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Global Economic & Market Review

Second Quarter 2021

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Summary

During the second quarter, many countries around the world enjoyed improved economic conditions, as successful vaccine rollouts slightly muted the threat of the virus. Countries with widespread vaccinations were able to relax restrictions which led to businesses reopening, persons returning to work and a general uptick in economic activity. It was a far cry from the same quarter in 2020, when the global economy came to a halt and risk markets plummeted. However, despite these signs of recovery, it was evident that the COVID-19 pandemic was far from over as new variants emerged and cases continued to increase in some regions. In the meantime, investors focused on the outlook for economic recovery and most global stock markets held up relatively well during the quarter. In its latest forecast, the International Monetary Fund (IMF) maintained its 2021 outlook for global growth at 6.0%, however, the organization noted that the composition of the outlook had changed as an improvement in growth expectations for advanced economies was exactly offset by a downgrade in growth projections for developing and emerging market economies. The continued disparity in growth was attributed to the uneven access to vaccines and inability of some governments to provide sufficient support to their economies. The IMF noted that the recovery was not assured until the pandemic had been beaten back globally.

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United States

US equities extended their gains in the second quarter as the economic recovery continued and government stimulus measures remained in place. Amongst the three major indices, the Nasdaq posted the strongest gain adding +9.49%. The S&P 500 followed with a return of +8.17% while the Dow Jones Industrial Average was up +4.61%. In the bond market, US Treasuries and Corporates partially erased the previous quarter losses with gains of +0.67% and +3.60% respectively while high yield issues returned +2.77%. In June, the US Federal Reserve announced that it expected to raise interest rates earlier than previously forecast due to rising inflation and rapid economic growth. The Fed now expects to raise rates twice in 2023 after previously stating that rate hikes would begin in 2024. The US economy grew at an annualized rate of 6.4% in the first quarter as consumer spending continued to fuel the recovery. However, a surge in demand for goods and services led to a jump in prices during the quarter, resulting in a 4.2% (April) and 5.0% (May) year over year increase in the consumer price index compared to a 1.9% rise in March. The labor market also saw increased demand for workers and the economy added 850,000 jobs in June, the largest gain since August 2020. However, despite the gains, the unemployment rate saw a marginal increase to 5.9% from 5.8% in the previous month. Near the end of the quarter, President Biden received bipartisan support for a $1.2 trillion nationwide infrastructure plan to improve roads, bridges, and undergo other infrastructure projects over the next 8 years. The proposed spending was well below the $2.3 trillion announced in March and included no proposals to increase corporate taxes as previously put forward.

“The US economy grew at an annualized rate of 6.4% in the first quarter as consumer spending continued to fuel the recovery.”

Europe

The euro area economy entered a technical recession in the first quarter as GDP contracted by -0.3% after shrinking -0.6% in the previous quarter. Growth rates were mixed across member states as Ireland (+7.8%) and Croatia (+5.8%) reported the largest increases while Portugal (-3.3%) and Slovakia (-2.0%) experienced the biggest declines. Notably, the German economy, contracted by -1.8%. Despite the recession, the outlook for second quarter growth was positive as a relaxation of restrictions in some areas resulted in increased economic activity. The IHS Markit Composite Purchasing Managers’ Index (PMI), a barometer of private sector activity, rose to a 15-year high of 59.5 in June up from 57.1 in May. It was the fourth consecutive month that the index was above the 50 mark which indicates expansion. Similar to the US, the euro area economy experienced rising inflation. The consumer price index rose at an annual rate of 2.0% in May, a 2-year high, but declined slightly to 1.9% in June. European shares continued to gain; the DJ Euro Stoxx Index was up +3.70% for the quarter. Likewise, the UK economy was estimated to have shrank by -1.5% in Q1-21, as school closures and a decline in retail sales led to a drop in output. While there were some signs of strengthening in the second quarter, the fast spreading Delta variant postponed the lifting of some COVID-19 restrictions and hindered growth. Even so, UK shares did well during the quarter, the FTSE 100 was up +4.82%.

