

Weekly Market Pulse

Week ending October 15, 2021



Market developments

Equities:

Equity markets rose following a strong start to earnings season. A slew of U.S. banks reported better-than-expected results amid a more optimistic outlook and more spending. A strong retail sales reading also helped ease concerns of slowing consumer demand.

Fixed income:

Yields eased following a surge in rates the previous week. Minutes from the U.S. Federal Reserve laid out a possible tapering route, providing more clarity to markets on how the Fed plans to go about reducing asset purchases.

Commodities:

Oil prices rose for the fifth consecutive week amid the ongoing energy crisis in Europe and Asia. Copper prices, as well as prices for other metals, followed suit as energy shortages fueled production concerns as firms may cut production amid rising power prices. Interest for commodities has risen in recent weeks as the energy crisis could also contribute to inflation.

Performance (price return)

SECURITY	PRICE	WEEK	1 MONTH	3 MONTH	YTD
Equities (\$Local)					
S&P/TSX Composite	20928.10	2.51%	1.13%	3.69%	20.05%
S&P 500	4471.37	1.82%	-0.21%	2.55%	19.04%
NASDAQ	14897.34	2.18%	-1.74%	2.44%	15.59%
DAX	15587.36	2.51%	-0.18%	-0.27%	13.62%
NIKKEI 225	29068.63	3.64%	-4.73%	2.79%	5.92%
Shanghai Composite	3572.37	-0.55%	-2.29%	0.22%	2.86%
Fixed Income (Performance in %)					
Canada 10-Year Yield	1.59	-0.04	0.37	0.33	0.91
US 10-Year Yield	1.57	-0.04	0.27	0.27	0.66
German 10-Year Yield	-0.17	-0.02	0.14	0.17	0.40
US High Yield Spread	3.23	-0.05	0.10	-0.02	-0.57
Commodities (\$USD)					
Oil	82.28	3.69%	13.32%	14.84%	69.58%
Gold	1767.62	0.60%	-1.47%	-3.38%	-6.89%
Copper	472.95	10.62%	7.40%	9.15%	34.40%
Currencies (\$USD)					
DXY	93.95	-0.12%	1.52%	1.44%	4.47%
Loonie	1.2368	-0.83%	-2.07%	-1.80%	-2.81%
Euro	0.8621	-0.22%	1.87%	1.82%	5.31%
Yen	114.22	1.76%	4.42%	4.00%	10.62%

As of October 15, 2021

Macro developments

Canada – Manufacturing sales rise

Manufacturing sales rose 0.5% in August, following a 1.2% decline in July. Strong demand and higher prices saw nominal sales of petroleum and coal rise 7.3%, chemicals increase 6.3%, and primary metals grow 3.3%. Meanwhile, sales of wood fell 17.1% and motor vehicle sales declined 8.7%.

U.S. – Fed unveil possible tapering path; CPI rises; Retail sales increase; Empire manufacturing activity slows; Consumer sentiment continues to deteriorate

The Federal Open Market Committee's minutes showed that committee members discussed a possible path for reducing purchases of Treasury securities by US\$10B and mortgage-backed securities by US\$5B each month starting in mid-November or mid-December. This would see tapering conclude mid-2022. The Fed was disappointed at the labour recovery, as the expiration of pandemic unemployment benefits did not see an increase in the labour force participation rate, with the resurgence of COVID and childcare challenges. Despite some committee participants assessing that maximum employment had not yet been reached, it was noted that additional policy accommodation would not address the current constraints in the economy or that the costs of continuing asset purchases might be beginning to exceed their benefits. There was no talk concerning the timing of the eventual rate liftoff, but some members stressed that economic conditions are likely to keep rates near their lower bounds over the next couple of years.

The U.S. Consumer Price Index rose 0.4% on a seasonally adjusted basis in September, following a 0.3% increase in August. Most of the increase was driven by food and beverage prices rising 0.9% and shelter prices rising 0.5%. Gasoline prices also rose a solid 1.3%. Core CPI, which excludes food and energy, rose just 0.2% in the month. The year-over-year reading accelerated to 5.4%, from 5.3%.

Retail sales rose 0.7% on a seasonally adjusted basis in September, following a revised 0.9% increase in August. Gains were widespread, except for health and electronics stores. Sporting goods, hobby, musical, and book stores as a category led the increase, with sales rising 3.7%. Gasoline and clothing stores also saw strong gains.

The Empire State Manufacturing General Business Conditions Index fell to 19.8 in October, from 34.3 in September. Business activity continued to grow at a solid pace in New York State as new orders and shipments increased. Delivery times rose to a record high, indicating persisting supply chain constraints, with prices paid and received remaining near highs.

