

This month's Market Minute reflects the views of Clearstead's Research Team and was composed by [Joseph D. Boushelle, CFA, CAIA, Senior Managing Director, Research](#).



OVERVIEW

The U.S. economy continued to show signs of growth during the month of April, as consumers continued to ramp up their spending (retail sales ex auto and gas were up 8.2% in March)¹ and first quarter earnings came in strong. This helped drive strength in the U.S. equity and credit markets, which continued to show positive performance. COVID-19 remains in the headlines, as a sharp increase of cases in India were a headwind for emerging market equity performance. Concerns about inflation continued to percolate, especially given supply chain issues and aggressive fiscal and monetary policies in the U.S., but rates on the long end of the U.S. Treasury curve came in modestly lower.

DOMESTIC EQUITY As of April 30, 2021

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	2.8%	2.8%	11.3%	42.1%
S&P 500	5.3%	5.3%	11.8%	46.0%
Russell 2000	2.1%	2.1%	15.1%	74.9%
Russell 1000 Growth	6.8%	6.8%	7.8%	51.4%
Russell 1000 Value	4.0%	4.0%	15.7%	45.9%

Better-than-expected earnings and expectations for a continued recovery in the U.S. drove U.S. equity markets higher during April. Small caps (Russell 2000) underperformed large caps (S&P 500) by 3.2% as investors paused their rotation into the small cap space for a second consecutive month. Small caps had outperformed large caps for six consecutive months (by a cumulative 32.0%) prior to March and April. In the large cap space, value stocks (Russell 1000 Value) underperformed growth stocks (Russell 1000 Growth) by 2.8% as the 10-year Treasury declined during the month, providing a boost for growth stocks following their struggles in February and March. We are still monitoring the evolution of COVID-19 cases and vaccine rollouts, new legislation developments domestically, and the domestic economic growth trajectory in 2021. Despite the rebound in the US Equity market from its lows in March 2020, each of these events or processes has potential to spark market volatility given their potentially broad economic implications.

INTERNATIONAL EQUITY As of April 30, 2021

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	2.9%	2.9%	6.5%	43.0%
MSCI EAFE	3.0%	3.0%	6.6%	39.9%
MSCI Emerging Markets	2.5%	2.5%	4.8%	48.7%
MSCI EAFE Small Cap	4.0%	4.0%	8.7%	52.6%

International markets followed US markets higher, but generally lagged US returns despite a tailwind from the US\$ weakening throughout April. Non-US developed markets (MSCI EAFE +3.0%) performed slightly better than emerging markets (MSCI Emerging Markets +2.5%). Returns of international developed markets are facing headwinds from a weaker economic rebound due to the lower vaccination rates in Europe and Japan. Meanwhile, markets in Asia ex Japan are being driven, in part, by the gradual reduction of fiscal and monetary stimulus from China as its economic policy begins to normalize to pre-pandemic conditions.

Unlike in the US, small caps outperformed their large cap peers in both developed markets (MSCI EAFE Small Cap +4.1%) and emerging markets (MSCI Emerging Market Small Cap +6.1%). The rotation into value stocks seemingly took at least a pause in April and growth stocks generally outperformed value-oriented stocks across non-US equities. Chinese equities (MSCI China Index), which were down over 15% from the mid-February highs to their late March lows, rebounded modestly in April gaining 1.3%.² Meanwhile, Indian equities were volatile as daily COVID-19 cases surged during April to unprecedented levels and Indian equities (MSCI India Index) end the month down -0.8%.

FIXED INCOME As of April 30, 2021

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	0.8%	0.8%	-2.6%	-0.3%
BarCap Global Aggregate	1.3%	1.3%	-3.3%	3.9%
BarCap US High Yield	1.1%	1.1%	1.9%	19.7%
JPM Emerging Market Bond	1.9%	1.9%	-2.9%	14.0%
BarCap Muni	0.8%	0.8%	0.5%	7.7%

Interest rates appeared to find a trading range during April, with 10-year U.S. Treasury yields trading between 1.65% and 1.75%. Yields 5 year and out moved lower during the month and the yield curve flattened as investors debate whether the rising inflation and economic growth are temporary or sustainable.

Risk assets (Investment Grade Corporates, High Yield and Emerging Market Debt) outperformed U.S. Treasuries as investors sought yield and cheered the improving economy. High Yield Corporate (BarCap US High Yield) spreads tightened more than Investment Grade Corporates (BarCap US Corporate); however, Investment Grade bonds (BarCap US Corporate) outperformed, driven by the declining rates on the long end of the curve. Investment Grade Corporates have a longer duration (8.45 years) than High Yield Corporate (3.69 years). Municipal Bonds (BarCap Muni) continued to perform well due to strong demand as investors anticipate higher taxes and lower supply as state and local municipalities benefit from Washington's fiscal stimulus.

CLOSING

The markets celebrated a continued rollback of COVID-19 restrictions, improving economic fundamentals and corporate earnings, and supportive fiscal and monetary policies. A declining COVID-19 infection rate and easing lockdowns should support continued growth in the equity and credit markets. However, the easy comparisons are in the rear-view mirror and Washington DC is now mulling tax hikes. Add the continued potential of rising inflation and supply chain constraints, and we could see some market volatility in the near future.

Sources

- 1 - U.S. Census Bureau
- 2 - <https://www.ft.com/content/ddd6a144-343a-43e2-996c-1f29ffa5e8d6>

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