Monthly Market Insights

Data and opinions as of April 30, 2021

Stocks continue to rally on strong economic news while bonds consolidate

Global stock markets continued to rally in April on positive economic news and in the face of rising fears of a new wave of COIVD-19 infections. The vaccine distribution has been encouraging and it appears it will be effective in stopping the virus once everyone has access. In the U.S., individuals over 65 have been prioritized for vaccinations, and in turn their case counts and hospital admissions have been significantly lower than the rest of the population.

Despite higher commodity prices and strong inflation data, global bond markets consolidated last month. Bond yields held steady as incoming economic data merely confirmed the economic rebound, implying the bar for inflation surprises is set very high. Going forward it will be important to watch whether supply constraints or increased demand are driving inflation readings higher.

The NEI perspective

Supply constraints driving inflation. Incoming inflation data and rising commodity prices reflect a rebounding global economy, leading to higher input prices mainly driven by supply constraints.

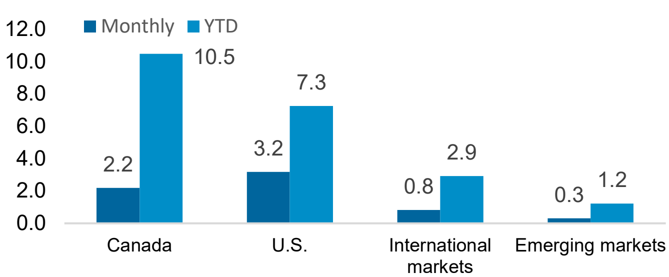
Cases surging in India. The surge of COVID-19 in India has grown to crisis proportions, with cases now exceeding 350,000 per day and record deaths. The country's economic recovery is in jeopardy, though equities were flat over the past month.

Now that stimulus has passed, taxes are being planned. Biden's first 100 days have delivered the strongest post-election U.S. equity returns in at least 75 years on the back of record stimulus. Naturally, the focus is turning to how all of it will be paid for.

From NEI's Monthly Market Monitor for May 2021. [Click here to get the full report](#).

Equity

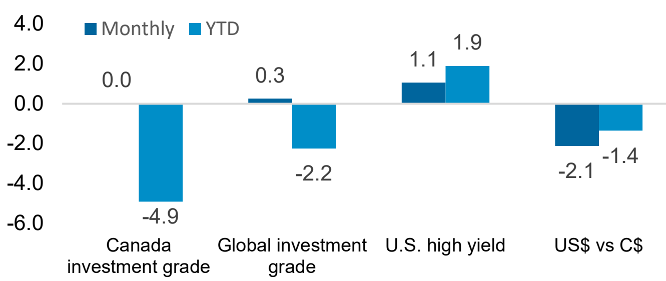
% return in C$



Canada: MSCI Canada; **U.S.:** MSCI USA; **International markets:** MSCI EAFE; **Emerging markets:** MSCI Emerging Markets. Source: Morningstar Direct.

Fixed income and currency

% return in C$



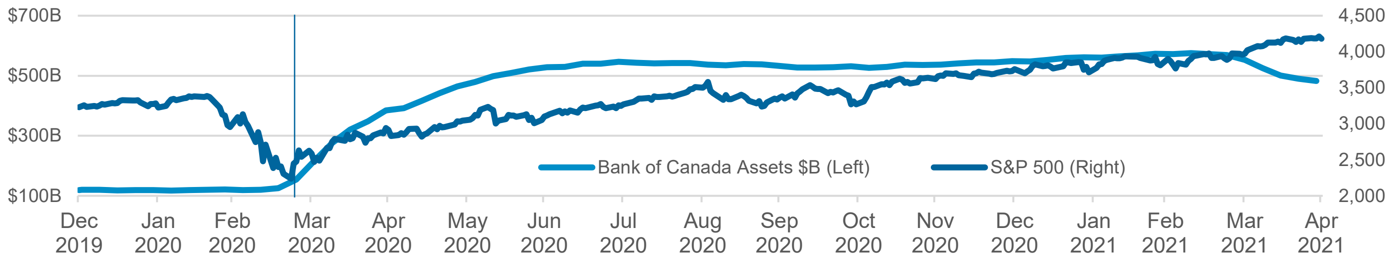
Canada investment grade: Bloomberg Barclays Canada Aggregate; **Global investment grade:** Bloomberg Barclays Global Aggregate; **U.S. high yield:** Bloomberg Barclays U.S. High Yield. Source: Morningstar Direct.

Quantitative easing and the ensuing taper

While the goal of each central bank varies slightly, typically they aim to promote economic and financial stability. The tool they normally use is the adjustment of interest rates. However, last year saw many central banks lower rates to their lower bounds. As COVID-19 started to impact financial markets, the Bank of Canada and the U.S. Federal Reserve lowered rates to zero. With no more room to go lower, central banks turned to quantitative easing to support the market. The Fed and BoC started to buy bonds, increasing the money supply available to promote spending and investment. Central bank balance sheets surged as they tried to stabilize the economy by providing funds and keeping rates low. This move was seen as necessary by many market participants and was instrumental in turning market sentiment.

Bank of Canada balance sheet surges on bond buying

QE announced on March 27, 2020



Source: Bloomberg. Data as of April 30, 2021.

As global economies recover from the coronavirus, central banks will need to look at reducing their purchases, or "tapering." The BoC is the first G7 central bank to start tapering, having made its first hint late last year last year and its first direct move at its latest meeting, tapering purchases to $3B from $4B per week. The move is significant. For comparison, the Fed's first announcement of tapering in 2013 following the financial crisis spooked markets and caused the "Taper Tantrum." Investors responded by selling bonds and yields quickly rose. Once again, central banks must face off against markets. Both markets and central banks will have learned from the past and are certainly more prepared this time. There is a delicate balance to maintain, and any tapering must be well communicated beforehand to markets to prevent another tantrum.