

Weekly Market Pulse

Week ending August 21, 2020



Market developments

Equities:

Markets were mixed with declines in Canada and international markets. Meanwhile, U.S. equities closed the week at new all-time highs, led by tech and strong PMI data. The latest FOMC minutes revealed that yield-curve control is likely not on the table, but that a new policy framework may be coming soon. The general tone remained very accommodative, as growth estimates were revised lower and the need for additional fiscal stimulus was mentioned. The S&P 500 rose 0.72% while the S&P/TSX rose 0.02%.

Fixed income:

Bond yields drifted lower this week on the dovish tone of the FOMC minutes. The U.S. Treasury 10-year yield fell 8 basis points ending the week at 0.63%. The Government of Canada 10-year yield fell 8 basis points ending the week at 0.54%.

Commodities:

Gold continued to fall for another week, dropping 0.24%. Copper hit a two-year high while oil remained in its ~US\$42/bbl trading range, gaining 2.36% and 0.57%, respectively.

Performance (price return)

SECURITY	PRICE	WEEK	1 MONTH	3 MONTH	YTD
Equities (\$Local)					
S&P/TSX Composite	16517.85	0.02%	2.20%	10.97%	-3.20%
S&P 500	3397.16	0.72%	4.29%	15.22%	5.15%
NASDAQ	11311.80	2.65%	5.91%	21.83%	26.07%
DAX	12764.80	-1.06%	-3.09%	15.35%	-3.65%
NIKKEI 225	22920.30	-1.58%	0.16%	11.52%	-3.11%
Shanghai Composite	3380.68	0.61%	1.80%	17.88%	10.84%
Fixed Income (Performance in %)					
Canada 10-Year Yield	0.54	-0.08	0.02	-0.01	-1.16
US 10-Year Yield	0.63	-0.08	0.03	-0.04	-1.29
German 10-Year Yield	-0.51	-0.09	-0.05	-0.01	-0.32
US High Yield Spread	5.30	0.04	-0.33	-1.59	1.37
Commodities (\$USD)					
Oil	42.25	0.57%	0.69%	24.56%	-30.81%
Gold	1940.48	-0.24%	5.35%	12.36%	27.89%
Copper	292.65	2.36%	-0.49%	19.35%	4.63%
Currencies (\$USD)					
DX	93.21	0.12%	-2.01%	-6.20%	-3.30%
Loonie	1.3177	-0.67%	-2.10%	-5.58%	1.44%
Euro	0.8477	0.39%	-2.28%	-7.17%	-4.96%
Yen	105.80	-0.75%	-0.94%	-1.68%	-2.59%

As of August 21, 2020

Macro developments

Canada – Freeland appointed minister of finance; Retail sales higher than pre-pandemic; CPI unchanged

Chrystia Freeland was appointed as Canada's minister of finance following Bill Morneau's resignation. Freeland unveiled a \$37B COVID-19 aid package. The plan extends CERB by 4 weeks, expands EI, and includes a sick leave benefit.

Retail sales increased 23.7% in June, following the 18.7% rise in May. Retail sales in June were 1.3% higher than February. Sales increased in all sectors, with the strongest growth in motor vehicles and parts and clothing and clothing accessories. Approximately 9% of retailers reported they were closed in June. StatsCan provided an advanced estimate of retail sales gaining 0.7% in July.

CPI was unchanged in July. Gasoline prices increased 4.4% while clothing and footwear prices fell 0.3%. On a year-over-year basis, CPI is up 0.1% in July, compared to 0.7% in June.

U.S. – FOMC minutes highlight elevated uncertainty; Empire Manufacturing declines; Markit PMI rises; Weekly jobless claims at 1.1M

The Federal Open Market Committee minutes highlighted the elevated amount of uncertainty. The projected rate of GDP and unemployment were lowered due to the increased virus spread. The risk of additional waves could cause a prolonged decline in economic activity. Inflation is also expected to remain subdued with demand and a highly accommodative stance is likely needed to achieve the long-term 2% inflation target. The Fed touched on the importance of greater clarity on the likely path of the Fed Funds rate, bringing up options of outcome-based and calendar-based forward guidance. Yield-curve targeting seems to have been taken off the table as it would likely only provide modest benefits. Lastly, the minutes noted the importance of finalizing all changes "in the near future" which could hint at the presentation of the framework review at the upcoming September meeting.

