

Weekly Market Pulse

I'm pleased to share with you our latest *Weekly Market Pulse*. Covering Canada, U.S., and international regions, this commentary provides perspective on recent economic and market developments.



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Asset Management

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Week ending January 15, 2021

Market developments

Equities:

Markets retreated last week. Data was mixed, with the Fed noting declining demand amid the recent virus wave. Even the US\$1.9T stimulus bill proposed by President-Elect Joe Biden, set to take office officially this week, was not able to push markets into the green. There are aspects of the bill that would require Republican support to pass. The S&P 500 fell 1.48%. The S&P/TSX Composite fell 0.74%.

Fixed income:

Yields fell slightly on faltering consumer data. The Bank of Canada, European Central Bank, and Bank of Japan are set to meet next week. The U.S. Treasury 10-year yield fell 3 basis points to 1.08%. The Government of Canada 10-year yield fell 1 basis point to 0.81%.

Commodities:

Copper prices fell 1.97% on demand concerns. Coronavirus cases in China are rising slightly again, which could pose a threat to manufacturing. Gold fell 1.11% on the rising U.S. dollar. Oil prices were unchanged.

Performance (price return)

SECURITY	PRICE	WEEK	1 MONTH	3 MONTH	YTD
Equities (\$Local)					
S&P/TSX Composite	17909.03	-0.74%	2.30%	8.53%	2.73%
S&P 500	3768.25	-1.48%	1.99%	8.18%	0.32%
NASDAQ	12998.50	-1.54%	3.20%	10.97%	0.86%
DAX	13787.73	-1.86%	3.18%	8.53%	0.50%
NIKKEI 225	28519.18	1.35%	6.86%	21.32%	3.92%
Shanghai Composite	3566.38	-0.10%	5.91%	7.03%	2.69%
Fixed Income (Performance in %)					
Canada 10-Year Yield	0.81	-0.01	0.08	0.24	0.13
US 10-Year Yield	1.08	-0.03	0.18	0.35	0.17
German 10-Year Yield	-0.54	-0.02	0.07	0.07	0.03
US High Yield Spread	3.73	0.02	-0.28	-1.37	-0.06
Commodities (\$USD)					
Oil	52.36	0.23%	9.95%	27.83%	7.91%
Gold	1828.45	-1.11%	-1.36%	-4.20%	-3.68%
Copper	360.10	-1.97%	1.78%	16.71%	2.33%
Currencies (\$USD)					
DX	90.78	0.76%	0.34%	-3.27%	0.94%
Loonie	1.2732	0.24%	0.24%	-3.70%	0.06%

Euro	0.8281	1.17%	0.63%	-3.06%	1.16%
Yen	103.85	-0.09%	0.17%	-1.52%	0.58%

As of January 15, 2021

Macro developments

Canada – Bank of Canada Business Outlook Survey turns positive

The Bank of Canada Business Outlook Survey indicator for Q4 turned positive, signaling continued improvement in business sentiment. A more positive sales outlook and vaccine developments have boosted optimism, with both investment and hiring intentions increasing. Firms in the goods-producing sector anticipated a faster pace of sales in the year to come. However, it should be noted that one-third of businesses do not expect their sales to return to pre-pandemic levels in the next 12 months, suggesting an uneven recovery with most of these firms tied to the services industry.

U.S. – Fed Beige Book shows mixed activity; CPI rises on energy; Retail sales hit by COVID wave; Industrial production rises; Empire Manufacturing unchanged

The Fed Beige Book reports that economic activity has modestly increased since the last release. Reports on consumer spending were mixed, with some districts noting declining demand for retail and leisure on the recent COVID-19 surge. Manufacturing activity however continues to recover. Employment rose at a slow pace, but overall labour market conditions remain weak.

CPI rose 0.4% seasonally adjusted in December, following the 0.2% rise in November. The rise was driven by energy prices increasing 4.0%. Core CPI, excluding food and energy, rose just 0.1%. For the year 2020, prices increased 1.4%.

Retail sales fell 0.7% in December, following the 1.4% decline in November. Auto sales were strong in the month, rising 1.9%. Ex-auto sales fell 1.4% showing slowing consumer spending as the recent virus wave struck the retail sector. On a more positive note, overall retail sales for 2020 increased 2.9%.

Industrial production rose 1.6% in December, following the 0.5% increase in November. Production rose across all major industry groups but remains 3.3% below pre-pandemic February levels. Capacity utilization rose to 74.5% from 73.4%.

The Empire State Manufacturing General Business Conditions Index fell to 3.5 in January from 4.9. Business activity was little changed. New orders and shipments grew slightly, and unfilled orders fell as a result. Employment levels and the average workweek increased modestly.

International – China CPI rises on cold weather; Strong Chinese export data; ECB minutes show support from all members; UK GDP contracts

China CPI rose 0.2% on a year-over-year basis in December, from a 0.5% decline in November. The increase was driven by higher food prices. Elevated energy prices also contributed based on the colder than usual weather.

China exports rose 18.1% on a year-over-year basis in December, from 21.1% in November. Exports of Chinese goods remained strong even with the surge of COVID-19 infections. Year-over-year, exports to the U.S. has risen 34.5%.

The ECB minutes showed that all members had agreed that additional stimulus was required at the last meeting. The main highlight was the focus on “preserving favorable financing conditions,” and that asset purchases could be further altered as financial conditions change.

UK GDP fell 2.6% in November, following the 0.6% increase in October. The drop was not as bad as markets had feared, with expectations of a drop of 4.6%. The services sector was hit the hardest with the largest decline in accommodation and food services, where output had dropped 44.0%.

Quick look ahead

Canada – Manufacturing sales (January 19); CPI and Bank of Canada meeting (January 20); Retail sales (January 22)

Though slightly outdated, manufacturing sales show continued resilience and are expected to drop a slight 0.2%. CPI is expected to be unchanged in December. Energy prices have moved up, but widespread lockdowns are likely to have reduced demand elsewhere.

The Bank of Canada will meet this week. With no more room for a standard rate cut, the idea of a “micro rate cut,” or a cut of smaller than the usual 25 basis points, is a possibility market participants are considering.

The final number for retail sales will be released for November, however the focus will likely be on the preliminary December reading as the release in the U.S. had disappointed last week.

U.S. – Markit PMI (January 22)

The January PMI readings will be updated, providing an update on business activity and sentiment, which has held strong thus far.

International – China GDP, industrial production, and retail sales (January 17); Germany ZEW Survey (January 19); ECB meeting, Bank of Japan meeting, and Japan PMI (January 21); Eurozone PMI (January 22)

The week starts off with some key releases from China. GDP is expected to have expanded 2.7% in Q4, which would imply an impressive 6.2% growth for 2020 even with the coronavirus impact. Similarly, we will get industrial production and retail sales numbers for the year, both expected to have expanded 6.9% and 5.5%, respectively.

We will get an update of German business sentiment, with rising concerns over the latest coronavirus wave potentially impacting the ZEW survey.

We will see several central bank updates. The ECB is likely to provide an update on its economic outlook. Other than that, there is not much to expect policy-wise, since they just announced additional support last meeting. The focus of the Bank of Japan meeting will be on any hints of its framework review, expected to be completed in March.

We also get some PMI readings abroad. In Japan, the manufacturing sector had shown signs of bottoming out, but the services sector continues to lag. Meanwhile, the Eurozone PMI readings for December had also shown signs of stabilization. Germany was the only country where business activity was expanding, but France showed strong improvements.

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