Global Stock Markets' Round Up in April'21

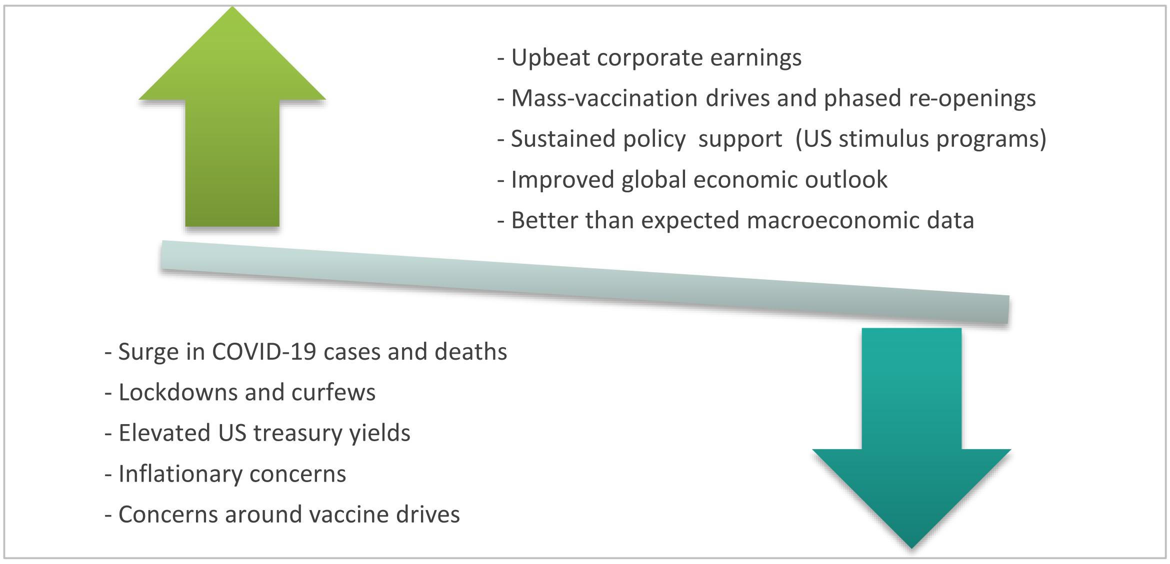
May 3, 2021 I Economics

The report covers market movements in select major stock exchanges across the US, Europe and Asia (including India) to give a bird's eye view on various factors that drove the markets during the month. In April 2021, most equity markets registered gains on the back of optimism around improved economic outlook (IMF revised its global GDP growth upwards to 6% as against previous estimate of 5.5%), mass-vaccination drives, upbeat corporate earnings in Q1-2021 and sustained fiscal and monetary policy support. However, the spread of coronavirus infections and increase in deaths in some countries like India, Brazil, Japan along with enhanced restrictions/curbs to contain the spread of the virus have also darkened prospects of the pace of economic recovery. Near-term inflationary concerns and elevated US treasury yields also curtailed the gains in equity markets.

Country	Stock Exchange	Closing on 31-Mar-21	Closing on 30-Apr-21	% change
US	Dow	32,982	33,875	2.7
US	NASDAQ	13,247	13,963	5.4
US	S & P 500	3,973	4,181	5.2
UK	FTSE 100	6,714	6,970	3.8
Germany	DAX	15,008	15,136	0.8
France	CAC 40	6,067	6,269	3.3
Japan	Nikkei 225	29,179	28,813	-1.3
South Korea	Kospi	3,061	3,148	2.8
China	Shanghai Composite	3,442	3,447	0.1
India	Sensex	49,509	48,782	-1.5
India	NIFTY 50	14,691	14,631	-0.4

Source: WSJ, CNN, BSE, NSE

Drivers and draggers of markets



Source: CARE Ratings

US stocks

Key equity market indices in the USA ended higher as at end-April 2021 compared with the previous month-end with the indices scaling record highs during the month. **Dow Jones** ended 2.7% higher while the gains in **NASDAQ** and **S&P 500** are more robust at more than 5% in both these key indices.