The University of Michigan Consumer Sentiment Index fell to 71.4 in October, from 72.8 in September. Sentiment remains low as the Delta variant and supply chain disruptions weighed on the economy. Consumers reported more favourable income expectations in October. However, unemployment was expected to post increasingly smaller declines, reflecting the view that consumers expect persistent bad times for the economy. Buying conditions were viewed as less favourable, with the university's release frequently citing price increases and that conditions were only less favourable during the economic shutdown in April 2020 and the recession in May 1980.

International – Chinese exports accelerate while CPI slows; Germany ZEW index declines; Japan's machine orders fall

Chinese exports rose 28.1% year over year in September, as exports to the U.S. surged to 30.6% year over year in September from 15.5% in August. The reading beat market consensus of 21.5% even as power shortages forced factories to curb production.

Chinese CPI slowed to 0.7% year over year in September, from 0.8% in August. Rising energy prices were a large driver, while food prices continued to drag on the reading. Meanwhile, the producer price index climbed to 10.7% year over year in September from 9.5%, on higher commodity prices, notably coal.

The Germany ZEW Indicator of Economic Sentiment fell to 22.3 in September, from 26.5 in August. The fifth consecutive decline follows persistent supply bottlenecks for materials, with expectations for profits to decline as a result.

Japan's core machine orders fell 2.4% in August, compared to expectations of a 1.4% increase. The decline reversed the 0.9% gain in July, largely impacted by a drop in orders from manufacturers due to supply chain issues.

Quick look ahead

Canada – Bank of Canada Business Outlook Survey (October 18); CPI (October 20); Retail sales (October 22)

The Bank of Canada will release its quarterly business outlook survey. High-contact service firms that struggled the most have seen improvement but may continue to indicate difficulty navigating the current economy. Other areas of interest include capacity constraints stemming from labour shortages and supply chain bottlenecks, capital expenditure and employment intentions, and inflation expectations.

Prices are expected to have gained 0.1% in September, supported by rising energy prices. Supply chain bottlenecks and rising food prices could have also contributed. Despite the subdued expectations, the year over year CPI reading could further accelerate to 4.3%, from 4.1%, due to positive base effects.

Lastly, retail sales are expected to have risen 2.4% in August based on the preliminary estimate from StatsCan on the continued reopening of some services sectors.

U.S. – Industrial production (October 18); Fed Beige Book (October 20); Markit PMI (October 22)

Industrial production is expected to have risen 0.2% in September. Manufacturing continues to face capacity issues from material and labour shortages. Oil production could have also taken a hit due to Hurricane Ida, which occurred in late August.

We will have some soft data in the form of the Fed Beige Book and purchasing managers' indexes. The Beige Book will likely once again assess slowing activity, highlighting the Delta variant as a continued risk. PMI surveys are expected to note economic activity solidly expanding. As usual, there will be a focus on any information on supply chain disruptions, employment, and prices.

International – China's GDP, retail sales, industrial production (October 17); Japan's PMI (October 21); Eurozone PMI (October 23)

China will release a slew of economic data. The GDP reading for the third quarter is expected to come out at just 0.4% for the quarter, or 5.0% year over year, subdued by Delta variant outbreaks, energy shortages, and regulatory tightening. Industrial production and retail sales details for September will also be available. Industrial production is expected to slow, as effects of the energy crunch flow through. Retail sales meanwhile should rise on holiday spending during Mid-Autumn Festival.

PMI readings for Japan and the eurozone will be released. In Europe, PMIs are expected to decline as the reading normalizes from highs, though there is the downside risk of businesses facing higher energy costs and supply chain constraints. In Japan, the services sector has continued to contract but should show further signs of stabilizing. The upcoming elections and the possibility of new stimulus under new leadership could support the reading.

Aviso Wealth Inc. ("Aviso Wealth") is the parent company of Credential Qtrade Securities Inc. ("CQSI"), Credential Asset Management ("CAM"), Qtrade Asset Management ("QAM") and Northwest & Ethical Investments L.P. ("NEI"). NEI Investments is a registered trademark of NEI. Any use by CQSI, CAM, QAM or NEI of an Aviso Wealth trade name or trademark is made with the consent and/or license of Aviso Wealth. Aviso Wealth is a wholly-owned subsidiary of Aviso Wealth Limited Partnership, which in turn is owned 50% by Desjardins Financial Holdings Inc. and 50% by a limited partnership owned by the five Provincial Credit Union Centrals and the CUMIS Group Limited. Mutual funds and other securities are offered through Credential Securities and Qtrade Advisor, a division of Credential Qtrade Securities Inc. Mutual funds are offered through Credential Asset Management Inc. and Qtrade Asset Management (a tradename of Credential Asset Management Inc).

This material is for informational and educational purposes and it is not intended to provide specific advice including, without limitation, investment, financial, tax or similar matters. This document is published by CQSI, CAM and QAM and unless indicated otherwise, all views expressed in this document are those of CQSI, CAM and QAM. The views expressed herein are subject to change without notice as markets change over time.