Economic & Investment Perspectives

Figure 1: 4/30/2021 Returns (sources: ACIMA)
Conditional formatting: green (high) to red (low) for each time period

Bonds	ETF	Month	YTD	1YR	Current vs. 52-wk High	Current vs. 52-wk Low
US Aggregate Fixed Income	AGG	0.7%	-2.7%	-0.2%	-4.4%	1.1%
U.S. Treasury Bonds	GOVT	0.7%	-3.0%	-4.2%	-6.9%	1.1%
Investment Grade Corp Bonds	LQD	1.0%	-4.5%	4.2%	-5.9%	4.5%
Muni Bonds	MUB	0.8%	0.1%	7.1%	-1.0%	5.0%
High Yield	HYG	0.6%	1.2%	14.1%	-0.4%	12.1%
Non-US Fixed Income	BNDX	-0.2%	-2.5%	0.6%	-3.1%	0.4%
Emerging Markets Bond	EMB	2.4%	-3.2%	15.0%	-4.3%	12.2%
Global Equity						
ACWI Global Equity	ACWI	4.2%	9.3%	46.7%	-1.3%	50.8%
United States	VTI	5.0%	11.9%	51.3%	-1.2%	56.9%
International Developed	EFA	3.0%	7.1%	41.4%	-1.6%	44.6%
Emerging Markets	EEM	1.2%	4.5%	49.7%	-7.4%	53.4%
Global Equity by Region						
United States	VTI	5.0%	11.9%	51.3%	-1.2%	56.9%
Europe	IEUR	4.8%	10.3%	46.8%	-1.6%	52.2%
Asia ex-Japan	AAXJ	1.1%	4.5%	48.1%	-8.6%	51.9%
China	MCHI	0.3%	1.2%	38.2%	-16.0%	42.6%
Japan	BBJP	-1.7%	0.0%	32.4%	-6.5%	35.3%
Latin America	ILF	2.8%	-3.3%	51.5%	-8.1%	66.5%
US Equity						
US S&P 500	IVV	5.3%	12.0%	46.2%	-0.8%	52.3%
NASDAQ 100 QQQ	QQQ	5.9%	7.9%	55.1%	-1.4%	60.1%
US Large Growth	IWF	6.9%	7.9%	51.4%	-1.3%	55.8%
US Large Value	IWD	4.0%	15.7%	45.9%	-0.8%	56.1%
US Eqwt S&P 500	RSP	4.7%	16.8%	56.1%	-0.8%	70.4%
US Mid Cap	IJH	4.4%	18.6%	67.8%	-2.1%	82.4%
US Small Cap	VTWO	1.9%	15.0%	75.1%	-4.1%	92.4%

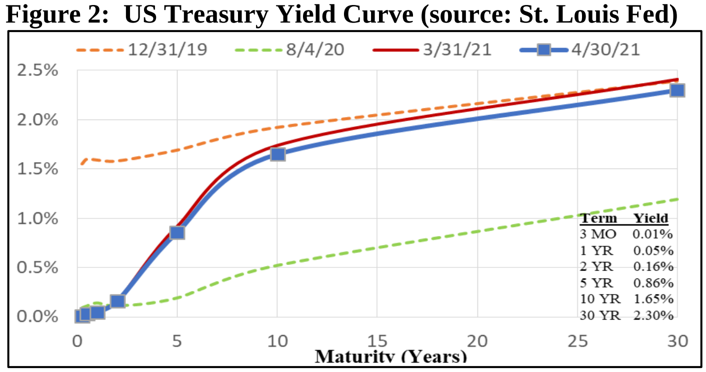
Interest rates declined slightly in April, halting the trend of negative bond returns for now. Stocks continued to move higher on solid economic, employment and corporate earnings growth, fiscal stimulus and vaccine progress. Performance highlights for the month and year-to-date (YTD) are below.

- Bonds: The US Aggregate bond index (AGG) rose 0.7% this month (-2.7% YTD) as interest rates moderated. High yield (HYG) gained 0.6% (+1.2% YTD) with slightly tighter credit spreads. EM bonds (EMB) gained 2.4% (-3.2% YTD).
- Global equity (ACWI): +4.2% this month (+9.3% YTD).
- US Equity: The broad market (VTI) rose 5.0% in April (+11.9% YTD), while the S&P 500 (IVV) gained 5.3% (+12.0% YTD). Small caps (VTWO) rose just 1.9% for the month, under-performing large stocks, but have out-performed YTD (+15.0%). Growth stocks (high earnings growth and valuations) out-performed value stocks (lower growth and valuations, higher dividends) for the month amid strong earnings reports from bellwether tech and e-commerce stocks; the growth ETF (IWF) rose 6.9% (+7.9% YTD) while its value counterpart (IWD) gained 4.0% for the month (+15.7% YTD). Growth continues to lead by a wide margin over the longer term.
- Non-US Equity: Developed market equities (EFA) were +3.0% in April (+7.1% YTD), led higher by European stocks while Japan lagged. Emerging markets (EEM) were +1.2% (+4.5% YTD), with India negative due to a catastrophic rise in virus cases and deaths. Chinese stocks were mostly flat.

