Cidel
Asset Management

Looking Back: Q1 2021 in Review

cidel.com

By Bill McKay, CFA, SVP, Head of Multi-Asset Class Investments

Global equity markets continued their upward trend in the first quarter, although the pace was more subdued than in Q4. In the first quarter, the S&P 500 rose 6.1%, the TSX rose 8.1%, the MSCI AC World rose 4.6% and the MSCI Emerging Market Index was up 2.3%. This brings the trailing 12-month returns up to 44.3% for Canadian equities and 54.6% for global equities.

Equity markets continue to be buoyed by expectations of ongoing monetary stimulus, infrastructure spending, ongoing vaccine rollout and the eventual reopening and renormalization of the global economy. In a continuation of fourth quarter trends, value stocks outperformed growth stocks. The MSCI AC World Value Index was up 8.9% versus the comparable growth index which was only up 0.3%. This dynamic was reflected in the big dispersion in sector performance in the first quarter, as the Energy and Finance components of the MSCI World were up 20.6% and 12.6% respectively, while the Technology component was only up 1.2%. Despite the outperformance of Energy and Finance relative to Technology over the past six months, these sectors had significantly underperformed over the prior few years and thus, from a valuation standpoint, the value/growth trend could have further to go.

While interest rates had begun inching up over the course of the fourth quarter, the magnitude of the moves accelerated during Q1 2021. In the U.S., the 10-year government bond yield at the end of March was 1.74%, up massively from 0.91% at the end of 2020. Likewise in Canada, the 10-year government bond yield had a similar move, ending March at 1.56% which was up from 0.68% at the end of December. These large moves over such a short period of time led to one of the worst return periods for bonds in recent memory. For the quarter, the FTSE Canada Universe Bond Index returned -5.0%, while in the U.S., the Barclays Aggregate Bond Index returned -3.4%. High yield bonds held up relatively well, up 0.7% for the quarter, as tightening credit spreads offset some of the effect of rising yields. The one bright spot in fixed income from a return perspective was Canadian preferred shares, which were up 8.8% in the first quarter.

In commodities, oil benefited from the reflation trade as the price of oil moved from approximately $48 to $60 over Q1. Gold trended down further over the quarter to the $1,700 level, similar to where it was before last summer's strong increase in prices. Currency markets were a bit more subdued than in previous quarters, although the trend of U.S. dollar weakening in an environment of increasing risk appetite continued. The Canadian dollar ended the quarter at 1.2562, slightly stronger from 1.27 at the end of the year.

Investors continue to be comfortable taking equity risk, despite the large move in equities over the past 12 months. Conditions continue to be broadly supportive of this as fiscal and monetary stimulus remains in place, the global vaccine rollout continues with some areas starting to reopen, and the relative expected return in equity markets continues to be better than that of fixed income markets. However, interest rates are well off their lows of last summer and inflation expectations have risen substantially. On the balance of risk and reward, our current positioning remains to be relatively neutral on equities.

April 2021