J.P.Morgan

Updated (first published 07 June 2021)

The J.P. Morgan View

Stay OW cyclical and inflation-linked assets as inflation surprises likely to persist

Interim results from this week's survey are available here

Cross-Asset Strategy: Our outlook remains positive for risky asset classes, with expectations for Equities and Commodities to have the highest return, and bond yields to continue their move higher. This pro-risk view is driven by the ongoing recovery from the pandemic (starting in the US and continuing in Europe, and e.g. exemplified by the latest reading of JPM's Global All-Industry PMI at 15-year highs), accommodative monetary stance from global central banks, and still below-average positioning in risky asset classes such as equities and commodities. Earnings growth should remain above trend in 2H, supported by consumers and capex. As inflation, reflation, and reopening remain in the focus of investors, we expect a continuation of rotation from defensive into cyclical assets. We also expect commodities to continue outperforming driven by energy, and in equities we expect rotation to continue from bond proxies and growth into value. This positive outlook should last at least during the summer months (peak reopening), but potentially well into 2022 as global economies recover from the pandemic.

JPM Clients' View: Click here to take our markets survey. It is equally, if not more important to understand the views of JPM's institutional clients, as well as those of our Strategy teams. This will be accomplished by a new survey section. Each week, we will ask a set of running questions on risk positioning and a set of questions on topics clients found most relevant that week. Readers can fill in the brief survey by clicking the link above, and we will upload results at the end of the next day. The running survey questions assess investors' equity positioning/ sentiment and intentions for near-term changes to equity allocation and bond duration. This week's topical survey questions inquire about perceptions around risk/reward between equities and bonds, inflation hedging, and equity regional preferences.

Inflation surprises are likely to persist into the second half of the year: In our opinion, inflation risks are underappreciated by both economists and markets at the moment. At an asset class level, the inflation theme does not only favor an OW in commodities and equities, but also an UW in credit. We thus trim further the credit allocation in our model portfolio. Within equities, we keep a tilt towards value oriented regions. In rates, we retain bearish duration exposures expressed via more carry-efficient steepeners. In credit, we add hedges against inflation and systemic risk, while maintaining some exposure to earning carry. In commodities, we have an OW in energy funded by an UW in precious metals as the latter is exposed to higher real yields.

New Trades: Bought FTSEMIB call options (Silvestrini); updated US Equity analysts top picks (Rosato); entered USDRUB 1x1 call spreads (Shal); option ideas on forthcoming risk events (Ravagli); bought puts in Tech stocks triggering negative momentum signals (Quigg); entered tactical GBP/USD longs (Meggyesi).

Catalysts this week: ZEW (Jun 8th); BoC & China PPI/CPI (Jun 9th); ECB & US CPI (Jun 10th); JPM Macro Conference, UoM survey, CBR & G7 (Jun 11th).

Global Markets Strategy

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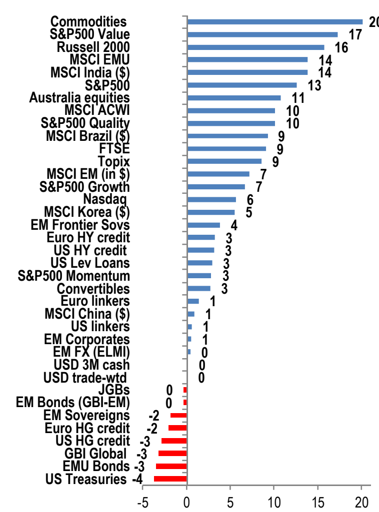
YTD returns by asset



Source: J.P. Morgan.

See page 12 for analyst certification and important disclosures.

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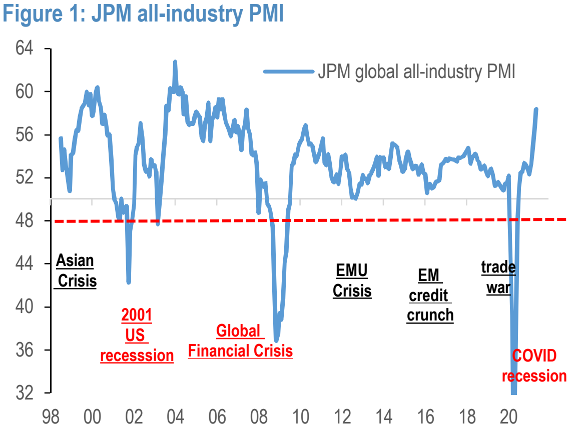
Cross-Asset Strategy

Macroeconomic Outlook

Our outlook is for global growth to boom 7%ar in the middle two quarters of this year, and the JPM Global All-Industry output PMI's jump to a 15-year high last month supports this view (Figure 1). Our forecasts also anticipate a wide divergence between DM and EM growth in 2Q21, reflecting continued emergency-level stimulus and more successful containment and vaccination programs in DM. Trade linkages are providing limited support for convergence this quarter as EM economies are likely to see limited benefits from strong DM demand that is concentrated in non-traded sectors, and supply constraints/rising input costs are preventing a disinflationary impulse that could support DM demand spillovers. That said, financial market linkages send a more encouraging signal for EM and are likely linked to optimism on EM virus containment and vaccination rollouts. This view is also embedded in our forecast for EM GDP growth excluding China which should move from a -3.1%ar this quarter to a +6.5%ar in 2H21 (*Global Data Watch*, June 4th).

