MACKENZIE Investments

Monthly Market Matters

Summary for April 2021

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Highlights

- Canadian Federal Budget Released: record ~$354 billion deficit in 2020, deficit to fall to $155 billion in 2021, ~$101 billion in new spending in the next three years
- President Biden unveils his US$1.8 trillion American Families Plan; proposing the wealthy and corporations largely fund the bill
- US equities regain global market leadership amid surging technology stocks and the US economy reopening faster than many others.
- Q1 2021 corporate earnings shatter expectations, boosting stocks higher

Market Summary

Global equity markets continued to climb higher in April, with most major indices posting fresh all-time highs. Q1 corporate earnings are crushing analyst estimates by one of the widest margins on record. The move up for equities was front-loaded, taking place before the bulk of earnings announcements. US vaccinations continue to accelerate, allowing the world's largest economy to open entirely in some states. The same cannot be said for the rest of the world, as global cases have spiked considerably. The new COVID hot spot is India, now accounting for one in every three new cases. A critical catalyst for the most recent leg up in equity markets has been a consolidation in North American bond yields following the meteoric rise in the first quarter (see Chart in Focus for more).

Commodities continue to soar higher, exacerbated by disruptions in global supply chains. The price for crude oil is being bolstered by upward revisions to the outlook for demand. Copper prices (a bellwether for global economic activity) surged to the highest level in almost a decade as more countries announce their aggressive climate targets (copper being an input into electric vehicles and other climate tech). In Canada, the Federal Budget revealed a record 2020 budget deficit of ~$354 billion (16.5% of GDP). The plan is to slash that number in half this year while deploying another $101 billion in new spending over the next three years. These are but a few of the factors stoking inflation fears. Although market-based measures of inflation expectations inched higher in April, they have more or less levelled off. More importantly, the US Federal Reserve (Fed) continues to bat away inflation concerns.

Q1 2021 Earnings – To the Moon!

Corporations are on the verge of delivering a historic parade of quarterly earnings, as earnings exceed what were already lofty forecasts. The earnings 'beats' have been broad-based (all 11 S&P 500 sectors are surpassing estimates). The tech behemoths topped analysts' sales estimates by more than any quarter on record. US banks surprised to the upside on the back of strength in capital markets activities and cash flowing back into earnings due to hefty loan loss provisions being freed from the balance sheet. The better-than-expected results are not just in the US. Here's a quick recap:

Canadian Fixed Income	Level	Month	YTD
FTSE Canada Universe Bond Index	1,160	0.1%	-5.0%
FTSE Canada All Corporate Bond Index	1,348	0.0%	-3.5%
Bloomberg Canada High Yield Index	163	0.8%	3.2%
Global Equities	**Level**	**Month**	**YTD**
S&P/TSX Composite	19,108	2.2%	9.6%
S&P/TSX Small Cap	745	4.1%	13.7%
S&P 500	4,181	5.2%	11.3%
NASDAQ	13,963	5.4%	8.3%
Russell 2000	2,266	2.1%	14.8%
UK FTSE 100	6,970	3.8%	7.9%
Euro Stoxx 50	3,975	1.4%	11.9%
Nikkei 225	28,813	-1.3%	5.0%
MSCI China (USD)	109	1.3%	0.9%
MSCI EM Index (USD)	1,348	2.4%	4.4%
Currencies and Commodities	**Level**	**Month**	**YTD**
CDN $	$0.814	2.2%	3.6%
US Dollar Index	91.28	-2.1%	1.5%
Oil (West Texas)	$63.58	7.5%	31.0%
Natural Gas	$2.93	9.9%	12.3%
Gold	$1,769	3.6%	-6.8%
Copper	$4.47	11.7%	26.7%
Canadian Interest Rates	**Level**	**Month**	**YTD**
3-month T-bill	0.11	2	5
GOC bonds 2-yr	0.30	8	10
GOC bonds 10-yr	1.54	-1	87
GOC bonds 30-yr	2.08	10	87
Canadian Sector Performance		**Month**	**YTD**
Energy		2.4%	21.6%
Materials		5.5%	-2.1%
Industrials		-1.8%	4.4%
Cons. Disc.		5.1%	17.6%
Info Tech		3.8%	2.7%
Health Care		-9.3%	25.0%
Financials		2.4%	15.5%
Cons. Staples		0.0%	2.2%
Comm. Services		3.0%	8.9%
Utilities		-0.6%	1.8%
Real Estate		4.2%	13.5%

Source: Bloomberg April 30, 2021 – local currency unless noted, equity price only returns, bonds total return

- **US**: 86% of S&P 500 companies have beat estimates, growth is a whopping 57% y/y, surprising positively by 25%.
- **Europe**: 74% of the Stoxx 600 companies have beat estimates, growth is 41% y/y, surprising positively by 18%.
- **Japan**: 55% of Topix companies beat estimates, growth is 10% y/y.

