

Weekly Market Pulse

Week ending October 1, 2021



Market developments

Equities:

Volatility continued to affect equity markets. The looming debt ceiling deadline is nearing, with diminishing expectations at present that a bipartisan agreement will be met. Republicans want to scale down U.S. President Joe Biden's US\$3.5T stimulus spending plan to just US\$1.5T. At the same time, markets are bracing themselves for inevitable tapering by the U.S. Federal Reserve and a potential Chinese slowdown, with investors watching for further Evergrande developments.

Fixed income:

Yields generally rose for the week as investors continued to digest inflation concerns from central banks. Fed Chairman Jerome Powell warned during a Congressional hearing that inflationary pressures could linger longer than previously expected, but maintained a view that the inflationary pressures stemming from supply disruptions will eventually abate.

Commodities:

Oil rose on reports of a potential energy shortage in Asia and Europe heading into the winter months. Low inventories of natural gases saw prices surge, with benefits spilling over into oil. Copper prices fell on a stronger dollar.

Performance (price return)

SECURITY	PRICE	WEEK	1 MONTH	3 MONTH	YTD
Equities (\$Local)					
S&P/TSX Composite	20150.87	-1.23%	-2.60%	-0.07%	15.59%
S&P 500	4357.04	-2.21%	-3.69%	0.86%	16.00%
NASDAQ	14566.70	-3.20%	-4.85%	0.31%	13.02%
DAX	15156.44	-2.42%	-4.22%	-2.87%	10.48%
NIKKEI 225	28771.07	-4.89%	1.12%	0.22%	4.83%
Shanghai Composite	3568.17	-1.24%	0.03%	-0.57%	2.74%
Fixed Income (Performance in %)					
Canada 10-Year Yield	1.47	0.09	0.29	0.08	0.79
US 10-Year Yield	1.46	0.01	0.17	0.00	0.55
German 10-Year Yield	-0.22	0.00	0.15	-0.02	0.35
US High Yield Spread	3.22	0.10	0.01	0.14	-0.58
Commodities (\$USD)					
Oil	75.88	2.57%	10.63%	0.86%	56.39%
Gold	1760.98	0.60%	-2.92%	-0.89%	-7.24%
Copper	418.85	-2.31%	-1.75%	-1.26%	19.03%
Currencies (\$USD)					
DX	94.07	0.80%	1.75%	1.59%	4.60%
Loonie	1.2648	-0.03%	0.22%	1.70%	-0.61%
Euro	0.8626	1.10%	2.13%	2.22%	5.38%
Yen	111.05	0.29%	0.95%	-0.43%	7.55%

As of October 1, 2021

Macro developments

Canada – GDP growth impeded by climate; Manufacturing PMI indicates robust growth

Real GDP fell 0.1% in July, following a 0.6% increase in June. Services output increased 0.4% on the back of a strong 12.5% monthly gain in the accommodation and food services sector. The transportation and warehousing sector also contributed, while wholesale and retail trade dragged. The output of goods declined 1.4%. Agriculture, forestry, fishing, and hunting dropped 5.5% on record high temperatures in Western Canada impacting crop production. Utilities declined 4.9% in July despite the climate conditions in Western Canada, due to cooler summer temperatures in other regions of the country resulting in decreased demand for electricity.

The IHS Markit Canada Manufacturing Purchasing Managers' Index was relatively unchanged at 57.0 in September, from 57.2 in August, continuing to signal robust expansion in the Canadian manufacturing sector. Output and new orders rose sharply in September despite a rise in cases. However, firms were unable to keep pace with demand as manufacturers reported another decline in their stock of finished goods. Manufacturers reported longer delivery times and record increases in backlogs. Firms are adapting by rapidly increasing required pre-production inventories to protect themselves in case of future shortages. Despite strong demand, employment growth was soft due to difficulties in finding skilled workers. Combined pressures from employment growth and material shortages led to price inflation rising to another series high.

U.S. – Durable goods orders jump; Conference board consumer confidence declines further; Personal income and spending increase

New orders for durable goods rose 1.8% in August, following a 0.5% increase in July. Transportation equipment led the increase, surging 5.5%. Excluding transportation, orders increased just 0.2%.