Figure 1: JPM all-industry PMI



Source: J.P. Morgan.

Last week's US payrolls at 559k was in line with our expectations but fell a bit short of consensus. While we still expect the FOMC to begin discussing tapering at the June meeting, the ongoing jobs shortfall (still 7mn jobs short of pre-pandemic highs) should lead to the conclusion that it is far too soon to commence tapering. This week, we expect a firm US CPI report and an ECB meeting with the focus likely to be on the shorter-term question of the pace of PEPP purchases. In our view, the ECB will stick with the faster PEPP pace for another 3 months, but our survey reveals broad expectations for removing 'significantly higher'.

Equities

Global equity markets continued their sideways move this week, with the S&P 500 oscillating around the 4200 level since April. However, internals were more resilient, with Cyclical sectors such as Autos, Energy and Financials outperforming Defensives and Tech, with bond yields moving up.

The next leg higher is likely upon us, following the sideways move in markets and bond yields over the past two months, with Cyclicals expected to do better again vs Defensives. Despite peaking in some activity indicators, the market is likely to get comfortable that growth will remain significantly above trend in 2H, supported by both consumer and capex. Regionally, our strategists expect the outperformance of Eurozone, Japan and EM while they are UW US and UK stocks (*June Chartbook*, Jun 1st).

Crucially, risks are skewed for recent inflation surprises to be sustained into the second half of the year. At the asset class level, this inflation theme favors an OW in Equities. Further, as the Fed is likely to take steps towards an eventual taper in coming meetings, and inflation markets are already pricing inflation outturns above economists' forecasts for 2021 and 2022, further upside in nominal yields is more likely to come from higher real rates. This suggests that it is premature to come back to Tech, but Value and value-oriented sectors should continue to outperform.

In EM, our strategists note LatAm's rally mode is on and look for continued outperformance in both Brazil and Mexico driven by strong GDP growth, earnings revisions, below average equity multiples, supportive flows, and for Mexico, the US exceptionalism/recovery (*LatAm Equity Strategy*, Jun 2nd).

In SMid, we continue to see 2021 being a strong year for the economy and corporate margins, with both continuing to recover from the dismal lows of 2020, pushing SMid earnings growth into double digits for the first time in 4 years, a background that should continue to be supportive for SMid-Caps (*The SMid View*, June 4th).

Bonds

Bonds rallied over the past two weeks with an outperformance of Euro area yields. In the **US**, recent Fed speakers have continued to suggest that it might be appropriate to begin discussions over adjustments to QE purchases. However, given softer payrolls and a modestly bearish tilt in positions, our strategists still prefer steepeners as a more carry-efficient way of being bearish duration (*UST Market Daily*, Jun 3rd).

In the **Euro area**, this week's ECB meeting is shaping up to be critical. Our economists expect that the ECB will keep the "significantly higher" pace of PEPP purchases into 3Q21 (*ECB Preview*, Jun 4th). We turned tactically bullish on 10Y France, receive 2Yx1Y EONIA and stay short vol. Intra-EMU, keep strategic longs in 10Y Spain vs. Germany. In the **UK**, the SONIA curve seems to be underpricing the potential pace of hikes.

In **EM local markets**, our strategists remain positioned for outperformance in Asia. They are neutral EM Asia, with an OW in China and Thailand offset by UW Malaysia. In EMEA EM and LatAm they are short local duration via UWs in Czech, Poland, Chile and Peru, vs. a solitary OW in Mexico (*EM Local Markets Roundup*, May 24th).

Credit

Our strategists' view is for tighter spreads and compression in HY vs HG and EM vs DM. Investors are concerned about valuations as they see spreads being close to their cycle tights and are looking for that eternal 'dip' to add risk. Valuation aside, credit has a few things going for it: a) bond markets seem to have bought into the idea that reflation will remain orderly; b) it's been a good earnings season for levered corporates; c) demand-side technicals remain strong; and d) the sort of end-cycle phenomena that would cause concern haven't appeared yet as investors aren't getting overly levered/complex and banks aren't aggressively using their bridge books (*Crisis Watch ALERT*, Jun 1st).

The Fed announcement to wind-down the SMCCF program should not impact HG spreads, due to the relatively small size of their holdings and history of being diligent traders. Bond selling should represent ~0.14% of secondary trading volumes between now and year-end. On the ETF side, Fed holdings represent between 0.2 and 5.8 days' worth of the respective ETF trading volume and between 0.6% and 7.1% of respective current AUM. At a micro level, the Fed selling could be slightly more impactful across a handful of more illiquid CUSIPs (*Fed SMCCF: Sell my corporate credit fast(er)*, Jun 2nd).

