused the crash is currently underway. The editor-in-chief of the leading Czech business daily, Hospodářské noviny Jaroslav Mašek, told Czech Radio's Lenka Kabrhelová that the death of Petr Kellner is a big loss for the Czech Republic. “I think few people realise that Petr Kellner really was one of the most important Czechs. Whether one likes it or not, the achievements he made in business surpassed those of all others in the history of the Czech Republic and even further back.” Mr. Kellner was known for his preference not to speak to the media directly and remained a largely ambiguous figure, even amid allegations that his company Home Credit sought to influence Czech society to the benefit of Communist China. However Mr. Mašek says that Petr Kellner could be reached informally. The two last met in 2020 at the Olympic Games show jumping qualifier in Velka Chuchle, where Kellner's daughter, Anna Kellnerová, competed. “He was very nice when you met him personally. One could see that he was extremely intelligent, but he just did not like to comment on things publicly. In fact the only exception he made in this respect was his opening statement in the annual reports.” Asked about what the death of Petr Kellner could mean for the future of the diverse PPF Group business empire, Mr. Mašek said that a certain shake up is possible. “The company has tens of thousands of employees and capable managers, who will, for a time, be able to operate on autopilot. On the other hand, Mr. Kellner was a clear leader, who was really active in [PPFs] management. He lived in Prague, took daily trips to PPF Gate to work. He will soon be missed when it comes to strategic decisions.” What those future big decisions may be, Mr. Mašek does not know. He told Czech Radio that he sees two possibilities. If PPF Group secures a capable new leader and Kellner's family is involved in management, the company could remain in family hands as a private company. “The alternative is that individual divisions of PPF Group will start to get sold. This will not be a question of weeks. Rather, we are talking about the timespan of two to three years, when the future of PPF becomes clear.” Ladislav Bartoníček, the former head of insurer Ceska Pojistovna, who is also a shareholder in PPF Group and was involved in the business' expansion from the early beginnings, has since been named as the new person in charge of PPF Group. The group's spokeswoman, Jitka Tkadlecová, said that PPF Group will continue in its investment projects along the plans and vision which were established by Petr Kellner and his team. *(Source: Radio Prague International)*

Czech economy sees steepest slide in country's modern history in 2020

The Czech economy declined by 5.6 percent in 2020; the steepest fall since the establishment of the independent Czech Republic in 1993, according to data released by the Czech Statistics Office. The drop was preceded by six years of consecutive growth. In the fourth quarter of 2020, the GDP fell by 4.8 percent year on year, but rose by 0.6 percent compared to the third quarter. Household income grew by 2.8 percent last year, while spending fell by 2.9 percent, mainly due to the anti-Covid measures imposed. *(Source: Radio Prague International)*

Česká zbrojovka Group saw record revenues in 2020

The Czech small arms producer Česká zbrojovka Group SE (CZG) saw year-on-year profits rise by 14.6 percent to CZK 6.8 billion in 2020. Meanwhile, the holding's operating profit increased by 11.9 percent compared to the year to more than 1.056 billion crowns, the Czech News Agency reported on Wednesday. CZG sold 476,463 guns last year, a quarter more than in 2019. The revenues registered last year reached a new record, according to CZG Chairman Lubomír Kovařík. "Last year was another important step in the history of our group. We also successfully finished our public offering of shares on the Prague Stock Exchange. This step has strengthened our commitment to be transparent and secure the necessary funds for further expansion. "This includes the acquisition of Colt, which we announced in February 2021 and expect to be completed in the second quarter of 2021." Last month, CZG signed a contract agreeing to purchase a 100 percent stake in Colt Holding Company LLC, the owner of America's Colt Manufacturing Company LLC and its Canadian sister business Colt Canada Corporation. Colt was once the dominating force in the small arms industry and a seminal influence on manufacturing technology, but fell on rough times after the end of the Cold War and has been struggling financially since. Nevertheless, the purchase of Colt adds a truly major brand to the portfolio of CZG. Last year, CZG also bought a small stake in Spuhr i Dalby AB, the Swedish manufacturer specialising in gun adjustments and optics. According to the group's vice-chairman of the board, Jan Drahota, CZG's sales and revenue growth were largely down to a rise in demand, especially in the United States. US revenues did indeed make up two-thirds of last year's revenues for CZG, followed by 13.8 percent from Europe excluding the domestic Czech market. Asia accounted for 6.2 percent of revenues, while African revenues lay at 5.7 percent. Mr. Drahota told the Czech News Agency that CZG plans to pay out dividends worth

