

# Weekly Market Pulse

Week ending November 20, 2020



## Market developments

### Equities:

More encouraging vaccine developments came out this week. Moderna released early data indicating a 94.5% efficiency rate, while Pfizer and BioNTech updated results to show effectiveness of 95%. It seems it is no longer a question of “if” but “when” a vaccine will be available. The U.S. Treasury announced discontinuing several emergency lending programs past December, which currently serve as a backstop for the fragile economy, just as markets begin anticipating asset purchase policy changes from the Fed. The S&P 500 fell 0.77%. The S&P/TSX Composite rose 2.06%.

### Fixed income:

Bond yields fell on expectations of a monetary policy tweak from the Fed. The U.S. Treasury 10-year yield fell 7 basis points, ending the week at 0.82%. The Government of Canada 10-year yield fell 8 basis points ending the week at 0.65%.

### Commodities:

Reflationary commodities continue to benefit from the vaccine potential. Oil prices gained 5.03% and copper increased 3.62%. Gold fell 0.96%.

## Performance (price return)

SECURITY	PRICE	WEEK	1 MONTH	3 MONTH	YTD
<b>Equities (\$Local)</b>					
S&P/TSX Composite	17019.10	2.06%	4.58%	2.48%	-0.26%
S&P 500	3557.54	-0.77%	3.32%	5.08%	10.11%
NASDAQ	11854.97	0.22%	2.94%	5.24%	32.12%
DAX	13137.25	0.46%	3.14%	2.39%	-0.84%
NIKKEI 225	25527.37	0.56%	8.32%	11.57%	7.91%
Shanghai Composite	3377.73	2.04%	1.49%	0.41%	10.74%
<b>Fixed Income (Performance in %)</b>					
Canada 10-Year Yield	0.65	-0.08	0.05	0.09	-1.05
US 10-Year Yield	0.82	-0.07	0.04	0.17	-1.09
German 10-Year Yield	-0.58	-0.04	0.02	-0.09	-0.40
US High Yield Spread	4.50	-0.11	-0.54	-0.80	0.57
<b>Commodities (\$USD)</b>					
Oil	42.15	5.03%	1.66%	-1.01%	-30.97%
Gold	1870.99	-0.96%	-1.89%	-3.92%	23.31%
Copper	329.30	3.62%	4.61%	10.71%	17.73%
<b>Currencies (\$USD)</b>					
DXY	92.40	-0.39%	-0.72%	-0.43%	-4.14%
Loonie	1.3095	-0.32%	-0.26%	-0.69%	0.81%
Euro	0.8435	-0.17%	-0.28%	0.04%	-5.43%
Yen	103.86	-0.74%	-1.55%	-1.83%	-4.37%

As of November 20, 2020

## Macro developments

### Canada – Manufacturing sales increase; CPI rises; Retail sales beat expectations

Manufacturing sales rose 1.5% month over month in September, offsetting the 1.4% decrease in August. By industry, the strong gains were seen in wood products and chemicals, where sales rose 9.6% and 6.7%, respectively. Capacity utilization rose to 78.5% in September from 75.5% in August.

CPI rose 0.4% month over month in October following the 0.1% fall in September. Shelter prices contributed the most with prices increasing 0.7%. Food prices also gained 0.5%, in part due to higher meat prices related to COVID-19 supply chain effects. Gasoline prices fell 1.5% in the month.

Retail sales rose 1.1% month over month in September, following the 0.4% gain in August. The reading beats expectations, with Statistics Canada previously estimating sales to be unchanged. The gain was driven by motor vehicles and parts sales, which rose 1.5%, and general merchandise store sales, which rose 1.8%. Statistics Canada estimates retail sales to be unchanged in October.

### U.S. – Empire State and Philadelphia Fed manufacturing imply decelerating business activity; Retail sales and industrial production rise

The Empire State Manufacturing General Business Conditions Index fell to 6.3 in November from 10.5 in October. Similarly, the Philadelphia Fed Business Outlook Current General Activity Index decreased to 26.3 in November from 32.3 in October. Both surveys reported similar findings, overall manufacturing activity expanded slightly with orders and shipments increasing while inventory continues to fall. Employment levels and the average workweek also signaled a modest increase, and firms remain optimistic about the future. Interestingly, in the Empire State Manufacturing Survey, the capital expenditure and technology spending readings rose, indicating firms plan on increasing capex spending.

Retail sales rose 0.3% month over month in October, following a revised 1.6% gain in September from 1.9%. The reading missed market expectations for a gain of 0.5%. Building material sales rose 0.9% and motor vehicles and parts sales rose 0.4%. Drags on the headline number include clothing and leisure goods, which fell 4.2%, as well as food and beverage stores, which declined 0.2%.

Industrial production rose 1.1% month over month in October, recouping the 0.4% loss in September. Manufacturing production rose 1.0% and utility output increased 3.9%. Meanwhile, the output of mines fell 0.6%. Overall total production was up 5.3% compared to the same period last year. Capacity utilization increased 0.8% to 72.8%.

### International – China industrial production flat while retail sales miss expectations; Japan GDP rebounds on higher spending and exports

China industrial production rose 6.9% year over year in October, unchanged from September. Market consensus was 6.7%. Production remained strong even with a longer-than-usual holiday but was also supported by a lower base in 2019. Industrial production has led the recovery in China so far, with YTD production being 1.8% higher compared to the same period last year.

China retail sales accelerated to 4.3% year over year in October, from 3.3% in September. The reading missed the market consensus forecast of 5.0%, with expectations of stronger spending due to the extended holiday this year.

Japan GDP rose 5.0% quarter over quarter, seasonally adjusted in Q3 according to the preliminary estimate, or 21.4% on an annualized basis. The reading was boosted by private consumption rising 4.9% and public spending increasing 1.9%. Net exports also contributed, with exports rising a solid 7.0% and imports falling. Business spending and residential investment fell in the quarter.

## Quick look ahead

### Canada – CFIB Small Business Confidence (November 26)

A relatively quiet week for Canada, with only an update on how small businesses are faring during the lockdown. Renewed restrictions had caused a widespread decline in optimism, bringing the previous reading to a 5-month low.

## **U.S. – Markit PMI (November 23); Durable goods orders, consumer income and spending, FOMC meeting minutes (November 25)**

The preliminary Markit PMI readings come out first thing this week and will provide an update on how firms are faring. The Empire and Philadelphia surveys released last week showed activity expanding, but at a slower pace, which should also expect to be reflected in the PMI readings.

Durable goods rose solidly in September, pushing business investment to pre-pandemic levels. Market consensus forecasts another 0.9% increase for October. The same day we will get income and spending data. Incomes are expected to have fallen a slight 0.1%, while personal spending is set for another 0.4% increase in line with the retail sales readings.

Lastly, we have the FOMC minutes. At the last meeting held right after the elections, monetary policy was left unchanged, but Fed Chair Jerome Powell continued to reiterate the need for more fiscal support for a broad sustainable recovery. The Fed had said they had discussed options on modifications to the asset purchase programs, and the minutes may provide some hints and insights on their train of thought.

## **International – Euro area PMI (November 23); Germany ifo survey (November 24); ECB minutes (November 26)**

Europe also kicks off the week with PMI readings, expected to have been impacted by the renewed lockdowns. We will also get the German ifo survey, where business sentiment is expected to have taken a hit.

The ECB minutes will be the key release to watch next week, as the central bank has hinted at more stimulus coming at the next meeting in December. President Lagarde had said “the euro area economic recovery is losing momentum more rapidly than expected” with risks tilted to the downside.

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