



# Capital Markets Review

## April 2021

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**STRATEGIC ASSET ALLIANCE**  
THE INSURANCE INVESTMENT SPECIALIST



# Summary Capital Market Commentary – April 2021

- Developed market equities gained in April with the US leading the way, buoyed by a swift vaccine roll-out and fiscal stimulus measures. Emerging market shares also saw positive returns but lagged developed markets; however, the pandemic continues to be a major concern in several emerging markets, notably India.
  - US equities made solid gains in April. Economic data was encouraging overall. Q1 GDP growth of 6.4% (quarter on quarter, annualized) narrowly missed expectations of 6.7%, and the trade deficit widened. Even so, aggregate business activity - as measured by the composite purchasing managers' index (PMI - an index of business activity based on a survey of private companies in the manufacturing and services sectors) – climbed to 59.7 in March. The gain was led by the service sector, signaling the biggest uptick since 2014. Consumer confidence, while still below its pre-pandemic level, also rose strongly. Meanwhile, 70% of the US population has now had at least one shot of the vaccine.
  - Eurozone shares also gained in April. GDP data showed the eurozone economy contracted by 0.6% in Q1. Forward-looking data was more encouraging with the manufacturing PMI survey reaching a new record high of 63.4. Eurozone annual inflation was estimated at 1.6% for April, up from 1.3% in March. However, the core measure, which excludes energy prices, was up just 0.8%. The European Central Bank had quickened the pace of its asset purchases in March, due to the renewed wave of the virus, and confirmed in April that it would maintain this pace so as to avoid a rise in borrowing costs that could jeopardise the economic recovery.
  - The Japanese equity market declined 2.8% in April, although all this move occurred in just two days when investors saw a greater chance that Japan may re-impose restrictions on activity.
  - Asia ex Japan equities recorded a modest gain in April as the rollout of Covid-19 vaccines in many parts of the world boosted optimism for a return to economic normality. China achieved a modest gain during the month following two consecutive monthly declines as solid 2020/21 earnings, a temporary weakening of the US dollar and less stretched valuations buoyed market sentiment
  - Emerging market (EM) equities recorded a gain in April aided by dollar weakness but underperformed developed markets.





# Summary Capital Market Commentary – April 2021

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- [The sharp sell-off in US government bonds came to a halt in April, helped by comments from the Federal Reserve.](#)
  - While the recent data have been encouraging, the policy environment is set to stay highly accommodative for some time. President Biden has followed up his \$1.9 trillion fiscal stimulus bill with a proposed \$2 trillion in infrastructure and manufacturing subsidies. The Federal Reserve (Fed) also confirmed its willingness to run the economy “hot” – or above the long-term inflation target – to support economic recovery and full employment. It further stated it expects its targets for stable economic growth are still “some time” away and that asset purchases would continue until then.
  - The US 10-year Treasury yield declined by 11 basis points (bps) to 1.63% for the month. Corporate bonds produced positive returns and outperformed government bonds. US credit led the way, with investment grade slightly ahead of high yield, supported by falling yields.



