March Market Reflection

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Balanced portfolio investors have continued to experience positive returns through April as market participants anticipate the return to more normal levels of overall economic activity. Generally unanticipated has been the better performance of bond markets, given persistent fears of higher levels of inflation. However, following the worst start to a year for many decades, government bond yields declined marginally in the absence of immediate evidence of rising consumer prices in official data. Even so, bottlenecks are evident in a number of supply chains, with, for example, semiconductors being hard to source. Several automotive manufacturers have announced production pauses as a result, and second-hand car prices are rising sharply. Broad commodity price indices have risen to levels last seen in 2015, although they remain well short of pre-financial crisis peaks. Global equity indices continue to hover around all-time highs, leading to further fears of a substantial pull-back. While the possibility of either a period of consolidation or a bout of profit-taking cannot be dismissed, a severe reversal is not anticipated when economic growth is accelerating as it is, and when companies are reporting such strong profit performance. Furthermore, both fiscal and monetary support will remain important factors in limiting downside risk for the foreseeable future. A consequence of the better performance of bond markets has been a recovery for some of the higher growth sectors. First quarter results from world-leading companies including Apple, Alphabet (parent of Google), Amazon, and Facebook have justified that confidence. But at the same time, highly cyclical companies in sectors such as Energy and Mining have also reported extremely strong profits and cash flow - as have Banks, in distinct contrast to the period following the financial crisis.

- The global economy is set to recover strongly in 2021. Economists continue to raise their growth projections, which currently stand at 5.8% (Bloomberg median estimate). There will be some deceleration in 2022, but growth is still forecast to be 4.1%.

- Growth will be fuelled by a powerful cocktail of pent-up consumer demand and increased corporate capital expenditure, while fiscal support will remain firm. The latest spending package announced in the United States is further proof of a political shift in favour of bigger government.

- While COVID still dominates the headlines, evidence of a degree of herd immunity is growing in countries that have been at the forefront of vaccine distribution. However, the situation in India provides a warning that complacency must be avoided. It also suggests that Emerging Market economies, generally at the back of the vaccine queue, will recover later. The UK is amongst the leaders.

- Canada's central bank is alone amongst those in the developed world to announce even a marginal tightening of monetary policy. While

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there is some dispute in markets as to the timing of more widespread policy tightening, with the tapering of asset purchases first on the agenda, nothing is expected before the end of this year at the earliest.

- The greatest current threat to the equity bull market remains that inflation expectations become unanchored and necessitate a severe tightening of monetary policy. Central banks retain the markets' trust for now, but the situation requires continual monitoring.

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