The gains in the US equity markets were driven by strengthened economic recovery prospects fuelled by sustained fiscal policy support and US Federal Reserve's assurance to provide ample liquidity support. Two key fiscal policy announcements by the US government (infrastructure spending plan aggregating $ 2 trillion unveiled at the start of April 2021 and $1.8 trillion American Family Plan likely to be unveiled in the beginning of May 2021) coupled with massive pace of vaccination and upbeat corporate earnings in Q1-2021 have supported gains in the US equity markets. The US Federal Reserve announced its second monetary policy of 2021, reiterating its narrative of accommodative monetary policy, sustained liquidity support, status quo on policy interest rates and no tapering talks, which also buoyed investor sentiments. Robust macroeconomic data for the US economy (growth in US economy by 6.4% in Q1-2021, fall in US jobless claims, increase in consumer spending, retail sales, home sales, PMI services and fall in US unemployment rate) also signalled at better than expected economic recovery for the US economy. The IMF also raised its economic outlook for the US economy in 2021 to 6.4% from 5.1% (previous estimate) while it has forecasted a solid growth of 4.4% in 2022.

Investors remained cautious during the month and gains were capped owing to sharp rise in coronavirus cases, deaths and consequent lockdown restrictions in some countries, which raised fears about the nascent economic recovery. Investors were also concerned about the funding of the new spending plans of the US government as the US President hinted at raising corporate taxes and doubling capital gains tax. Concerns over the usage of vaccines by Astra Zeneca and J&J highlighted by the US health authorities also pressured equity markets. Near-term inflationary concerns and the consequent elevated levels of US Treasury yields also weighed on the US equity markets.

European stocks

Major **European stocks** closed broadly higher as at end-April 2021 compared with the previous month-end. FTSE 100 rose by 3.8%, CAC 40 by 3.3% while the gains in Germany's key benchmark index DAX were muted at 0.8%.

Investor sentiments in European equity markets were driven by stronger prospects of economic recovery reflected by better-than-expected improvement in high frequency indicators (increase in consumer confidence, Eurozone's business activity index), upbeat corporate earnings for Q1-2021 and massive inoculation drives in a number of European countries. There was an upward revision in the GDP growth for 2021 by IMF from 4.2% to 4.4% while the forecast for 2022 was pegged at 3.8%, supporting gains in the first week of the month. The European Central Bank maintained a status quo in its recently announced monetary policy while it emphasized that liquidity injection under its PEPP (Pandemic Emergency Purchase Programme) is likely to be conducted at a significantly faster pace in Q2-2021 on the back of a "clouded" outlook for the Eurozone.

Investor fears were accentuated by the surge in coronavirus cases in some key trading partners while certain setbacks to the vaccination program (uncertainty around the Astra Zeneca and J&J vaccine use) dampened investor sentiments and erased gains in the equity markets. The mounting case-load in European countries and the consequent burden on the healthcare infrastructure has led to a number of restrictions/lockdowns/curfews in France, Italy and Germany till May 3 while the likely extension of these restrictions till June 2021 on fears of a third pandemic wave has further weighed on investor sentiments. Some macroeconomic data release by the Eurozone economies (notable contraction in GDP of Germany (-3%), Eurozone (-1.8%), rise in Germany's jobless claims, inflationary concerns in Germany, slowdown in Eurozone's industrial output, fall in investor sentiments in Germany) have cumulatively limited the gains in equity markets in the European economies.

FTSE gained by 3.8% by end-April 2021 compared with end-March 2021. The gains have been supported by improvement in the economic outlook of United Kingdom to 5.3% in 2021 as against the previous estimate of 4.5% along with optimism around lifting of COVID-19 restrictions, upbeat corporate earnings, and mass-testing and vaccination program in UK. Better than expected economic data (lower than expected inflation prints, increase in Britain's manufacturing optimism and increase in retail sales) signaled at faster economic recovery in the UK economy. However, the gains were limited on account of rising coronavirus cases globally coupled with losses in travel stocks amidst imposition of travel related restrictions by the UK government.