Currencies

Last week's payrolls do not invalidate that the taper discussion needs to start. From this perspective, the team's medium-term constructive risk-reward bias for USD remains unchanged, even if vulnerable in the near-term. US real yields have based and should resume their trend higher to be the majority driver of nominal yields, as breakevens are fully priced for Fed credibility, and should provide USD a level of support. For the ECB, the expectation is that it will substantially lag the Fed, not least given its historical underperformance in generating inflation. This will not only impact the nearer-term as it will likely be a central issue in the forthcoming strategic policy review. Further, historically the EUR fails to trend appreciate around the start of its rate hike cycles, mostly because it typically lags peers in timing and pace.

Despite the lack of catalysts from last week's US payrolls, the team hold onto their long FX vol positions (in EUR/USD and EUR/AUD) given that US inflation is still outstanding and upcoming ECB/Fed meetings. They do add a tactical GBP/USD long as the payrolls setback accentuates the divergence between BoE and Fed attitudes towards normalization in the near-term. Otherwise, they keep a set of commodity/reflation and central bank divergence themed trades (*FXMW*, Jun 4th).

Commodities

Oil demand tracking will be critical over the coming months. Our base case on oil calls for a peak in prices around $80/bbl in late 2021, though this level could be reached earlier if demand during the summer driving season were to come in stronger than expected. Our strategists' estimates are for global demand to grow by 4.6 mbd and average 98.69 mbd in 3Q21. A shift away from public transit is helping to lift gasoline demand but the main impediment for global demand to reach the coveted 100 mbd level is international travel. Global air traffic was not able to break above 60% of 2019 levels in May. Americans are opting to stay close to home and with EU rolling out the digital Covid certificate system from July 1, the IATA is forecasting that global air passenger traffic will recover to 52% of pre-Covid levels over 2021. Our team is more optimistic and sees global jet-fuel demand averaging 72% of pre-Covid volumes in 2021.

OPEC+ opted to stick to the existing pace of gradually easing oil supply curbs in June and July. The next OPEC+ meeting is scheduled for July 1, when the alliance will discuss August production quotas. If demand develops in line with our expectations, OPEC+ should agree to add another 500 kbd in August, bringing total net additions to 2.4 mbd this year (*Oil Markets Weekly*, Jun 3rd).

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JPM Clients' View

In the JPM View publication, we summarize views from J.P. Morgan research teams as well as views of JPM's Global Markets Strategy team. However, we think that it is equally, if not more important to understand the views of JPM's institutional clients. This will be accomplished by the new survey section in the JPM View publication. Each week, we will ask 3 running questions on risk positioning (the same questions in each report so we can gauge how investor views are changing over time), and a set of varying questions on topics clients found most relevant that week. Readers can answer the survey questions by clicking on the provided link below, and we will upload the results on the report/website at the end of the next day (we will send a separate email with survey results). JPM View readership includes institutions of all types (hedge funds, asset managers, pensions, etc.) across all regions, and results should give a good sample of how investors are positioning, and highlight their near-term risk intentions and concerns.

The running survey questions will be:

1) What is your current equity positioning or sentiment in historical terms, expressed from most bearish (0th percentile) to most bullish (100th percentile)?

2) Are you more likely to add or reduce equity exposure over the coming days/weeks?

3) Are you more likely to increase or decrease bond portfolio duration over the coming days/weeks?

This week's topical survey questions are:

1) At what level of US 10Y yield would bonds have more attractive risk/reward than equities for you?

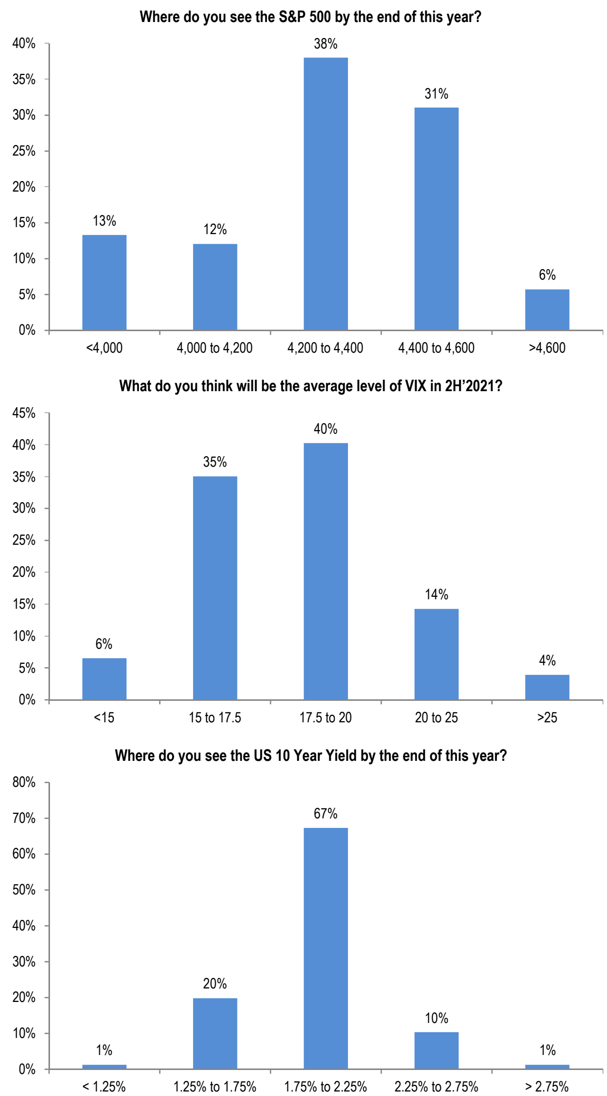
2) If inflation starts rising sharply, would you hedge inflation with assets that would deteriorate your portfolio's ESG profile?

