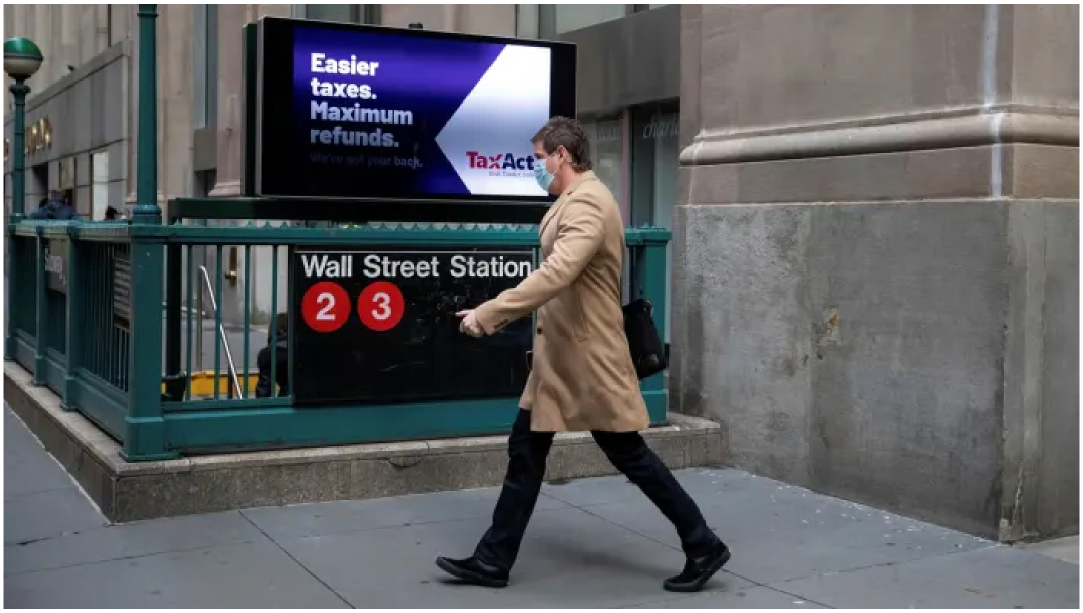
Markets Briefing Equities

Equities pause for breath as Covid crisis intensifies

European stocks struggle for direction while oil hits 10-month high



Wall Street's benchmark S&P 500 index was flat at the opening bell, while the tech-heavy Nasdaq Composite slipped 0.1 per cent © Michael Nagle/Bloomberg

Camilla Hodgson and **Leke Oso Alabi** in London 29 MINUTES AGO

Global equities wavered on Tuesday, as investors weighed the worsening pandemic against the prospect of more fiscal stimulus in the world's largest economy.

Wall Street's benchmark S&P 500 index was flat at the opening bell, while the tech-heavy Nasdaq Composite fell 0.1 per cent.

Stocks were mixed in Europe, with the region-wide Stoxx 600 and Germany's Xetra Dax both edging up 0.1 per cent by mid-afternoon, while London's FTSE 100 slid 0.6 per cent.

The performance of energy and financials stocks — which performed particularly badly in 2020 — was a rare bright spot on both sides of the Atlantic, on expectations that the sectors would benefit most from more fiscal support and an economic rebound.

Juliette Cohen, a strategist at CPR Asset Management, said equities were "taking a breath" following strong gains at the start of the year. She did not anticipate a correction, as equities would be supported by further fiscal stimulus in the US — which would encourage the sector rotation from growth to value stocks, such as energy and financials, she added.

Monday's decline followed a week of gains for global equities despite the number of coronavirus cases soaring across the world. England's chief medical officer warned this week the nation would face a severe health crisis unless people obeyed the new lockdown rules, while Malaysia declared a state of emergency to combat rising cases.

Salman Baig, multi-asset investment manager at Unigestion, said the week's falls also amounted to "a bit of consolidation" and profit-taking.

Expectations for more fiscal stimulus from Joe Biden's incoming US administration has led to a sell-off in core government debt this year. The yield on the 10-year US Treasury, which broke 1 per cent last week for the first time since March, rose a further 0.04 percentage points to 1.17 per cent on Tuesday.

George Lagarias, chief economist at Mazars, said what mattered most for markets was "the ability [of governments] to keep stimulus going, and vaccinations". Although yields have ticked up in recent days, the yield curve is likely to remain fairly flat "because of the debt overhang" and very low inflation expectations, he added.

Democrats introduced an impeachment article in the House on Monday to hold Donald Trump to account for the violence that erupted in the capital last week. A vote could come on Wednesday.

Richard Saperstein, chief investment officer at Treasury Partners, said markets would probably continue to look through the political unrest. Investors are more concerned about the "massive fiscal and monetary stimulus in place, ultra-low interest rates, vaccine distribution, and this unprecedented pent-up demand to return to normal lifestyles", which should be beneficial for equities in the long term, he said.

Saudi Arabia's pledge last week to cut oil output alongside hopes of fuel demand rebounding helped to send Brent crude to a 10-month high of $56.75 a barrel on Tuesday. But significant rises for the global benchmark from here would be less likely, warned traders.

"In our view the market now should stabilise if anything, rather than boost prices," said Bjornar Tonhaugen at Rystad Energy. "Returning restrictions and concerns over increasing infections are curbing road fuel demand globally and in Europe in particular."

In Asia, China's CSI 300 index jumped 2.9 per cent to its highest level since 2008, with sectors up across the board. Hong Kong's Hang Seng rose 1.3 per cent. The gains followed falls on Monday, as exchanges moved to adhere to an executive order from Mr Trump banning investment in companies with alleged links to China's military.

Additional reporting by David Sheppard