Monthly Market Insights

Data and opinions as of April 30, 2024

Robust earnings helped mitigate fear of persistent inflation

Market sentiment turned bearish in early April for both equity and fixed income markets as sticky U.S. inflation data fuelled market fears that central banks will not ease monetary policy as quickly as previously hoped. Both stock and bond markets pulled back in the first half April, only dampened by the sharp rebound in the second half when strong earnings results and robust growth expectations buoyed markets. Both equities and fixed income markets ended the month in negative territory with global bonds falling 1.68% over the month while developed market equities fell 2.25%.

A combination of rising energy prices and lower interest rate sensitivity supported the cyclical value segment of the equity market, which outperformed the growth segment on a relative basis.

After making record highs in March, the rally in Japanese and U.S. equities tapered off as they led the way lower for global equity markets in April. At the same time, higher commodity exposure and increased investor interest in cheaper Chinese equities helped emerging market equities deliver positive returns of 0.5% over the month.

The NEI perspective

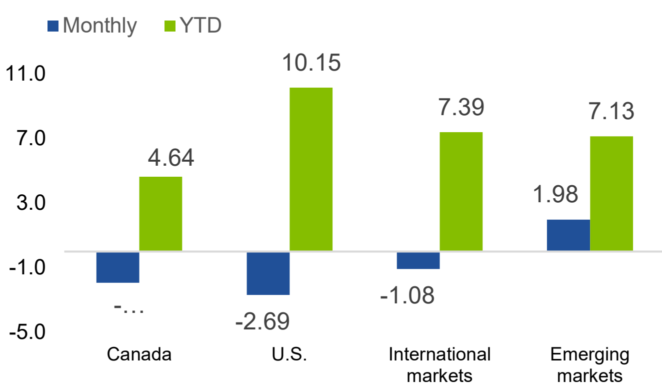
Uptick in the most recent inflation data, higher energy prices, and geopolitical tensions stoke concerns that inflation may re-surface, leaving little room for rate cuts despite economic slowdown.

Activities of Magnificent 7 helped lift the S&P 500 Index back above 5000 following a brief dip in April.

One of the key drivers in the continued strength of the U.S. economy has been the labour market, which has been remarkably robust and the weakening of which would also be an early indicator of economic weakness as it has been in numerous recessions in the past.

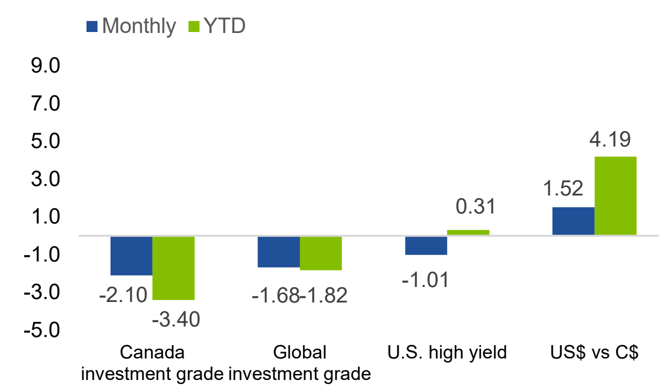
From NEI's Monthly Market Monitor for April. Read the full report for more insights.

Equity
% return in C$



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

Fixed income and currency
% return in C$

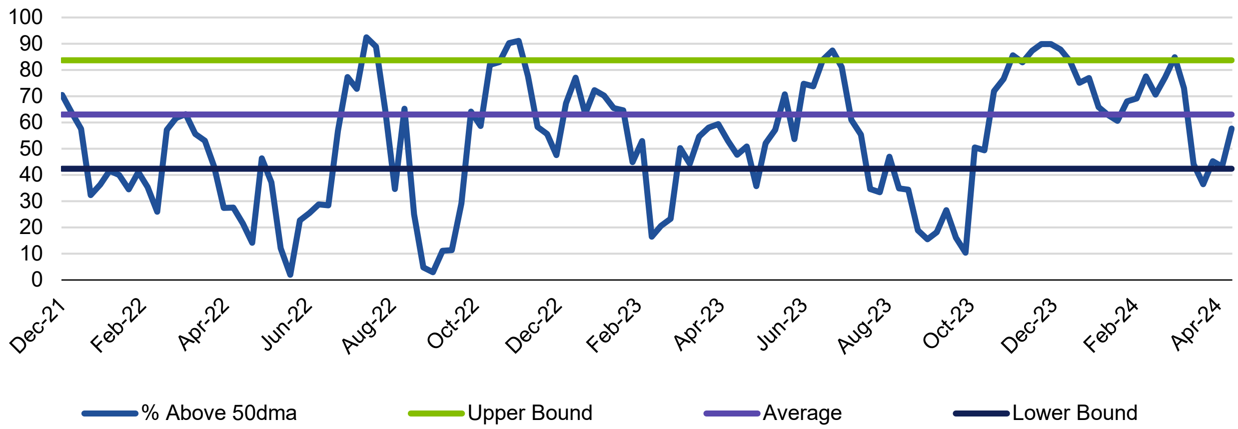


Canada investment grade: Bloomberg Barclays Canada Aggregate;
Global investment grade: Bloomberg Barclays Global Aggregate;
U.S. high yield: Bloomberg Barclays U.S. High Yield.
Source: Morningstar Direct