3) If you need to increase equities would you rather add to US or Emerging Market stocks?

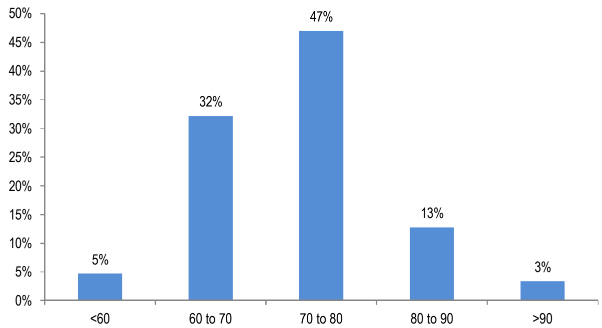
Click here to take this week's survey

Given that this is the first week we are introducing the survey in the JPM View publication, in-lieu of prior week survey results, we are presenting results gathered over the past few days for a survey that we conducted during the registration process for our Macro Quantitative Conference of institutional investors and managers. These questions surveyed clients on equity, bond, volatility and commodity price targets, inflation risks and preferred inflation hedges, as well as assessment of broad market risk factors. Our conference will be held virtually on June 11th. You can register for it at this link, and the conference agenda is available here.

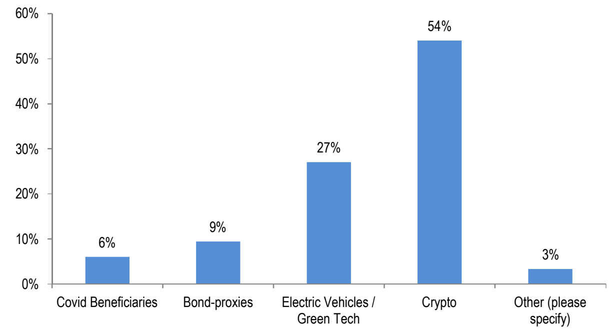
Figure 2: Results from our Macro Quantitative Conference registration survey



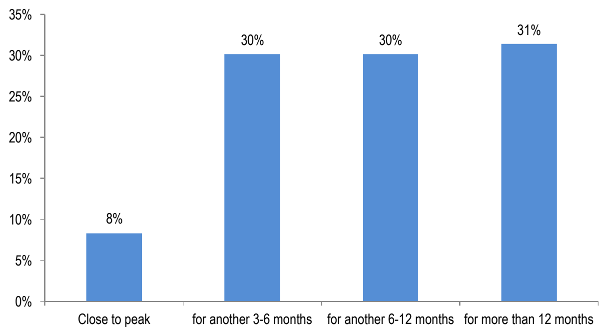
Where do you see Oil (WTI) price by the end of this year?



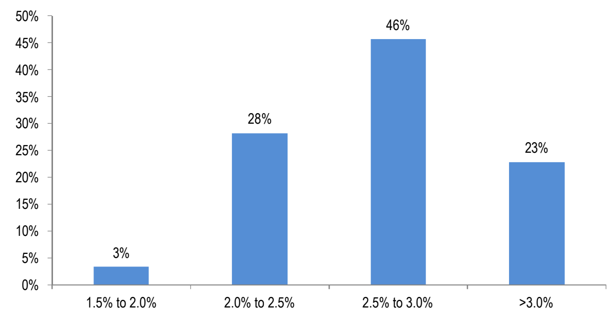
Which market segment is most likely to be in a bubble?



How long do you expect current Inflation pressure to last?

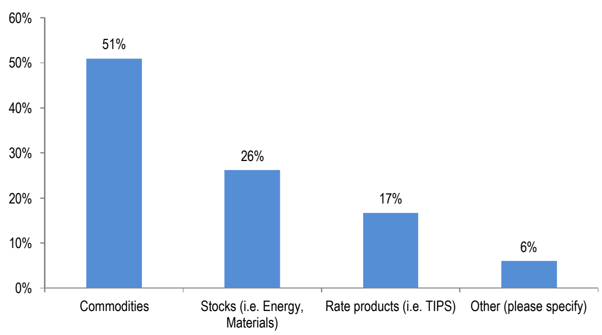


What level of US 10 Year Yield could trigger significant equity market / multiple de-rating?

