The Rest of the World Prepares to Reopen for Summer
Monthly Market Commentary
May 2021

- Domestic equity markets continued to produce strong broad-based gains across a wide range of sectors.
- 51% of the U.S. population had received at least one dose of a COVID-19 vaccine by the end of May, while its daily COVID-19 infection rate fell to 7% of its all-time peak. Canada has vaccinated nearly 60% of its population with at least one dose, but the fully vaccinated numbers trailed the U.S. by a large margin.
- U.S. President Joe Biden's administration proposed a $6 trillion budget for the 2022 fiscal year centered on his two major economic initiatives—infrastructure (estimated $2.3 trillion) and families programs (estimated $1.8 trillion)—along with $1.5 trillion for defense.

Economic Backdrop

Domestic equity markets continued to produce strong broad-based gains across a wide range of sectors. Global equity markets advanced during May for the fourth straight month in local currency or U.S. dollar terms, but were weaker in Canadian dollar terms as the loonie strengthened. Emerging-market stocks outpaced developed markets as a group, but performance varied widely from country to country.

Europe generated the greatest equity gains during May, driven by sharp rallies across Hungary, Poland, Austria and Czech Republic; U.K. shares also performed quite well. Japan and Hong Kong equities produced healthy returns, while mainland China and U.S. performance was positive but restrained.

Rates for U.S. Treasurys and U.K. gilts declined across most maturities during May, with the most pronounced moves centered on intermediate- to long-term rates. Eurozone government-bond rates increased across all maturities. The West Texas Intermediate crude-oil price crept up to its highest level since late 2018 as energy demand continued to rise during May. OPEC+ (the Organization of the Petroleum Exporting Countries led by Saudi Arabia, plus Russia) announced on June 1 that it will continue to loosen supply cuts that were implemented to counteract plummeting demand early on in the pandemic.

51% of the U.S. population had received at least one dose of a COVID-19 vaccine by the end of May, while its daily COVID-19 infection rate fell to 7% of its all-time peak. While Canada has vaccinated nearly 60% of its population with at least one shot, just over 6% were fully vaccinated compared to nearly 42% in the U.S. In the U.K., the one-dose number stood at 58% of its population as its daily infection rate was 5% of its all-time high; Germany's respective figures were 43% and 16%, while France's were 37% and 17%. India's severe COVID-19 outbreak eased somewhat, with its daily infection rate falling to 45% of its peak by the end of May; several other countries in Southeast Asia along with a number of South American and Caribbean countries remained at or near their highest infection levels.

President Joe Biden's administration proposed a $6 trillion budget for the 2022 fiscal year that would serve as a starting point from which Congress can decide how to appropriate the country's economic funding. The president incorporated his two major economic initiatives into the budget—infrastructure (estimated $2.3 trillion) and families programs (estimated $1.8 trillion)—along with $1.5 trillion for defense. Negotiations during May produced an offer from the White House to lower its infrastructure price tag to $1.7 trillion and a counter bid from Senate Republicans for a $928 billion package.

England's reopening timetable has continued according to schedule. Restaurants and pubs were allowed to provide indoor service starting on 17 May, while hotels opened up, and people from multiple households were permitted to congregate inside. Prime Minister Boris Johnson said there was no apparent reason to doubt that the final reopening stage—which would eliminate all remaining restrictions on social contact, live performances and nightclubs—would occur on 21 June as scheduled.

In a push to re-establish tourism ahead of the traditionally busy summer season, the European Union (EU) approved a proposal made by the European Commission in May to ease travel restrictions within the bloc for vaccinated foreigners. Tensions between the EU and China—which have flared over the last six months as the EU condemned China's record on human rights and China imposed retaliatory economic sanctions—remained unsettled. In May, the European Parliament suspended ratification of the Comprehensive Agreement on Investment that EU and Chinese leaders had finalized in December 2020. As for U.S.- EU trade relations, friction smoothed as the European Commission delayed an increase to tariffs on the U.S. that had been planned in response to the Trump administration's tariffs on European metals; existing tariffs will remain as the two sides negotiate a long-term solution.

Economic Data

- According to Statistics Canada, the rate of inflation (as measured by the change in the Consumer Price Index (CPI)) increased by 0.5% and 3.4%, respectively, for the month and year ending April. Transportation costs rose sharply, largely due to increased gasoline prices. Higher inflation is partly due to low price levels from April 2020 due to the onset of the COVID-19 pandemic. Producer prices were considerably stronger, continuing to indicate the possibility of higher consumer prices at least in the short term. The Industrial Product Price Index (IPPI) was up 1.6% in April, while the Raw Materials Price Index (RMPI) was up 1.0%. Over the past 12 months, the IPPI increased a robust 14.3% and the RMPI was up an eye-popping 56.4%. Prices for lumber, petroleum and energy all remained strong, while food costs have also been on the rise. The unemployment rate for May rose 0.1% to 8.2%; a loss of 68,000 jobs was concentrated in part-time work as tighter public health measures were in effect across much of the country in an effort to battle the third wave of COVID-19.

