



February 19, 2021

InFocus

Global equities were mixed over the week. With rising COVID-19 infections and new variants of the virus coming up, investors continued to adopt a cautious approach.

Oil prices declined for the week, owing to weak demand. Copper prices rose sharply in anticipation of pickup on the demand side, particularly in China.

Japan's Nikkei 225 Index rose above the 30,000 mark for the first time since August 1990, driven by strong fourth-quarter corporate earnings results and positive economic indicators.

U.S. ten-year Treasury bond yields rose to their highest levels in a year. However, investors are cautious about the sharp rise and concerned about the impact on the already inflated equities market.

The Federal Open Market Committee's January meeting minutes were published last week. Federal Reserve officers indicated their willingness to continue with their bond purchase program over the short term, to support the economy.

According to Refinitiv, there is growing evidence that U.S. bullish investors are extending risk allocations into low-quality assets. Triple-C rated bonds have delivered around a 17% return since September 30, 2020, compared with B-rated bonds, which managed only a 7% appreciation for the same time period.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	18,384.27	-0.41%	6.04%	7.74%
S&P500	3,906.71	-0.71%	5.18%	20.92%
NASDAQ	13,874.46	-1.57%	6.15%	54.63%
DJIA	31,494.32	0.11%	5.04%	10.36%
Russell 2000	2,266.69	-0.99%	9.31%	35.85%
FTSE 100	6,624.02	0.52%	3.38%	-12.18%
Euro Stoxx 50	3,713.46	0.48%	6.66%	-0.85%
Nikkei 225	30,017.92	1.69%	8.51%	26.89%
Hang Seng	30,644.73	1.56%	8.35%	8.71%
Shanghai Comp.	3,696.17	1.12%	6.12%	21.18%
MSCI ACWI	679.74	-0.37%	5.73%	20.26%
MSCI EM	1,430.03	0.08%	7.56%	28.29%
MSCI ACWI ESG Leaders	2,355.30	-0.34%	5.73%	22.76%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,180.89	-1.25%	-2.22%	5.09%
BBG Global Agg.	547.86	-0.63%	-1.07%	7.07%
TSX Pref	1,733.76	0.28%	3.54%	12.73%

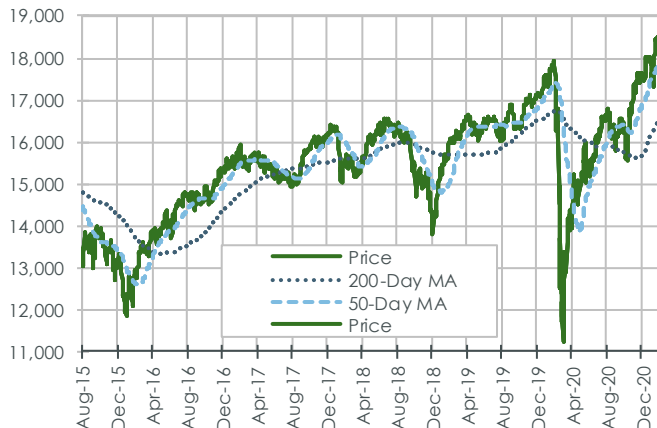
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	120.70%	17.8	31.8	-49.5
10 yr U.S. Govt.	133.64%	12.8	27.1	-58.1
30 yr Canada Govt.	179.40%	16.0	32.0	3.1
30 yr U.S. Govt.	213.35%	12.5	30.4	-25.6

Commodities	Close	Weekly	MTD	YTD
Oil	59.24	-0.39%	13.49%	7.09%
Natural gas	3.07	5.39%	19.70%	20.31%
Gold	1,784.25	-2.19%	-3.43%	17.60%
Silver	27.29	-0.26%	1.12%	52.86%
Copper	407.75	7.63%	14.65%	43.83%

Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7925	0.57%	1.25%	2.95%
USD/EUR	0.8252	0.01%	0.16%	-7.48%
CAD/EUR	0.6540	0.63%	1.41%	-4.75%
USD/JPY	105.4500	0.49%	0.74%	-2.91%
USD/CNY	6.4577	-0.01%	0.44%	-7.26%
USD/MXN	20.4288	2.39%	-0.71%	7.94%
GBP/CAD	1.7670	0.50%	0.90%	2.58%
GBP/USD	1.4016	1.21%	2.25%	5.73%