# Fixed Income Yields

Index YTW	12/31/2019	12/31/2020	3/31/2021	4/30/2021	Chg Prior Qtr	Chg Calendar Yr	Chg 12/31/2019
<b>Aggregate</b>	<b>2.31%</b>	<b>1.12%</b>	<b>1.61%</b>	<b>1.51%</b>	▼ -0.10%	▲ 0.39%	▼ -0.80%
<b>Intermediate Aggregate</b>	<b>2.14%</b>	<b>0.83%</b>	<b>1.29%</b>	<b>1.19%</b>	▼ -0.10%	▲ 0.36%	▼ -0.95%
U.S. Treasury	1.80%	0.57%	1.00%	0.95%	▼ -0.05%	▲ 0.38%	▼ -0.85%
U.S. 2-Yr Treasury	1.56%	0.12%	0.16%	0.16%	▬ 0.00%	▲ 0.04%	▼ -1.40%
U.S. 5-Yr Treasury	1.68%	0.36%	0.93%	0.85%	▼ -0.08%	▲ 0.49%	▼ -0.83%
U.S. 10-Yr Treasury	1.91%	0.91%	1.74%	1.63%	▼ -0.11%	▲ 0.72%	▼ -0.28%
U.S. 30-Yr Treasury	2.38%	1.64%	2.40%	2.29%	▼ -0.11%	▲ 0.65%	▼ -0.09%
U.S. Agency MBS	2.54%	1.25%	1.82%	1.68%	▼ -0.14%	▲ 0.43%	▼ -0.86%
ABS	2.05%	0.45%	0.56%	0.50%	▼ -0.06%	▲ 0.05%	▼ -1.55%
CMBS	2.48%	1.28%	1.71%	1.58%	▼ -0.13%	▲ 0.30%	▼ -0.90%
U.S. Credit	2.79%	1.68%	2.19%	2.09%	▼ -0.10%	▲ 0.41%	▼ -0.70%
A-Rated Corporates	2.64%	1.52%	2.03%	1.91%	▼ -0.12%	▲ 0.39%	▼ -0.73%
BBB-Rated Corporates	3.19%	2.04%	2.52%	2.42%	▼ -0.10%	▲ 0.38%	▼ -0.77%
Municipal Bond	1.78%	1.07%	1.18%	1.04%	▼ -0.14%	▼ -0.03%	▼ -0.74%
Taxable Municipal Bond	3.04%	2.10%	2.49%	2.36%	▼ -0.13%	▲ 0.26%	▼ -0.68%
U.S. High Yield	5.19%	4.18%	4.23%	3.99%	▼ -0.24%	▼ -0.19%	▼ -1.20%
Global Aggregate (USD)	1.45%	0.83%	1.16%	1.13%	▼ -0.03%	▲ 0.30%	▼ -0.32%
<b>U.S. Agg. vs. Global Agg.</b>	▲ 0.86%	▲ 0.29%	▲ 0.45%	▲ 0.38%	▼ -0.07%	▲ 0.09%	▼ -0.48%
<b>Curve Steepness: UST 2yr-10yr Spread (bps)</b>	35.0	79.0	158.0	147.0	▼ -11.0	▲ 68.0	▲ 112.0

Source: Bloomberg Barclays Indices & BofA ICE Indices

- ❖ **KEY THEME** – Across bond markets in April, yields were grinding lower and prices moving higher. With consensus firmly in the higher yield camp, the Street struggled to explain the move lower in yields. Reasons cited included rising Covid variants cases outside the U.S., sluggish global growth, and technical factors.
- ❖ Still, low rates will persist as recently reaffirmed by the Federal Reserve to mitigate the economic impact of the ongoing coronavirus pandemic. Expect all fixed income portfolios to face continued investment income erosion through 2023/24 due to lower reinvestment yields. Shorter maturity portfolios will see this impact much sooner than longer maturity portfolios.



