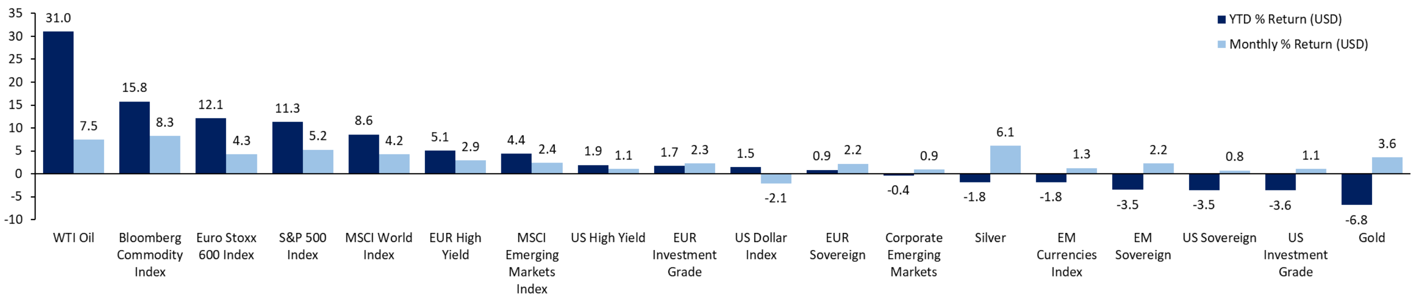
May 3, 2021

Monthly Market Wrap, April 2021

As the world emerges from the pandemic, inflationary pressures are building. Core PCE picked up with good prices accelerating at a faster clip than services and reflect global supply chain dislocations. As restriction ease, pent-up demand is likely to drive up services prices as well. A strong acceleration in wage growth would be the nail in the coffin for inflation to become a real threat. Markets are sensing the risk and commodities leading the theme.

Chart 1. Asset Class Return YTD (USD Base)



Equities

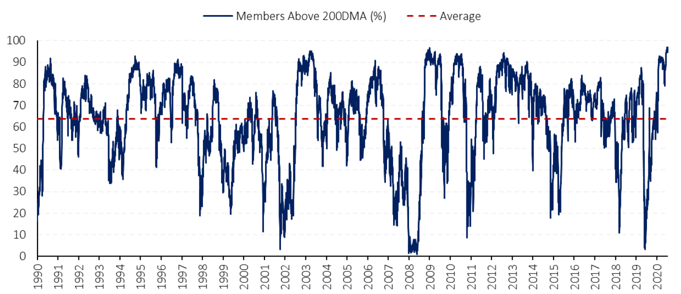
Global equities were up 4.65% in April, rising to 9.80% YTD.

Although it has had better months, the S&P 500's April rally was the broadest-based on record with 95% or more of the index's members trading above their 200-day moving average for 18 sessions **(Chart 2)**. With the S&P 500 rallying more than 10% in the first four months of 2021 (Chart 3). The adage of "sell in May and go away" may well be on many investors' mind. With strong earnings coming in and multiples where they are, the upside risk is becoming less likely with most of the optimism likely already priced in.

The S&P 500 Index was up 5.3% last month, outperforming global equities by 68bps. The Nasdaq was up 5.9%, beating the broader index by 58bps and driven by strong earnings results from the Tech giants. On a sector basis, Real estate led the gains with investors embracing further the reflation trade. Word on the street is demand for housing is strong: "It is absolutely crazy right now. I've raised pricing by $60k on our portfolio of 175 homes (newly built) in the last few months. Tons of buyers from Cali. in the market. These homes are middle class price territory. $200-350k." Family office development company in Texas. Telecommunication and consumer discretionary were the next best performing sectors, respectively up 7.6% and 7.1%.

EU equities were up 2.2% **(chart 4)** lagging global markets as the region remained unloved by investors on persisting social restrictions. Retail was there the top sector, up 6.8%.

Chart 2. S&P 500's April rally was the broadest-based on record



Source. Bloomberg, MAM Research

Chart 3. S&P 500 Index (Weekly)

Source. Bloomberg, MAM Research

Chart 4. EuroStoxx 600 Index (Weekly)

Source. Bloomberg, MAM Research

Fixed Income

The lack of traction in the US Treasury selloff in light of the strong GDP print is interesting. At first, 10-year yields rose to their highest level in more than two weeks **(Chart 5)**. However, the subsequent reversal of the yield increase suggests that the oversold conditions in the bond market have yet to be resolved. US 10-Year yields ended the month down 11.5bps as the 2-Year remains unchanged, thus flattening the 2-10 Yield curve.

Despite this near-term hurdle, we expect yields ultimately to move higher this year as investors digest signs of a firming recovery, especially as before year-end, the Fed will change its rhetoric and will start telegraphing the need for a tapering of asset purchases. The implications of the bond market's behaviour will spill over into equities.

Despite a tick lower towards the end of the month on long term yields, forward breakeven rates (tracker of inflation expectations) remained relatively unchanged **(Chart 6)**.

In Europe, we observed some divergence with long-term yields on the German bunds rising as much as 9.1bps on the 10-Year and 30-Year.