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Asia Pacific

China's GDP grew by an annual rate of 18.3% in Q1-21, representing the highest growth since the country began reporting quarterly growth in 1992. However, on a quarter-on-quarter basis, the country experienced sluggish growth of 0.6% indicating a slowdown in momentum for the world's second largest economy. As well, unemployment has yet to return to pre-pandemic levels standing at 5.1% as of April including youth unemployment which remains high at 13.6%. The Chinese government has a target growth for 2021 of 6.0% while economists forecast growth of 8.0%. Chinese equities experienced gains in Q2-21 and the Shanghai SE Composite increased +4.34%. Elsewhere in Asia, the Japanese economy shrank more than expected in Q1-21 due to rising COVID-19 infections and a slow vaccine rollout. The world's third largest economy shrank by an annualized rate of -3.9% as global chip shortages led to a slowdown in exports. However, this was partly offset by an increase in global demand for cars and electronics. Japan's economy is forecast to grow by 2.7% this year. The outlook for Q2 remained grim, as the continued rise in COVID-19 cases resulted in the Japanese government extending the state of emergency until June 20 which led to a drop in consumer spending. There was also additional uncertainty about whether or not spectators would be allowed at the 2020 Tokyo Olympic Games which had been rescheduled to start in July 2021. The country reportedly spent $15.4 billion on the games including $3 billion for the delay and could potentially lose over $800m in ticket revenues if spectators are banned. These losses would spread to the wider economy and could impact economic growth for years to come. Japanese equities declined during the quarter with the Nikkei 225 falling by -1.3%.

"The Chinese Government has a target growth for 2021 of 6.0% while economists forecast growth of 8.0%."

Emerging Markets

The MSCI Emerging Markets Index posted a return of +4.42% in Q2-21, underperforming the MSCI World Index which gained 7.31%. Economic growth in emerging market (EM) countries continued to lag developed nations due to low vaccination rates and the rapid spread of new variants. India's economy grew 1.6% year over year in Q1-21, however, a second wave of the virus, which resulted in the government imposing strict lockdowns, likely dragged down growth in Q2-21. In addition, the country had limited supply of vaccines despite being the world's largest vaccine producer. India recorded the second highest number of COVID-19 cases worldwide at over 28 million but at the end of the quarter fewer than 4.0% of the 1.38 billion population were fully vaccinated. In June, Moody's slashed India's growth forecast for 2021 from 13.9% to 9.6%, stating that a faster vaccination process is paramount in restricting economic losses. Brazil's economy returned to pre-pandemic levels in Q1-21 as the country grew 1.2% from the previous quarter. Latin America's largest economy was boosted by agricultural exports and the largest fiscal stimulus of the EM countries which allowed it to outperform most countries in the region. The Brazilian government spent 8.3% of GDP on stimulus, double the amount spent by China and India. The majority of the spending included cash payments of $233 per month to residents. In Mexico, strong growth in the neighboring US resulted in a quarterly expansion of 0.8% in Q1-21. Economists expect growth of 5.5% for 2021. The continued recovery in the US has

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boosted demand for Mexican exports and resulted in increased remittance inflows. While faster progress in vaccinations is expected to improve the recovery in EM countries it is likely that most countries will not achieve widespread immunization until the end of 2021 or later. S&P Global projects real GDP growth in emerging market countries excluding China of 6.4%.

