

Weekly Market Pulse

Week ending November 26, 2021



Market developments

Equities:

Equities dropped on Friday as headlines emerged of a new coronavirus variant called omicron. The World Health Organization designated it as a “variant of concern” on data showing a sharp upturn in cases in South Africa. Governments globally were quick to implement new travel restrictions in response, with Canada, the U.S., several European Union members, and the U.K. among the many to impose restrictions on several countries in southern Africa.

Fixed income:

Yields rose throughout the week before plummeting on Friday and ending the week lower due to the omicron variant. The U.S. Federal Reserve minutes showed that some committee members were in favor of a faster taper on inflation concerns.

Commodities:

Commodity prices fell. Oil prices initially rose as the U.S. reserve release was smaller than market expectations, before plummeting on growth concerns stemming from the new coronavirus variant. Copper prices were also set to rise on expectation of tight supply, before turning red on Friday.

Performance (price return)

SECURITY	PRICE	WEEK	1 MONTH	3 MONTH	YTD
Equities (\$Local)					
S&P/TSX Composite	21,125.90	-1.99%	-0.22%	3.03%	21.18%
S&P 500	4,594.62	-2.20%	0.43%	2.79%	22.33%
NASDAQ	15,491.66	-3.52%	1.68%	3.65%	20.20%
DAX	15,257.04	-5.59%	-3.17%	-3.40%	11.21%
NIKKEI 225	28,751.62	-3.34%	-1.22%	3.64%	4.76%
Shanghai Composite	3,564.09	0.10%	-0.93%	1.78%	2.62%
Fixed Income (Performance in %)					
Canada 10-Year Yield	1.61	-0.05	-0.02	0.37	0.93
US 10-Year Yield	1.47	-0.07	-0.13	0.12	0.56
German 10-Year Yield	-0.34	0.01	-0.22	0.07	0.23
US High Yield Spread	3.80	0.25	0.63	0.53	0.00
Commodities (\$USD)					
Oil	68.15	-10.45%	-19.49%	1.08%	40.46%
Gold	1802.59	-2.34%	0.54%	0.57%	-5.04%
Copper	428.35	-2.81%	-4.51%	0.85%	21.72%
Currencies (\$USD)					
DXY	96.07	0.04%	2.26%	3.23%	6.82%
Loonie	1.2791	1.19%	3.24%	0.82%	0.52%
Euro	0.8834	-0.34%	2.45%	3.82%	7.92%
Yen	113.38	-0.54%	-0.68%	2.99%	9.81%

As of November 26, 2021

Macro developments

Canada – Small business sentiment little changed

Small business sentiment improved slightly as the CFIB Business Barometer Index rose to 62.2 in November, from 60.5 in October. Optimism in the provinces of Quebec and Ontario improved, while sentiment in Alberta and Newfoundland and Labrador declined. The survey noted that planned price increases for the year ahead rose to a high of 4.3% and wage increases rose to 3.1%.

U.S. – FOMC minutes show potential of a faster taper; Markit PMI shows continued expansion; Durable goods orders fall on aircrafts; Personal income and spending rise

The Federal Open Market Committee minutes unveiled the potential of a more hawkish stance from the U.S. Federal Reserve. The minutes showed the decision to start tapering asset purchases at the last meeting was unanimous and the statement came together with the point that the pace could be adjusted in response to economic conditions. However, there seems to have been little consensus with the direction of the economy in terms of inflation, employment, and the timing of rate normalization. Committee members look to have a rather large divergence in opinions, with some participants advocating for a faster pace and an earlier rate hike. The Fed is increasingly concerned that high inflation could take longer to ease and said labour force participation going forward would be lower due to retirements during the pandemic.

The IHS Markit Flash U.S. Composite PMI fell to 56.5 in November, from 57.6 in October. The Manufacturing PMI strengthened to 59.1 from 58.4, while the Services PMI declined to 57.0 from 58.7. Both manufacturers and service providers continue to signal a strong rate of expansion, supported by further easing of COVID-19 restrictions, and output continued to expand steadily. Many goods producers reported critical components were still in short supply, noting dwindling stocks of finished goods falling at the quickest pace since May 2020. Capacity pressures remained in place, even as firms sought to expand their workforce, deterred by challenges hiring suitable workers and continued elevated staff turnover. Inflation pressures persisted as a result. Cost burdens continued to rise, and firms passed on higher costs through to customers through higher prices.

Durable goods orders decreased 0.5% in October, following the 0.4% decline in September. Transportation equipment accounted for all the decline, falling 2.6% on lower aircraft orders. Excluding transportation, orders rose 0.5%.