Indeed, the unusually high growth rate is partially driven by the substantial base effects from last year's global economic shutdown. However, this should not undermine how resilient companies have been in light of the gloomy and uncertain economic backdrop they faced. Elevated uncertainty still lies ahead, and the bar is now higher. Further surprises on earnings will be harder to come by, yet corporations continuing to outperform expectations is likely a prerequisite for markets to move higher.

Bank of Canada Taps the Brakes; US Fed Stays in the Fast Lane

As expected, the Bank of Canada (BoC) made no change to their overnight policy rate (0.25%) and followed through with tapering their weekly asset purchase program (QE) from $4 billion per week to $3 billion. The surprise came when the BoC pulled forward its guidance on a potential policy rate hike from 1Q2023 to 2H2022. Recent improvements in the labour market and an overheating housing market likely played a role in the Bank's decision. However, improved GDP forecasts, which will close the output gap in 4Q2022, primarily underpinned the decision. The taper moves and now the timing shift for potential lift-off have put upward pressure on short-term bond yields and, in turn, the loonie. (For more, check out our recent *CAD Currency Update* and Mackenzie Chief Economist Todd Mattina's latest insight: *Canadians, keep an eye on the Fed*)

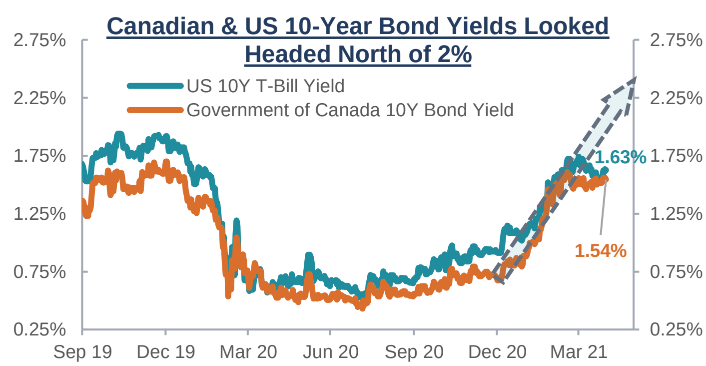
The US Federal Reserve (Fed) unanimously decided to make no changes to their monetary policy. They did, however, recognize and note the recent strength of the economy. Chair Powell once again acknowledged that inflation pressures are on the horizon but expects this inflation pressure to be transitory. This view contrasts with the plethora of anecdotal stories from many large consumer product companies. P&G, Coca-Cola, General Mills and Kimberly-Clark announced they would be raising prices to offset rising commodity and freight costs due to the bottleneck in global supply chains. In addition, there has been an uptick in what has been subdued wages. The latest Bureau of Labor Statistics Employment Cost Index (ECI) recorded its largest q/q increase in 15 years, up 0.9% or 3.7% annualized. This is important because the Fed's inflation projections have wages continuing to increase only modestly. If wages continue to rise more than anticipated, this will feed into the Fed's inflation algebra and may force the Fed to act earlier than expected. Fed members have already begun voicing their concerns, as Dallas Fed President Kaplan stated that he feels it is time to start taper talk discussions.

President Biden Unveils Third Stimulus Bill; Corporations & Wealthy to Foot the Tab

The fiscal spending party has not yet ended. Adding to the already signed *American Rescue Plan* (US$1.9 trillion) and recently announced *American Jobs Plan* (~US$2 trillion), President Biden introduced his US$1.8 trillion *American Families Plan* at his first speech to Congress. The bill will focus on investments into education, childcare, and paid family leave, bringing the total amount of potential new fiscal spending to almost US$4 trillion. Once again, the bill will face heavy opposition in Congress (not one Republican voted for the American Rescue Plan).

The *American Families Plan* calls for corporations and the wealthy to foot the bill. The capital gains tax rate for wealthy individuals is rumoured to almost double to 39.6%, while the proposal will call for the corporate tax rate to increase from 21% to 28%. While well-telegraphed during the election campaign, the notion of higher taxes still did not sit well with equity markets. Markets swooned in the back half of the month, sobering up to the reality that the fiscal party comes with a price tag.

Chart in Focus: Bond Yields – Not So Fast



Rising bond yields came to a halt in April. The resurgence of COVID cases globally is threatening to push out the reopening timeline for many major economies. The arrest of the torrid pace at which yields were rising is a welcomed development for fixed-income investors, who took a thumping to start the year. If yields had kept on their Q1 pace of advance, they appeared on their way to 2% and above. We expect bond yields will resume their ascent, but at a slower pace, and that will be a little easier for investors to digest. The pause in the bond market set the stage for a snapback in shares of hyper-growth technology companies that had taken a back seat to cyclicals in the past few months. Growth stocks notched their first win against their value counterparts since January, the month that yields began taking off higher. The key going forward will be monitoring the change in tone from global central banks. So far, it seems the Bank of Canada's peers will not follow their lead to taper anytime soon.

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