

# 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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Week ending January 22, 2021

## Market developments

### Equities:

Markets rose, reversing losses from the previous week. Even as the economy is stalling, investors are looking past the short-term risks toward the eventual recovery this year. In the U.S., Joe Biden was inaugurated and unveiled a national strategy to combat the coronavirus. He committed to rejoining the Paris climate accord, and cancelled the Keystone XL pipeline project. The S&P 500 rallied 1.94%. The S&P/TSX Composite fell 0.35%.

### Fixed income:

Yields rose in Canada after the Bank of Canada said it expects growth to quickly rebound this year and hinted that asset purchases may be scaled back as the recovery materializes. The U.S. Treasury 10-year yield was unchanged at 1.09% with the U.S. Fed set to meet this week. The Government of Canada 10-year yield rose 4 basis point to 0.85%.

### Commodities:

Gold prices rose 1.49% on the weakening U.S. dollar. Oil and copper prices were relatively unchanged.

## Performance (price return)

SECURITY	PRICE	WEEK	1 MONTH	3 MONTH	YTD
<b>Equities (\$Local)</b>					
S&P/TSX Composite	17845.91	-0.35%	1.67%	9.62%	2.37%
S&P 500	3841.47	1.94%	4.18%	11.23%	2.27%
NASDAQ	13543.06	4.19%	5.74%	17.70%	5.08%
DAX	13873.97	0.63%	3.40%	10.61%	1.13%
NIKKEI 225	28631.45	0.39%	8.30%	21.97%	4.33%
Shanghai Composite	3606.75	1.13%	7.45%	8.88%	3.85%
<b>Fixed Income (Performance in %)</b>					
Canada 10-Year Yield	0.85	0.04	0.14	0.18	0.17
US 10-Year Yield	1.09	0.00	0.17	0.23	0.17
German 10-Year Yield	-0.51	0.03	0.08	0.05	0.06
US High Yield Spread	3.70	-0.04	-0.31	-1.32	-0.10
<b>Commodities (\$USD)</b>					
Oil	52.27	-0.17%	11.17%	28.62%	7.73%
Gold	1855.61	1.49%	-0.28%	-2.55%	-2.25%
Copper	361.95	0.49%	2.89%	14.78%	2.86%
<b>Currencies (\$USD)</b>					
DX	90.21	-0.62%	-0.49%	-2.95%	0.31%
Loonie	1.2733	0.01%	-1.36%	-3.07%	0.06%
Euro	0.8215	-0.80%	-0.07%	-2.92%	0.35%
Yen	103.78	-0.07%	0.14%	-1.03%	0.51%

As of January 22, 2021

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## Macro developments

### **Canada – Bank of Canada to hold policy until inflation target is achieved; CPI falls; Retail sales expected to decline in December; Manufacturing sales decrease**

There was no policy change at the Bank of Canada meeting, and the BoC said it “will hold current level of policy rate until inflation objective is achieved.” There was a hint that tapering may come “as the Governing Council gains confidence in the strength of the recovery.” Updated growth projections show that the central bank turned more pessimistic on Q1 growth on near-term weakness in overall consumption, but remains cautiously optimistic in the medium-term as the virus wave recedes and the potential availability of the vaccine increases. The BoC expects a sharp bounce-back if restrictions are reduced in the second quarter. The Q1 revision dragged the 2021 growth expectations by 0.2% to 4.0%, but at the same time 2022 was revised up by 1.1% to 4.8%. When asked about the possibility of a micro-cut, Governor Tiff Macklem acknowledged that it was a possible tool.

CPI fell 0.2% in December. Gasoline prices rose 3.3%, but the effect was offset by the price of goods declining 0.6%. For the year, inflation was 0.7%.

Retail sales rose 1.3% in November, compared to StatsCan’s preliminary estimate of expecting sales to be relatively unchanged. Sales were lower at motor vehicles and dealers, but rose at food and beverage stores as well as building material and garden supply stores. The preliminary estimate for December came out at a decline of 2.6%, reflecting the effects of the surging virus case count and lockdown measures.

Manufacturing sales fell 0.6% in November, following the 0.2% gain in October. Sales were down in only 5 of 21 industries, driven by a 9.1% decline in the transportation.

