

Weekly Market Pulse

Week ending October 16, 2020



Market developments

Equities:

Markets were mixed last week. There was little progress on the U.S. stimulus package, on which markets had pinned their hopes. The prospects of getting the deal passed this year are dwindling, with the Treasury Secretary set to travel to the Middle East this week. UK Prime Minister Boris Johnson has also threatened a “no-deal” Brexit after trade talks with the EU broke down. The S&P 500 edged up 0.19%. The S&P/TSX Composite fell 0.75%.

Fixed income:

Yields fell on the looming stimulus package and Brexit uncertainty. The U.S. Treasury 10-year yield fell 3 basis points, ending the week at 0.75%. The Government of Canada 10-year yield also fell 5 basis points ending the week at 0.58%.

Commodities:

Commodity prices were little changed for the week. Oil managed to eke out a gain of 0.44% on falling U.S. crude stockpiles. Gold and copper fell 1.61% and 0.63% respectively.

Performance (price return)

SECURITY	PRICE	WEEK	1 MONTH	3 MONTH	YTD
Equities (\$Local)					
S&P/TSX Composite	16438.75	-0.75%	0.88%	2.59%	-3.66%
S&P 500	3483.81	0.19%	2.90%	8.34%	7.83%
NASDAQ	11671.56	0.79%	5.62%	11.44%	30.08%
DAX	12908.99	-1.09%	-2.61%	0.26%	-2.57%
NIKKEI 225	23410.63	-0.89%	-0.28%	2.81%	-1.04%
Shanghai Composite	3336.36	1.96%	1.60%	3.93%	9.38%
Fixed Income (Performance in %)					
Canada 10-Year Yield	0.58	-0.05	0.00	0.07	-1.13
US 10-Year Yield	0.75	-0.03	0.05	0.13	-1.17
German 10-Year Yield	-0.62	-0.10	-0.14	-0.16	-0.44
US High Yield Spread	5.07	0.03	-0.07	-0.85	1.14
Commodities (\$USD)					
Oil	40.78	0.44%	1.54%	0.07%	-33.21%
Gold	1899.29	-1.61%	-3.06%	5.68%	25.18%
Copper	306.30	-0.63%	0.16%	6.13%	9.51%
Currencies (\$USD)					
DX	93.72	0.71%	0.54%	-2.73%	-2.77%
Loonie	1.3189	0.52%	0.08%	-2.84%	1.53%
Euro	0.8534	0.92%	0.85%	-2.86%	-4.32%
Yen	105.40	-0.21%	0.43%	-1.74%	-2.96%

As of October 16, 2020

Macro developments

Canada – Manufacturing sales slow

Manufacturing sales slowed 2.0% in August following three strong consecutive months of recovery. The decline can be attributed to sales in transportation equipment dropping 13.7% following a stronger than usual July. Excluding transportation equipment, manufacturing sales rose 1.1%. Overall, manufacturing sales remain 6.6% below February pre-pandemic levels. Despite lower sales, capacity utilization rose to 75.8% in August, from 74.0% in July.

U.S. – CPI rises; Manufacturing activity positive; Retail sales surprises; Industrial production declines

CPI rose 0.2% in September on a seasonally adjusted basis after increasing 0.4% in August. Used car and truck prices continue to rise sharply, gaining 6.7%, accounting for most of the increase. Food prices were unchanged, while energy rose 0.8%.

Manufacturing business activity continued to expand in October. The Empire Manufacturing General Business Conditions Index fell to 10.5 in October from 17.5 in September, reflecting expansion but at a slower pace, while the Philadelphia Fed Manufacturing General Activity Index rose to 32.3 in October from 15.0 in September. Surveyed firms saw increases in new orders and shipments. Employment indicators were also positive, with manufacturers reporting increases in employment and the length of the average workweek. Looking forward, firms continue to remain optimistic that business conditions will continue to improve.

Retail sales in September increased 1.9%, following a 0.6% increase in August. The reading beat market expectations of 0.8%. The gain was widespread, with auto sales rising 3.6% and clothing sales rising 11.0%. The only sector to see a decrease was electronics, with sales declining 1.6%. Overall, retail sales are up 5.4% on a year-over-year basis.

Industrial production unexpectedly fell 0.6% in September, following a 0.4% increase in August. Markets had expected a 0.6% increase. Manufacturing production fell 0.3%. Utilities also dragged on the reading, falling 5.6% as demand for air conditioning fell more than usual in September, while mining production rose 1.7%. Total industrial production remains 7.1% below February pre-pandemic levels. Capacity utilization also fell 0.5% to 71.5%.

International – Japan core machine orders rise; Germany ZEW indicator drops but remains positive; China trade rises, CPI declines, financing remains strong

Japan core machinery orders rose just 0.2% in August, compared to 6.3% in July. The bright spot of the report is foreign orders, not included in the number above, increased 49.6% showing that global demand may be picking up.

The ZEW Indicator of Economic Sentiment for Germany declined to 56.1 in October from 77.4 in September. The reading is still in positive territory, but the 21-point drop reflects the recent rise in COVID-19 cases and the prospect of a Brexit without a trade deal.

China exports rose to 9.9% year-over-year in September from 9.5% in August. Exports to the U.S. and Canada rose, while exports to the EU weakened. Imports meanwhile rose to 13.2% year-over-year in September, from a 2.1% decline in August. The strong import reading is likely to have been influenced by a stockpiling of technology products ahead of sanctions.

China CPI rose 1.7% on a year-over-year basis in September, down from 2.4% in August. Falling food prices contributed, but core CPI which excludes food and energy rose only 0.5% year-over-year, which may be indicative of weak demand.

China aggregate financing totaled CNY 3.5T in September, down slightly from CNY 3.5T in August. Strong credit growth and accommodative liquidity conditions continue to support the economic recovery. The underlying data shows that new loans rose to CNY 1.9T from CNY 1.3T and government bond issuance fell to CNY 1.0T from CNY 1.4T but remains supportive.

Quick look ahead

Canada – Bank of Canada Business Outlook Survey (October 19); Retail sales and CPI (October 21)

The Bank of Canada Business Outlook Survey for Q3 will be released. The report will provide an update on business sentiment, which is expected to have improved since the prior report. Other aspects to watch for include consumer demand, financial conditions, and capital expenditure plans.

August retail sales are expected to post a small increase as auto sales are likely to have moderated. September CPI is expected to be more or less unchanged. Energy prices slightly declined during the month, and elsewhere the reopening economy is likely to provide a boost.

U.S. – Housing starts (October 20); Fed Beige Book (October 21); U.S. presidential debate (October 22); Markit PMI (October 23)

The first data point we get in the U.S. is housing starts, which have surpassed pre-pandemic levels and are likely to continue their strong momentum.

The final U.S. presidential debate will be held. After the last debate, presidential candidate Joe Biden gained a large lead, pulling ahead by over 10 points according to polls.

The Fed Beige Book and Markit PMIs will be released, and if the business activity surveys released last week are any indication, business activity in both manufacturing and services should continue to point toward a modest expansion.

International – China GDP, retail sales and industrial production (October 18); Japan Markit PMI (October 22); Eurozone Markit PMIs (October 23)

The week kicks off with China Q3 GDP, which is expected to rise a solid 3.3%. Other indicators such as September retail sales and industrial production will also be released to give insight on the continued recovery. Lastly, we have PMI releases for Japan and the eurozone. Japan has lagged in the recovery, and the indicators have yet to turn expansionary, while the recent rise in coronavirus cases in Europe should be partially reflected in the eurozone survey.

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