CZK 7.50 per share. CZG is the owner of the Česká zbrojovka small arms manufacturing facility in Uherský Brod. It also controls the companies CZ-USA, Zbrojovka Brno, 4M Systems and CZ Export Prague. In total, CZG employs around 1,670 people working in the Czech Republic, the United States and in Germany. *(Source: Radio Prague International)*

Small flats becoming increasingly popular in Czech Republic

Interest in small one, or two bedroom flats is growing in the Czech Republic. Experts believe that the cause is a mix of high property prices together with the phenomenon of couples living separately. Internationally regarded as a beautiful city, it is perhaps unsurprising that property prices in Prague have been rising steadily since the Velvet Revolution. However, this has also led to flats becoming increasingly hard to purchase. According to the latest index produced by Central Group, the largest residential developer in the Czech Republic, the average number of annual salaries needed to cover the purchase of a 70 square metre home in Prague lies at just below 14. This is considerably more than in the neighbouring metropolises such as Munich (11.8), Vienna (8.7) or Berlin (8.0). The chief analyst of Central Group, Ondřej Šťastný, says that the main reason behind this phenomenon is the slow approval process for new construction projects. “There have been long term calls for the construction of at least 10,000 new flats in the city of Prague. However, only around a third of building projects actually get approval. “This leads to long-term divergence between supply and demand, raising proprietary prices and making it increasingly harder for people to buy their own home.” Aside from low affordability, the Czech Republic is also below the EU average when it comes to the actual size of flats, with developers increasingly choosing to focus on offering small, one or two bedroom flats. For example, these properties accounted for 70 percent of the sales made by developer Trigema between 2019 and 2020, compared to 50 percent in 2017. According to Mr. Šťastný, this is down to the fact that small flats are both more affordable for young couples while also providing the best investment opportunity for prospective landlords looking to rent them out. However, he says that there are also historical reasons for the small average size of properties in the country. “The common flat is on average about 50 years old. Between the 1950s to the 1980s, flats were usually constructed to range in the size from 40 to 50 square meters. Their size only began to get bigger from the 1990s, rising gradually from 50 and 60 square meters up to 80 in the year 2012. “Another reason is that people tend to live in flats in this country and these are usually smaller than houses. In Ireland, for example, it is common for people to live in their own house.” It should also be noted that the demand for small flats is the highest in large Czech cities. Aside from obvious affordability reasons, Mr. Šťastný also says that this can be partly explained by the rising “mingles” phenomenon, wherein couples are increasingly choosing to live separately in their own homes. *(Source: Radio Prague International)*

FINANCIAL MARKETS COMMENT – MAJOR GLOBAL EQUITY INDICES AT NEW ALL-TIME HIGHS

Over the past week, investors appreciated another fiscal package of US President Joe Biden, which this time will focus on infrastructure. In addition, US macroeconomic data came very positively, specifically from the labor market and the services sector, which accounts for two-thirds of the US economy. As a result, major global equity indices rose solidly to new all-time highs.

The main US stock index S&P 500 recorded a gain of 1.1% and closed above 4,000 points for the first time in history. The broadest global stock index MSCI All Country World also recorded a gain of 1.1%. The Central European stock index CECEEUR recorded a gain of 1.6%.

On the other hand, bonds were again not very successful. The broadest global bond index, Bloomberg Barclays Global Aggregate Bond, depreciated by 0.3%, with average global bond yield to maturity rising by 0.03 percentage point to 1.16%. The yield to maturity of the most-watched bond, 10-year US Treasury Bond, rose 0.05 percentage point to 1.72%, reaching its highest level since last January.

Commodities did not move much. S&P GSCI global commodity index did not change its value last week. The price of a barrel in the North Sea Brent rose slightly by 0.4% to $ 65. Gold fell slightly 0.2% to $ 1,728 per troy ounce.