Interest Rates and the Economy

Interest rates have risen significantly since August but declined slightly in April as inflation fears eased, at least temporarily. Figure 2 graphs the US yield curve, which plots yields (Y-axis) for various maturities (X-axis) of US Treasuries. Short-term yields remain near zero while long-term interest rates have moved back toward pre-pandemic levels. The benchmark US 10-year bond yield fell from 1.74% to 1.65% last month (versus 0.93% at year-end and 0.52% last August). The Federal Reserve (Fed) reiterated its ultra-accommodative stance for the foreseeable future.

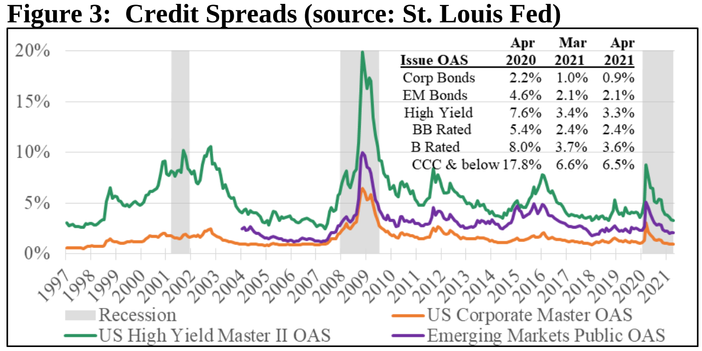
Figure 2: US Treasury Yield Curve (source: St. Louis Fed)



For bonds other than US Treasuries, we track the option-adjusted spread (OAS) between various bond yields versus US Treasuries of comparable maturities. Low or narrowing spreads signal optimism while high or rising spreads signal fear. Credit spreads spiked on pandemic fears last March but have tightened steadily since and are now at or below pre-pandemic levels.

- Investment grade corporate bonds yield just 0.9% over Treasuries, down from 1.0% last month and 2.2% a year ago.
- High yield (non-investment grade) spreads narrowed to +3.3% in April and are significantly below year-ago spreads of +7.6%. The riskiest bonds (rated CCC & below) yield +6.5% over Treasuries, well below panic levels of +17.8% last April.
- Emerging market bonds were steady this month and carry an average yield premium of +2.1% versus +4.6% one year ago.

Figure 3: Credit Spreads (source: St. Louis Fed)



Spotlight: An Increasingly Global Economy

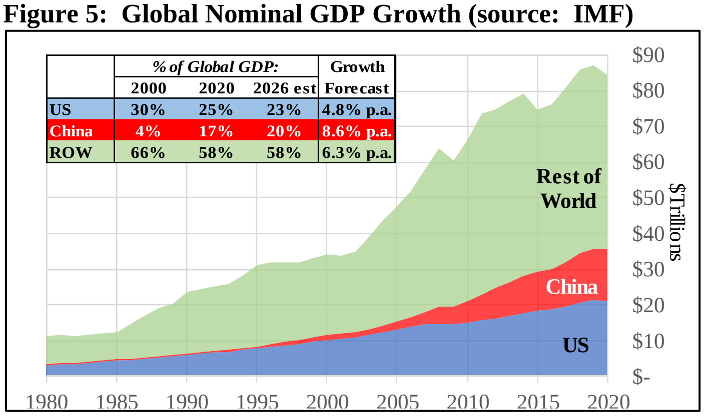
The Bureau of Economic Analysis reported last week that US real (inflation-adjusted) GDP grew at an annualized pace of 6.4% in the first quarter, continuing the strong economic recovery from last year's pandemic weakness. Though not yet fully recovered, the US remains the world's largest economy. Figure 4 summarizes GDP data by country from the International Monetary Fund (IMF), ranked by 2020 nominal (not inflation-adjusted) GDP. The top ten countries account for approximately 68% of the world's economic activity with the US contributing the largest share (25%), followed by China (17%) and Japan (6%); no other country represents more than 5% of global GDP.

Figure 4: Top 10 Countries by Nominal GDP (source: IMF)

Country	GDP ($Billions)		% of Global GDP	Global GDP Rank
United States	$	20,933	24.8%	1
China	$	14,723	17.4%	2
Japan	$	5,049	6.0%	3
Germany	$	3,803	4.5%	4
United Kingdom	$	2,711	3.2%	5
India	$	2,709	3.2%	6
France	$	2,599	3.1%	7
Italy	$	1,885	2.2%	8
Canada	$	1,643	1.9%	9
Korea	$	1,631	1.9%	10
Other	*$*	*26,853*	*31.8%*	*NA*

The growth of the global economy over the past 40 years is illustrated in Figure 5, which focuses our attention on the world's two biggest countries by GDP (US and China). Global GDP has grown from $10 trillion to over $80 trillion since 1980. Over that period, US GDP has grown from $3 trillion to over $20 trillion. In 1980, China's nominal GDP was roughly $300 billion, but after meteoric growth in the 2000s, China's economy has grown just under $15 trillion. As a result, China's share of global GDP has risen from 4% to 17% since 2000, while the US share has slipped from 30% to 25% (Figure 5 panel inset). The rest of the world's (ROW) share has slipped from 66% to 58% in 20 years.

