



September 4, 2020

InFocus

Major equity markets declined over the week as investors took profits following an August rally that led major benchmarks to all-time highs. Equity markets started the week on a positive note, but sentiment shifted toward the end of the week, when investors dumped mega-cap technology names that they considered to be overvalued.

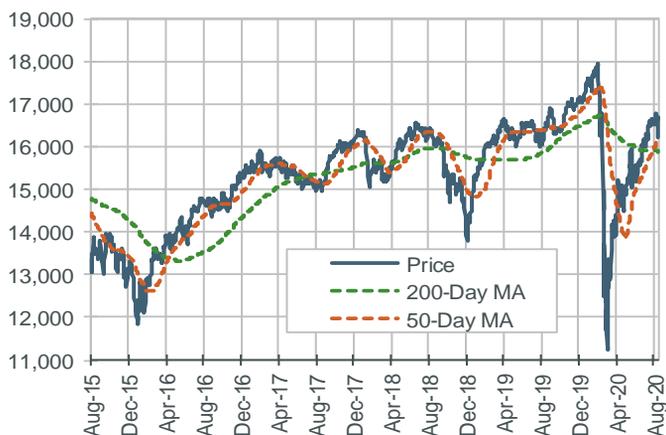
The risk-off sentiment buoyed the U.S. dollar, which in turn pressured commodities such as oil and gold. Crude oil prices were also affected by excess inventories at refineries, which dampened demand.

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 earlier in the week. However, demand for Treasuries weakened after the release of a strong employment report on Friday. (Bond prices and yields move in opposite directions.)

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	16,218.01	-2.92%	-1.79%	-4.95%
S&P500	3,426.96	-2.31%	-2.10%	6.07%
NASDAQ	11,313.13	-3.27%	-3.93%	26.09%
DJIA	28,133.31	-1.82%	-1.04%	-1.42%
Russell 2000	1,535.30	-2.73%	-1.70%	-7.98%
FTSE 100	5,799.08	-2.76%	-2.76%	-23.11%
Euro Stoxx 50	3,260.59	-1.66%	-0.36%	-12.94%
Nikkei 225	23,205.43	1.41%	0.28%	-1.91%
Hang Seng	24,695.45	-2.86%	-1.91%	-12.40%
Shanghai Comp.	3,355.37	-1.42%	-1.19%	10.01%
MSCI ACWI	573.04	-2.28%	-2.02%	1.38%
MSCI EM	1,099.50	-1.97%	-0.18%	-1.36%
MSCI ACWI ESG Leader	1,981.84	-2.48%	-2.03%	3.30%
Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,214.73	0.65%	0.41%	8.10%
BBG Global Agg.	540.96	-0.16%	-0.36%	5.72%
TSX Pref	1,526.96	0.60%	0.52%	-0.71%
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	0.60%	-3.7	-2.6	-110.6
10 yr U.S. Govt.	0.72%	-0.3	1.3	-120.0
30 yr Canada Govt.	1.10%	-9.4	-6.2	-66.1
30 yr U.S. Govt.	1.47%	-3.0	-0.3	-91.8
Commodities	Close	Weekly	MTD	YTD
Oil	39.77	-7.45%	-6.67%	-30.58%
Natural gas	2.59	-2.60%	-1.60%	10.32%
Gold	1,933.94	-1.57%	-1.72%	27.46%
Silver	26.91	-2.15%	-4.38%	50.74%
Copper	306.20	1.41%	0.02%	8.37%
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7656	0.29%	-0.10%	-0.55%
USD/EUR	0.8447	0.56%	0.82%	-5.29%
CAD/EUR	0.6467	0.84%	0.72%	-5.81%
USD/JPY	106.2400	0.83%	0.31%	-2.18%
USD/CNY	6.8425	-0.33%	-0.09%	-1.73%
USD/MXN	21.5544	-0.95%	-1.52%	13.88%
GBP/CAD	1.7347	-0.81%	-0.55%	0.70%
GBP/USD	1.3279	-0.55%	-0.68%	0.17%

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

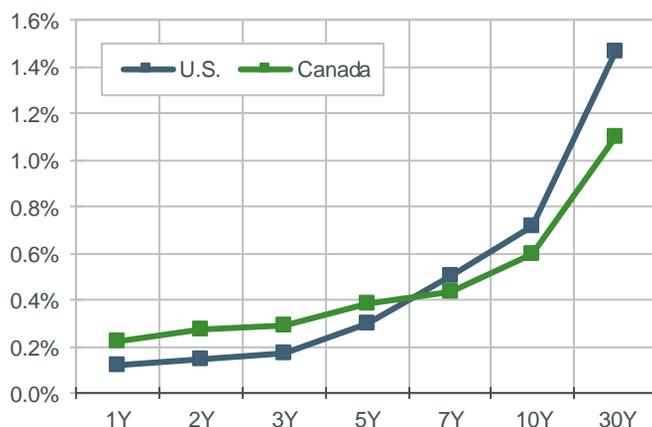
S&P/TSX Composite Index



Source: Bloomberg, 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
Canada Unemployment Rate	Aug	10.2%	10.2%	10.9%
Markit Canada Manufacturing PMI	Aug	-	55.1	52.9
U.S. Initial Jobless Claims	Aug 29	950k	881k	1006k
Markit U.S. Manufacturing PMI	Aug	53.6	53.1	53.6
U.S. Unemployment Rate	Aug	9.8%	8.4%	10.2%
U.S. Trade Balance	July	-\$58.0b	-63.6b	-\$53.5b
Markit Eurozone Manufacturing PMI	Aug	51.7	51.7	51.7

Canada

Canadian equities underperformed their U.S. market peers. The information technology sector led the decline, with shares of Shopify falling. Energy and materials stocks were also weak as oil and gold prices fell. The risk-off sentiment supported defensive sectors such as utilities and consumer staples, which also benefited from falling bond yields.

