

Weekly Market Pulse

Week ending September 3, 2021



Market developments

Equities:

Markets continued to rally to new highs, despite a weak employment release coming out of the U.S. and continued upwards trending in coronavirus case counts. Technology stocks fared well, as a weak employment report could see the U.S. Federal Reserve delay its tapering decision. Investor views of the economy remain upbeat as business activity looks to be growing strongly. The employment situation improved, albeit more slowly than expected, and there are hopes that employment could pick up further as pandemic-related unemployment benefits roll off.

Fixed income:

Yields were mixed for the week. Bonds in Canada and the U.S. were relatively unchanged, while yields rose in Europe in anticipation that the European Central Bank could announce tapering at its next meeting. The Bank of Canada is also set to meet, but expectations for more tapering this time around are limited.

Commodities:

Oil production in the Gulf of Mexico fell over 90% last week as Hurricane Ida hit the region. Prices rose marginally given that oil surged 10% the week prior. Gold and copper benefitted from a weakening dollar.

Performance (price return)

SECURITY	PRICE	WEEK	1 MONTH	3 MONTH	YTD
Equities (\$Local)					
S&P/TSX Composite	20821.43	0.86%	2.24%	4.41%	19.43%
S&P 500	4535.43	0.58%	2.54%	8.17%	20.75%
NASDAQ	15363.52	1.55%	4.08%	12.85%	19.21%
DAX	15781.20	-0.45%	1.45%	0.95%	15.03%
NIKKEI 225	29128.11	5.38%	5.38%	0.24%	6.14%
Shanghai Composite	3581.73	1.69%	3.88%	-0.07%	3.13%
Fixed Income (Performance in %)					
Canada 10-Year Yield	1.19	-0.01	0.07	-0.33	0.51
US 10-Year Yield	1.32	0.02	0.15	-0.30	0.41
German 10-Year Yield	-0.36	0.06	0.12	-0.18	0.21
US High Yield Spread	3.19	-0.06	-0.23	-0.15	-0.61
Commodities (\$USD)					
Oil	69.29	0.80%	-1.80%	0.70%	42.81%
Gold	1827.73	0.56%	0.96%	-2.30%	-3.72%
Copper	432.55	0.16%	-1.38%	-3.08%	22.92%
Currencies (\$USD)					
DXY	92.12	-0.61%	0.04%	1.77%	2.42%
Loonie	1.2524	-0.76%	-0.12%	3.44%	-1.58%
Euro	0.8418	-0.70%	-0.12%	2.09%	2.83%
Yen	109.71	-0.12%	0.61%	-0.53%	6.26%

As of September 3, 2021

Macro developments

Canada – GDP expands in June; Manufacturing PMI rises

Canadian real GDP expanded 0.7% in June, following a 0.3% decline in May, on loosening public health restrictions. The food and accommodation sector expanded 15.0% and retail trade rose 4.0%. On the goods side, manufacturing grew 1.3%, led by durable goods thanks to stronger demand for transportation equipment, metal products, and machinery. Overall, Q2 GDP contracted 0.3%, dragged by a decline in exports. StatsCan's preliminary estimate for July indicates that output declined 0.4%.

The IHS Markit Canada Manufacturing Purchasing Managers' Index rose to 57.2 in August, from 56.2 in July. Manufacturing conditions improved as strong demand led to an acceleration in output, new orders, and exports. Higher output requirements led to additional backlogs and labour demand. Some firms reported difficulty sourcing skilled replacements amid voluntary worker departures, resulting in insufficient staffing. Rises in backlog and incomplete work were also attributed to continued material shortages and transportation bottlenecks. Strengthening demand saw input price inflation rise to a new high for this indicator, though firms reported the ability to partially pass on these higher expenses.

U.S. – Factory orders increases; Nonfarm payrolls fall short of expectations

Factory orders rose a further 0.4% in July, moderating from the 1.5% increase in June. The increase was attributed to new orders for primary metals growing 3.0% and machinery rising 2.9%. Transportation equipment dragged as orders for the volatile aircraft sector declined 48.9%, reversing the increases from the previous couple of months. Excluding transportation, orders rose 0.8%.

