



March 19, 2021

InFocus

Major global markets were mixed for the week. Canadian equities finished flat, while U.S. and emerging markets declined. Bond yields rose, reflecting investor concerns about rising inflationary pressures and optimism about higher longer-term growth against the backdrop of large fiscal stimulus.

A sharp rise in Canadian and U.S. government bond yields rattled investors. Yields on bonds returned to pre-pandemic levels. This reflected some economic data in the U.S., where, while initial jobless claims fell short of expectations, the Philadelphia Fed's manufacturing index surged to 51.8, a 50-year high that more than doubled February's already strong reading.

The U.S. Federal Reserve (the Fed) repeated that policy makers want to see more data confirming progress on the Fed's inflation and employment objectives before it considers raising rates or tapering off its asset purchases. The Fed also reiterated that it expects a near-term, but only "transitory," rise in inflation, and sees employment still far below pre-pandemic levels. Crude oil prices retreated amid concerns about excess supplies.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	18,854.01	0.01%	4.40%	8.15%
S&P500	3,913.10	-0.77%	2.68%	4.18%
NASDAQ	13,215.24	-0.79%	0.17%	2.54%
DJIA	32,627.97	-0.46%	5.48%	6.60%
Russell 2000	2,287.55	-2.77%	3.93%	15.83%
FTSE 100	6,708.71	-0.78%	3.47%	3.84%
Euro Stoxx 50	3,837.02	0.10%	5.52%	8.00%
Nikkei 225	29,792.05	0.25%	2.85%	8.56%
Hang Seng	28,990.94	0.87%	0.04%	6.46%
Shanghai Comp.	3,404.66	-1.40%	-2.98%	-1.97%
MSCI ACWI	671.41	-0.45%	2.17%	3.89%
MSCI EM	1,336.84	-0.84%	-0.18%	3.53%
MSCI ACWI ESG Leaders	2,325.44	-0.44%	2.19%	4.49%

Fixed Income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,153.04	-0.27%	-2.06%	-5.58%
BBG Global Agg.	536.54	-0.22%	-1.42%	-3.97%
TSX Pref	1,778.60	0.24%	1.93%	8.94%

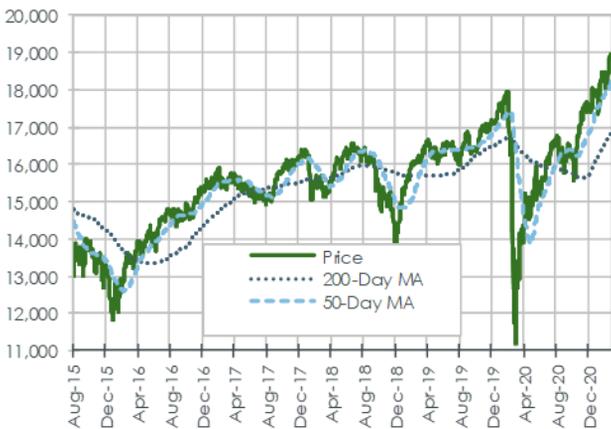
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	1.59%	0.2	23.4	91.2
10 yr U.S. Govt.	1.72%	9.6	31.6	80.8
30 yr Canada Govt.	2.06%	2.9	29.2	84.3
30 yr U.S. Govt.	2.43%	5.6	28.2	78.8

Commodities	Close	Weekly	MTD	YTD
Oil	61.42	-6.39%	-0.13%	26.14%
Natural gas	2.54	-2.50%	-8.52%	-0.12%
Gold	1,745.23	1.05%	0.65%	-8.07%
Silver	26.25	1.26%	-1.58%	-0.59%
Copper	411.30	-0.65%	0.50%	16.71%

Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.8001	-0.17%	1.92%	1.88%
USD/EUR	0.8400	0.41%	1.41%	2.61%
CAD/EUR	0.6720	0.21%	3.35%	4.53%
USD/JPY	108.8800	-0.14%	2.17%	5.45%
USD/CNY	6.5090	0.01%	0.46%	-0.28%
USD/MXN	20.5061	-0.90%	-1.67%	2.97%
GBP/CAD	1.7335	-0.18%	-2.27%	-0.50%
GBP/USD	1.3872	-0.37%	-0.44%	1.48%

