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Now It's May, Do You Go Away?

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"We know what we are, but know not what we may be" - William Shakespeare

April was another interesting month, with gains across almost all global stock markets led by the United States, but closely followed by the U.K. and Europe. Whilst the former two were significantly aided by continued COVID-19 vaccine progress and associated national reopening, Europe has started to make some progress too. Certainly, opportunities for a holiday beyond the U.K. are looking a little bit more plausible. However in Asia, India's COVID-19 crisis was responsible for more than a third of the daily global numbers during April, with its currency falling to a multi-year low against the pound. Elsewhere, whilst Japan is still set to host the Tokyo Olympics this summer, large parts of the country have reintroduced a range of movement limitations. Unsurprisingly, performance by both the Asian and overall emerging markets indices were more modest during the month.

So where do we go from here? For many years the line that investors should "Sell in May and go away, and come back on St. Leger's Day" (with the latter this year falling on the eleventh of September), but - as we have seen over a similar period in recent years - financial markets have often proved a little different. However, with global index inflows over the last five or six months being larger than the amount seen over the previous twelve years, prospects over the next four (and a bit) months are worth thinking about.

The first place to start has to be the global bond markets. Compared to the end of last year and the first quarter of this year, April was a better month for bond holdings, as the rise in bond yields (and hence the fall in bond prices) stopped for a few weeks in both the United States as well as the U.K. markets. Certainly the recent meeting held by the Federal Reserve noted the continuation of a significant amount of stimulus activity, a point likely also to be made by the Bank of England in early May. However unless we see very modest inflation levels for the rest of this year or a new COVID-19 crisis in the United States and the U.K., a further advance in bond yields still seems likely.

Meanwhile - in a trend supported by the ongoing quarter one corporate earnings survey - equity dividend yields are typically running at a higher level than that being offered in the bond markets. This is far from being a new observation but still remains an attraction for equity market investment. Naturally the ability to grow both profitability and the ability to heighten dividend payments can reverse, but prospects for at least the rest of this year continue to look positive.

How about holding onto more cash? Whilst the high level of equity market returns over the past six months will excite some, it will concern others given the magnitude of some of the improvements. Meanwhile in the broader economy, in a point observed in recent updates from the large U.K. banks, significantly heightened cash deposit levels built up by individuals in their personal bank accounts are likely to be reversed as the country opens up again.

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There has been little formal success to “sell in May and go away” over the last fifty or sixty years, especially as recent history has suggested heavy new investments in September caused more issues for portfolios. Naturally every year can be different, however prospects for those selecting equity investments still seem to be favourable over the next few months. Meanwhile carefully positioned selection - as always - will matter. After all, in the words of Shakespeare, “we know what we are, but know not what we may be”.

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