Bearish sentiment from delayed rate cuts

April saw risk aversion rise as the market narrative changed from assumptions of ‘soft landing’ or ‘no landing’ scenario to a much more concerning ‘stagflation’ environment. Uptick in the most recent inflation data, higher energy prices, and geopolitical tensions stoke concerns that inflation may re-surface, leaving little room for rate cuts despite economic slowdown. The U.S. equity markets dropped by 5% in mid-month from the close of the first quarter at a historical high.

Investor sentiment turned bearish in April



Source: Bloomberg LP.

Volatile month for Magnificent 7

Tesla has been retreating year-to-date from lower demand on EVs, but a near 40% rebound into month end caught everyone off guard. Also notable was the heightening AI frenzy in April as some semiconductor companies reported strong results. Nvidia, which has yet to report earnings, saw one of the largest single-day drops in market cap in history only to recover fully in the following four trading days. Upon a strong earnings report, Google’s parent Alphabet had the largest one-day gain in market capitalization in history. These moves helped lift the S&P 500 Index back above 5000 following a brief dip below in April.

Strong earnings growth prospects drove prices

Name	Earnings surprise beat/(miss) % vs consensus	Y/Y EPS Growth	YTD performance
Meta	9.40%	114%	31.8%
Amazon	41.80%	227%	22.3%
Alphabet	23.60%	62%	18.7%
Microsoft	3.90%	20%	10.1%
Apple	1.90%	1%	-3.4%
Tesla	-13.30%	-38%	-30.4%
Nvidia	To be announced	To be announced	82.1%

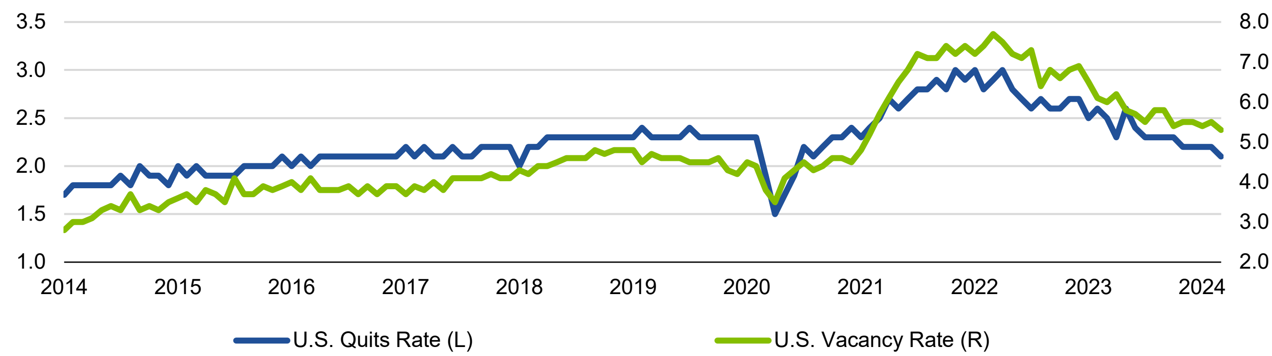
Source: Bloomberg LP.

Bottomline: Uptick in inflation and geopolitical tensions caused a change in investor sentiment and led to a pullback in April, which sent the equity markets to more attractive levels. The earnings season demonstrated continued strength in corporate fundamentals, providing support for richer valuations. The sentiment may have been too pessimistic and after the pullback, current levels still present a good entry point for long term investors, as we expect the rally to resume and broaden based on strong earnings growth and economic momentum.

Job market continues to ease

One of the key drivers in the continued strength of the U.S. economy has been the labour market, which has been remarkably robust and the weakening of which would also be an early indicator of economic weakness as it has been in numerous recessions in the past. The most recent jobs report in March suggest that the U.S. labour market remains robust but is beginning to cool. The number of U.S. job openings decreased, with the quits rate also declining to the lowest level since August 2020.

U.S. labour markets softening



Source: Bloomberg LP.

Other indicators also corroborate the softening in labour market conditions. The job openings rate fell to 5.1% in March, after three consecutive months at 5.3%, meaning the upward trend in hires appears to be levelling off. Along with softer labour demand, the quits rate has also continued to fall, amounting to an easing of labour market slack. The vacancy-to-unemployment rate, is yet to return to the pre-pandemic level, but remains on a path to come into balance.

Bottomline: We expect the labour market to continue to ease along with wage growth, alleviating inflationary pressures later in the year.