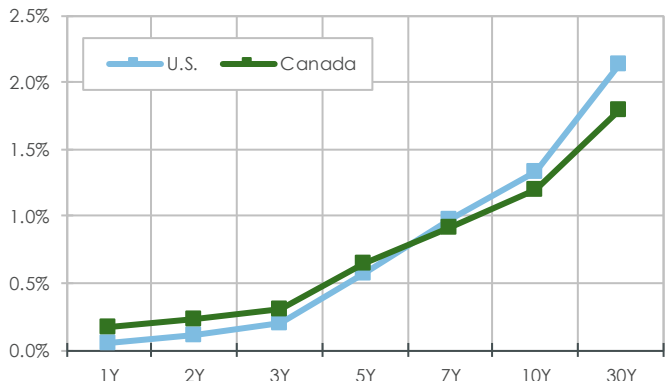
* Please refer to Appendix for the above table in Canadian dollar terms.

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
Canada unemployment rate	Oct	9.0%	8.9%	9.0%
Markit Canada manufacturing PMI	Oct	-	55.5	56.0
U.S. initial jobless claims	Oct	735k	751k	758k
U.S. ISM Manufacturing	Oct	56	59.3	55.4
U.S. durable goods orders	Sep	1.9%	1.9%	1.9%
China Caixin Manufacturing PMI	Oct	52.8	53.6	53.0

Canada

Canadian equities declined over the week, led by materials and consumer staples sectors. Meanwhile, consumer discretionary and health care stocks rose.

Last Friday, the Canadian federal government officially awarded a nearly \$1 billion contract to Vancouver-based Seaspan Shipyards to build a new ocean research vessel for the Canadian Coast Guard; the cost is about ten times the original estimate unveiled in 2008.

Canadian Prime Minister Justin Trudeau will hold his first bilateral meeting with U.S. President Joe Biden next week. The cabinet ministers will also meet their U.S. counterparts, with a wide range of topics on the agenda.

U.S.

U.S. equities also fell slightly over the week, led by the health care and utilities sectors; meanwhile, energy and financials supported gains.

Among companies in the news, Novavax rose on news it would sell more vaccines to Covax, the organization responsible for global vaccine efforts. JP Morgan also gained as the yield curve continued to steepen dramatically. Royal Caribbean cruise lines also rose sharply on optimism about vaccinations and an eventual end to travel restrictions.

In U.S. economic data, jobless claims rose 13,000 for the February 13 week, with a steep 55,000

upward revision to the previous week's number. The current level, at 861,000, is back to where it was in December and, before that, in September. Retail sales blew away expectations, with a gain of 5.3% showing across-the-board strength.

Rest of the world

Worries about lockdowns in Europe due to rising COVID-19 cases and the slow rollout of vaccines continue to weigh on investor expectations.

Eurozone business activity struggled in February, with the flash composite output index at 48.1, a tick above the market consensus and January's final reading of 47.8.

In economic data, the German ZEW February survey found financial analysts slightly more cautious about the current state of the German economy, but significantly more optimistic about the medium-term outlook.

In Asia-Pacific markets, Shanghai markets reopened on Thursday after extended Lunar New Year holidays to mixed returns, given lingering concerns about the prospect of tighter central bank policy and worries that the Chinese government wants to clamp down market speculation. Hong Kong shares tracked mainland Chinese markets slightly higher, in anticipation of renewed buying from mainland China following the holiday season.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada industrial product price MoM	Jan	1.9%	1.5%
U.S. initial jobless claims	Feb-20	840k	861k
U.S. Uni. of Michigan sentiment	Feb	76.4	76.2
U.S. new home sales	Jan	855k	842k
Eurozone CPI YoY	Jan	0.9%	-0.3%
China manufacturing PMI	Feb	51.0	51.3

