Market Snapshot

Equity Snapshot

United States US equities advanced strongly over April, outperforming most other markets amid positive economic news. The S&P 500 Index breached 4,000 for the first time, bolstered by a strong start to the first-quarter earnings season. In general, earnings growth is expected to rise by almost 25% over the first three months of 2021. If this prediction proves correct, this would be the strongest quarterly period of growth since the third quarter of 2018. President Joe Biden proposed a global minimum corporate tax rate and suggested that the largest multinational companies should pay levies to national governments based on their sales in each country. In his 100-day speech to Congress, the president also announced a USD 1.8 trillion plan to expand America's social safety net. This is in addition to existing proposals for USD 2.3 trillion in infrastructure spending. The president plans to fund the increased spending through tax increases on the wealthiest households

Rising inflationary pressures increased speculation that the Federal Reserve (Fed) might start to taper its bond-buying programme. However, while the Fed offered a brighter assessment of the US recovery, chair Jay Powell reiterated the need for supportive monetary policy until the US labour market recovers from the pandemic. While the Fed showed no signs of changing its policy stance, this was in stark contrast to the Bank of Canada, which became the first G7 country to scale back its support measures.

Europe European equities delivered moderate gains over April (in EUR terms). Shares hit fresh highs during the month, helped by upbeat corporate earnings and growing optimism over the outlook for the global economy. While the EU's vaccine roll-out picked up speed, the fight against COVID-19 was far from over and infection levels remained elevated: France entered its third national lockdown and Germany's parliament passed a controversial law that would allow the German government to impose strict lockdown restrictions, such as overnight curfews and school closures, when infection rates rose to a certain level. Reducing COVID-19 infection levels to enable the restart of international travel before the summer will be critical for euro-zone countries that depend on tourism, such as Spain and Greece.

Euro-zone GDP contracted 0.6% between January and March, tipping the region back into a double-dip recession. However, the contraction was less than had been feared given the steep rise in new COVID-19 infections. Output fell in Germany, Italy and Spain, but France was a rare bright spot. Despite much of the continent being under strict lockdown in April, economic news surprised on the upside. The flash estimate of the euro-zone composite purchasing managers' index rose to 53.7 in April, marking the fastest rate of increase in private sector activity since July 2020. Manufacturing activity increased to a fresh record high of 63.3, although input cost inflation accelerated to a new decade-high due to supply shortages. Services sector activity rose to 50.3, the first time the index has been in expansion territory since last summer. The European Central Bank (ECB) maintained its loose monetary stance, indicating that it believed inflationary pressures to be temporary, even as the euro-zone inflation rate rose to a two-year high of 1.6% in April.

Allianz Global Investors

Asia

Asian equities saw positive returns in April. Signs that the US economic recovery was accelerating helped to lift the outlook for the global economy, although this was partly countered by renewed US/China geopolitical tensions and another wave of COVID-19 infections in India. Both China and Hong Kong equities advanced but lagged broader region, as the authorities continued their crackdown on high-profile internet companies including Alibaba and Tencent. China's GDP expanded 18.3% on a year on year basis between January and March, while purchasing managers' indices for April were mixed. Taiwan delivered solid gains, with semiconductor firms supported by strong demand amid a global chip shortage. ASEAN markets' performances were mixed. Malaysia and Singapore outperformed; while Indonesia, Thailand and the Philippines all retreated. In particular, Thai stocks declined the most as a new wave of COVID-19 threatened the country's tourism sector.

Bond

US bond yields fell in April with the 10-year Treasury bond yield falling as low as 1.54% before closing the month at around 1.63%. The inflation rate jumped to 2.6% in March, the highest rate since August 2018. Rising inflationary pressures increased speculation that the Federal Reserve (Fed) may start to taper its bond-buying programme. However, while the Fed offered a brighter assessment of the US recovery, chair Jay Powell reiterated the need for supportive monetary policy until the US labour market recovers from the pandemic.

In contrast, euro-zone sovereign bond yields rose with the peripheral markets underperforming the core markets, as the region's accelerating vaccine roll-out boosted hopes of economic recovery. Despite much of the continent being under strict lockdown in April, economic news surprised on the upside, with the flash estimate of the composite purchasing managers' index rising to 53.7 in April. The ECB maintained its loose monetary stance, indicating that it believed inflationary pressures to be temporary, even as the euro-zone inflation rate rose to a two-year high of 1.6% in April.

Outlook

After two quarters of outperformance versus their quality and growth counterparts, value stocks took a breather in April. Many cyclical names had already fully priced in the narrative of an economic recovery. Earnings season is forcing investors to square these expectations with financial fundamentals. Beyond this, the persistence of COVID-19 and an inflationary backdrop are further extending equity investors' focus.

The Fed's decision to leave monetary policy unchanged has concentrated minds on when and how monetary policy may tighten. Inflation will remain high in the coming months thanks to huge base effects, rising commodity prices and supply bottlenecks. As portfolio managers, we need to assess the potential impact on businesses, distinguishing between those which can and cannot pass rising costs onto customers.

COVID-19's persistence adds further complexity to the short-term. At the time of writing, daily new cases in India had surpassed 400,000, with a so-called 'Indian variant' of the virus having found its way to the UK. On top of the immediate human cost, more infections globally delay a full recovery and raise the risk of new variants that prove resistant to existing vaccines.

We thus remain steadfast in our belief that bottom-up, fundamental analysis provides the best foundation on which to construct portfolios. Long-term trends such as digitalisation continue to offer companies such as Microchip a highly visible path towards generating earnings growth and shareholder return. At the same time, the underappreciated dominance of a company such as Novo Nordisk in obesity-related medication creates scope for meaningful upside.

Quality companies harnessing these long-term structural growth opportunities typically incur less operational volatility and a premium valuation as a result. Across markets and in our portfolios, this quality growth premium waned over the course of Q1. At the same time, earnings growth expectations for highly cyclical names are already falling into line with longer-term trends. Thus, while our long-term focus on superior stocks removes the need for short-term forecasting, April has the potential to be a meaningful inflection point.

Sources: 1 Eurostat 2 Bloomberg 3 Office for National Statistics