Everything Rallied with Return to Normal in Sight
Monthly Market Commentary
April 2021

- Capital markets posted strong performance across asset classes in April. Equities once again raced ahead around most of the world, with developed markets leading emerging markets; fixed income was generally flat.
- U.S. President Joe Biden's administration announced in mid-April that all adults in the U.S. are eligible for vaccination; by the end of the month, about 30% of the U.S. population was fully vaccinated.
- Emerging-market countries will likely lag developed nations in reopening their economies due to vaccination-distribution challenges; but they are expected to benefit from the upswing in developed-market consumer demand.

Economic Backdrop

Capital markets posted strong performance across asset classes in April. Once again, equities raced ahead around most of the world, with developed markets leading emerging markets. U.S. stocks were the top-performing major market, followed by Europe, the U.K., Hong Kong, and then mainland China. Japanese shares declined for the month.

Government-bond rates underwent varying changes across different regions during April. U.S. Treasury rates were mixed across short-term maturities, while intermediate- and long-term rates fell, creating a flatter yield curve. In the U.K., rates moved higher for gilts with maturities of less than 13 years and lower for gilts of more than 13 years—resulting in a flatter curve. Eurozone government-bond rates increased across all maturities; long-term rates rose by more than short-term rates, leading to a steeper curve.

The pause in interest-rate increases during April was beneficial to bonds and the broader fixed-income universe, which generally delivered positive returns. Commodities also continued to increase in price during April, with the Bloomberg Commodity Index advancing by 6.92% and West Texas Intermediate crude oil rising by 7.47% to $63.58 per barrel.

The U.S. began April in the midst of a mild increase in new COVID-19 cases, but returned to the March low by the middle of the month. President Joe Biden's administration announced in mid-April that all adults in the U.S. are eligible for vaccination; by the end of the month, about 30% of the U.S. population was fully vaccinated. A temporary halt in the use of Johnson & Johnson's one-dose vaccine (due to concerns about a serious potential side effect) was resolved before the end of April. Globally, more than 1.1 billion doses of COVID-19 vaccine were administered by the end of April.

COVID-19 infection rates dropped in Europe during April to less than 150,000 per day from more than 200,000 per day in the prior month. However, progress was uneven across countries. For example, the seven-day moving average of new cases in Germany at the end of April was 29% below its all-time peak—while France reported a 60% reduction and the U.K. infection rate plunged by 96% to its lowest level since last August. At the same time, more than 20% of the U.K. population was fully vaccinated by the end of April compared to 10% of the French population and 8% of the German population.

Non-essential retail businesses reopened in England on April 12 in keeping with the second stage of the country's four-part reopening plan. Restaurants and pubs were still limited to outdoor seating, but they were no longer bound to curfews. The next stage—set for May 17, pending continued progress on lower infection rates—will allow restaurants and pubs to provide indoor service and multiple households to congregate inside.

Asia continued to struggle with a severe outbreak centered in India that began in March; it expanded drastically in April, accounting for the overwhelming majority of new global cases, which reached an all-time high of 15.5 million, dwarfing the previous peak of 3.9 million. This outbreak initially spread to other countries in the region, but appeared to crest in India by late April.

President Biden unveiled a set of spending proposals in late April during a joint address to the Congress that would total about $4 trillion, but which would be funded mostly by tax increases. The proposed plans are split into two groups: The American Jobs Plan, which focuses primarily on infrastructure, would cost $2.3 trillion and be funded by an increase in corporate taxes; and The American Families Plan, which focuses on child care, education, healthcare and a range of other issues, would cost $1.8 trillion and be funded by higher taxes for top earners.

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 2.2%, respectively, for the month and year ending March. Prices for gasoline and energy were sharply higher, while shelter costs also continued to rise. The higher inflation is partly due to low levels of prices from a year ago due to the onset of the COVID-19 pandemic. Producer prices were considerably stronger, continuing to indicate the possibility of higher consumer prices soon. The Industrial Product Price Index (IPPI) was up 1.6% in March, while the Raw Materials Price Index (RMPI) was up 2.3%. Over the past 12 months, the IPPI increased a robust 10.0% and the RMPI jumped 34.7%. Prices for lumber, petroleum and energy all remained strong. The unemployment rate rose to 8.1%—a sharp increase of 0.6% in April. The loss of 207,000 jobs was due to a third wave of the COVID-19 pandemic, resulting in tighter public health measures in several provinces including Ontario, British Columbia and Quebec.