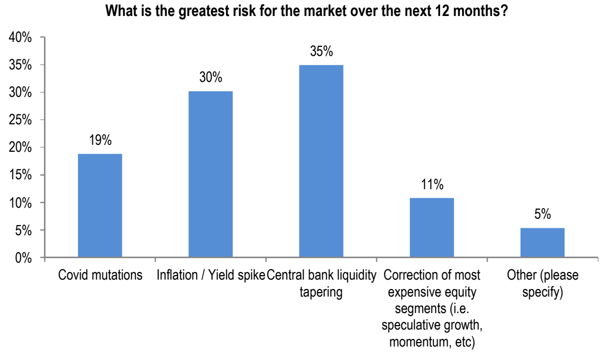


Source: J.P. Morgan.

What do you perceive as the best way to hedge inflation risk?



What is the greatest risk for the market over the next 12 months?



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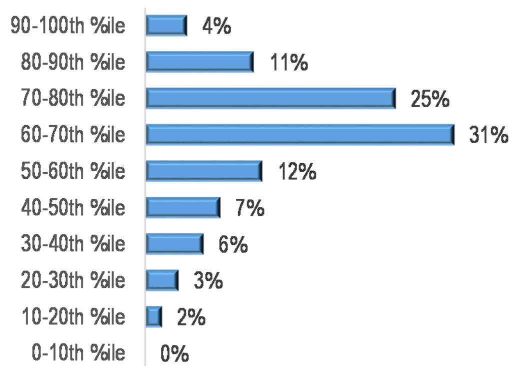
JPM Clients' View – Interim Results

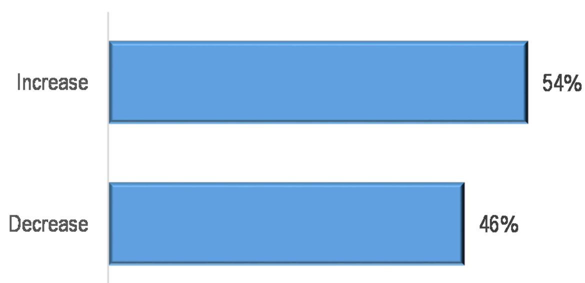
The charts below show interim results from this week's survey, collected over the first ~24 hours it was live. The survey remains open here, and we will present updated results in next week's J.P.Morgan View publication.

Figure 3: What is your current equity positioning or sentiment in historical terms, expressed from most bearish (0th percentile) to most bullish (100th percentile)?



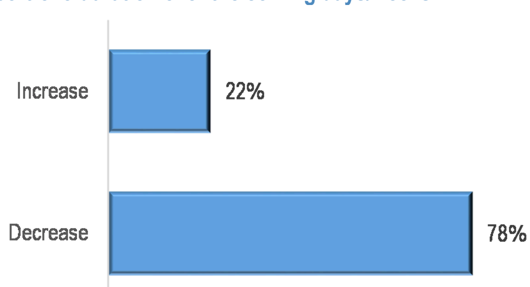
Source: J.P. Morgan.

Figure 4: Are you more likely to increase or decrease equity exposure over the coming days/weeks?



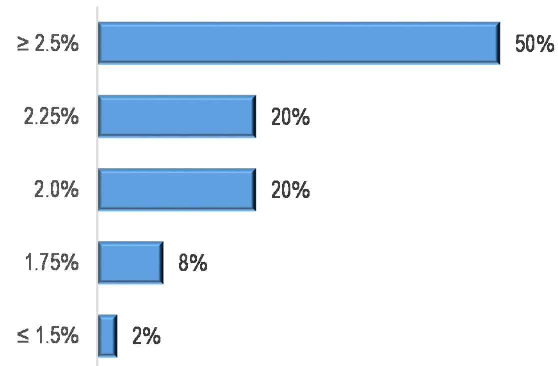
Source: J.P. Morgan.

Figure 5: Are you more likely to increase or decrease bond portfolio duration over the coming days/weeks?



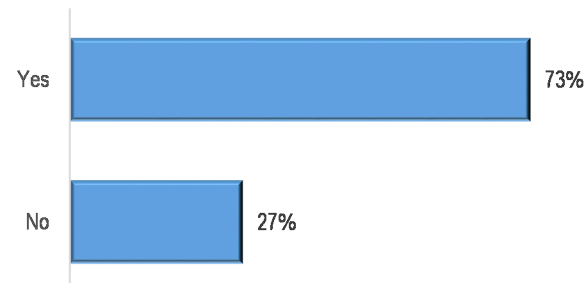
Source: J.P. Morgan.

Figure 6: At what level of US 10Y yield would bonds have more attractive risk/reward than equities for you?



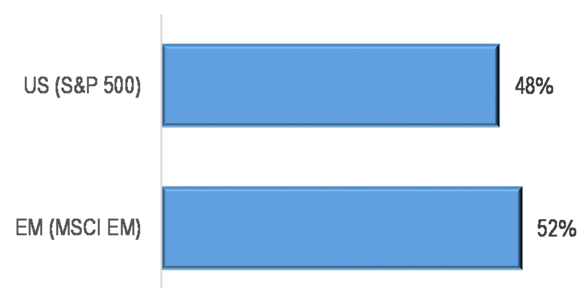
Source: J.P. Morgan.

