

Weekly Market Pulse

Week ending December 3, 2021



Market developments

Equities:

Equities declined for the week on growing Omicron concerns, with the variant now detected in various countries. Markets are also preparing themselves a faster pace of tapering and a possible earlier rate hike next year. In his testimony, U.S. Federal Reserve Chairman Jerome Powell said inflation is generally COVID-related but has spread more broadly given the supply and demand imbalances. The word “transitory,” which has been commonly used in Fed statements, was brought up, and Powell said it may be time to retire that word and that it is appropriate to consider wrapping up tapering a few months sooner. A mixed employment reading in the U.S. on Friday also added to the uncertainty.

Fixed income:

Yields fell for the week on Omicron variant worries. Many Fed committee members, including Chairman Powell, have indicated they would be open to a faster taper. The Bank of Canada meets the week of Dec. 6 and could come out with a more hawkish bias, toward greater concerns over inflation, given strong employment readings.

Commodities:

Oil prices slipped as traders weighed the demand impact from Omicron and tighter monetary policy.

Performance (price return)

SECURITY	PRICE	WEEK	1 MONTH	3 MONTH	YTD
Equities (\$Local)					
S&P/TSX Composite	20,633.27	-2.33%	-2.97%	-0.90%	18.36%
S&P 500	4,538.43	-1.22%	-2.62%	0.07%	20.83%
NASDAQ	15,085.47	-2.62%	-4.59%	-1.81%	17.05%
DAX	15,169.98	-0.57%	-4.95%	-3.87%	10.58%
NIKKEI 225	28,029.57	-2.51%	-5.05%	-3.77%	2.13%
Shanghai Composite	3,607.43	1.22%	3.11%	0.72%	3.87%
Fixed Income (Performance in %)					
Canada 10-Year Yield	1.44	-0.17	-0.29	0.25	0.76
US 10-Year Yield	1.34	-0.13	-0.26	0.02	0.43
German 10-Year Yield	-0.39	-0.05	-0.22	-0.03	0.18
US High Yield Spread	3.78	-0.02	0.58	0.60	-0.02
Commodities (\$USD)					
Oil	66.26	-2.77%	-18.06%	-4.37%	36.56%
Gold	1783.29	-1.07%	0.76%	-2.43%	-6.06%
Copper	426.65	-0.40%	-1.26%	-1.36%	21.24%
Currencies (\$USD)					
DXY	96.15	0.06%	2.44%	4.47%	6.91%
Loonie	1.2843	0.41%	3.65%	2.55%	0.93%
Euro	0.884	0.07%	2.65%	5.01%	7.99%
Yen	112.8	-0.51%	-1.06%	2.82%	9.25%

As of December 3, 2021

Macro developments

Canada – Sharp rise in Canadian employment; GDP expands on services; Manufacturing PMI indicators robust expansion

Canadian employment rose by 154K jobs in November, following a 31.2K increase in October. The strong reading came in much higher than consensus expectations of 37.5K. Employment in services rose 127.2K, with increases widespread. Meanwhile, employment in goods-producing sectors rose 26.4K, led by manufacturing. Overall, the unemployment rate declined by 0.7% to 6.0%, and now sits just 0.3% high than pre-COVID February 2020 levels.

Canadian GDP expanded 0.1% in September. Service-producing industries saw broad-based expansions (+0.4%), while goods output declined 0.6% on supply chain disruptions. The decline in output was due to a 9.1% drop in transportation equipment manufacturing as production was curtailed due to semiconductor shortages. Overall, GDP rose 5.4% annualized in the third quarter, and StatsCan estimates that GDP rose 0.8% in October as manufacturing rebounded.

The IHS Markit Canada Manufacturing Purchasing Managers' Index fell to 57.2 in November, from 57.7 in October. The manufacturing sector saw another month of robust expansion as output and new orders continued to increase at a solid pace. This strong demand saw backlogs rise rapidly and firms sought to build pre-production inventory. At the same time, manufacturers showed signs of being unable to keep up with demand, often linked to supply chain disruptions and long lead times from vendors due to transportation delays, material shortages, and virus-related restrictions. Input cost inflation rose on high material costs, but firms reported the ability to pass on higher costs given the strong demand.