# Capital Markets' Performance



<u>Index</u>	<u>Asset Class</u>	<u>Apr-21</u>	<u>YTD</u>	<u>Trailing 1 Yr</u>	<u>Trailing 3 Yr</u>	<u>Trailing 5 Yr</u>
S&P GSCI Crude Oil	U.S. Equity	7.39%	<b>31.29%</b>	164.83%	-21.51%	-9.63%
Alerian MLP	Master Limited Partnerships	7.15%	<b>30.67%</b>	45.47%	-3.27%	-2.00%
S&P GSCI Commodities	U.S. Equity	8.23%	<b>22.90%</b>	79.99%	-3.98%	0.83%
S&P SmallCap 600	U.S. Equity	2.04%	<b>20.65%</b>	76.85%	14.09%	15.79%
Dow Jones U.S. Select REIT	U.S. Real Estate	8.28%	<b>19.11%</b>	37.23%	9.90%	6.23%
S&P MidCap 400	U.S. Equity	4.50%	<b>18.58%</b>	67.90%	15.18%	15.10%
S&P Composite 1500 Value	U.S. Equity	3.75%	<b>15.78%</b>	43.80%	13.02%	12.76%
S&P Composite 1500	U.S. Equity	5.19%	<b>12.46%</b>	47.91%	18.31%	17.22%
S&P 500	U.S. Equity	5.34%	<b>11.84%</b>	45.98%	18.67%	17.42%
Dow Jones Industrial Average	U.S. Equity	2.78%	<b>11.30%</b>	42.12%	14.52%	16.48%
MSCI World Index	World Equity	4.70%	<b>9.98%</b>	46.01%	14.71%	14.65%
S&P Composite 1500 Growth	U.S. Equity	6.59%	<b>9.51%</b>	50.02%	22.53%	20.84%
MSCI World Ex. US Index	World Equity	3.23%	<b>7.53%</b>	41.27%	7.17%	9.46%
MSCI EAFE Index	International Equity	3.09%	<b>6.80%</b>	40.45%	6.78%	9.39%
MSCI EAFE (Net)	International Equity	3.01%	<b>6.59%</b>	39.88%	6.27%	8.87%
BofA Merrill Lynch US Convertibles	U.S. Convertible Bond	2.58%	<b>5.52%</b>	60.79%	23.00%	19.04%
MSCI EM (Emerging Markets)	International Equity	2.50%	<b>4.90%</b>	49.21%	7.91%	12.91%
S&P/LSTA US Leveraged Loan Index	U.S. Fixed Income	0.51%	<b>2.30%</b>	16.10%	4.16%	4.98%
Barclays Capital U.S. Corporate High Yield	U.S. Fixed Income	1.09%	<b>1.95%</b>	19.67%	7.00%	7.46%
Barclays Capital Municipal Bond	U.S. Fixed Income	0.84%	<b>0.48%</b>	7.75%	5.33%	3.51%
Citigroup 3-month T-bill	Cash/Cash Equivalent	0.00%	<b>0.02%</b>	0.13%	1.41%	1.15%
Barclays U.S. Treasury: U.S. TIPS	U.S. Fixed Income	1.40%	<b>-0.09%</b>	6.09%	6.19%	4.08%
Barclays Intermediate U.S. Government/Credit	U.S. Fixed Income	0.50%	<b>-1.37%</b>	1.09%	4.71%	2.80%
5-Year US Treasury	U.S. Treasury	0.54%	<b>-1.88%</b>	-1.55%	4.80%	2.18%
Barclays Capital U.S. Aggregate	U.S. Fixed Income	0.79%	<b>-2.61%</b>	-0.27%	5.19%	3.19%
Barclays U.S. Government/Credit	U.S. Fixed Income	0.88%	<b>-3.44%</b>	-0.46%	5.60%	3.45%
Citigroup WorldBIG Index	World Fixed Income	1.20%	<b>-3.55%</b>	3.49%	3.76%	2.68%
Barclays Capital U.S. Corporate Investment Grade	U.S. Fixed Income	1.11%	<b>-3.59%</b>	4.46%	6.92%	4.85%
Merrill Lynch US Treasury Master	U.S. Fixed Income	0.84%	<b>-3.80%</b>	-4.70%	4.64%	2.42%
10-Year US Treasury	U.S. Treasury	1.19%	<b>-6.00%</b>	-7.79%	5.54%	1.97%

Indices sorted high/low by YTD '21 performance.