Figure 7: If inflation starts rising sharply, would you hedge inflation with assets that would deteriorate your portfolio's ESG profile?



Source: J.P. Morgan.

Figure 8: If you need to increase equities, would you rather add to US or Emerging Market stocks?



Source: J.P. Morgan.

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Inflation surprises are likely to persist

Recent economic data, including the past week's PMIs, continue to portray a global economy that is shifting into high gear as we approach mid-year, led by DM economies. This growth surge is boosting demand over supply helping to lift inflation. Indeed the inflation releases over the past month or two appear to have been more of a surprise to economists' projections than growth releases. As we explained in our sister publication Global Asset Allocation also published today, this recent phase of positive inflation surprises is likely to be sustained into the second half of the year for three reasons:

1) The strength in growth acceleration coupled with supply bottlenecks including those in labor markets are raising the risk of a higher than expected demand vs. supply gap and thus higher than expected inflation into the second half of the year.

2) There is typically serial correlation in inflation surprises. This is shown in Figure 9 which depicts the forecast migration matrix for US real GDP growth and headline CPI BlueChip consensus forecasts, showing if the change in the current month is up or down (or no change) what percentage of the time it has been followed by an up or down (or no change) forecast in the following month. Upward inflation revisions are followed by further upward inflation revisions in the following month 64% of the time, with the serial correlation lasting up to four months.

3) We see further upside in commodity prices raising the risk of spillover effects to broader inflation indicators. This upside risk partly reflects our assessment that investors' positioning in commodities remains low and thus investors have room to amplify the commodity rally as they try to protect their portfolios against inflation. Indeed, Figure 2 shows that at 0.6% on our calculations, the implied commodity allocation ex gold of investors globally stands below the post-Lehman period average and well below the levels seen between 2010 and 2013. The implied commodity allocation shown in Figure 10 is proxied by the open interest across commodity futures contracts (as this is how investors typically access commodities outside gold), divided by the stock of equities, bonds and cash held by non-bank investors globally.

Overall, the above arguments suggest that inflation is an underappreciated risk and thus several of our trading recommendations focus on the inflation theme. In our mind, at an asset class level, this inflation theme does not only favor an overweight in commodities and equities but also an underweight in credit. We thus trimmed further the credit allocation in our model portfolio in our sister Global Asset Allocation publication.

The inflation theme, to the extent it is led by the US, should have positive implications for the dollar and thus negative implications for EM currencies and bonds. In rates, markets are already pricing in headline inflation outturns some way above economists' forecasts for 2021 and 2022. Given that the Fed is likely to take steps towards an eventual taper in coming meetings, markets may struggle to price additional risk premia in the near term. However, this does not mean that nominal yields have peaked, but rather that upside in nominal yields is more likely to come from higher real rates. Higher rates should help value-oriented stocks to continue to outperform in the equity space. Europe and EM are our favorite equity regions given their value-oriented composition. To play the inflation theme in credit, we express a similar preference for European credit via going long risk in iTraxx Main vs. CDX.IG. Within commodities, we are underweight gold given its exposure to higher real yields.

Figure 9: US real GDP growth and headline CPI forecast migration matrix

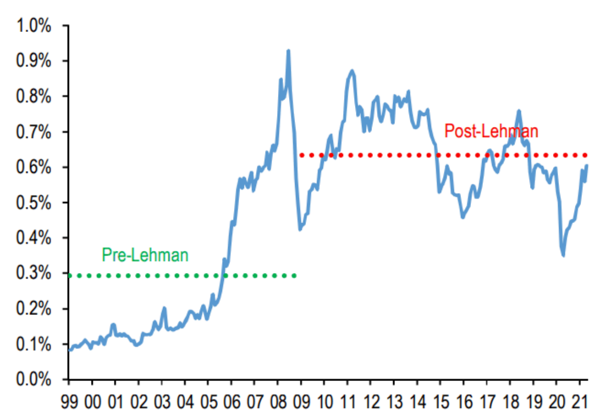
Showing if the change in the current month is up or down (or no change), what percentage of the time it has been followed by an up or down (or no change) forecast in the following month

		Inflation forecasts: Month t+1			Growth forecasts: Period t+1		
		Down	Up	No change	Down	Up	No change
Month t	Down	0.68	0.17	0.15	0.61	0.31	0.08
	Up	0.20	0.64	0.15	0.24	0.57	0.18
	No change	0.29	0.32	0.39	0.38	0.40	0.22

Source: J.P. Morgan Global Markets Strategy.

Figure 10: Implied commodity allocation by non-bank investors globally

Proxied by the open interest of commodity futures ex gold as % of the stock of equities, bonds and cash held by non-bank investors globally



Source: J.P. Morgan.