Global markets overview			
	Weekly change	YTD change	Last value
Dollar index DXY	0.3%	3.4%	93.02
Emerging markets FX index to USD	-0.1%	-1.2%	1699
EUR/USD	-0.3%	-3.7%	1.176
EUR/CZK	0.0%	-0.6%	26.09
USD/CZK	0.3%	3.8%	22.21
Global equities (MSCI All Country World)	1.1%	5.4%	
Developed equities (MSCI World)	1.0%	5.6%	
Emerging markets (MSCI Emerging Markets)	2.4%	3.6%	
Global equities - Value (MSCI All Country World Value)	0.1%	8.9%	
Global equities - Growth (MSCI All Country World Growth)	2.3%	1.8%	
US (S&P 500)	1.1%	7.0%	4020
US (NASDAQ)	2.6%	4.6%	
US - Big Tech (NYSE FANG+)	4.5%	4.0%	
Europe (STOXX Europe 600)	1.2%	8.3%	
Japan (Nikkei)	2.3%	8.8%	
China (CSI 300)	2.5%	-1.0%	
Central Europe (CECEEUR)	1.6%	1.9%	
Czech Republic (PX)	-0.2%	6.3%	1092
Global bonds (Bloomberg Barclays Global Aggregate Bond)	-0.3%	-4.4%	
Global government bonds	-0.5%	-5.6%	
Global investment grade corporate bonds	0.2%	-4.0%	
Global speculative grade corporate bonds (high-yield)	0.3%	-0.7%	
EUR investment grade corporate bonds	0.1%	-0.5%	
EUR speculative grade corporate bonds (high-yield)	0.3%	1.8%	
Czech government bonds	0.1%	-4.0%	
Average global bond yield (Bloomberg Barclays Global-Aggregate Yield to Worst)	0.03%	0.33%	1.16%
US 10 year government bond yield	0.05%	0.81%	1.72%
US 2 year government bond yield	0.05%	0.07%	0.19%
Germany 10 year government bond yield	0.02%	0.24%	-0.33%
Germany 2 year government bond yield	0.01%	-0.01%	-0.71%
Czech Republic 10 year government bond yield	-0.01%	0.70%	2.00%
Czech Republic 2 year government bond yield	0.02%	0.93%	1.07%
Credit spread - EUR investment grade (Markit iTraxx Europe / CDS)	-0.03%	0.03%	0.50%
Credit spread - EUR high-yield (Markit iTraxx Europe Crossover / CDS)	-0.19%	0.04%	2.45%
Commodity index S&P GSCI	0.0%	15.2%	
Crude oil Brent	0.4%	25.2%	65
Gold	-0.2%	-8.8%	1728

Source: Bloomberg, Conseq

OTHER FINANCIAL MARKETS NEWS

Stocks hit record highs on strong economic data

World stocks hit record highs on Tuesday, supported by strong economic data from China and the United States, while currency and bond markets paused for breath after a month of rapid gains in the dollar and Treasury yields. Equities as measured by the 49-country spanning MSCI All Country World Index hit an all-time high as European stocks played catch-up with gains in Asia and Wall Street overnight in their first trading session since the Easter holiday. The pan-European STOXX 600 index hit a record high after the open in Europe. On the heels of a bumper U.S. jobs report on Friday, March data showed services activity hit a record high. China's service sector has also gathered steam with the sharpest increase in sales in three months. "We think investors should not fear entering the market at all-time highs," said Mark Haefele, Chief Investment Officer, UBS Global Wealth Management. "We recommend continuing to position for the reflation trade as the economic recovery gathers pace - data released Friday showed U.S. nonfarm payrolls surged by 916,000 in March, the biggest gain since August."