The Empire State Manufacturing Survey General Business Conditions Index fell to 3.7 in August from 17.2 in July. The reading continues to signal growth though at a slower pace. New orders, shipments, unfilled orders, and inventories declined. Employment levels saw a slight improvement, but the average hours in a workweek fell. Firms remain optimistic on future business expectations.

The IHS Market Flash U.S. Composite PMI increased to 54.7 in August from 50.3 in July. The Services Business Activity increased to 54.8 from 50.0 while the Manufacturing PMI increased to 53.6 from 50.9. Private sector firms continue to signal growth with total new business rising for the first time since February, commonly reported as stemming from increased marketing efforts and the resumption of client operations. Export orders also expanded as economies worldwide opened. The increased capacity resulted in a further expansion of workforce numbers. Businesses optimism dipped slightly surrounding ongoing COVID-19 concerns but remains strong.

Weekly jobless claims unexpectedly increased to 1.1M for the week ending August 15, compared to 971K the week prior. The single weekly rise is not necessarily a concern for the markets but does show that headwinds persist.

International – Eurozone Markit PMI falters; Japan PMI remains contractionary; UK PMI rises

The IHS Market Flash Eurozone PMI fell to 51.6 in August from 54.9 in July. The Services PMI fell to 50.1 from 54.7 while the Manufacturing PMI rose to 55.7 from 55.3. The private sector saw a loss of growth momentum. Business activity and new orders rose at slower rates than in July. Service provider exports were hindered as travel restrictions were reimposed in some countries following rises in COVID-19 cases. Firms continue to scale back workforce numbers as underlying demand remains muted and business confidence softens. By country, growth in Germany and France remains solid, but output out of the two largest eurozone economies had decreased marginally.

The au Jibun Bank Flash Japan Composite PMI held at 44.9 in August. Services Business Activity fell to 45.0 from 45.4, while Manufacturing Output rose to 44.7 from 43.9. Business activity continued to contract in Japan for the seventh consecutive month and conditions remain challenging for firms to recover. Demand remains adversely affected by subdued trade flows and social distancing measures. New orders both domestically and internationally fell substantially. The labour market suffered as a result, deteriorating with data employment falling further. Overall, firms were pessimistic in their outlooks.

Retail sales in the UK rose 3.6% in July, following the strong 13.9% recovery in June. Retail sales are now 3.0% above pre-pandemic February levels. Fuel sales rose 26.2% and continue to recover alongside road traffic. Food store sales fell 3.1% while non-food store sales rose 9.9%. Non-store retailing fell 2.1%.

Quick look ahead

Canada – Banks earnings; Current account balance (August 27); June GDP (August 28)

Canadian banks report earnings this week for the 3-months ended July 31. Analysts expect an average profit decline of 30% in Q3 from a year earlier, but none are expected to report a loss.

The current account deficit is expected to have widened to over \$12B in Q2 as the goods trade balance continues to show weakness. The reading for June GDP will also be released, along with the number for Q2. The June reading is forecast to recover another 5.3%, which would imply the annualized quarterly reading has fallen 40.0%.

U.S. – Conference Board consumer confidence (August 25); Durable goods orders (August 26); Weekly jobless claims (August 27); Personal income and personal spending (August 28)

We start the week off with a peek at how consumer confidence has held up amid economic uncertainty. The following day, we have July durable goods orders expected to rise 4.5%.

Weekly jobless claims had unexpectedly increased last week, and markets will be watching to confirm whether it was a one-off increase or the start of a longer trend. Markets hope to see personal income stabilize following declines in May and June. Personal spending meanwhile is expected to have increased again based on previously released data.

International – Germany ifo survey (August 25); France inflation (August 28)

The Germany ifo survey is a key indicator of economic growth. Growth expectations and business conditions have been on an upward trend, which is expected to continue.

France inflation is expected to be depressed in August by the delay of summer sales and following a strong reading in July. Market consensus is for a decline of 0.2%.

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