Currencies

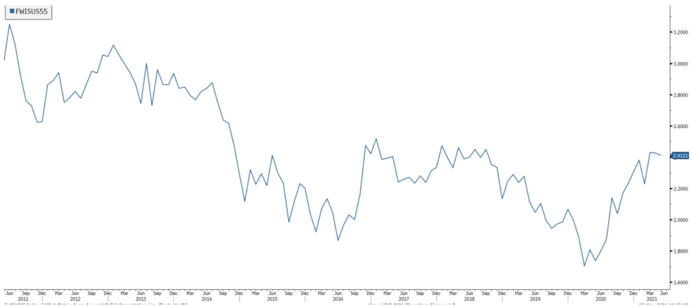
Sizeable upward revisions to growth projections in the US gave the dollar a modest boost in the first quarter. While economic momentum still favours the US over the next couple months, the gap with other countries will narrow dramatically. The economy is on track to expand by 8.1% in the current quarter while Euro area is set to grow 7.4%, the UK by 17.4%, and Japan by 4.7%. However, Despite strong US growth, US 2-year real rates have continued to decline in relation to rates abroad, as have long-term differentials lately, which helps account for the dollar's new weakness **(Chart 7)**. The Fed's dovishness explains why stronger growth has given so little support to the greenback. The dollar is also facing other headwinds. It is not a cheap currency, and one of the consequences of the dollar's overvaluation has been a persistent trade deficit, which has widened sharply since early 2020.

As global growth momentum rotates from the US to the rest of the world, the Fed maintains its accommodative monetary stance, and the US struggles to finance its burgeoning trade deficit, we should expect more strength from the Euro **(Chart 8)** and GBP **(Chart 9)**.

Chart 5. US 10-Yr Treasury Bonds (Weekly)

Source. Bloomberg, MAM Research

Chart 6. US 5Yr5Yr Forward Breakeven Rate (Monthly)



Source. Bloomberg, MAM Research

Chart 7. US Dollar Index (Weekly)

Source. Bloomberg, MAM Research

Chart 8. USD/Euro Spot Exchange Rate (Weekly)

Source. Bloomberg, MAM Research

Chart 9. USD/GBP Spot Exchange Rate (Weekly)

Source. Bloomberg, MAM Research

Commodities

Commodities continue to be the best performing asset class so far this year with the broader index up 16.5% YTD.

Agriculture commodities have drawn a lot of attention as of late with global weather setbacks and health demand pushing the market to fresh highs. The Brazilian weather remains bleak as the droughts continue to persist and create stress on the soil, leaving strong risk for anemic stocks. Additionally, this year, there is a secondary risk from corn leafhoppers, a corn pest in South-Central Brazil that can infect and decimate yields. In the US, the picture is just as bleak. Extreme droughts out of the west and unseasonably cool temperatures out of the Southeast are adding to the pressure on supply. These challenges also happen to coincide with a demand pick up from China. As a result, agriculture commodities are up as much as 11.3% last month with corn **(Chart 10)** and soybean leading the gains, up respectively by 31.2% and 29.4%.

Copper **(Chart 11)** prices rallied % on global demand rebound, growth expectations, and green infrastructure spending. Lumber **(Chart 12)** has also been a beneficiary.

Emerging Markets

EM equities underperformed their global counterpart last month by 2.2% with the index up 2.5% **(Chart 13)**.

Brazilian equities led the gains, up 6.5%, thus erasing a fair share of the year-to-date losses on both a stronger BRL and strong performance of the local TMT sector. Potential for headwinds in the near-future is rising as most of the upside risk for the TMT sector (largest in the index) is now priced in. In Asia, Indian and Pakistani equities both pulled back as a result of rising virus cases in the regions sending waves of uncertainty in the market and casting a shade on the potential economic rebound. China, up a mere 1.4%, paired its year-to-date loses to turn positive, up 1.0% YTD, but continues to underperform global and EM equities. Beijing's more "contained" policy outlook is weighting on the region's market performance so far this year.

LATAM currencies outperformed in line with the EM FX complex **(Chart 14)**, up % last month. BRL was the main outperformer, appreciating 3.5%. MXN also appreciated 90bps, driven by the external backdrop as local headlines remained relatively quiet.

Chart 10. Corn Front Month Rolling Futures (Monthly)

Source. Bloomberg, MAM Research

Chart 11. Copper Front Month Rolling Futures (Monthly)

Source. Bloomberg, MAM Research

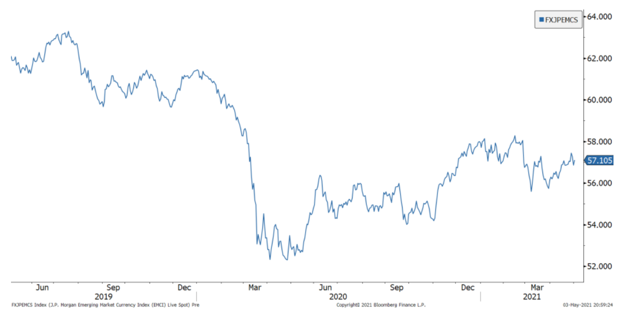
Chart 12. Lumber Front Month Rolling Futures (Monthly)

Source. Bloomberg, MAM Research

Chart 13. MSCI EM Index (Weekly)

Source. Bloomberg, MAM Research

Chart 14. MSCI EM FX Index (Daily)



Source. Bloomberg, MAM Research