

Weekly Market Pulse

Week ending August 14, 2020



Market developments

Equities:

Markets were mixed given continued lack of progress on the stimulus bill. Meanwhile, a band aid solution was put in place by U.S. President Donald Trump signing executive orders extending unemployment benefits and student loan payments, as well as implementing a payroll tax cut and preventing evictions. The U.S. also continues making progress with daily cases on the decline and a second week of strong job numbers helped. The S&P 500 rose 0.64% while the S&P/TSX fell 0.18%.

Fixed income:

Bond yields rose sharply on a combination of encouraging economic releases and record treasury issuances in the U.S. The U.S. Treasury 10-year yield rose 15 basis points ending the week at 0.71%. The Government of Canada 10-year yield rose 14 basis points ending the week at 0.61%.

Commodities:

The gold rally came to a halt last week, dropping 4.44%. Meanwhile strong manufacturing data supported reflationary commodities such as oil and copper rising 2.45% and 2.54%, respectively.

Performance (price return)

SECURITY	PRICE	WEEK	1 MONTH	3 MONTH	YTD
Equities (\$Local)					
S&P/TSX Composite	16514.61	-0.18%	3.81%	13.82%	-3.22%
S&P 500	3372.85	0.64%	5.48%	18.24%	4.40%
NASDAQ	11019.30	0.08%	5.06%	23.21%	22.81%
DAX	12901.34	1.79%	1.61%	24.81%	-2.62%
NIKKEI 225	23289.36	4.30%	3.11%	16.95%	-1.55%
Shanghai Composite	3360.10	0.18%	-1.60%	17.06%	10.16%
Fixed Income (Performance in %)					
Canada 10-Year Yield	0.61	0.14	0.08	0.09	-1.09
US 10-Year Yield	0.71	0.15	0.09	0.09	-1.21
German 10-Year Yield	-0.42	0.09	0.03	0.12	-0.24
US High Yield Spread	5.26	0.16	-0.81	-2.44	1.33
Commodities (\$USD)					
Oil	42.23	2.45%	4.82%	53.23%	-30.84%
Gold	1945.12	-4.44%	7.50%	12.42%	28.20%
Copper	286.35	2.54%	-1.80%	21.80%	2.38%
Currencies (\$USD)					
DX	93.09	-0.37%	-3.29%	-7.34%	-3.42%
Loonie	1.3266	-0.88%	-2.56%	-5.58%	2.12%
Euro	0.8444	-0.48%	-3.74%	-8.76%	-5.33%
Yen	106.60	0.64%	-0.60%	-0.61%	-1.85%

As of August 14, 2020

Macro developments

Canada – Manufacturing sales rise; Housing starts increase

Manufacturing sales rose by 20.7% in June, following an 11.6% increase in May. Sales rose in all 21 industries with factories increasing their capacity utilization to 73.3%, an increase of 10.9% but still down 8.0% year-over-year. The largest gains were seen in motor vehicles and parts (+144.3%) accounting for more than half of the gains in June. Strong increases were also seen in petroleum and coal products rising 31.5% but are down by almost half compared to June 2019. Overall, manufacturing sales still remain 13.2% below February levels.

Housing starts rose to 245.6K seasonally adjusted annually in July, from 212.0K in June. The 15.8% increase was driven by higher multi-family starts in urban centers including Toronto and oil-producing centers in the Prairies, and is in line with the long-term average.

U.S. – CPI rises; Weekly claims declines; Retail sales up; Industrial production increases

CPI increased 0.6% in July, following a 0.6% rise in June. On a year-over-year basis, CPI rose 1.0%. Gasoline prices continued to rise another 5.6% while food prices declined 0.4%. Excluding volatile food and energy prices, core CPI rose 0.6% in July. Prices for shelter, communication, used cars and trucks, and medical care rose, while prices for recreation declined.

Weekly initial claims registered at 963K for the week ending August 8, compared to 1.2M the week prior, continuing the trend of an improving job market. Continuing claims also fell to 15.5M for the week ending August 1, compared to 16.1M the week prior.

Retail sales rose 1.2% in July, following the 8.4% gain in June. The reading came in weaker than consensus but follows an upwards revision for June to 8.4% from 7.5% previously. Retail sales are 2.7% higher when compared to July of last year.

Industrial production rose 3.0% in July, following the 5.7% increase in June, but remains 8.4% below pre-pandemic February levels. The largest gains continue to be from motor vehicles and parts gaining 28.3% while other industries gained just 1.6%. Capacity utilization also continues to recover increasing 2.1% to 70.6%, a rate 9.2% below the 1972-2019 long-term average.

International – Germany ZEW survey expectations improve; U.K. GDP contracts; China retail sales rises while industrial production holds steady

The Germany ZEW survey shows that sentiment for a speedy economic recovery continues to grow, shown by the Expectations Index which rose to 71.5 in August from 59.3. In contrast, the Current Situation Index deteriorated further to -81.3 from -80.9.

U.K. GDP is estimated to have fallen a record 20.4% in Q2, following a 2.2% contraction in Q1. The reading is slightly better than the Bank of England's estimate of -21%. The U.K. saw record falls in services, production, and construction, with private consumption accounting for more than 70% of the decline. The good news is that data shows activity was beginning to pick up in June as government lockdown measures started to ease.

China retail sales rose to -1.1% year-over-year in July compared to -1.8% in June. Meanwhile, industrial production held at 4.8% year-over-year in July. Markets were expecting slightly stronger numbers. The weaker reading indicates the economic recovery is slowing and suggests that demand weakness may hinder further growth.

Quick look ahead

Canada – CPI (August 19); Retail sales (August 21)

CPI is expected to increase 0.4% in July, with high gasoline prices giving another boost. Retail sales will be the highlight in Canada this week. StatsCan had previously released a preliminary reading of 24.5% increase for June retail sales so all eyes will be on the preliminary July reading if provided. If the forecast for June is accurate, retail sales in June will have surpassed that of last year.

U.S. – Empire Manufacturing (August 17); FOMC Minutes (August 19); Weekly jobless claims (August 20); Markit PMI (August 21)

The Empire manufacturing and Markit PMI surveys will be closely watched as early indicators of growth. Both indicators started to point towards growth in July as firms expanded operations, with expectations of another positive reading in August.

The FOMC minutes may provide hints on the Fed's policy framework review, as well as any plans to implement more explicit forward guidance on rates.

Lastly, weekly jobless claims will be of interest given its timely and frequent release. Weekly claims have dropped significantly since the peak of the pandemic, and this trend will need to continue for the economy to recover.

International – Eurozone Markit PMI and UK retail sales (August 21)

The key data point this week will be the August flash PMIs. Both the manufacturing and services readings turned expansionary in July led by domestic strength but indicators including employment and exports were lagging.

U.K. retail sales are likely to continue to recover as the economy opens up. Sales have recovered and are close to pre-pandemic levels, but June's non-food stores sales were still 15.0% lower compared to February.

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