Global Stock Markets' Round Up in March'21

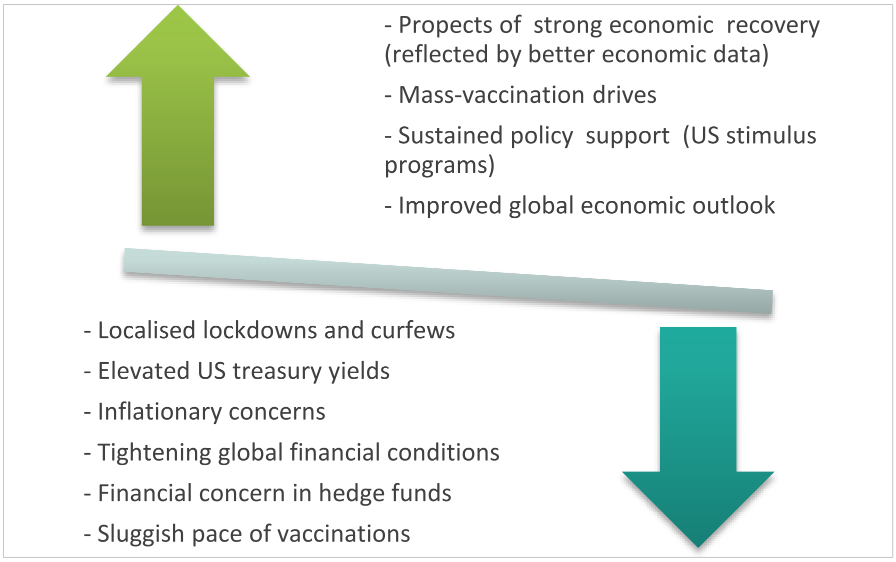
April 1, 2021 I Economics

The report covers market movements in select major stock exchanges across the US, Europe and Asia (including India) to give a bird's eye view on various factors that drove the markets during the month. In March 2021, prospects of strong global economic recovery (as reflected by various high frequency indicators), mass-vaccination drives (albeit supply concerns in few countries), sustained policy support from US government and central banks of developed economies and improved global economic outlook have aided the gains in equity markets. However, the equity markets were pressured on account of elevated treasury yields and renewed lockdowns in a number of countries which is likely to have a bearing on the nascent economic recovery.

Country	Stock Exchange	Closing on 26-Feb-21	Closing on 31-Mar-21	% change
US	Dow	30,932	32,982	6.6
US	NASDAQ	13,192	13,247	0.4
US	S & P 500	3,811	3,973	4.2
UK	FTSE 100	6,483	6,714	3.6
Germany	DAX	13,786	15,008	8.9
France	CAC 40	5,703	6,067	6.4
Japan	Nikkei 225	28,996	29,179	0.7
South Korea	Kospi	3,013	3,061	1.6
China	Shanghai Composite	3,509	3,442	-1.9
India	Sensex	49,099	49,509	0.8
India	NIFTY 50	14,529	14,691	1.1

Source: WSJ, CNN, BSE, NSE

Drivers and draggers of markets



Source: CARE Ratings

US stocks

Key equity market indices in the USA ended higher in March 2021 compared with the previous month. Dow Jones scaled record highs during the month and ended 6.6% higher, while S&P 500 registered a notable growth of 4.2%. NASDAQ has inched up only marginally by 0.4%.

The gains in the equity indices in the US can be ascribed to the optimism around a sharp recovery in the US economy reflected by robust macroeconomic data (fall in US unemployment claims, upward revision in the US GDP data, sustained growth in PMI manufacturing and services, marginal decline in US unemployment rate, improved factory orders, additions to private payrolls) and faster than expected vaccination drives. The commitment by the US Federal Reserve, in its second monetary policy of 2021, to support the US economy with sustained accommodative monetary policy stance, liquidity measures and keeping the policy rates unchanged until 2023 has buoyed investor sentiments. The final clearance to the US economic stimulus package aggregating $1.9 trillion led to gains during the start of the month while the hopes of an infrastructure plan aggregating $2.3 trillion likely to be unveiled by the US government aided the gains in the US economy during the latter half of the month. Investor sentiments were also buoyed by comments from the US Federal Reserve Chairman and the US Treasury Secretary in their testimony to the US Congress highlighting that the US economy is gradually recovering from the pandemic and the inflationary concerns in the near-term are transient in nature.