Among economic news, Canada's unemployment rate dipped to 10.2% in August, even as the pace of job gains declined to 246,000.

U.S.

U.S. stocks finished lower for the week in what many traders considered a long-delayed correction, after setting record highs in August. Value stocks lost ground, but held up better than their growth counterparts.

The technology-heavy Nasdaq Composite Index suffered the largest losses, followed by energy stocks. Conversely, interest rate-sensitive, defensive sectors outperformed. Strength in chemical companies lifted the materials sector, which benefited from lower-priced petroleum feedstocks.

U.S. economic data, including better-than-expected purchasing managers indexes, payroll employment and weekly claims for jobless benefits, continue to support equity

prices.

The unemployment rate was better than expectations, at 8.4%, a 1.8 percentage point decline from July. The improvement reflects both a rise in the number of employed and a decline in the number of unemployed actively looking for work.

Rest of the world

In Europe, markets in France outperformed after the country unveiled a 100 billion euro stimulus plan.

Mainland Chinese stock markets fell in line with the sell-off in U.S. markets

Japan outperformed its developed market peers. News of Warren Buffet's investments in several large Japanese trading companies supported investor sentiment.

Looking ahead

Economic indicators	Period	Survey	Prior period
Bank of Canada rate decision	Sep 9	0.25%	0.25%
Canada housing starts	August	222.0k	245.6k
U.S. CPI inflation (YoY)	August	1.2%	1.0%
U.S. initial jobless claims	Sep 5	845k	881k
U.S. MBA mortgage applications	Sep 4	-	-2.0%
ECB main refinancing rate	Sep 10	0.0%	0.0%
Eurozone GDP (QoQ)	Q2	-12.1%	-12.1%

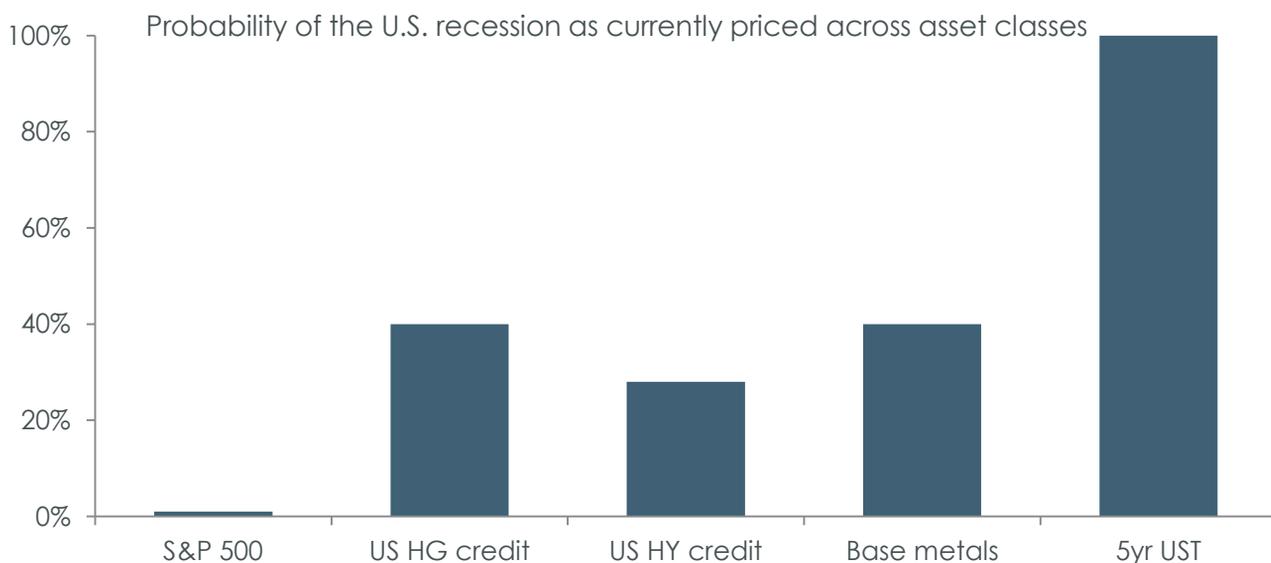
Central bank meetings			
Central banks	Date	Probability of change	Current rate
Federal Open Market Committee	1-Sep-20	-6.6%	0.25%
Bank of Canada	9-Sep-20	-0.7%	0.25%
European Central Bank	10-Sep-20	-7.9%	0.00%
Bank of England	17-Sep-20	-0.2%	0.10%
Bank of Japan	17-Sep-20	11.6%	-0.10%

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

Equities are not pricing in a U.S. recession

Investor confidence is close to all-time highs. Market participants expect this is likely to continue, given the unprecedented support from central banks, through low interest rates and through a wide range of quantitative easing programs, as well as the liberal fiscal policies adopted by both developed and emerging market governments. Sentiment surveys confirm this, showing investor bullishness at a multi-year high, while expectations of a correction are low. As at the end of August, with the S&P 500 Index at a record high, equity markets are theoretically pricing in a 0% chance of recession.



Source: J P Morgan, 27 August 2020

Appendix

Global markets (Returns in Canadian dollar terms)

Indexes	Close	Weekly	MTD	YTD
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Oil	51.95	-7.71%	-6.57%	-30.20%
Natural gas	3.38	-2.88%	-1.49%	10.92%
Gold	2,526.80	-1.83%	-1.58%	28.19%
Silver	35.16	-2.40%	-4.25%	51.58%
Copper	399.95	1.12%	0.12%	8.96%
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7656	0.29%	-0.10%	-0.55%
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