Personal income rose 0.5% in October as an increase in wages offset decreasing government social benefits due to decreasing unemployment insurance and pandemic-related unemployment programs. Spending meanwhile rose 1.3%, on motor vehicles within goods and international travel within services.

International – Eurozone and Japanese PMIs rise; Germany's ifo survey falls on COVID concerns; ECB sees upside inflation risks

The IHS Markit Flash Eurozone Composite PMI rose to 55.8 in November from 54.2 in October. The manufacturing PMI rose to 58.6 from 58.3, while the services PMI rose to 56.6, from 54.6. Eurozone activity accelerated following a 3-month decline. Manufacturing activity was held back by a weaker auto industry. The rate of job creation rose to a 21-year high on strong demand, but backlogs rose, hinting at capacity pressures. Supply deliveries continued to lengthen amid ongoing supply shortages and transportation issues. Input prices rose at unprecedented rates in both manufacturing and services, and selling prices followed as firms sought to pass on costs. Optimism however fell to a 10-month low on renewed COVID-19 concerns of another wave and lingering supply constraints. By country, conditions in Germany and France improved the most.

The au Jibun Bank Flash Japan Composite PMI rose to 52.5 in November, from 50.7 in October. The manufacturing PMI rose to 54.2 from 53.2, and the services PMI rose to 52.1 from 50.7. Manufacturing conditions improved to the fastest pace since January 2018, as output and new orders rose. Service providers also reported a stronger environment as new business inflows returned to expansionary territory as restrictions eased. Japanese firms however reported intensifying price pressures, as input price indicators rose at the fastest pace in over 13 years due to higher material, freight, and staff costs. Firms were optimistic that the lifting of international restrictions would provide a further boost to activity.

The Germany ifo Business Climate Index fell to 96.5 in November from 97.7 in October. Companies viewed their conditions as worse, and expectations became more pessimistic on supply bottlenecks and a renewed wave of the coronavirus. Conditions declined in all 4 major sectors: manufacturing, services, trade, and construction. Firms continue to report ongoing supply bottlenecks with price increases likely to come as a result.

Accounts from the European Central Bank meeting show that the central bank continues to view inflation as transitory in the medium term, expected to ease during 2022. Members did however acknowledge upside inflation risks, notably naming supply bottlenecks and rising energy prices as the main risks. There were also concerns that persistent higher inflation could see the push for higher wage demands.

Quick look ahead

Canada – GDP (November 30); Manufacturing PMI (December 1); Labour force survey (December 3)

Canada will release GDP numbers for the month of September, as well as a Q3 reading. The monthly print is expected to come in flat on weakness in manufacturing and retail, which would imply a 3.0% annualized expansion in the third quarter.

We will also have an update to the Canada Markit Manufacturing PMI. Conditions are likely to remain solid, though sentiment will not reflect the most recent coronavirus developments.

Lastly, we have the Labour Force Survey which is expected to show hiring continuing at a strong pace. Consensus is for an increase of 37.5K jobs in October.

U.S. – Conference Board consumer sentiment (November 30); Fed Beige Book (December 1); Nonfarm payrolls (December 3)

Consumer confidence could have fallen in October on higher case counts in various regions of the country and higher short-term inflation concerns. The reading will be of interest to markets as the Conference Board measure has diverged from the University of Michigan reading.

The Federal Reserve will release a new iteration of the Beige Book which once again is likely to indicate moderate growth amid supply disruptions and worker shortages, which could lead to higher inflation.

The pace of job growth is expected to have picked up in November as the economic re-opening continued. The reading will attract a lot of investor attention, as a stronger reading could further increase the Fed's conviction of a faster taper and earlier rate hike. Market consensus is for a gain of 650K jobs.

International – Japan industrial production (November 29); Eurozone CPI and South Korea exports (November 30); China PMI (December 2)

Japanese industrial production likely rose in October, breaking a 3-month decline as restrictions were lifted. Market consensus is for a 2.0% increase, as corporate forecasts in September also pointed towards production increases.

The preliminary reading of the eurozone CPI for November will be released. Higher energy costs are likely to be a major contributor. The reading is expected to have accelerated to 4.5% year over year, from 4.1% in October.

South Korea exports likely posted another strong month in November with consensus at 29.1% year over year. Semiconductor demand remains strong and foreign business conditions have showed signs of improvement.

China PMIs will be released, which could see a boost as major trading partners saw an acceleration in activity.

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