### **U.S. – Markit PMI signals stronger expansion**

The IHS Market Flash U.S. Composite PMI rose to 58.0 in January from 55.3 in December, with growth in the private sector accelerating in both manufacturing and services. The Manufacturing PMI rose to 59.1 from 57.1 and the Services PMI rose to 57.5 from 54.8. Output and new orders also rose. New business accelerated in manufacturing but was muted in services. Inflationary pressures continue to intensify on supplier delays and shortages, increasing input prices. The soaring transportation and PPE costs resulted in the sharpest rise in selling prices since July 2008.

### **International – China GDP rises on industrial output; Germany ZEW sentiment strengthens; ECB meeting leaves policy unchanged, Eurozone PMI weakens; Bank of Japan says important to keep entire yield curve low, Japan PMI falls**

China GDP rose by a seasonally adjusted 2.6% in Q4. Overall, output rose 2.3% in 2020, even as part of the country was shutdown for weeks in an effort to contain the coronavirus. China is the only major global economy expected to have expanded last year, reflecting its successful containment measures. Growth was driven by strong industrial production which rose 2.8% in 2020, driven by a 3.4% growth in manufacturing. Consumer demand dragged on the reading, with retail sales 3.9% below previous year’s level.

The Germany ZEW Indicator of Economic Sentiment rose to 61.8 in January from 55.0 in December. Despite the nearterm uncertainty, the economic outlook rose with export expectations rising strongly.

The ECB kept policy unchanged. President Christine Lagarde said that output probably shrank in Q4 and uncertainty remains high, and she continues to emphasize the ECB’s goal of ensuring financing conditions are favourable.

The IHS Markit Flash Eurozone Composite PMI fell to 47.5 in January, from 49.1 in December. Business activity fell in the month. The Manufacturing PMI fell to 54.7 from 55.2 while the Services PMI fell to 45.0 from 46.4. Resilience of the manufacturing sector persists, with factory output expanding for a seventh straight month, while tighter restrictions were blamed for the further deterioration in services. Employment fell for the eleventh straight month with modest job losses in both manufacturing and services. Manufacturers reported the fastest rise in prices in over two years. Expectations retreated from December due to lingering worries of persisting effects of the coronavirus. By country, the decline was broad-based across the eurozone. Germany, the only country where activity remains expansionary, slipped to 50.8 from 52.0 indicating very slight growth.

As expected, the Bank of Japan left policy unchanged ahead of the results of the policy review expected in March. The BoJ said it will be important to keep the entire yield curve low even after the virus.

The au Jibun Bank Flash Japan Composite PMI fell to 46.7 in January, from 48.5 in December. The Manufacturing PMI fell slightly to 49.7 from 50.0 while the fall in the Services PMI was more pronounced,

declining to 45.7 from 47.7. Demand conditions weakened, hampered by a rising case count. Output, new orders, and export orders all declined. Employment fell in manufacturing and was unchanged in services. Manufacturers reported rising cost pressures dampening operating conditions. The outlook weakened but remains positive.

## Quick look ahead

### Canada – GDP (January 29)

The only data release in Canada next week is the GDP reading for November, with StatsCan's preliminary estimate of 0.4%. We will also get the preliminary reading for December, likely to show a contraction following the expected decline in December retail sales reflecting the renewed lockdowns. The Bank of Canada is already forecasting for things to get worse before conditions improve.

### U.S. – Fed meeting (January 27); GDP (January 28); Personal income and spending (January 29)

We get the Fed meeting, where once again it is unlikely there will be policy changes, with markets instead looking for hints of forward guidance.

Next, we have Q4 GDP, with markets expecting an expansion of 4.2%. December personal incomes are likely to be relatively unchanged, while spending is likely to have declined.

### International – Ifo Business Climate (January 25); Germany and France GDP (January 29)

The Ifo survey will provide an update to business conditions in Germany and will show how firms are faring with the restrictions, with expectations of a slight deterioration. In December, manufacturing was the only bright spot while services, trade, and construction fell.

Following, we will get Q4 GDP readings for two major European countries, Germany and France, both expected to show weakness on the resurgence of the virus during the quarter.

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