



# PENDER MARKET INSIGHTS

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The equity market rally that closed out the month of March continued through April. This rally has baffled many and is becoming a notable example of what is referred to as the 'pain trade'. Given recent headlines, many investors had gone defensive. Yet against all odds markets finished the month near all-time highs.

With the number of negative indicators, most would have expected (and did expect) the equity market to be lower. But this might be a case where most of the 'bad news' was already priced in during the March sell-off, and the rally may reflect the fact that nothing 'worse' has occurred.

Recent reports suggest tensions between the US and Iran have reached an uneasy stalemate, and it is hard to argue that anyone 'won'. The Strait of Hormuz remains closed, and it's unknown the extent of damage done to energy infrastructure. The price of crude oil, which had sold off on the pause in the war has resumed its advance, finishing the month near its recent highs. After a few weeks in which oil and equities showed a negative correlation, that relationship has not held up over the last few weeks.

While the equity market seems to have ignored the move in energy prices, the bond market did not. Bond yields moved higher most of the month broadly in line with oil prices. This was expected to be the year of rate cuts, but those odds have collapsed as inflation is beginning to increase. Again, these are events that more recently would have resulted in lower stock prices, but for some reason that did not happen.

So what is keeping the bid under the stock market? For one the mega-cap technology stocks that were sold aggressively, beginning in February on concerns around 'peak AI' have rebounded. The business case for the massive spend on AI data centres has yet to be proven but the spending has not slowed and appears to have kicked off a capital expenditure boom in the US. Semiconductors related to this rose significantly over the period, leading the Nasdaq 100 to a gain of nearly 15% for the month.

In Canada, the surge in oil prices has finally led to a bounce in the energy sector, offsetting some of the weakness in materials, as gold fell for the month. In one of the more positive developments in years, Shell PLC expanded in Canada with the acquisition of ARC Resources Ltd. After over 10 years of foreign capital exiting the country, there is optimism that trend will begin to reverse, bringing back spending on new projects.

So what to do next? Get ready to hear a lot of 'sell in May and go away'. It is a trading saying that has not worked in years but there is a reason it exists and there is potential for it to work this year.

Cash is being pulled off the sidelines and shorts are being covered. There is still an underlying belief that the energy crisis will go away as quickly as it started. The longer this isn't the case the riskier the market becomes. There is a lot of evidence that the bulk of the buying during the month was driven by systematic investing. If these models flip to sell, or pause, we could see a mirror image of this month. The trading relationships around higher yields and oil, that were ignored in April, could begin again at any time. You just never know when.

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