Source: Zephyr StyleAdvisor

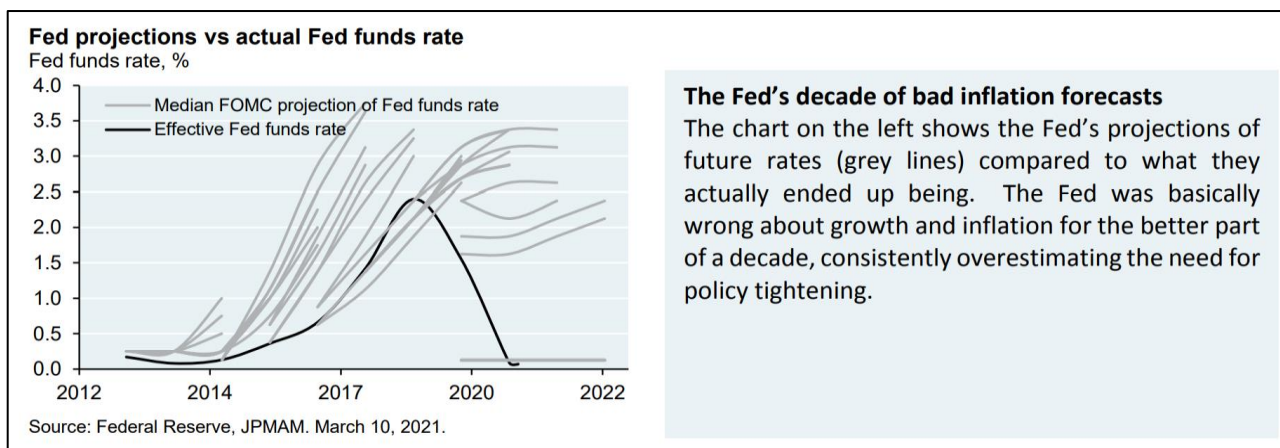
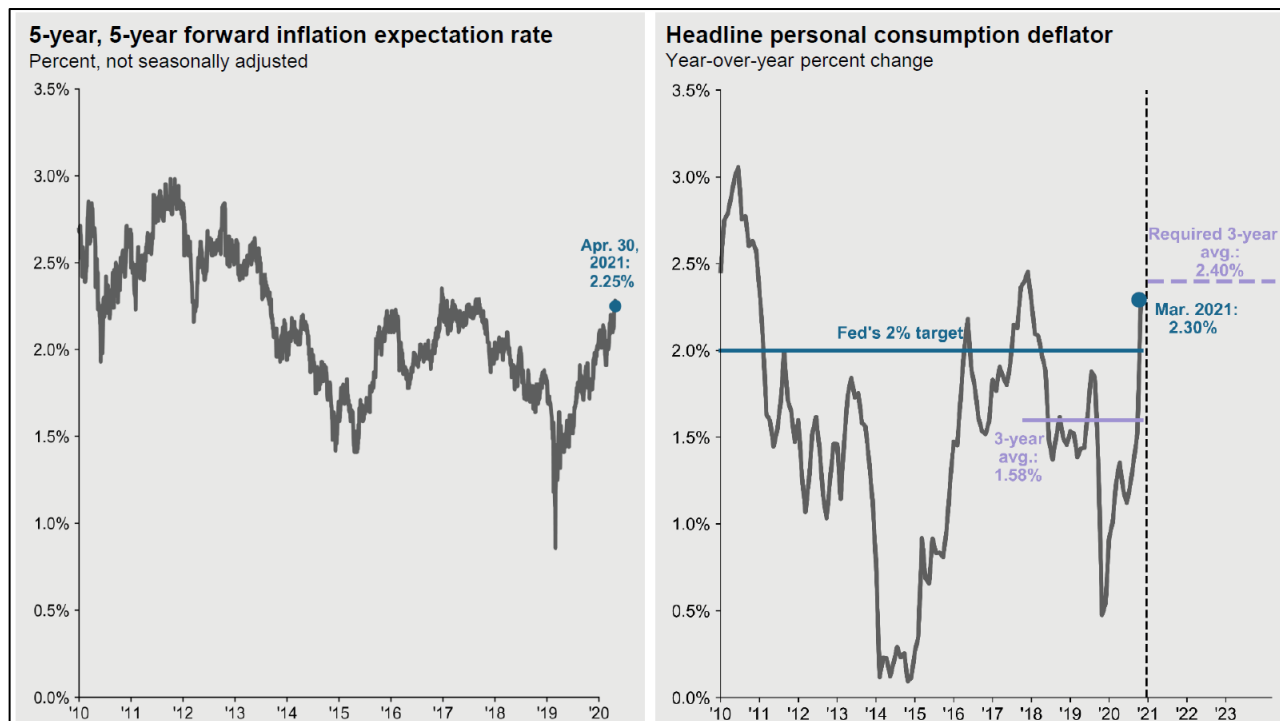


# Real Inflation Coming? Unclear...



## SAA VIEW:

- (A) As of April 30, 2021, the 5yr, 5yr forward inflation rate was 2.25%, which was higher than the Fed's 2% average inflation target and subject to upward pressures as the economy reopens.
- (B) Using actual year-over-year inflation of 2.30% as of March 2021, the Fed's policy will allow for higher inflation (i.e. above 2% target) over the short/intermediate term given the Fed's policy change last year to utilize an "average target" as opposed to "target" inflation metric.
- (C) Even with the vast amount of data and information accessible to the Federal Open Market Committee (FOMC), the Fed's prognostication powers are worse than poor when it comes to growth and inflation forecasting.