Nonfarm payroll employment rose by 235K in August, slowing from the 1.05M increase in July. The reading was the slowest growth in seven months, largely missing market expectations of 733K. The increase was driven by professional and business services rising 74K, transportation and warehousing increasing 53.2K, and manufacturing expanding 37K. On the other hand, employment in retail trade declined 29K. The unemployment rate declined by 0.2% to 5.2%. This deceleration likely reflects the effects of the spreading Delta variant, which U.S. Federal Reserve governors worried could slow recovery. Extreme weather in the country could have also played a role. The Fed's governors have emphasized the importance of watching for more concrete employment data before taking any steps toward tapering asset purchases.

International – Eurozone CPI rises; South Korean exports accelerate; China's PMI falls

Eurozone CPI rose 0.4% according to the August flash estimate. Energy prices led the increase, rising 1.0%. On a year-over-year basis, prices rose 3.0%, compared to 2.2% in July. The increase was led by energy prices rising 15.4%. Core CPI, excluding energy and food, rose just 1.6% year over year.

South Korean exports accelerated, increasing 34.9% year over year in August, from 29.6% in July. Demand for semiconductors remains robust with exports increasing 43.0% year over year. Other strong gainers included petrochemical exports expanding 81.5% and wireless telecom exports surging 62.2%.

The Caixin China General Composite PMI fell to 47.2 in August, from 53.1 in July. The reading indicates that Chinese activity contracted for the first month since April 2020. The Services PMI dropped to 46.7 from 54.9, while the Manufacturing PMI held stronger at 49.2 from 50.3. Service firms signaled a decline in business activity on rising COVID-19 cases. The dampened demand resulted in reduced output and reduced new orders. Staffing levels also declined and, despite modestly rising input prices, firms reported lower output prices as an attempt to secure new business. Manufacturers fared better, only signaling a slight deterioration in conditions, reporting the first decline in output since February 2020 as COVID impacted demand and led to greater difficulty sourcing materials. Raw material and transportation prices sharply rose while factory gate prices only saw a modest increase. Overall, concerns over how long a normalization will take weighed on sentiment.

Quick look ahead

Canada – Bank of Canada meeting (September 8); Labour force survey (September 10)

The Bank of Canada will meet the week of September 6. Markets do not expect the central bank to taper asset purchases again, given the weak Q2 GDP release and onset of the fourth COVID-19 wave.

Employment growth likely slowed in August given the rising case count. Market consensus is for an increase of 67K, following the 94K gain in July.

U.S. – Fed Beige Book and JOLTS (September 8)

The Fed Beige Book will likely continue to highlight solid business activity amid the continued supply chain disruptions and difficulties hiring staff. It will likely also highlight Delta variant's risks to the economy.

The Job Openings and Labor Turnover Survey reported that job openings rose to an all-time high last week. Solid business activity data imply that the Delta variant may not have had an adverse impact on the economy and consumers generally perceive jobs as plentiful.

International – Germany industrial production and ZEW survey, China exports (September 7); China CPI (September 8); ECB meeting (September 9)

German industrial production is forecast to grow 0.9% in July, following the 1.3% decline in June, supported by a rebound in the automotive industry.

On the other hand, the Germany ZEW survey may show a decline, as fears of a fourth wave weigh on sentiment.

The ECB is set to meet this week for the first time since its move to a symmetric 2% inflation target. The central bank could move closer toward tapering and will provide updated macroeconomic forecasts, including GDP and inflation.

In Asia, we have a few data points coming out of China. Exports are forecast to have eased in August, on a combined higher base and softening demand. Export demand showed a contraction in the Caixin China Manufacturing PMI report.

Chinese CPI is forecast to have remain unchanged at 1.0% in August. Falling food prices, notably pork, are expected to continue to drag.

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