Global Research Digest

Macro & Cross-Asset Views

Dissecting the crypto crash: The relative importance of microstructure and the leverage cycle, Joshua Younger

Though the run-up in total cryptocurrency market capitalization was more gradual than the 2017/18 cycle, the unwind thus far bears some hallmarks of that collapse, but fundamental developments were a key catalyst in the recent sell off. We continue to see evidence of resilient microstructure in cryptocurrency markets: the volatility spike appears somewhat regionally localized, market depth is down but has not cratered despite these moves, and derivatives pricing has managed to adjust quickly enough to retain a decent fraction of the levered long base. We are admittedly in a sizeable correction, and it has likely been exacerbated by poor liquidity and a turn in the leverage cycle in cryptocurrency markets which has eroded an important price support. Timing is always difficult, and it may in fact be too early to call the bottom, particularly if regulators continue to tighten then hold on the market. But absent a continued dramatic escalation of exogenous factors—which we can of course not rule out—the resilience of market structure is a positive technical backdrop against which to stage a recovery.

Equity Index Technical Strategy: Consolidation patterns maturing; Look for Value and Cyclicals to lead during the next leg; Energy near a breakout, Jason Hunter

Most US broad equity indexes spent the last month consolidating while the S&P 500 Index bullishly held favored support near 4000, and the price pattern is consistent with a pause within an ongoing bull market. The price pattern analysis remains more favorable for Value and cyclically sensitive sectors, as those indexes do not show the level of trend deceleration now present on Growth-heavy index charts. The shape and level of the Treasury curve still point to an early- to mid-cycle environment, and the bear market consolidation in that market looks mature and ready for a release to higher yield levels. The cross-market correlation in recent years suggests an increased probability for Value outperformance if another leg to higher yields develops. Within Value, the Energy sector can be a standout performer in the second half, as a breakout rally can allow for catchup to other cyclically sensitive sectors.

Flows & Liquidity: Have US rate markets become more vulnerable?, Nikolaos Panigirtzoglou

US rate markets have likely become more vulnerable from a positioning point of view, driven by US bond managers increasing exposures to any further inflation surprises and/or a hawkish shift in Fed policy. USTs rallied for a second straight month in May, driven by domestic investors, despite positive growth and inflation surprises, helping to weaken the dollar and boost the equity market. The 25bp decline since the March peak in the 10y US real yield in particular is mechanically widening the Equity Risk Premium, the yield gap between equities and bonds, making equities relatively more attractive to multi-asset investors. The decline in the 10y US real yield is also reducing the attractiveness of the dollar from a yield perspective relative to other currencies.

Global Economics and the Recovery from COVID-19

Highlights from the 2021 JPM Global China Summit: Accelerating Transformation, JPM China Research

The key themes of the 2021 JPM Global China Summit included post-pandemic recovery and long-term structural changes in key industries (AI and Cloud, smart EV, semiconductor, healthcare, renewables, etc.) and investment strategies (ESG investment, opportunities in China's onshore market). The emphasis for China is no longer recovery from the pandemic but how the country can achieve long-term sustainable growth. Policy normalization will likely be gradual and data-dependent. Investors seem to remain optimistic on the potential for China's capital market to grow in the coming years. The share of foreign holdings in China's onshore bond market could increase to 10% by 2030 from the current 3.4%. Quant investment has evolved rapidly in the onshore market and quant investors are ramping up infrastructure investments in AI, low latency trading systems, and data centers.

May jobs report is good enough, but not great, Michael Feroli

Nonfarm employment increased by 559,000, close to our expectations of 550,000 but a little short of consensus expectations for a 675,000 gain, and while the unemployment rate moved down three tenths to 5.8%, the labor force participation slipped a tenth to 61.6%. Last month's job growth was a step-up from April's disappointing 278,000 increase (which was only modestly revised up from the first estimate) but still well below the pace of labor market improvement that had been expected as recently as two months ago. While we continue to expect the FOMC to begin discussing tapering at the June meeting, the ongoing jobs shortfall should lead to a conclusion that it is far too soon to actually commence tapering. We continue to track Q2 GDP growth of around 10.0% annualized. The number of hours worked in Q2 appears to be increasing at just over a 5% pace, implying another quarter of solid productivity growth.

Global inventories get even leaner after second wave, Joseph Lupton

With production decelerating sharply last quarter, the inventory cycle looks to have reversed course, leaving the normalization of stock-building far from complete and overall inventories at very depressed levels relative to the pace of sales. While limited in scope, inventory data from the US and Asia highlight the deteriorating inventory picture. With consumer demand on the rise again this quarter, bottleneck pressures are still building as businesses are challenged to meet the rise in final demand. Nevertheless, we see ample capacity in global industry and look for bottleneck pressures to fade with the reopening of economies around the world in the coming months. Production should quickly rebound from its current lull and be well supported into 1H22 by the upswing in global demand and a strong need by firms to speed up the pace of inventory building.

