

Weekly Market Pulse

Week ending February 26, 2021



Market developments

Equities:

Despite strong economic expectations, markets fell for a second week, rocked by bond volatility. Fed Chairman Jerome Powell called the rising yields “a statement of confidence” in terms of the economic outlook, but higher yields ultimately increase borrowing costs to businesses and consumers. The S&P 500 fell 2.45%. The S&P/TSX Composite fell 1.76%.

Fixed income:

Bond yields continued to surge with high economic expectations for the recovery. The U.S. Treasury 10-year yield rose 7 basis points to 1.40%. The Government of Canada 10-year yield rose 15 basis point to 1.36%.

Commodities:

The reflation trade continues in commodities. Oil prices rose 3.81% and copper prices increased a slight 0.50%. Gold prices fell 2.81% on rising yields.

Performance (price return)

SECURITY	PRICE	WEEK	1 MONTH	3 MONTH	YTD
Equities (\$Local)					
S&P/TSX Composite	18060.26	-1.76%	1.58%	4.09%	3.60%
S&P 500	3811.15	-2.45%	-1.00%	5.00%	1.47%
NASDAQ	13192.35	-4.92%	-3.18%	9.08%	2.36%
DAX	13786.29	-1.48%	-0.61%	3.76%	0.49%
NIKKEI 225	28966.01	-3.50%	1.47%	9.15%	5.55%
Shanghai Composite	3509.08	-5.06%	-1.69%	4.14%	1.04%
Fixed Income (Performance in %)					
Canada 10-Year Yield	1.36	0.15	0.54	0.67	0.68
US 10-Year Yield	1.40	0.07	0.37	0.52	0.49
German 10-Year Yield	-0.26	0.05	0.27	0.33	0.31
US High Yield Spread	3.57	0.11	-0.16	-0.76	-0.23
Commodities (\$USD)					
Oil	61.50	3.81%	16.90%	34.54%	26.75%
Gold	1734.04	-2.81%	-6.31%	-4.50%	-8.66%
Copper	409.45	0.50%	13.12%	23.72%	16.35%
Currencies (\$USD)					
DX	90.93	0.63%	0.84%	-1.16%	1.10%
Loonie	1.2738	0.98%	0.35%	-2.14%	0.10%
Euro	0.8283	0.38%	0.72%	-1.32%	1.18%
Yen	106.57	1.06%	2.85%	2.22%	3.22%

As of February 26, 2021

Macro developments

Canada – Small business sentiment improves

The CFIB Business Barometer index rose to 62.5 in February from 58.7 in January. The uptick marks the highest reading in over two years, showing optimism as the vaccine rolls out. However, the shorter-term 3-month outlook remains weak. The recent lockdowns have hit small businesses, with the report noting that about one-fifth of businesses are barely in operation (under 30% of their operating capacity).

U.S. – Personal income and spending rise with government support; Durable goods orders increase

Personal income rose 10.0% in January, driven by economic relief cheques and increased unemployment benefits introduced through the pandemic relief package passed in December. Similarly, personal spending also rose 2.4%, partly due to increased spending on goods and services. The rise within goods was led by recreational goods and vehicles, while the rise in services was led by food services.

Durable goods orders rose 3.4% in January, following the 1.2% increase in December. Transportation equipment led the gain, with orders rising 7.8%. Excluding transportation, orders rose 1.4%.

International – Germany business sentiment improving; Japan industrial production rises

The Germany Ifo Business Climate Index rose to 92.4 in February, from 90.3 in January. Business sentiment improved as pessimism regarding the coming months declined. The Current Situation Index rose slightly to 90.6 from 89.2, while the Expectations Index rose to 94.2 from 91.5. Improvements were seen within all sector groups. In manufacturing, optimism rose to the highest reading in over two years. Within services, trade, and construction, expectations are still pessimistic but less so compared to last month.

Japan industrial production rose 4.2% in January, following the 1.0% decline in December. The strong output was led by strong demand for semiconductor-related products. Demand from China was also strong, with exports to the country rising 15.1%. However, a survey of production forecast shows plans for some cutbacks in March.

Quick look ahead

Canada – Manufacturing PMI (March 1); GDP (March 2)

In Canada, the first release will be an update on the Manufacturing PMI to see how companies have fared during the lockdowns.

December GDP is expected to come out at a gain of 0.1%. If accurate, Q4 GDP would have expanded 7.2% annualized.

U.S. – Factory orders (March 4); Nonfarm payrolls (March 5)

Factory orders are likely to continue to rise in January as manufacturers show continued strength. The release to be watching this week is the nonfarm payrolls report for February, which will provide an update on the recovery of the labour market. The U.S. economy is forecasted to have added 171K jobs in the month.

International – South Korea exports (February 28); China PMI and Eurozone CPI (March 2); Eurozone retail sales (March 4); Germany factory orders (March 5)

The momentum seen in South Korea exports is expected to have continued into February. Market consensus is for a 14.1% year-over-year increase, compared to January's reading of 11.4%. We will also have a refresh on China PMIs.

Over in Europe, we have CPI and retail sales numbers. CPI is expected to remain at 0.9% year-over-year in February, while retail sales are expected to have declined 1.3% in January with member countries affected by lockdowns. Lastly, we have Germany factory orders for January expected to gain 1.0%.

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