



October 2, 2020

## InFocus

Most global markets advanced during the week. Signs of global economic recovery and hopes of a fiscal stimulus package in the U.S. lifted investor sentiment. Japan underperformed after a technical issue caused the Tokyo Stock Exchange to shut down.

Towards the end of the week, news that President Trump had tested positive for COVID-19 raised doubts about the future of the U.S. election and whether a fiscal stimulus deal could be finalized. After an initial negative reaction to rising political uncertainty, markets shrugged off concerns as chances of an inconclusive election declined.

In the U.S., interest rate-sensitive sectors such as real estate and utilities gained the most, while energy stocks declined. Oil prices fell on concerns about oversupply. The U.S. dollar declined, resulting in higher gold prices.

In fixed income markets, positive economic data lifted risk appetite, driving government bond yields higher (and bond prices lower).

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	16,199.25	0.83%	0.48%	-5.06%
S&P500	3,348.44	1.52%	-0.43%	3.64%
NASDAQ	11,075.02	1.48%	-0.83%	23.43%
DJIA	27,682.81	1.87%	-0.36%	-3.00%
Russell 2000	1,539.30	4.37%	2.10%	-7.74%
FTSE 100	5,902.12	1.02%	0.61%	-21.75%
Euro Stoxx 50	3,190.93	1.72%	-0.08%	-14.80%
Nikkei 225	23,029.90	-0.75%	-0.67%	-2.65%
Hang Seng	23,459.05	0.96%	0.00%	-16.78%
Shanghai Comp.	3,218.05	-0.04%	0.00%	5.51%
MSCI ACWI	564.11	1.60%	-0.18%	-0.20%
MSCI EM	1,081.71	2.13%	-0.03%	-2.96%
MSCI ACWI ESG Leader	1,960.18	1.72%	-0.25%	2.17%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,214.59	-0.22%	0.08%	8.09%
BBG Global Agg.	541.04	0.37%	0.02%	5.74%
TSX Pref	1,514.72	1.02%	-0.44%	-1.51%

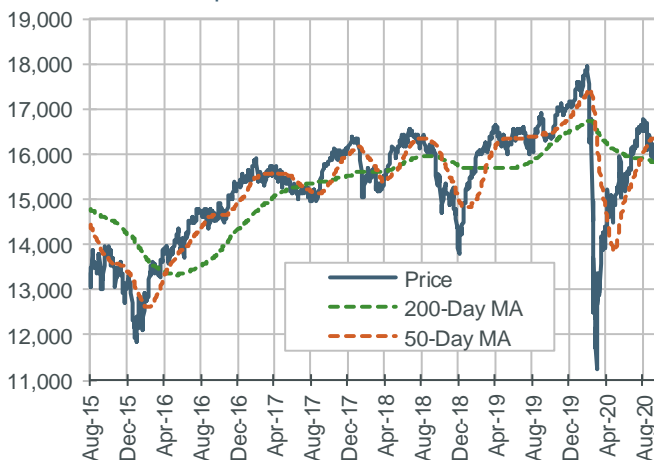
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	0.57%	2.2	0.4	-113.7
10 yr U.S. Govt.	0.70%	4.6	1.7	-121.7
30 yr Canada Govt.	1.12%	4.7	1.1	-64.3
30 yr U.S. Govt.	1.49%	8.6	3.2	-90.3

Commodities	Close	Weekly	MTD	YTD
Oil	37.05	-7.95%	-7.88%	-34.83%
Natural gas	2.44	-13.15%	-3.52%	0.45%
Gold	1,899.84	2.06%	0.74%	25.21%
Silver	23.74	3.70%	2.16%	32.96%
Copper	297.75	0.22%	-1.81%	5.38%

Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7514	0.59%	0.09%	-2.39%
USD/EUR	0.8535	-0.73%	0.04%	-4.31%
CAD/EUR	0.6414	-0.12%	0.16%	-6.58%
USD/JPY	105.2900	-0.27%	-0.18%	-3.06%
USD/CNY	6.7908	-0.48%	0.00%	-2.48%
USD/MXN	21.6163	-3.22%	-2.25%	14.21%
GBP/CAD	1.7214	0.88%	0.05%	-0.07%
GBP/USD	1.2935	1.48%	0.12%	-2.43%

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

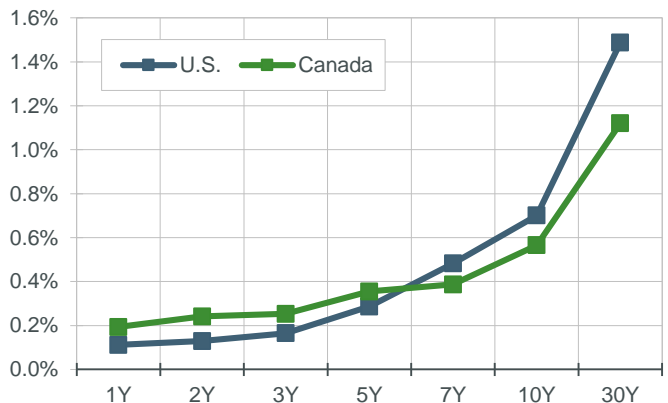
## S&P/TSX Composite Index



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
Markit Canada Manufacturing PMI	Sep	-	56.0	55.1
Canada GDP (MoM)	Jul	2.9%	3.0%	6.5%
U.S. Initial Jobless Claims	Sep 26	850k	837k	870k
U.S. MBA mortgage applications	Sep 25	-	-4.8%	6.8%
U.S. durable goods orders	Aug	0.4%	0.5%	0.4%
Markit Eurozone Manufacturing PMI	Sep	53.7	53.7	53.7
Markit/BME Germany Manufacturing PMI	Sep	56.6	56.4	56.6

## Canada

Canadian equities advanced during the week, but underperformed their global market peers. Falling oil prices and preliminary estimates that the Canadian economy had contracted in August affected investor sentiment.