China: Policy developments in population, commodity prices and FX, Haibin Zhu

The Chinese government announced policy measures to address the decline in population growth, the spike in commodity prices and rapid appreciation in CNY, all of which have recently received much attention from policymakers and market participants. The relaxation in birth control policy is a necessary step to address the population problem in China, but it is not sufficient. The announced supplementary polices measures, such as taxation, childcare and education system, are helpful to gauge the policy impact in the near, medium and long terms. Recent policy actions of Chinese authorities have mainly focused on cracking down on speculative transactions in commodities as the pace of commodity price increases accelerated entering 2021. The impact could be more on market expectations, as the demand-supply imbalance is a global issue. Against the backdrop of CNY appreciation since April, the PBOC announced on May 31 to increase the reserve requirement for FX deposits from 5% to 7%, effective June 15. The increase in FX deposit reserve requirement is mainly to prevent a formation of a one-side appreciation trend of CNY. We maintain our year-end USD/CNY forecast at 6.50.

EM Asia's vaccination path: Waiting on supply to turn, Nur Raisah Rasid & Jisun Yang

As economic reopening accelerates in major economies, EM Asia faces increasingly severe COVID-19 infection waves, and vaccine supply remains the major impediment to herd immunity. Excluding China, the pace of inoculation has fallen behind in the rest of the world even as daily cases have yet to peak in some countries. Thus, until the vaccination pace picks up in EM Asia, the region's recovery should continue lagging the US's, resulting in narrower growth differentials. Slow vaccine procurement is the key issue in EMAX, reflecting late vaccine orders vis-à-vis DM economies and a reduction in available vaccine supply due to the surge in infection cases in India, a major vaccine exporter. That said, plateauing demand for vaccines in DM and the COVAX facility could ease the supply bottleneck and speed up vaccination in 2H21.

Global market implications

Oil Markets Weekly: Summertime demand tracking, Natasha Kaneva

Our current base case outlook on oil calls for a peak in prices around $80/bbl in late 2021, though we actually see a bulk of the inflection higher in demand recovery coming over the seasonally-strong summer driving season from May through August. We continue to view oil demand recovery as largely a function of vaccinations. Our demand estimates call for global oil demand to grow by 4.6 mbd over the course of the summer (August vs April), a recovery more than 2.7 mbd stronger than the seasonal bounce in 2019. The main impediment for global oil demand reaching the coveted 100 mbd in summer remains international travel as global air traffic was not able to break above 60% of 2019 levels in May. Consequently, if demand were to come in hotter than we expect over the next few months, we do think there is risk that prices peak out up towards $80/bbl earlier than we currently expect. OPEC+ opted to stick to the existing pace of gradually easing oil supply curbs in June and July, and if demand develops in line with our expectations, we would expect OPEC+ to agree to add another 500 kbd in August at its next meeting, bringing total net additions to 2.4 mbd this year.

Pump it Up: Credit in an inflationary world – Perspectives across US and European HG and HY markets and sectors, Matthew Bailey & Eric Beinstein

In our view, inflation in and of itself is not a major threat to credit spreads. If anything, it leads to

organic balance sheet deleveraging. The danger lurks in a potential aggressive policy response to inflation which in turn triggers a recession. Note that sustained high or accelerating inflation is not our base case. In our view, provided that investors do not start to worry that abrupt hikes in real policy rates will drive the economy into recession, we believe that spreads can remain relatively resilient to rising nominal yields. The biggest transition risk from higher inflation is that it could cause the 'search-for-yield' to go into reverse as investors may be able to hit their hurdle rate of return in higher-quality assets. We view inflation fears as mostly confined to dollars, and think that rising inflation would be more troubling in Europe, although a much lower risk scenario, as the concern in Europe is that policymakers are doing too little, not too much. Across credit markets, we would expect higher nominal yields to lead to lower corporate bond issuance overall, with more floating rate supply, and less long duration supply. The sectors that we believe would be most impacted by inflation include US & European Retail, US & European Banks, European REITs, DM Metals & Mining, and DM Energy.

Sector level views

US Beverages, Household & Personal Care: Follow-Up Consumer Survey: Preferences and Purchase Intentions in the New Normal, Andrea Teixeira, CFA

We conducted a follow-up proprietary survey about a year after our initial June 2020 survey to offer investors an updated assessment of consumer purchase intentions post-pandemic versus pre-pandemic habits and how those intentions have changed over the past year. Key questions asked included purchase intention by category, purchase intention by brand, if preference for national brands versus private label will normalize post-pandemic, key factors of importance in purchase decisions after consumers feel safer, and consumer channel preferences post-pandemic. The survey results reinforce our view that most Household & Personal Care (HPC) companies will continue to see a secular increase in demand, through either more self-care, cleaning, or at-home cooking. That said, at the same time, the survey shows less positive purchase intentions now versus June 2020, increasing preference for private label (normalizing) and heightened focus on pricing, which tempers the view a bit, particularly as companies begin to lap tough comparisons.

The Disruption Series: Shift to online retail set to continue at pace in France and the UK, less so in Germany, Sandeep Deshpande

All companies that presented in our 2021 TMT Conference indicated positive or improving trends even when some of the companies concerned have faced challenges in the past year. The strong demand trends continue to fuel capacity shortages in semis in both equipment and devices. Telecom equipment is benefiting from the ongoing 5G cycle as well as share shift to European companies due to geopolitics. Payments companies should benefit from the store re-opening trade as well as from the gradual return of travel.