Commodities

After a weak first quarter, gold prices recovered slightly (+3.65%) but remained down for the year as the metal struggled amidst strong demand for risk assets. Silver continued its outperformance of gold, rising +7.00% to reduce its year to date loss to -1.05%. The US dollar was flat during the quarter and thus did not have a meaningful impact on either metal. Elsewhere in the metals market, copper prices continued to rally due to a positive outlook for global economic growth. The metal was up +7.18% in Q2-21, its third consecutive quarter of gains. Meanwhile, U.S. WTI crude prices continued their strong recovery from the pandemic low, gaining another +24.19% in the second quarter. Year-to-date, oil prices have risen +51.42% leading to higher gas prices and causing inflation concerns. Despite the steady rise in demand for oil, OPEC has not expressed any desire to increase current production levels. Oil prices are near a politically sensitive level, and we expect some pressure to tame prices as higher costs pose a risk to global growth. Notably, lumber prices cooled significantly, falling -29.05% during the quarter, taking the year-to-date performance to -17.99%. The decline shows that while demand for housing and housing supplies remains strong, a large portion of the price increase was driven by speculators thus we are seeing this reversion. This reversion is expected to continue as supply increases from wood mills returning to full capacity and should help to ease overall inflation concerns.

“Despite the steady rise in demand for oil, OPEC has not expressed any desire to increase current production levels.”

Conclusion

The global economy still faces a threat from increases in COVID-19 cases, the spread of new variants and lack of vaccines in some regions. Despite the progress made, these setbacks could result in a slowdown in the global economic recovery. The success of vaccination programs in some countries around the world has led to an improvement in the outlook for global growth. However, an uneven recovery is likely to persist as some countries will have a difficult time returning their economies to pre-pandemic levels due to vaccine shortages and fiscal limitations. For now, those countries who can afford to do so will continue to provide support to shore up their economies. Pandemic related issues are likely to remain at the forefront for the foreseeable future and we expect that investor uncertainty will persist and from time to time rattle global markets. Given the current state of affairs, it is doubtful that we will return to pre-pandemic norms anytime soon.

Market Returns Q2-2021

	As at 30 June 2021			
	MTD	QTD	YTD	1 year
Equity Indices *(% local currency)*				
S & P 500	2.22	8.17	14.41	38.62
Dow Jones Industrial Average	-0.08	4.61	12.73	33.66
NASDAQ	5.49	9.49	12.54	44.19
S & P TSX	2.20	7.83	15.67	29.97
FTSE 100	0.21	4.82	8.93	14.06
DJ Euro Stoxx 50	0.61	3.70	14.40	25.67
Shanghai SE Composite	-0.67	4.34	3.40	20.32
Nikkei 225	-0.24	-1.33	4.91	29.18
Ibovespa Brasil	0.46	8.72	6.54	33.40
MSCI Emerging Markets	-0.11	4.42	6.46	38.14
MSCI World	1.40	7.31	12.16	37.04
ICE BofA Bond Indices *(% local currency)*				
US Treasuries 0-3 months	0.00	0.01	0.02	0.08
US Treasuries 3-5 years	-0.33	0.34	-0.94	-0.82
US Treasuries 1-10 years	0.01	0.67	-1.07	-1.12
US Corporates	1.66	3.60	-1.06	3.62
US High Yield	1.37	2.77	3.70	15.62
UK Gilts 1-10 yrs	0.17	0.45	-1.87	-1.78
Canada Government 1-10 yrs	0.00	0.34	-1.65	-1.61
Euro Government	0.46	-0.67	-2.97	-0.11
Global High Yield & Emerging Markets	0.18	2.97	2.14	15.21
Global Broad Market Index	-0.64	1.31	-3.52	1.57
Currencies vs. USD				
British Pound	-2.68	0.35	1.18	11.53
Euro	-3.02	1.09	-2.93	5.55
Canadian Dollar	2.77	-1.31	-2.57	-8.68
Japanese Yen	1.40	0.35	7.61	2.95
Australian Dollar	-3.05	-1.32	-2.55	8.62
Swiss Franc	2.90	-1.97	4.50	-2.35
Commodities *(% USD)*				
Gold	-7.17	3.65	-6.76	-0.61
Silver	-6.78	7.00	-1.05	43.50
Copper	-8.41	7.18	21.60	54.70
WTI Crude Oil	11.15	25.18	51.89	81.63
Alternatives *(% USD)*				
HFRX Global Hedge Fund	0.38	2.41	3.73	12.01