- U.S. manufacturing activity remained at red-hot growth levels in May, according to multiple purchasing managers' index (PMI) surveys. In the same month, IHS Markit's preliminary U.S. services PMI survey (which dates back to 2009) reported that U.S. services growth set a new high. New claims for jobless benefits continued to decline, from just below 500,000 per week at the start of May to 385,000 at the end of the period. Overall U.S. economic growth jumped to a 6.4% annualized rate during the first quarter of 2021 from 4.3% in the prior quarter.

- U.K. manufacturing activity during May surpassed a growth record set in 1994, according to IHS Markit/CIPS' purchasing managers' index surveys, while U.K. services activity expanded to the highest level in 91 months. The U.K. claimant count (which calculates the number of people claiming Jobseeker's Allowance) remained at 7.2% of the population in April as the total number of claimants decreased from 2.64 million to 2.63 million. The broad U.K. economy grew by 2.1% during March after expanding by 0.7% in February and contracting by 2.6% in January.

- Eurozone manufacturing growth moved further into record-high territory during May, according to IHS Markit's eurozone manufacturing PMI survey (which dates back to 1997). Eurozone services activity returned to a healthy pace of growth in May after emerging in April from an extended contraction. The eurozone unemployment rate edged lower from 8.1% to 8.0% during May. Overall eurozone economic activity contracted by 0.6% during the first quarter of 2021 and by 1.8% year over year—a modest improvement from the prior quarter-over-quarter decline of 7.2%, and a substantially improved year-over-year figure compared to the 4.9% decline recorded for the 12-month period ending December 2020.

Central Banks

- As expected, the Bank of Canada (BoC) held its policy rate at a historically low 0.25% following its June 9 meeting. The BoC indicated it expects to hold rates low until its inflation target is sustainably met. The next scheduled meeting is for July 14.

- The Federal Open Market Committee (FOMC) did not hold a monetary-policy meeting in May and made no significant policy changes following its late-April meeting. The federal-funds rate remained near zero and asset purchases were set to continue at a level of $80 billion in Treasurys and $40 billion in agency mortgage-backed securities per month.

- The Bank of England's (BOE) Monetary Policy Committee (MPC) kept the bank rate at 0.1% and retained an £895 billion maximum allowance for asset purchases at its early May meeting. The BOE upgraded its forecast for 2021 U.K. economic growth to 7.5% from 5% in February, and stated that it could now begin to slow the pace of its monthly asset purchases as planned.

- The European Central Bank (ECB) did not hold a monetary-policy meeting during May; it held course at its late-April meeting, increasing the pace of asset purchases under its €1.85 trillion Pandemic Emergency Purchase Programme

(PEPP). This move, previously announced in March, is intended to counter the negative economic impact of rising interest rates.

- The Bank of Japan (BOJ) had no monetary-policy meeting in May; it made no immediate changes at its late-April meeting after announcing a shift in March from programmatic market interventions to a more as-needed approach.

Market Impact (in Canadian dollar terms)

The Loonie was strong, particularly against the U.S. dollar, thus many foreign equity indexes were down modestly in Canadian dollar terms despite being positive in local currency or U.S. dollar terms. Domestic markets continued to produce impressive broad-based gains. The materials sector, which had been a laggard year to date, was the top performing sector. Gains in energy, financials and consumer staples were strong, while smaller companies outperformed larger companies. Healthcare was a notable underperformer, while utilities and consumer discretionary were slightly negative. Emerging markets had moderate gains, led by Brazil and India. Developed markets trailed as U.S. equities suffered from a weak currency.

Fixed-income markets were modestly positive. Government debt outperformed corporate bonds, while residential mortgages and short-term bonds produced fairly meager gains. Real-return bonds outperformed significantly as inflation reports jumped higher. U.S. high-yield bonds, which are riskier than investment-grade bonds, were up on a currency-hedged basis but down in unhedged terms.

Index Data (May 2021)

- The S&P/TSX Composite Index was up 3.44%.
- The FTSE Canada Universe Bond Index returned 0.63%.
- The S&P 500 Index, which measures U.S. equities, slid 1.11%.
- The MSCI ACWI Index (Net), used to gauge global equity performance, was down 0.27%.
- The ICE BofA U.S. High Yield Constrained Index, representing U.S. high-yield bond markets, returned 0.28% (currency hedged) and -1.51% (unhedged).
- The Chicago Board Options Exchange Volatility Index—a measure of implied volatility in the S&P 500 Index also known as the “fear index”—moved from 18.61 to 16.76 in May despite spiking briefly above 27 on May 12.
- WTI Cushing crude-oil prices, a key indicator of movements in the oil market, rose from US$63.58 on the last day of April to US$66.32 at the end of the month.
- The loonie strengthened versus the U.S. dollar; it ended the month at C$1.21 per U.S. dollar. The U.S. dollar was also generally weaker versus the world’s other major currencies. It ended the month at US$1.42 against sterling, US$1.22 versus the euro and 109.98 yen.