The benchmark equity indices in the US were dragged down by technology shares led by sustained pickup in US treasury yields to more than 1 year high which led to concerns around valuation of technology companies. The rapid spread of coronavirus in some countries, re-imposition of lockdowns and sluggish pace of roll-out of vaccinations globally have pressured equity markets in the US during March. The non-continuation of the temporary SLR relaxations which was provided to the banks in the US until March 31 has led to losses in the banking stocks. During the last few days of March 2021, profit booking by investors after warning signals from leading global investment banks about likely losses in Q1-2021 following the statement by one of the hedge fund regarding default on its margin calls and liquidation of some of its positions in the equity markets weighed heavily on the financial sector stocks.

European stocks

Major **European stocks** closed notably higher in March 2021 compared with the previous month. DAX rose by 8.9%, CAC 40 by 6.8% and FTSE 100 by 3.6% in March.

The gains in the European markets were supported by expectations of swifter economic recovery due to the ongoing vaccination drive seen in the first half of this month coupled with sustained efforts from various governments and central banks to help the economies recover from the pandemic. The pick-up in crude oil prices during a major part of March supported gains in oil stocks while upbeat Chinese economic data have also led to gains in pick-up in trade-related stocks. During the first 20 days of the month, investors also cheered passage of the US economic stimulus bill and accommodative monetary policy stance by key central banks in developed countries (US Federal Reserve, Bank of England, ECB). Specific to the ECB, the decision by the Governing Council to significantly increase the pace of liquidity injection during Q2- 2021 and unchanged annual GDP forecast for the Eurozone (4% in 2021, 4.1% in 2022 and 2.1% in 2023) have also supported gains in the equity markets.

The gains were limited during the month on account of rising/elevated US treasury yields owing to faster pace of economic recovery and inflationary concerns driven by uptick in the commodity prices. Additionally, sluggish pace of vaccinations (temporary suspension of the AstraZeneca vaccine by France, Italy and Germany during mid-March and restriction of the use by Germany above the age of 60 years) and renewed lockdowns announced in Germany and France have pressured equity market indices.

FTSE gained by 3.6% by end-March 2021 compared with end-February 2021. The gains during the first few days of the month were aided by the announcement of the Budget-2021 by the UK government which included measures like extension of the government’s furlough scheme until September 2021, universal credit uplift and reduction in the VAT rate on hospitality and tourism and optimism around faster than expected recovery in the UK economy (Office of Budget Responsibility expects the UK economy to come back to pre-pandemic level 6 months earlier than previously expected). However, the announcement in the Budget to hike corporate taxes (from 19% to 25%) for large companies in 2023 weighed on investor sentiments. Investors are hopeful of a strong rebound in the UK economy due to continued success of the vaccination program coupled with massive fiscal and monetary support. The recent rally in crude oil prices has also pushed energy shares higher in March. At the fag-end of the month, the decision by the UK government to ease stringent lockdown restrictions have supported equity market gains.

The gains were limited on surge in US treasury yields and concerns around pick-up in near-term inflation, which could force central banks to tighten monetary policy sooner than anticipated. Weak economic data from the UK (fall in UK exports and imports, contraction in GDP growth in the 3 months to January, more than expected fall in industrial output, widening UK budget fiscal deficit) have also pressured equity markets in the UK during March. The mounting tensions between the EU and UK over restricting vaccine exports from the EU coupled with tighter border controls with heavy travel fines also dragged indices lower.