Analysis: Debacle at Archegos throws excessive risk-taking into spotlight

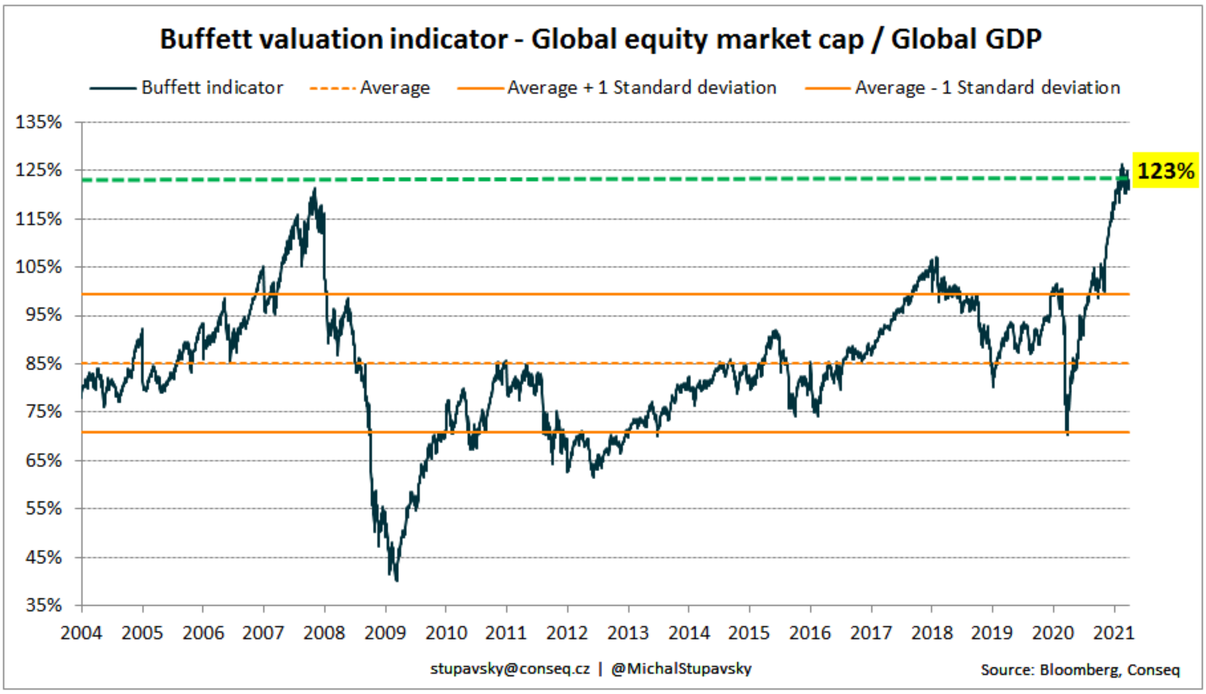
Highly leveraged Archegos Capital's downfall is the latest signal of investors' hunger for risk-taking being far from satiated even after a run that has lifted the S&P 500 index around 80% in a year. The impact of the hedge fund's troubles seems to have been limited so far to a handful of stocks - from ViacomCBS and Discovery to the shares of investment banks who dealt with the fund, such as Credit Suisse - without rippling out into broader markets. Yet, there are other signs that the mood has turned exuberant in recent months, leading to potentially excessive risk-taking across asset classes. Among those are the market's robust appetite for special-purpose acquisition companies (SPACs) and the popularity of cryptocurrencies such as Bitcoin. And an 850% rally in the shares of GameStop, fueled by retail investors with the help of options on sites such as Reddit's WallStreetBets. "My guess is we are going to see a whole series of these examples and we will be looking back on this in several years and saying this was a period of phenomenal widespread risk-taking where standards were lowered," said Andrew Beer of Dynamic Beta Investments. Equities now account for 50% of all assets held by households, mutual funds, pension funds, and foreign investors, the highest level since the tech bubble of two decades ago, research from Goldman Sachs showed. Many investors are leveraging that stock exposure through options, with equity options trading volume up 85% last year from 2017, according to data from Trade Alert. And after a stretch of bearishness following the COVID-19 pandemic's initial outbreak last year, both institutional and individual investors see better times ahead. Fund managers in a BofA Global Research survey have ratcheted up their exposure to commodities to record highs - a bet on a global recovery - while cash levels stand near eight-year lows. Nearly 51% of individual investors, meanwhile, believe stocks will rise in the short term, compared with an historical average of 38%, according to the latest American Association of Individual Investors Sentiment Survey. Plenty of investors have justified the optimism by pointing to the unprecedented amounts of stimulus doled out by the U.S. Federal Reserve and U.S. lawmakers, as well as a countrywide rollout of vaccines against COVID-19. Federal Reserve officials earlier signaled they expect growth of 6.5% this year, which if achieved would mark the fastest expansion since the 1980s, compared to a 3.5% contraction suffered in 2020, the steepest annual downturn in more than seven decades. While “the path higher for U.S. stocks will be complicated and filled with fresh risks, U.S. stocks will likely finish the year much higher,” said Edward Moya, senior market analyst at Oanda. But confidence that markets will continue to rise can lead some investors to take risks such as overusing leverage, which helps magnify gains but can also result in mushrooming losses if a trade goes the wrong way. Archegos Capital’s troubles may have been one example of leverage gone awry. The fund bought derivatives known as total return swaps which allow investors to bet on stock price moves, without owning the underlying securities, according to one source familiar with the trades. Archegos had assets of around $10 billion but held positions worth more than $50 billion, according to the source, who declined to be identified. “Sentiment has definitely shifted to very bullish in 2021,” said Ilya Feygin, senior strategist at WallachBeth Capital. “When people become very confident, you know what happens - they take more risk.” *(Source: Reuters)*

Cryptocurrency market cap hits record $2 trillion; bitcoin's at $1.1 trillion

The cryptocurrency market capitalization hit an all-time peak of $2 trillion on Monday, according to data and market trackers CoinGecko and Blockfolio, as gains over the last several months attracted demand from both institutional and retail investors. At midday, the market cap was at $2.02 trillion. Bitcoin was last up 1.4% at $59,025, with a market cap of $1.1 trillion.

CHART OF THE WEEK – BUFFETT VALUATION INDICATOR INDICATES A SIGNIFICANT OVERVALUATION OF GLOBAL STOCK MARKETS

Warren Buffett valuation indicator – defined as the ratio of global equity market cap on global GDP – is currently close to the all-time high at 123%. This indicates that global stock markets as a whole are significantly overvalued and the expected stock market returns in the coming years are therefore definitely below average.



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QUOTE OF THE WEEK

"The individual investor should act consistently as an investor and not as a speculator."

- BEN GRAHAM -

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