Asian stocks

The benchmark indices in Japan (Nikkei 225) fell by 1.3% as at end April compared with the previous month end. The losses in the Japanese equity markets were led by heightened valuations in the stock markets amidst rising coronavirus cases in Japan and the consequent targeted state of emergency announced by the Japanese government in a number of regions in the country dampened economic recovery prospects. Tensions between Japan and China amid the US-Japan summit coupled with fears of new virus virulent and reports about 4th pandemic wave in Japan led to fears and sell-offs in the equity market. Strong corporate earnings in Q1-2021 coupled with Bank of Japan's status quo on monetary policy and sustained liquidity support has capped the losses inequity markets in Japan. Additionally, positive news from the US markets on the fiscal policy front (infrastructure plan and American family plan) and positive economic data (improved PMI services, increase in consumer confidence to 1-year high) also buoyed investor sentiments.

Shanghai composite, China's stock market index, ended flat as at end-April 2021 compared with end-March 2021 as positive macroeconomic data was off-set by escalating tensions between US-China and Taiwan coupled with concerns around policy tightening measures. Robust macroeconomic data (PMI services, increase in vehicle sales, retails sales, industrial output, exports, imports, FDI surge) cumulatively signaled at an upbeat recovery in the Chinese economy while the strong GDP growth of 18.3% in Q1-2021 showed that the economy has recovered to its pre-pandemic level. The gains were also supported by the upward revision in the economic outlook by IMF for the Chinese economy to 8.4% in 2021 as against the previous estimate of 8.1%. Investor sentiments received booster from dovish policy by key central banks in US and Europe along with optimism around rapid rollout of vaccinations around the world and China's renewed pledge to make China carbon neutral by 2060. However, the gains were capped on account of policy tightening measures expectations likely by the central bank of China following a faster than expected recovery in China's economy along with escalating tensions between US and China, concerns around outbreak of African swine flu in some regions of China and lingering tensions around rising coronavirus cases globally.

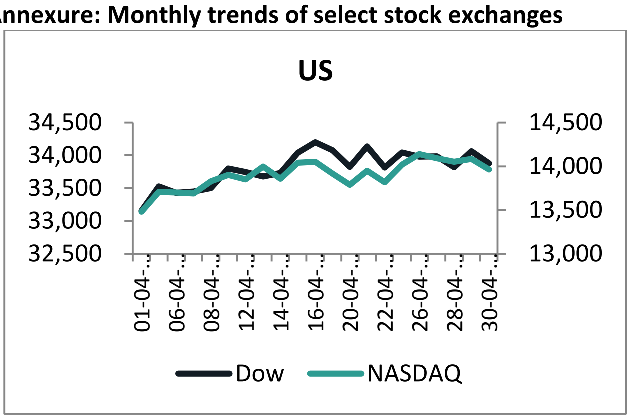
South Korea's KOSPI ended higher by 2.8% on the back of positive global cues (ample fiscal support by the US government via its infrastructure plan and sustained liquidity support by US Federal Reserve), upbeat macroeconomic data (better than expected GDP growth 1.6% in Q1-2021, improved industrial output, retail sales, consumer confidence, lower unemployment rate, widening current account surplus) and mass-vaccination drive in the country. However, the gains were limited owing to surge in coronavirus cases in the country which could dent the pace of economic recovery coupled with concerns around likely re-imposition of curbs amidst a new pandemic wave. Additionally, inflationary concerns in the near term and elevated US treasury yields and the patchy pace of economic recovery as highlighted by the central bank of South Korea weighed on investor sentiments.