Asian stocks

The benchmark indices in Japan (Nikkei 225) have ended marginally higher by 0.7% in end-March compared with the previous month end. Japanese markets were supported by global cues (strong economic recovery in the US, final passage of the US economic stimulus bill, global mass-vaccination drive) and some domestic news pertaining to the coronavirus pandemic which included easing of government restrictions in Tokyo and commencement of vaccination drives in Japan. Reports from the WHO about the benefits of the vaccination outweighing the risks from the same have also aided the gains in the equity markets in Japan. The gains in the equity markets were limited on account of elevated US treasury yields, strong earthquake which hit the Japanese coast and some sector specific news like warning by semi-conductor suppliers about shortfall in supply of chips, which could impact vehicle production. The recent lockdowns in some countries resulting in gradual decline in the pace of economic recovery have further dragged equity indices lower in Japan.

Shanghai composite, China's stock market index, ended lower by 1.9% during March 2021 from the previous month led by concerns around persistent policy tightening, bubbles in the Chinese economy, elevated US treasury yields and lingering inflationary concerns, rising coronavirus cases in China and globally, resurgence of lockdowns in some European countries and financial risks warned by the Chinese official on passage of the US stimulus package. Investors also feared that the lower than anticipated GDP forecast for 2021 is likely to lead to policy tightening measures by the Chinese government and central bank. The sanctions by the US and others (including EU) on China's human rights abuses, US President's statement on hiking corporate tax rates and delisting of Chinese companies from US stock exchanges following non-compliance of US auditing standards also dampened the risk appetite of investors.

The losses were limited as the benchmark indices have been tracking positive global cues regarding the passage of the US fiscal stimulus package, stronger than expected recovery, mass-vaccination drives, sustained liquidity support by central banks in the developed countries coupled with the Chinese government's economic growth target of 6% for 2021 after expanding by 2.3% in 2020 and lower budget deficit (at 3.2% in 2021 compared with 3.6% in 2020) despite the COVID-19 pandemic challenges. Upbeat high-frequency indicators' data (surge in China's exports in Jan-February, larger than expected trade surplus, pick-up in new bank loans, surge in Chinese car sales, jump in Chinese FDI and retail sales, better than expected industrial output) have also buoyed investor sentiments. Reports that the People's Bank of China would further improve rules and transparency of monetary policy operations effectively manage market sentiments, pushed equity indices higher.

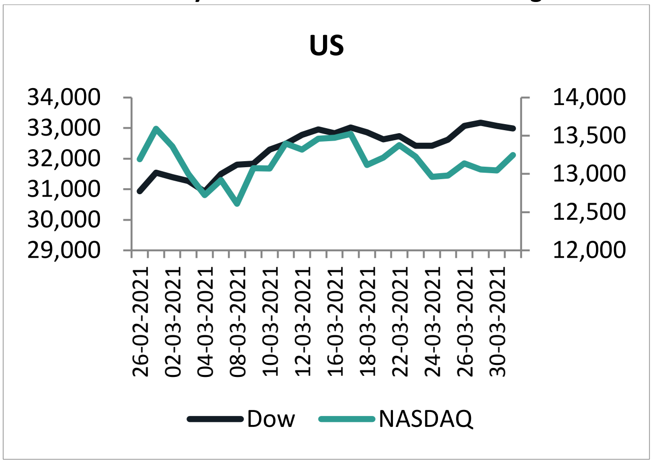
South Korea's KOSPI ended higher by 1.6% as investors tracked global cues on account of stimulus led recovery in the US economy, mass-vaccination drives, hopes of strong global economic recovery coupled with upward revision in the GDP growth of South Korea. The gains were limited owing to elevated treasury yields which weighed on the valuations of technology stocks coupled with rising inflationary concerns. The sustained increase in the cases in South Korea and detection of more contagious variants of COVID-19 virus have sapped the risk appetite of investors and dragged equity indices lower.

