



September 11, 2020

InFocus

Global equities came under selling pressure as a combination of concerns about stretched valuations in the information technology sector and fears that early signs of recovery in the U.S. economy could fade in absence of additional economic stimulus hampered investor sentiment. This followed the U.S. Senate's decision to reject a relief package to cushion the effect of coronavirus-related damage to the economy. From a regional perspective, European and Japanese equities advanced, while equities in Asia and the U.S. declined.

Globally, information technology and energy were the worst-performing sectors, while the materials sector advanced. Energy stocks tracked oil prices lower after Saudi Aramco cut oil prices and oil demand weakened in China and elsewhere. In specific company news, Tesla dropped after the electric car company was passed over for inclusion in the S&P 500 Index, contrary to market expectations.

In fixed income markets, demand for safe-haven assets and Federal Reserve debt purchases drove the yield of the benchmark ten-year U.S. Treasury note lower for the week. (Bond prices and yields move in opposite directions.)

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	16,222.46	0.03%	-1.77%	-4.93%
S&P500	3,340.97	-2.51%	-4.55%	3.41%
NASDAQ	10,853.54	-4.06%	-7.83%	20.96%
DJIA	27,665.64	-1.66%	-2.69%	-3.06%
Russell 2000	1,497.27	-2.48%	-4.14%	-10.26%
FTSE 100	6,032.09	4.02%	1.15%	-20.02%
Euro Stoxx 50	3,315.81	1.69%	1.32%	-11.46%
Nikkei 225	23,406.49	0.87%	1.15%	-1.06%
Hang Seng	24,503.31	-0.78%	-2.68%	-13.08%
Shanghai Comp.	3,260.35	-2.83%	-3.99%	6.89%
MSCI ACWI	565.96	-1.24%	-3.23%	0.13%
MSCI EM	1,091.79	-0.70%	-0.88%	-2.05%
MSCI ACWI ESG Leader	1,965.09	-0.85%	-2.85%	2.43%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,219.35	0.38%	0.79%	8.51%
BBG Global Agg.	541.64	0.13%	-0.23%	5.86%
TSX Pref	1,521.55	-0.35%	0.17%	-1.06%

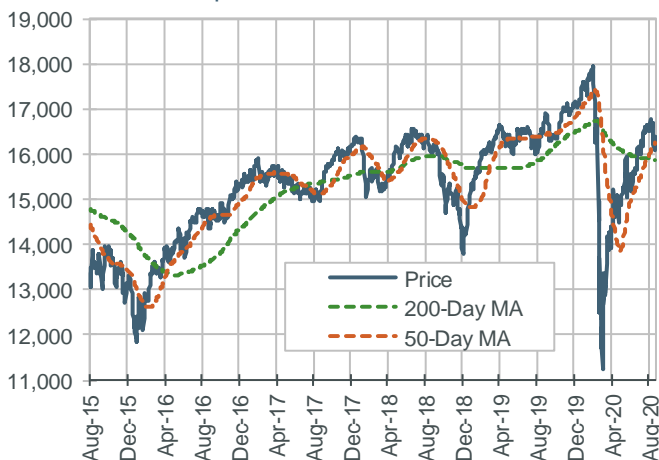
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	0.55%	-4.6	-7.2	-115.2
10 yr U.S. Govt.	0.67%	-5.2	-3.9	-125.2
30 yr Canada Govt.	1.06%	-4.2	-10.4	-70.3
30 yr U.S. Govt.	1.41%	-6.0	-6.3	-97.8

Commodities	Close	Weekly	MTD	YTD
Oil	37.33	-6.14%	-12.39%	-34.84%
Natural gas	2.27	-12.33%	-13.73%	-3.28%
Gold	1,940.55	0.34%	-1.38%	27.90%
Silver	26.73	-0.67%	-5.02%	49.73%
Copper	303.95	-0.73%	-0.72%	7.57%

Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7589	-0.88%	-0.98%	-1.42%
USD/EUR	0.8442	-0.06%	0.76%	-5.35%
CAD/EUR	0.6406	-0.94%	-0.23%	-6.70%
USD/JPY	106.1600	-0.08%	0.24%	-2.26%
USD/CNY	6.8344	-0.12%	-0.21%	-1.85%
USD/MXN	21.2760	-1.29%	-2.79%	12.41%
GBP/CAD	1.6862	-2.80%	-3.33%	-2.11%
GBP/USD	1.2796	-3.64%	-4.29%	-3.48%