- U.S. manufacturing activity continued to expand at or near multi-decade highs according to multiple PMI surveys. Services growth accelerated from an already strong pace, reaching the highest rate since the 2009 inception of the IHS Markit U.S. services purchasing managers' index (PMI) survey. Jobless claims fell in late April below 500,000 per week—a sharp improvement from an early-month reading of 742,000, and the lowest level since early March 2020. 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 accelerated further into high-growth territory during April—reaching a 321-month high according to IHS Markit/Chartered Institute of Procurement and Supply—building on a recovery that unfolded throughout most of the first quarter after a brief pause around Brexit at the beginning of 2021. U.K. services growth accelerated in April to its highest rate of expansion in 80 months. The U.K. claimant count (which calculates the number of people claiming Jobseeker's Allowance) remained at 7.3% in March as the total number of claimants increased from 2.66 million to 2.67 million. The broad U.K. economy expanded by 0.4% in February after contracting by 2.9% in January.

- Eurozone manufacturing growth continued at a red-hot pace during April, reaching the highest level since the 1997 inception of IHS Markit's eurozone manufacturing PMI survey. Meanwhile, eurozone services activity improved modestly in April, moving from a mild contraction to a mild expansion. The eurozone unemployment rate fell from 8.2% to 8.1% in March despite consensus expectations for an increase. Overall eurozone economic activity contracted by 0.6% during the first quarter of 2021 and by 1.8% year over year, compared to contractions of 0.7% and 4.9%, respectively, in the prior quarter.

Central Banks

- As expected, the Bank of Canada (BoC) held its policy rate at a historically low 0.25% following its April 21 meeting. Bank Governor Macklem noted that the economy has been resilient in the face of COVID-19 and stressed the importance of continued vaccine rollout, but cautioned new more contagious virus variants introduced a level of uncertainty. The next meeting is scheduled for June 9.

- The Federal Open Market Committee (FOMC) 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 U.S. Treasurys and $40 billion in agency mortgage-backed securities per month. Federal Reserve (Fed) Chair Jerome Powell squashed questions about tapering the central bank's extraordinary support, noting that "we're 8.5 million jobs below where we were in February of 2020" and are therefore far from the Fed's mandate to support full employment.

- The Bank of England's (BOE) Monetary Policy Committee (MPC) did not hold a meeting during April. In its March meeting, the MPC maintained the bank rate at 0.1% and retained an £895 billion maximum allowance for asset purchases; it does not intend to increase rates "at least until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably."

- The European Central Bank (ECB) held course at its late-April monetary policy 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 rates. Like Powell, ECB President Christine Lagarde expressed that any decisions about winding down PEPP would be data-dependent, and that it would be premature to do so today given the current economic environment.

- The Bank of Japan (BOJ) made no immediate changes to its monetary policy at its late-April meeting after announcing a shift in March from programmatic market interventions to a more as-needed approach. The BOJ shared the possibility that its emergency pandemic-related programs could be extended past their scheduled September 2021 end dates if economic conditions warrant.

Market Impact (in Canadian dollar terms)

Global markets continued to push to new highs. Continuing a year-to-date trend, Canadian smaller companies outperformed large companies. Sector performance was somewhat mixed: materials and consumer discretionary notably outperformed while healthcare and industrials struggled. U.S. stocks performed well as leadership shifted back to large growth-oriented technology and technology-related companies. Outside of North America, most developed markets had modest gains, with Japan as a notable exception. Emerging markets were nearly flat—Brazil rallied but India slumped as it dealt with a COVID-19 surge.

Fixed-income markets were largely flat in April. Residential mortgages and short-term bonds had modest gains, while corporate and government bonds were nearly unchanged. Real-return bonds were an outlier as long-term yields continued to rise (prices and yields move in opposite directions). 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 (April 2021)

- The S&P/TSX Composite Index was up 2.39%.
- The FTSE Canada Universe Bond Index returned 0.06%.
- The S&P 500 Index, which measures U.S. equities, gained 3.10%.
- The MSCI ACWI Index (Net), used to gauge global equity performance, was up 2.16%.
- The ICE BofA U.S. High Yield Constrained Index, representing U.S. high-yield bond markets, returned 1.07% (currency hedged) and -1.05 % (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 19.40 to 18.61 in April.
- WTI Cushing crude-oil prices, a key indicator of movements in the oil market, rose from US$59.16 on the last day of March to US$63.58 at the end of the month.
- The loonie strengthened versus the U.S. dollar; it ended the month at C$1.23 per U.S. dollar. The U.S. dollar was little changed versus the world’s other major currencies. It ended the month at US$1.38 against sterling, US$1.20 versus the euro and 109.31 yen.

Index Definitions

The **Bloomberg Commodity Index** is composed of futures contracts and reflects the returns on a fully collateralized investment in the Index. This combines the returns of the Index with the returns on cash collateral invested in 13-week (3-month) U.S. Treasury bills.