The Month Ahead – April 2021

International equity markets were mostly higher in March, as cyclical and value stocks pushed some indices to new all-time highs. In the US, the S&P 500 and Dow Jones Industrial Average both traded to all-time highs, and with a few days left in the month were up around 4%.

Many European markets were also on track to post solid gains for the month, while in New Zealand, the NZX 50 was on track to finish the month higher, but continued to underperform most global counterparts.

The rally came amid further optimism on the global growth outlook as economies continue to reopen, albeit cautiously.

As we head into April, Biden's infrastructure plan will be released Wednesday 31 March, and central bank meetings highlight the calendar. With this in mind, here's ANZ's Month Ahead.

PROMINENT CENTRAL BANKS HAVE THEIR OWN SPECIFIC ISSUES

In April, a number of central banks are set to meet, where significant monetary policy changes appear unlikely, but rhetoric will be pivotal in evaluating policymakers' thinking – with several central banks dealing with their specific issues.

Beginning in New Zealand, the Reserve Bank of New Zealand meets on 14 April, where for a while it has been expected to leave the Official Cash Rate unchanged at 0.25%. However, a surprising decline in 2020 fourth-quarter GDP and uncertainty around the housing market after the government enacted measures to curb the rapid rise in house prices means we think there is a slightly higher chance the central bank cuts the Official Cash Rate.

Meanwhile, the US Federal Reserve meets towards the end of April, where it too is likely to leave its cash rate unchanged. With a robust COVID-19 vaccination rollout underway, massive fiscal stimulus supporting the economy and the prospect for some pent-up spending hitting the economy, the Fed will have to manage market expectations for changes to monetary policy settings, to avoid any disorderly behavior in the bond market.

Any spike in yields would increase borrowing costs and potentially dampen the recovery. The Fed has communicated that they will ignore any transient increases in inflation, reiterating the need to see inflation remain above 2% for an extended period, and see broad-based recovery in employment before reducing monetary policy support.

Finally, the European Central Bank (ECB) meets on 22 April, where its conundrum is a worsening COVID-19 situation. The rise in case numbers across the continent, coupled with a sluggish vaccination rollout, has dented the economic recovery and led the ECB to increase to the pace of their Asset Purchase programme in the previous meeting.

Given this, we expect the ECB to remain heavily accommodative and could see the central bank put pressure on governments to enact fiscal support.

FISCAL AND TAX POLICY NOW A SIGNIFICANT DRIVER

As the bond market volatility has subsided, our focus has shifted to pending changes to fiscal and tax policy.

After passing the US$1.9 trillion COVID relief bill, US President Joe Biden has turned to infrastructure and will soon unveil his infrastructure package expected to cost around US$3 trillion. It appears the package will be funded in part by unwinding some of the 2017 corporate tax cuts. Given this, we see potential implications to the earnings outlook, which could see re-pricing of markets going forward.

POSITIONS ARE MOSTLY UNCHANGED; STILL OPTIMISTIC ON THE ECONOMIC OUTLOOK

Our positions are mostly in line with last month in that we are overweight international equities, Australian equities and real assets. The vaccination rollout in the US continues to improve with the country inoculating as many as 2 million people per day. The strong rollout is likely to result in some strong economic figures for the middle and latter parts of 2021.

In fixed interest, we remain underweight both domestic and international bonds. With inflation expectations continuing to rise amid an improving economic outlook, we have seen a move higher in long-dated yields benefiting these positions. While central banks remain accommodative, the outlook for further rate cuts in developed markets has diminished.