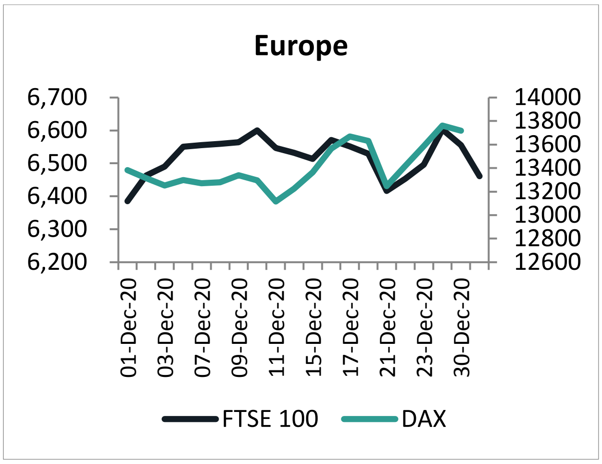
Indian markets

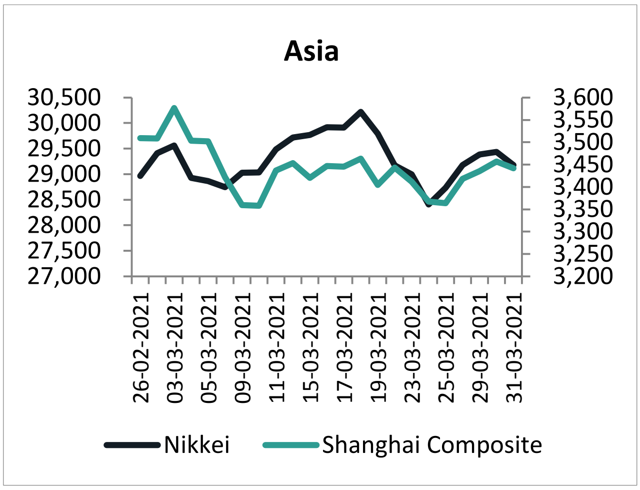
The **Indian equity markets** ended higher by 2% in March 2021 on account of growing optimism around sharp recovery in the Indian economy amidst mass-vaccination drives across the country. The recovery in the Indian economy is reflected in the robust GDP projections by a number of multi-lateral institutions: OECD: 12.6%, IMF: 11.5%. In the first week of March, investors also cheered the final approval to the $1.9 trillion US economic stimulus by the US government coupled with positive GDP growth of 0.4% for Q3-FY21, which is better than market expectations of negative GDP growth in the quarter. Sector specific news like spectrum auctions in the telecom sector and rejection in the relief measures on loan moratorium decided by the Supreme Court provided more clarity to the banking sector to report their non-performing assets and drove gains in the banking stocks.

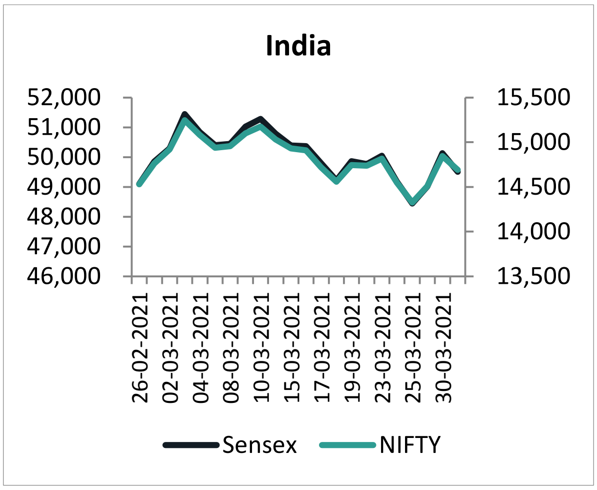
However, the gains in the economy were limited as investor sentiments were dampened by rising number of coronavirus cases in the country, new variant of the COVID-19 virus and reinforcement of restrictions (localised lockdowns/curfews) with fears of a second wave threatening the nascent recovery process in the Indian economy. The uptick in US treasury yields and tightening of global financial conditions with inflationary concerns have pressured investor sentiments and capped the gains in the Indian equity markets.

Annexure: Monthly trends of select stock exchanges









Source: WSJ, CNN, BSE, NSE

Contact:

Madan Sabnavis	Chief Economist	madan.sabnavis@careratings.com	+91-22-6837 4433
Author: Sushant Hede	Associate Economist	sushant.hede@careratings.com	+91-22-6837 4348
Mradul Mishra	(Media Contact)	mradul.mishra@careratings.com	+91-22-6754 3573

CARE Ratings Limited
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel. : +91-22-6754 3456 I CIN: L67190MH1993PLC071691

Connect :