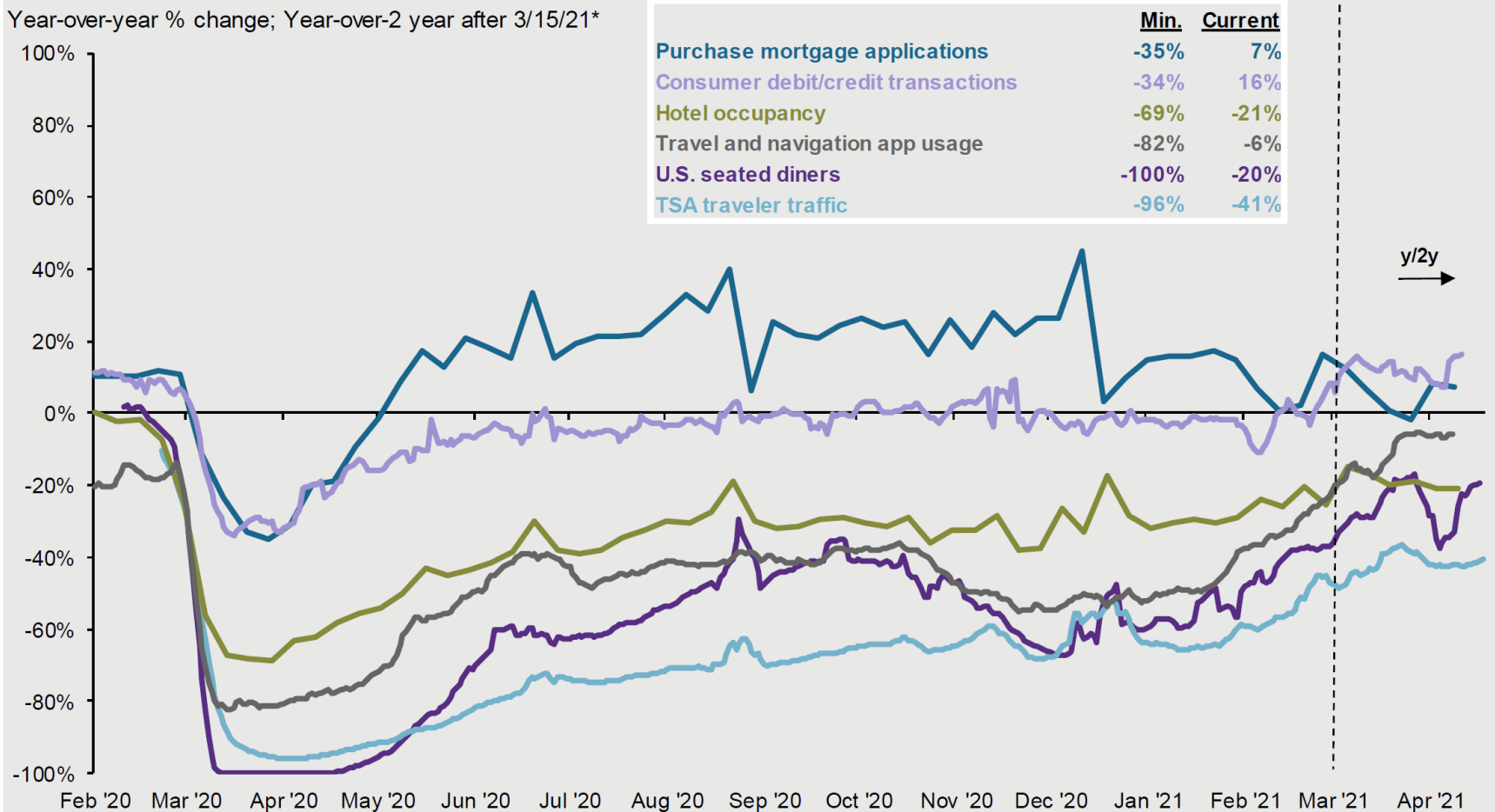


# Consumers Begin to Re-Emerge



## High-frequency data

Year-over-year % change; Year-over-2 year after 3/15/21\*



**Source:** App Annie, Chase, Mortgage Bankers Association (MBA), OpenTable, STR, Transportation Security Administration (TSA), J.P. Morgan Asset Management. \*Beginning March 15, 2021, all indicators compare 2021 to 2019. Prior to March 15, 2021, figures are year-over-year. Consumer debit/credit transactions, U.S. seated diners and TSA traveler traffic are 7-day moving averages. App Annie data is compared to 2019 average and includes over 600 travel and navigation apps globally, including Google Maps, Uber, Airbnb and Booking.com. Consumerspending: This report uses rigorous security protocols for selected data sourced from Chase credit and debit card transactions to ensure all information is kept confidential and secure. All selected data is highly aggregated and all unique identifiable information—including names, account numbers, addresses, dates of birth and Social Security Numbers—is removed from the data before the report's author receives it. JP Morgan Guide to the Markets – U.S. Data are as of April 30, 2021.