Central bank meetings

Central banks	Date	Probability of change	Current rate
Bank of Canada	10-Mar-21	1.2%	0.25%
European Central Bank	11-Mar-21	0.7%	0.00%
Federal Open Market Committee	17-Mar-21	-5.4%	0.25%
Bank of England	18-Mar-21	0.0%	0.10%
Bank of Japan	19-Mar-21	-6.1%	-0.10%

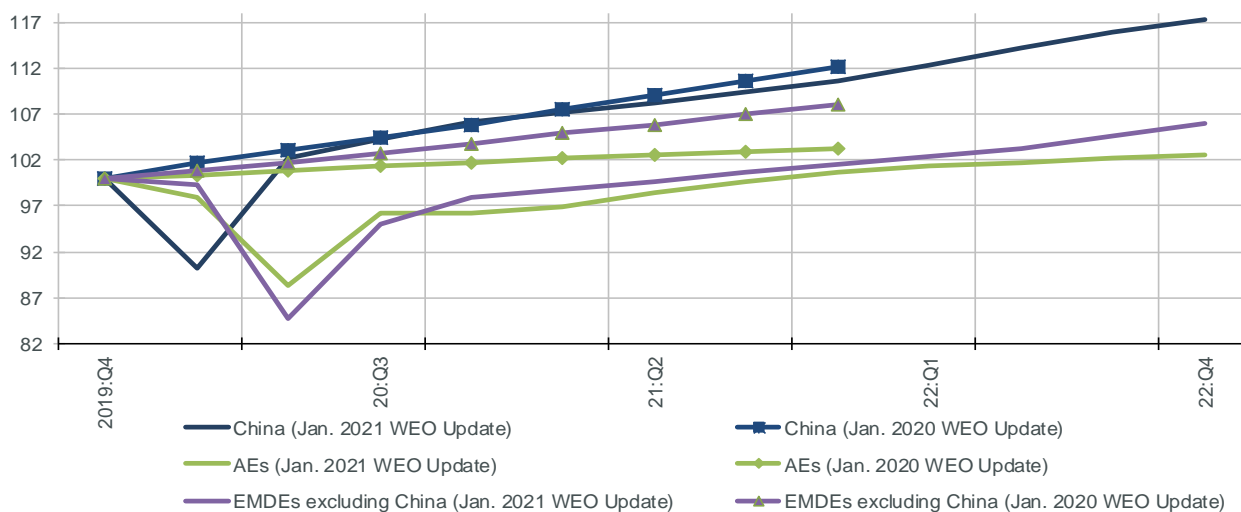
Source: Bloomberg. Probability of change implies the possibility of a central bank hiking interest rates during their upcoming meeting. A negative number in this case means chances of a rate cut rather than a hike.

Spotlight

Divergent recoveries: WEO forecast for advanced economies and emerging markets and developing economies

COVID-19 vaccine development has raised hopes for a quicker economic recovery after a severe collapse in March 2020. However, the road to recovery is projected to follow different trajectories in different markets. Advanced economies suffered the worst and, according to World Economic Outlook (WEO), are expected to take longer to recover their losses. Meanwhile, emerging markets fared relatively better during the pandemic and are expected to return to pre-COVID growth sooner than the advanced economies. However, the recovery will still depend on multiple factors, such as medical infrastructure, government policy support, etc.

Divergent Recoveries: WEO Forecast



Source: IMF staff estimates, World Economic Outlook (WEO) 2021, Fidelity International. Note: AEs = advanced economies; EMDEs = emerging market and developing economies.

Appendix

Global markets (Returns in Canadian dollar terms)

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10 yr U.S. Govt.	1.34	12.8	27.1	-58.1
30 yr Canada Govt.	1.79	16.0	32.0	3.1
30 yr U.S. Govt.	2.13	12.5	30.4	-25.6
Commodities	Close	Weekly	MTD	YTD
Oil	74.75	-0.95%	12.08%	4.02%
Natural gas	3.87	4.79%	18.22%	16.86%
Gold	2,250.89	-2.82%	-4.65%	14.19%
Silver	34.42	-0.92%	-0.19%	48.40%
Copper	514.51	7.02%	13.23%	39.71%
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7925	0.57%	1.25%	2.95%
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