U.S. – Mixed employment readings; Fed notes widespread price increases; Consumer sentiment declines

Employment numbers gave mixed signals this week, providing some contradictory results. Nonfarm payrolls rose by 210K jobs in November, missing consensus expectations of 550K by a wide margin. Job increases were led by the service sectors, notably professional and business services (+90K), transportation and warehousing (+50K), and leisure and hospitality (+23K). On the other hand, the unemployment rate fell sharply by 0.4% to 4.2%. The unemployment rate is based on a household survey, which showed that 1.1M jobs were added on a higher participation rate.

The Federal Reserve Beige Book noted a modest to moderate pace of growth over the last couple of months, on strong demand constrained by supply chain disruptions and labour shortages. Employment rose solidly, but many firms reported persistent difficulty in hiring and retaining staff, with many having to limit operating hours due to a lack of workers. Childcare responsibilities, retirements, and COVID concerns were widely cited factors that limited labour supply, and there were concerns that in some of the Fed's Districts the federal vaccination mandate could further exacerbate staffing difficulties. Prices meanwhile rose at a robust pace, with widespread price increases stemming from strong demand for materials, logistical challenges, and labour market tightness. The Fed noted that there was wider availability of some inputs that led to easing of some price pressures.

The Conference Board Consumer Confidence Index declined to 109.5 in November, from 113.8 in October. Consumers viewed job and income prospects as worse, and there were increasing concerns about rising prices and the Delta variant.

International – China PMI declines; Eurozone CPI surges; South Korean exports rise

The Caixin China General Composite PMI fell to 51.2 in November, from 51.5 in October. The Services PMI fell to 52.1 from 53.8 and the Manufacturing PMI declined to 49.9 from 50.6. Manufacturing output rose for the first time since July, though marginally. However, demand conditions softened as new work fell slightly with firms citing pandemic conditions, high output prices, and shipping challenges. At the same time, these dynamics saw inflationary pressures ease as some firms indicated falling input prices. The services sector saw a slight expansion, as new orders and exports rose slightly due to measures to curb the spread of the coronavirus. Firms continued to expand capacity and increase staffing. Prices for services continued to rise sharply.

The Consumer Price Index for the euro area rose 0.5% in November according to preliminary estimates, driven by a 2.9% increase in energy prices. Outside of energy, prices for food and goods rose, while services declined. The year-over-year reading surged to 4.9%, from 4.1% previously in October.

South Korean exports rose 32.1% year over year in November, led by semiconductors rising 40.1% and petroleum products increasing 125.5%. Exports of ships, which are highly prone to volatility, also surged 237.6%.

Quick look ahead

Canada – Bank of Canada (December 8); Capacity utilization (December 10)

The Bank of Canada may come out with a more hawkish tone at its meeting this week. Inflation is running hot and November's employment numbers were a major surprise to the upside. Of course, the Omicron variant could see the BoC show more caution, but the strong readings will likely outweigh risks in the bank's eyes, giving them the confidence to continue to push on with a first possible rate hike in the first half of 2022.

Capacity utilization data for the third quarter will also be released.

U.S. – CPI and University of Michigan consumer sentiment (December 10)

The CPI reading for November will be highly anticipated by markets, with the consensus estimate at 0.7% for the month. Food and energy are expected to drive the reading. Housing costs are drifting higher, and higher shelter prints could also push up the reading, though that remains to be seen as housing costs can take a while to come through. The CPI release comes a week ahead of the December Fed meeting, and this higher print could solidify market expectations of a faster taper.

An update on consumer sentiment will also be released the same day. There are few changes expected for this measure, as rising costs and Omicron concerns will likely temper any rebound.

International – German industrial production, ZEW survey and Chinese exports (December 7); Chinese CPI (December 8)

German industrial production has been severely held back by supply shortages, especially given its economic reliance on the auto industry. Industrial production should see some rebound in October, but still remains almost 10% below pre-pandemic levels.

The German ZEW survey could see a further decline as restrictions return amidst a fourth wave.

Chinese exports are expected to rise to a record high in November, increasing 18.0% year over year.

Chinese CPI is estimated to surge to 2.5% year over year in November, up from 1.5% in October. The majority of the increase will be due to base effects. Food prices, which have been on the decline all year, are also showing indications of rising, through a combination of a softer decline in pork and rising vegetable prices.

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