April Monthly Review

A summary of key events and market trends during the month of April followed by your dedicated portfolio performance analysis.

SGMC CAPITAL

April Monthly Newsletter

- The Nasdaq regained leadership of the US equity indices; albeit by a hairs breadth. Corporate results released thus far have outperformed analyst expectations
- The highlight of the month has been the press conference held post the recently concluded Federal Reserve meeting. Chair Powell has attempted to push back expectations of monetary tightening
- We would expect markets to trade flat to lower over the coming weeks as we approach the summer months
- The Volatility Index (VIX) traded below 20 for the month and we could see a spike higher if market participants hedge portfolios

Transitory …

Fed Chair Powell's read of higher upcoming inflation is that it is very likely transitory due to the low base effects from last year

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Key markets

Index	Month to Date (%)	Year to Date (%)
Topix	-2.85	6.11
Hang Seng China Enterprises	-1.22	0.93
Dax	0.85	10.33
Euro Stoxx 50	1.93	12.92
S&P 500	5.34	11.83
Dow Jones	2.78	11.30
Nasdaq 100	5.92	7.78
US 10 Year Treasury	- 0.12 pts	0.71 pts
EUR USD	2.47	-1.60
USD JPY	-1.27	5.87
Gold	3.60	-6.80

Recap of the month …

US Treasury yields, which were on a strong path up, have now flat-lined. This has come through despite consistently strong economic data; from employment to activity. Employees are hard to attract as many continue to enjoy generous benefits. Anecdotal evidence suggests price increases will now be passed on to end customers. We expect that inflation ticks higher over the coming months.

Transitory, or not? That is the question.

Clearly the low base effects from last year will have an impact on the current inflation readings and will also level off over time. Having said that, with commodity prices, in some cases, near all time highs we could likely see a continuation of inflationary pressures. Hence, the opposite of transitory.

Fed Chair Powell adamantly disagrees with this hypothesis and this came through in the press conference post the rate decision. He cited multiple times that the Federal Reserve view was that inflation would likely moderate over the coming months. He reiterated the goal to reclaim all the jobs lost during the pandemic; a balance number that is to the tune of approximately 8 million. At the current run rate of a million jobs added a month, this would take us to towards the end of 2021 before one precondition to monetary tightening is met.

Another precondition for tightening, that average inflation exceed the 2 % threshold on a consistent basis, is also likely some time away. And the ambiguity of the wording of this requirement further obfuscates the likely timing.

President Biden continues with his program to assist economic growth with additional stimulus packages announced, and invariably an attempt to fund these with additional taxes on the higher income brackets and corporations. The successful passage of his plans through the US Congress will require some deft negotiating and we will be watching the space closely for progress.

Vaccination efforts in the developed world are continuing steadily and this will see economic re-opening becoming a reality over the coming quarter. This feeds in well with higher growth expectations as pent-up demand is released. Emerging markets are yet to make significant progress, and India in particular continues to reel with higher daily cases and fatalities.

The US dollar weakened during the month and this appeared to go against the grain of the encouraging strength in the economic data. Having said that, Fed Chair Powell's uber-dovishness has set back expectations of any monetary tightening and will likely weigh on the currency over the coming months.

Of note is the divergent stance taken by the Bank of Canada which has initiated bond tapering. As has, in a small way, the Reserve Bank of New Zealand. The Bank of England is expected to follow suit in the coming months.

Our optimism in the US dollar on the back of some of the strongest data seen in decades and with a steady stream of fiscal stimulus and unarguably the most advanced vaccination program appears to have been misplaced. We are evaluating the emerging scenario and balancing monetary hawkishness, or lack of, with the likely flows from a risk unwind and will position accordingly in the coming days.

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