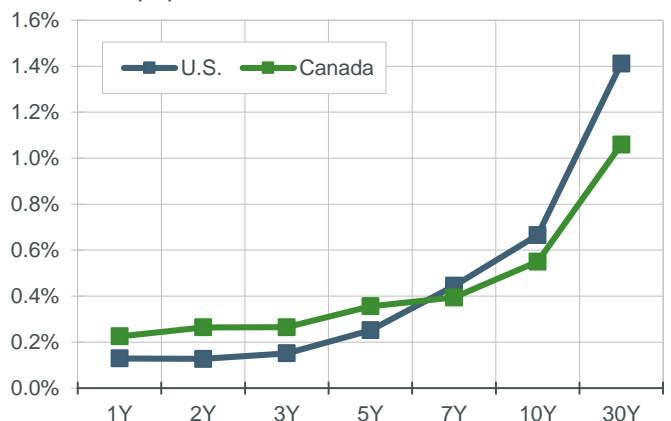
* Please refer to Appendix for the above table in Canadian dollar terms.

S&P/TSX Composite Index



Source: Bloomberg, Refinitiv DataStream. Index returns are in local currency. All equity indexes are price returns and do not include dividends.

Treasury yield curves



Economic indicators	Period	Survey	Actual	Prior period
Bank of Canada rate decision	Sep 9	0.25%	0.25%	0.25%
Canada housing starts	Aug	217.5k	262.4k	245.4k
U.S. CPI (MoM)	Aug	0.3%	0.4%	0.6%
U.S. initial jobless claims	Sep 5	850k	884k	884k
U.S. MBA mortgage applications	Sep 4	-	2.9%	-2.0%
ECB main refinancing rate	Sep 10	0.0%	0.0%	0.0%
Eurozone GDP (QoQ)	Q2	-12.1%	-11.8%	-12.1%

Canada

Canadian equities edged higher, outperforming their U.S. peers. The materials, industrials and consumer staples sectors advanced to support modest gains over the week, offsetting a decline in information technology and energy securities, which fell in line with global peers. Robust residential construction activity and strong housing starts also brightened the outlook for the Canadian economy.

Announcing its decision to retain its overnight policy rate at 0.25%, the Bank of Canada confirmed that it will continue its quantitative easing program, with large-scale asset purchases of at least \$5 billion per week of Government of Canada bonds.

U.S.

U.S. equities declined for the week. Weakness in information technology shares dragged equities down, and value stocks sagged on recovery worries. Cyclical shares suffered when fiscal stimulus hopes hit a dead end after the Senate rejected a stimulus bill. A disappointing jobless claims report was another negative. Energy shares were off on falling crude oil prices, after an unexpected rise in U.S. inventories.

The decline in the broader market masked some gains due to positive earnings growth and a rise in stocks with an attractive outlook. Stocks that gained included electric truck-maker Nikola, which surged on reports of a tie-up with General Motors, and Restoration Hardware, a home furnishing company, which advanced on better-than-expected earnings growth.

While some analysts believe the recent correction in information technology stocks is a healthy development overall, it shows that investors with broad equity exposure to an index or sector such as information technology have to be prepared for gap-like moves in their portfolios.

Analysts also believe that with the increasingly uncertain outcome of the U.S. presidential election in November and geopolitical tensions between the U.S. and China continuing to ratchet up, investors should expect continued bouts of volatility.

Rest of the world

Despite renewed Brexit concerns and the tech stock-induced rout in U.S. markets, European and Asian equities advanced for the week. U.K. equities also surged for the week as the pound sterling weakened on fears that the government would renege on some elements of the Brexit agreement. Later in the week, U.K. equities were also boosted by the announcement of a U.K.-Japan trade agreement.