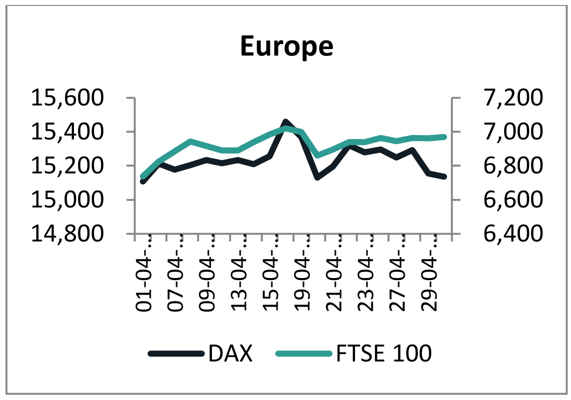
Indian markets

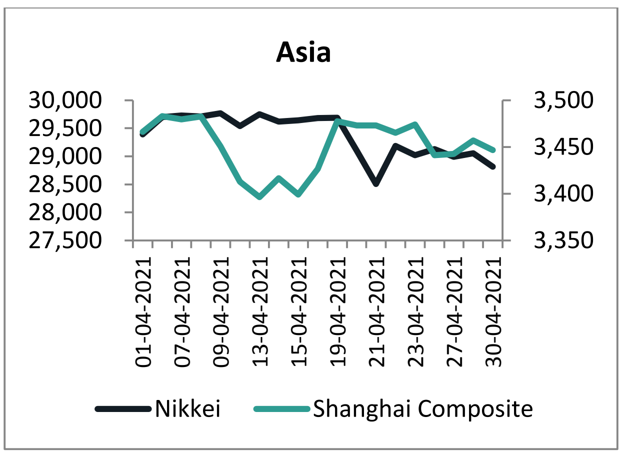
The **Indian equity markets** ended lower in the month of April chiefly on account of the recent record surge in coronavirus cases in the country (almost close to 4 lakh cases per day) and the pervasive nature of spread of infections to a number of states which entailed them to announce lockdowns/curfews have cumulatively weighed on investor sentiments. The risks about the pace of economic recovery, darkening prospects of economic outlook and the reversal in the recent green-shoots seen in the Indian economy has led to pull-out from the foreign investors. Weak macroeconomic data (fall in PMI manufacturing to a 7-month low, contraction in IIP, pickup in retail and wholesale inflation) coupled with supply concerns in case of India's reasonable progress in mass-vaccinations pressured investor sentiments and dragged equity markets lower.

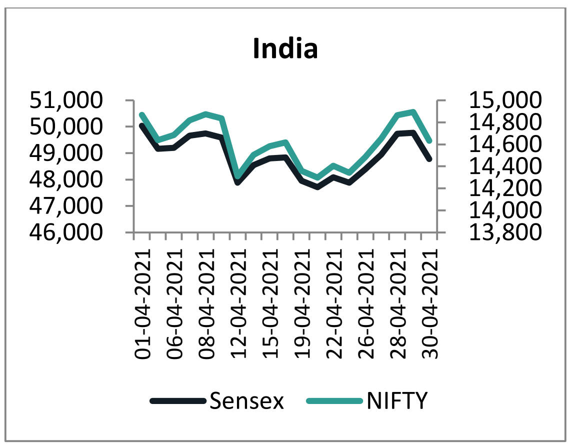
However, upbeat corporate earnings in Q4-FY21 and commentary by the corporate entities who have released their financial results so far, upward revision in India's GDP growth outlook to 12.5% in FY22 by IMF (against the previous outlook of 11.5%), normal monsoon forecast supported the gains in equity markets in April. The losses were curtailed on account of fast-tracking of vaccination approvals for other companies, decision to extend vaccinations for age-group above 18 and support from various foreign governments towards medical aid. RBI's monetary policy announcement in the start of April was in line with market expectations and its sustained commitment to extend liquidity support at a durable pace boosted investor sentiments. Investors also cheered the announcement of RBI's first GSAP auction of purchasing GSecs worth Rs 1 lakh crs in Q1-FY22. Lastly, positive global cues following the announcement of key policies by the US government and phased reopening in the UK economy has also supported the momentum in equity markets and capped losses.

Annexure: Monthly trends of select stock exchanges









Source: WSJ, CNN, BSE, NSE

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