canada life™ | Investment Management

April 2021 market update

Canada budgets for a recovery and Biden unveils a tax plan amidst signals of a robust recovery.

May 7, 2021

Introduction

The global economic outlook improved in April, as vaccination efforts accelerated and a select number of countries began easing lockdown restrictions. The outlook in North America brightened following a flurry of new stimulus measures in Canada and the U.S. In Canada, the Federal Government unveiled its 2021-22 budget, including a litany of new spending measures. South of the border, President Biden announced details of the US$1.8 trillion American Families Plan, which included a long list of new programs to support middle-class families. Looking abroad, the European economy shrunk in the first quarter of 2021, while China reported economic growth of 18.3% year-over-year during the first quarter, which was the largest year-over-year expansion since records began.

Amid the improving economic outlook, the Bank of Canada ("BoC") became the first of the major central banks to signal it may raise interest rates earlier than expected. Meanwhile, the Canadian dollar jumped higher in April to its highest level against the greenback since early 2018.

In Canada, the S&P/TSX Composite Index set new record highs in April, led by the Materials and Consumer Discretionary sectors. Improving demand expectations helped push oil prices higher, while the price of gold advanced, in part, due to new stimulus measures. U.S. equities also pushed higher, with the Dow Jones Industrial Average, S&P 500 Index and NASDAQ Composite Index reaching fresh all-time highs. Global equities, as measured by the MSCI ACWI Index, advanced over the month. The 10-year U.S. Treasury bond yield fell, while the 10-year Government of Canada bond yield was largely flat.

Bank of Canada raises its outlook

The BoC held its benchmark overnight interest rate steady at 0.25% and lowered its weekly government bond purchases from $4 billion to $3 billion. The BoC was one of several closely watched central bank meetings in April. The message from all of them was largely the same: Despite a stronger growth outlook in 2021 with a brief surge in inflation, the risks still posed by the pandemic continue to warrant significant policy support. But the BoC was a bit of an outlier in terms of how long that policy support might be needed. In its accompanying statements, the BoC raised its outlook for the Canadian economy and noted that inflation might rise substantially over the upcoming months, due in part to a low base in 2020, before settling back to its 2% target towards the end of the year. With expectations of a full recovery and sustained inflation around its target by 2022, the BoC opened the door to a rate hike in 2022, ahead of earlier projections of 2023.

The Liberal government passes its 2021-22 budget

The Federal Government released its first budget in nearly two years in April, after postponing it last year to deal with the COVID-19 pandemic. The focus of the budget for the 2021-22 fiscal year includes new measures to support Canadian households and the economic recovery, as well as new initiatives to help the economy thrive post-pandemic. Several notable spending programs were announced in the budget, including a national childcare program, raising the federal minimum wage to $15 an hour, extending recovery benefits and enhancing job training programs. If approved, the budget may be constructive for the economy and the labour market, although additional spending would add to Canada's debt. The government predicts a deficit of $154.7 billion during the fiscal year, which is estimated to take Canada's debt-to-GDP ratio to 51%. While an improving economy will help offset the additional spending through higher tax income, the government may have to consider reigning in spending or raising taxes to help offset these costs.

Read more of our experts' analysis (https://www.canadalife.com/investment-management/news-insights/2021-federal-budget.html) on the federal budget proposals.

The U.S. economy signals a robust recovery

Strong economic signals continued to emanate out of the U.S. in April amid its successful vaccine distribution efforts and economic reopening. A sharp increase in consumer spending helped U.S. gross domestic product expand by 6.4%, annualized, in the first quarter of 2021. The first quarter gains follows the 4.3% growth in the fourth quarter of 2020. A fresh round of stimulus cheques from the U.S. helped fuel a 9.8% jump in retail sales during March. The labour market also continued to improve. Initial jobless claims, as reported on a weekly basis, fell in April to their lowest level since the beginning of the pandemic. Meanwhile, business activity continued to tick higher in April, with activity in the manufacturing and services sectors reaching record highs, according to IHS Markit. The positive economic news helped boost sentiment among investors and economists that a full recovery may be closer than expected, which pushed U.S. equity markets to new records in April.

U.S. President Joe Biden unveils the “American Families Plan"

U.S. President Joe Biden closed out his first 100 days in office by introducing the new US$1.8 trillion American Families Plan to help support middle-class families. The plan includes measures such as paid family and medical leave, free community college, childcare reform and nutrition support through schools. The plan also makes the tax credits for the Affordable Care Act premiums permanent. To help fund the plan, President Biden is proposing significant changes to the U.S. tax code, including marked increases to the wealthy. The plan calls for an increase to the capital gains tax to 39.6%, from 20.0%, on those earning more than US$1 million. Additionally, the plan proposes raising the highest marginal tax rate to rise to 39.6% from 37.0%, which would impact less than 1% of U.S. households. Biden’s tax proposal could also remove the carried interest provision for hedge funds and private equity firms.

While the plan may be constructive for American families, the proposed tax increases could impact financial markets. Some economists expect investors may sell their equity positions to avoid the higher taxes. The plan is still pending approval from the House and Senate.

Market performance - as at April 30, 2021

Equity Markets	Level	Month to date	Year to date	One year
S&P/TSX Composite Index C$	19,108.33	2.18%	9.61%	29.28%
S&P 500 Index US$	4,181.17	5.24%	11.32%	43.56%
Dow Jones Industrial Average US$	33,874.85	2.71%	10.68%	39.14%
MSCI EAFE Index US$	2,268.51	2.73%	5.63%	38.68%
MSCI Emerging Markets Index US$	1,347.61	2.37%	4.36%	47.00%

Fixed Income Markets	Level			

		Month to date	Year to date	One year
FTSE Canada Universe Bond Index C$	1,160.39	0.06%	-4.98%	-2.40%
FTSE World Investment Grade Bond Index US$	248.85	1.20%	-3.55%	3.45%

Currencies	Level	Month to date	Year to date	One year
CAD/USD	0.8137	2.22%	3.56%	14.66%

Commodities	Level	Month to date	Year to date	One year
West Texas Intermediate (US$/bbl)	63.58	7.32%	31.04%	221.44%
Gold (US$/oz)	1,769.13	3.60%	-6.81%	4.04%

© Canada Life Investment Management Ltd. 2021