In European economic data, the final report on the eurozone economy in the second quarter confirmed a record drop in real GDP. However, the quarterly decline was trimmed from the previously estimated 12.1% to 11.8%, which cut the yearly slump from the flash estimate of 15.0% to 14.7%. Even so, GDP was at its lowest level since the first quarter of 2005.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada CPI (YoY)	Aug	0.4%	0.1%
U.S. Housing Starts	Aug	1475k	1496k
U.S. initial jobless claims	Sep 12	850k	884k
U.S. MBA mortgage applications	Sep 11	-	2.9%
Eurozone CPI (YoY)	Aug	-0.2%	-0.2%
Germany ZEW Survey Expectation	Sep	69.5	71.5
China Industrial Production (YoY)	Aug	5.1%	4.8%

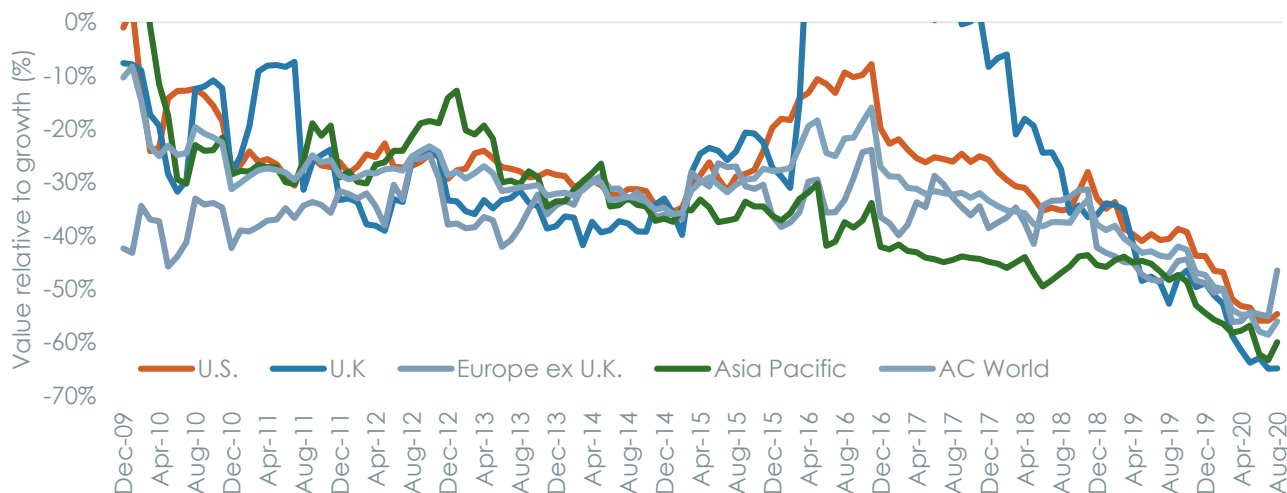
Central bank meetings			
Central banks	Date	Probability of change	Current rate
Federal Open Market Committee	16-Sep-20	-4.7%	0.25%
Bank of England	17-Sep-20	-0.6%	0.10%
Bank of Japan	17-Sep-20	17.9%	-0.10%
Bank of Canada	28-Oct-20	-6.9%	0.25%
European Central Bank	29-Oct-20	-6.0%	0.00%

Source: Bloomberg. Probability of change implies the possibility of a central bank hiking interest rates during their upcoming meeting. A negative number in this case means chances of a rate cut rather than a hike.

Spotlight

PE (price-to-earnings) discount of value vs. growth well below historical averages

Value investing – a style of investing in which investors seek out companies that are trading at a discount to what they believe is the companies' true worth – has been out of favour for about a decade now. The chart below shows that the discount of value and growth stocks is at historic highs globally. Over the year, markets have looked through the pandemic to an eventual recovery, while flocking to established winners and side-lining the growing geopolitical rivalry between the U.S. and China. Growth, quality, momentum and large caps have remained the market leaders, while mega-cap technology and "work from home" winners have thrived during the crisis, with the occasional bidding up of extremely beaten-down value stocks. If the market continues to become more positive and improve in breadth, it could benefit value stocks, but a longer structural shift to value will eventually depend on sustained economic growth, inflation and higher interest rates.



Source: Fidelity International, Refinitiv DataStream, 31 August 2020. Based on trailing 12 months Price to Earnings data for all regional/global MSCI Indices

Appendix

Global markets (Returns in Canadian dollar terms)

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Oil	49.19	-5.31%	-11.53%	-33.90%
Natural gas	2.99	-11.55%	-12.87%	-1.89%
Gold	2,556.98	1.19%	-0.40%	29.72%
Silver	35.23	0.22%	-4.05%	51.90%
Copper	400.51	0.14%	0.26%	9.12%
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