The Conference Board Consumer Confidence Index declined in September to 109.3, from 115.2 in August. Consumers viewed their outlook for income and labour prospects as worse. At the same time, spending intentions for homes, autos, and major appliances all declined, indicating consumers are growing increasingly cautious and could curtail spending going forward. Short-term inflation concerns eased but remain elevated.

Personal income rose 0.2% in August on increases in wages and salaries, as well as on government benefits reflecting advance Child Tax Credit Payments even as unemployment insurance payments started rolling off. Personal spending increased 0.8% for the month. Goods spending increased in food and beverages, partially offset by declines in motor vehicles. Within services, increases were widespread. Overall, inflation as measured by personal consumption expenditures increased 4.3% year over year.

International – Chinese industrial profits decline; China's PMI stabilizes; Japan's industrial production drops; South Korean exports resilient; Eurozone CPI accelerates to high since 2008

Chinese industrial profits slowed to 10.1% year over year for August, compared to 16.4% in July. The reading follows the weaker industrial output release from the previous week as slower production growth is eating into profits, despite high producer prices.

The Caixin China General Manufacturing PMI rose to 50.0 in September, from 49.2 in August. The reading indicates that Chinese manufacturing stabilized following a slight contraction in the previous month. Overall, producers saw a renewed upturn in sales and a softer decline in output. Purchasing activity also increased on confidence for the year ahead and on sustained material shortages. Combined with supply chain delays, manufacturers saw sharp increases in both input and output prices.

Japanese industrial production contracted 3.2% in August, compared to the market consensus decline of 0.5%. This steeper-than-expected drop was caused by weak demand due to domestic restrictions and weak foreign demand, notably from China. At the same time, the auto sector experienced difficulties sourcing semiconductors, leading to production bottlenecks.

South Korean exports slowed to 16.7% year over year for September, from 34.8% in August. The steep drop was mostly attributed to base effects, as exports in dollar terms rose for the month. By product, exports of semiconductors remain resilient, as well as of goods such as petroleum products and steel.

Eurozone CPI rose 0.5% in September, following the 0.4% increase in August. The increase was driven by higher energy prices and industrial goods. The price of services declined, while food was little changed. The September gain saw the year-over-year reading accelerate to 3.4%, the highest reading since 2008.

Quick look ahead

Canada – CFIB Business Barometer (October 5); Labour force survey (October 8)

In Canada, the CFIB business barometer will provide an update on small business confidence.

Hiring is expected to have continued at a decent pace in September, with market consensus of another 60K in new jobs. Coronavirus case counts have increased, but not to an extent expected to negatively impact the labour market, as the gradually phasing out of unemployment benefits could see more Canadians pursue employment opportunities. If estimates are accurate, unemployment should have fallen to 6.9%.

U.S. – Factory orders (October 4); Nonfarm payrolls (October 8)

Factory orders are expected to have risen 1.0% in August, following strong durable goods orders for transportation.

The U.S. employment reading will draw attention from all over the world. The U.S. Federal Reserve is closely watching the labour situation, as it is lagging in the recovery. Chairman Powell said at the last Fed meeting that a fairly strong employment report may be enough for the “substantial further progress” taper test to be met. Expiring pandemic unemployment benefits, combined with Delta-variant cases peaking early in the month, could have supported the reading. Market consensus is for an increase of 500K, which should see the unemployment rate decline to 5.1%.

International – OPEC+ meeting (October 4); China Caixin Services PMI, ECB minutes (October 7); Germany industrial production (October 8)

OPEC+ will meet again on Monday to review its output. Asia and Europe are experiencing a potential supply crunch just before winter. Low and decreasing inventories globally in the absence of a supply hike from OPEC+ have led to significant price increases. There are already reports of energy shortages in China affecting both homes and businesses.

The Chinese Services PMI will be released next week. Similar to the most recent manufacturing PMI, the survey is expected to show some stabilization in growth.

The European Central Bank will release its monetary policy accounts, which will be carefully analyzed to fully understand the central bank’s rationale for a slower pace of bond purchases in Q4, as well as for any hints on the future of asset purchases. ECB President Christine Lagarde had also said that any further decisions on asset purchases would not be made until December, but the minutes may provide some insight on indicators being watched by the ECB.

German industrial production has struggled to return to pre-pandemic levels. Production in August may have fallen by 0.5% as supply chain disruptions bottleneck production, with notable constraints in Germany’s prominent auto sector.

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