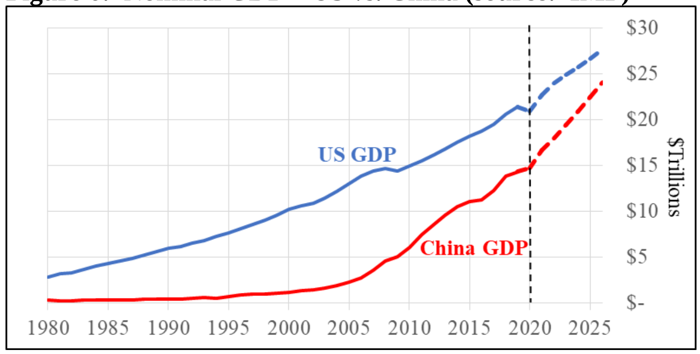
Figure 5: Global Nominal GDP Growth (source: IMF)



This trend is likely to continue. The IMF estimates that the US nominal GDP will grow at 4.8% per year between now and 2026. Despite this growth, the US share of the global economy is expected to slip to 23% as China is expected to grow to 20% of global GDP due to a stronger nominal GDP growth forecast of 8.6% p.a. The rest of the world (ROW) is expected to maintain a stable share (58%) with annualized growth expectations of 6.3%.

Figure 6 illustrates a comparison of the size and trajectory of the economies of US and China (nominal GDP). As Americans, we may not like to admit it, but China will eventually surpass the US as the world's largest economy, possibly before the end of this decade according to research and estimates by JP Morgan. China already accounts for about a quarter of global GDP growth.

Figure 6: Nominal GDP – US vs. China (source: IMF)



Despite an opaque and tightly controlled society, the Chinese economy continues to develop and modernize:

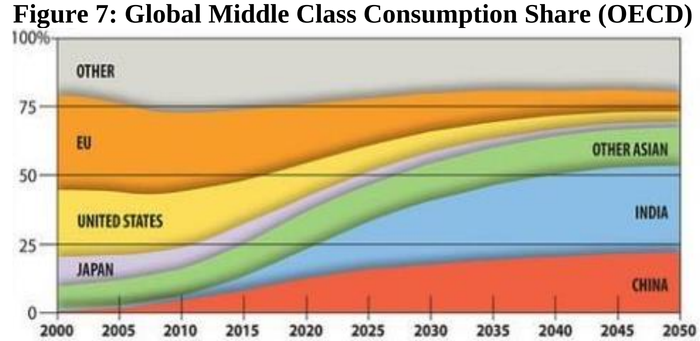
- China's middle class has grown from roughly zero in 1995 to approximately 41% of the population today and is projected to grow to 72% by 2030 (source: Brookings Institute).
- Long an export powerhouse, Chinese exports have declined from more than one-third of GDP in 2007 to 18% more recently (source: IMF), indicative of a maturing economy.
- Research and development expenditures have doubled as a share of GDP since 2000. Chinese patent applications now surpass the US (source: World Intellectual Property Org.).
- China is becoming more transparent and is being rewarded with rising weights in global stock and bond indices (MSCI).

Bottom Line

While the US remains the world's leading economy, competition from outside of our borders is increasing, aided by technology, population growth, global capital flows, trade, innovation and alliances. As Americans, we may feel threatened, but there is not much we can do to stem the tide and growth of non-US economies. Instead, we can take comfort in knowing that the US will remain a driving force on the global stage, but our alliances (trade and otherwise) are becoming increasingly important.

As investors, we must strive to avoid "home bias" and recognize that the economic landscape is truly global, as are our investment choices. Non-US investments are diversifying, and some offer greater growth potential. We have focused on China, but broader Asia is likely to be the engine of future global growth, evidenced by the expected growth of middle class consumption (Figure 7).

Figure 7: Global Middle Class Consumption Share (OECD)



Disclaimer:

ACIMA Private Wealth LLC (“ACIMA” or the “Firm”) is a federally registered investment adviser based in Richmond, Virginia since January 2016. The Firm is a fee-only investment advisory firm with the intent to provide exceptional service to high-net-worth individuals, families, trusts, charitable foundations and institutions. ACIMA’s purpose is to implement integrated wealth management solutions that meet the financial needs and reflect the personal values of our clients. For additional important information regarding ACIMA, its investment management services, compensation, conflicts of interest, and other matters, is contained in its disclosure document, Form ADV Part 2A and Wrap Fee Brochure. A copy of which is available on through the Firm’s website or upon request to the Chief Compliance Officer at (804) 422-8450.

The information and views contained in this document were prepared and compiled by ACIMA. The statements provided herein are based solely on the opinions of ACIMA and are solely for informational purposes only. It is not a research report, as such term is defined by applicable law and regulations, and is not a solicitation or an offer to buy or sell any security or other financial instrument or to participate in any trading strategy. Any opinions provided herein should not be relied upon for investment decisions. The information contained herein was obtained from sources believed are reliable but has not been independently verified by ACIMA and for which no guarantee of accuracy is proffered.