Among sectors, information technology stocks gained most, specifically e-commerce company Shopify. Conversely, lower oil prices pressured energy stocks.

In economic news, the Canadian economy grew by 3% in July, in line with expectations.

## U.S.

U.S. equities finished higher for the week, with hopes for a deal on a U.S. fiscal stimulus package giving equities a boost.

Political developments played a large role in driving investor sentiment. Investors kept a close watch on stimulus negotiations between Treasury Secretary Steven Mnuchin and House Speaker Nancy Pelosi, and on the first presidential debate on Tuesday. President Donald Trump's announcement on Twitter Thursday night that he and his wife had contracted COVID-19 added further to the political uncertainty.

Among stocks in the news, positive commentary on business conditions from

French chipmaker and Apple supplier STMicroelectronics boosted U.S. tech stocks such as Advanced Micro Devices and Apple. An analyst upgrade lifted shares of Amazon.

In U.S. economic data, non-farm payrolls rose by 661,000 in September, on the low end of expectations. Also positive was the unemployment rate, which fell to 7.9%, slightly better than expected. Weekly jobless claims were encouraging, with the number of Americans filing for unemployment reaching a post-pandemic low of 837,000.

## Rest of the world

European equities gained in line with positive global cues.

Chinese markets rose slightly in a holiday-shortened week. Positive economic data indicating that the recovery was on track boosted investor sentiment.

The Caixin China Purchasing Manager's Index came in above 50, indicating the economy is in expansionary mode.

## Looking ahead

Economic indicators	Period	Survey	Prior period
Canada unemployment rate	Sep	9.9%	10.2%
Canada housing starts	Sep	242.5k	262.4k
U.S. Initial Jobless Claims	Oct 3	820k	834k
U.S. MBA mortgage applications	Oct 2	-	-4.8%
U.S. trade balance	Aug	-\$66.2bn	-\$63.6bn
Markit Eurozone Composite PMI	Sep	50.1	50.1

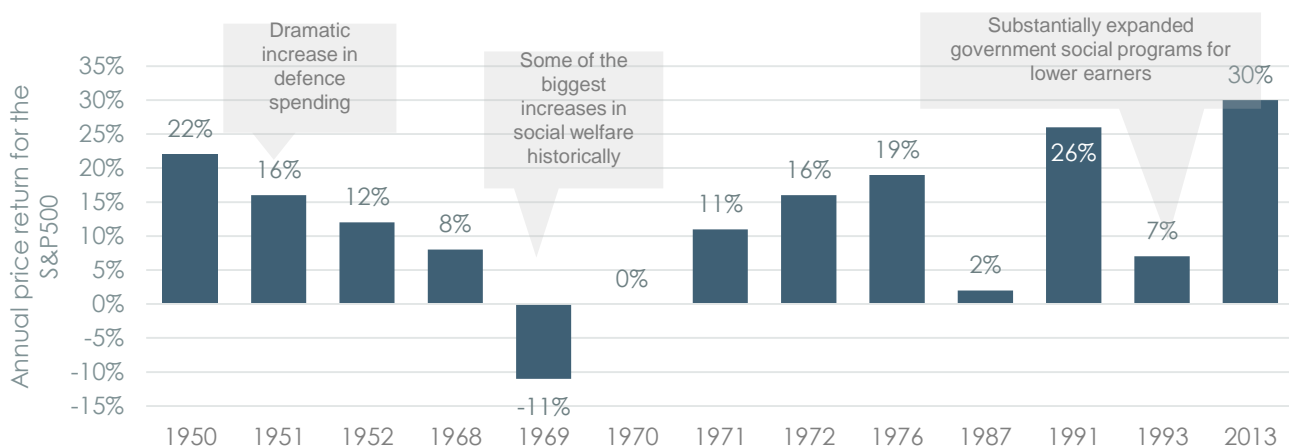
Central bank meetings			
Central banks	Date	Probability of change	Current rate
Bank of Canada	28-Oct-20	-3.2%	0.25%
European Central Bank	29-Oct-20	-2.0%	0.00%
Bank of Japan	29-Oct-20	-2.0%	-0.10%
Bank of England	5-Nov-20	-1.6%	0.10%
Federal Open Market Committee	6-Nov-20	-3.0%	0.25%

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

### Higher rates may not impact the stock market the way many investors expect.

With elections on the horizon, many investors worry about the prospect of U.S. tax increases and their possible dampening effect on U.S. equity markets. However, the chart below shows that in the 13 previous instances of tax increases since 1950, the S&P 500 Index has registered higher average returns following the increase. Despite fears among many market participants that increasing tax rates drive stocks lower, markets have in fact produced better-than-average returns in the wake of changes, because of other economic factors.



Tax Increase in:	1950	1951	1952	1968	1969	1970	1971	1972	1976	1987	1991	1993	2013
Personal	✓	✓	✓	✓							✓	✓	✓
Corporate	✓	✓	✓	✓								✓	
Capital Gains				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Source: Fidelity Investments Canada ULC, FMR, Haver.

## Appendix

Global markets (Returns in Canadian dollar terms)

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Natural gas	3.24	-13.65%	-3.61%	2.91%
Gold	2,528.01	1.46%	0.62%	28.25%
Silver	31.59	3.11%	2.07%	36.18%
Copper	396.26	-0.37%	-1.91%	7.96%
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