Russell Investments

Market Comment – April 2021

Global Equity

The MSCI World Net Index increased 4.7% in April. The continued rollout of Covid-19 vaccines, accommodative monetary and fiscal policies, as well as positive corporate earnings results, supported upbeat market sentiment. This was slightly moderated by higher tax proposals by US President Joe Biden and surging coronavirus cases, notably in India. Relations between the US and China also remained frosty. The US dollar weakened over the month and commodity prices were robust.

Developed Markets

In the US, non-farm payrolls surged by 916,000 in March, beating estimates for a rise of 647,000. The latest unemployment rate also dropped to 6.0%, with an uptick in the participation rate to 61.5%. Meanwhile, core inflation increased to 1.6% YoY, after a notable increase in retail sales (27.7% YoY) in March – a record high annual increase amid large falls in March 2020 due to the coronavirus pandemic. Additionally, an advanced print for first quarter GDP growth indicated a robust 6.4% QoQ expansion. Unsurprisingly, the Federal Reserve (Fed) kept its monetary policy unchanged and reiterated that a rate rise was not on the horizon. The Fed would most likely taper its bond buying programme first, before considering raising interest rates. Adding to broader market optimism was the release of corporate earnings reports, from companies such as Apple, Microsoft and Amazon, which beat sales and earnings estimates. This optimism was slightly dampened by President Biden’s anticipated tax increases, which would reverse some of the former President Trump’s tax cuts. The current administration believes tax hikes will help fund Biden’s broader “Build Back Better” programme.

Across the pond, the UK government confirmed progress in the “roadmap” out of full lockdown. Large parts of the economy reopened on April 12th. Meanwhile, similarly to recent moves by the European Central Bank (ECB), UK Chancellor Rishi announced a taskforce to explore the benefits of a digital currency by the Bank of England. In mainland Europe, the eurozone’s economy entered a technical recession after another contraction in the first quarter. However, economists believe there will be sharp growth in the second quarter as vaccination programmes ramp up and countries slowly re-open their economies. The ECB expectedly kept interest rates and its bond buying programme unchanged. The ECB also reaffirmed its accommodative policy stance, with ECB President Christine Lagarde stating that “preserving favourable financing conditions over the pandemic”, remained essential in reducing uncertainty and bolstering confidence.

In Japan, Prime Minister Yoshihide Suga’s ruling Liberal Democratic Party lost all three seats in parliamentary by-elections, weakening the influence of Suga's government. The losses are viewed as voters expressing frustration with scandals and government management of the effects of the coronavirus. During the month, Suga declared states of emergency in several major prefectures as new coronavirus cases surged.

Emerging Markets

The MSCI Emerging Markets (EM) Index edged higher by 2.5%. In China, relations with the US remained frosty as US authorities placed three companies and four branches of China’s National Supercomputing Centre on a blacklist, accusing them of helping China build up its military capabilities. In economic news, the economy grew at a record pace of 18.3% YoY in the first quarter this year, only slightly missing forecasts for a 19.0% expansion. This is in stark contrast to the contraction that occurred a year earlier owing to the coronavirus restrictions.

In India, security forces were called in to help fight the second wave of coronavirus cases which are setting new global records. They will help build for example, field hospitals to help take off pressure from overrun hospitals. They will also aid in the distribution of much-needed oxygen tanks. India's central bank kept its benchmark interest rate held at 4.0%, whilst inflation rose more than expected to 5.5% YoY.

Sector & Factor performance

All major sectors registered positive returns, but communication services, real estate and technology led the pack on a relative basis. The main laggard this month was energy, closely followed by industrials. The more defensively positioned consumer staples, utilities and health care sectors, also continued to underperform.

After a strong rally for value and small caps in March, April saw a reversal with momentum and growth notably outperforming. Large caps and quality also had a strong month. On the other end of the spectrum, defensive styles, deeper value, yield and small caps all underperformed the market.

Source: Confluence, Bloomberg. Data as at April 30th, 2021. All returns are in US dollars, unless otherwise stated.

For more information

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