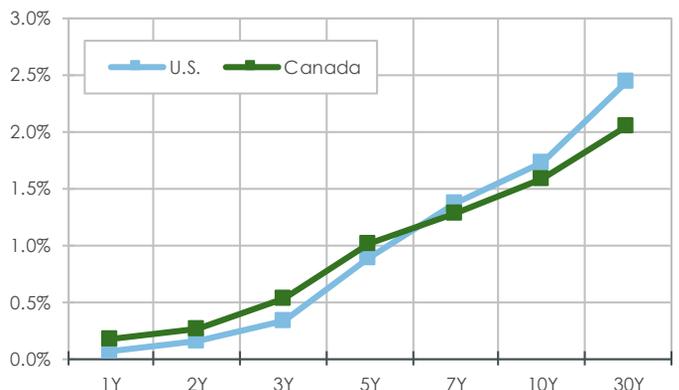
* Please refer to Appendix for the above table in Canadian dollar terms.

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
Canada CPI YoY	Feb	1.3%	1.10%	1.0%
Canada housing starts	Feb	247.5k	245.9k	284.3k
Canada retail sales MoM	Jan	-3.0%	-1.10%	-3.4%
U.S. initial jobless claims	13-Mar	700k	770k	712k
FOMC rate decision (Upper bound)	17-Mar	0.25%	0.25%	0.25%
U.S. housing starts	Feb	1560k	1421k	1580k
U.S. industrial production MoM	Feb	0.3%	-2.2%	0.9%

Canada

Canadian equities finished flat for the week. Among key economic indicators, existing home sales climbed to record levels, while retail sales and CPI inflation were better than expectations.

Among sectors, communication services stocks led gains: shares of Shaw Communications rose after an announcement of its acquisition by Rogers Communications, a deal that would unite the country's two largest cable providers. Rising bond yields supported stocks in the financials sector. Conversely, energy stocks declined, due to weak crude oil prices.

U.S.

U.S. equities finished lower during the week. Rising bond yields and inflationary pressures raised investors' apprehensions about a "taper tantrum" similar to the one experienced in 2013. Worries about the how the costs of rising interest rates might affect corporate profitability, along with elevated valuations, also had an impact on sentiment.

At its meeting this week, the Fed significantly upgraded its economic outlook, but remained firm on its decision not to hike interest rates at least through 2023. Fed officials also reiterated that they would maintain the pace of asset purchases until "substantial further progress" is made in boosting employment and inflation.

At a sector level, communication services stocks gained the most, while the energy sector led declines.

U.S. economic data were mixed for the week.

Housing starts and permits both fell very steeply in February to lower-than-expected annual rates of 1.421 million and 1.682 million, respectively, indicating a cooling of the U.S. housing market. Retail sales declined in February after a surge in January following federal stimulus payments, and presumably ahead of a surge in March on another round of stimulus payments. Industrial production declined more than expected in February, partly due to severe winter weather in the northeast, as well as in Texas. Initial unemployment claims rose much more than expected. On a positive note, forward-looking indicators, such as the Empire State Manufacturing Survey and the Philadelphia Fed Business Outlook Survey, suggested robust growth in the coming months.

Rest of the world

European markets closed relatively unchanged for the week. Markets initially trended higher, shrugging off concerns about the suspensions of Oxford/AstraZeneca vaccinations in several countries. However, toward the end of the week, some markets gave up their gains after several countries announced new lockdown measures. Germany was a strong performer, with the ZEW survey of investor confidence improving for a fourth consecutive month.

In Asia, Chinese equities declined after an unfavourable high-level summit between China and the U.S., the first such meeting involving the Biden administration.

Japanese markets rose after the government confirmed that the Tokyo-area state of emergency would end.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada Bloomberg Nanos Confidence Index	19-Mar	-	62.7
U.S. GDP annualised (QoQ)	4Q	4.1%	4.1%
U.S. durable good orders	Feb	0.7%	3.4%
U.S. initial jobless claims	20-Mar	730k	770k
Markit U.S. Manufacturing PMI	March	59.5	58.6
Germany IFO business climate	March	0.932	0.924

Central bank meetings

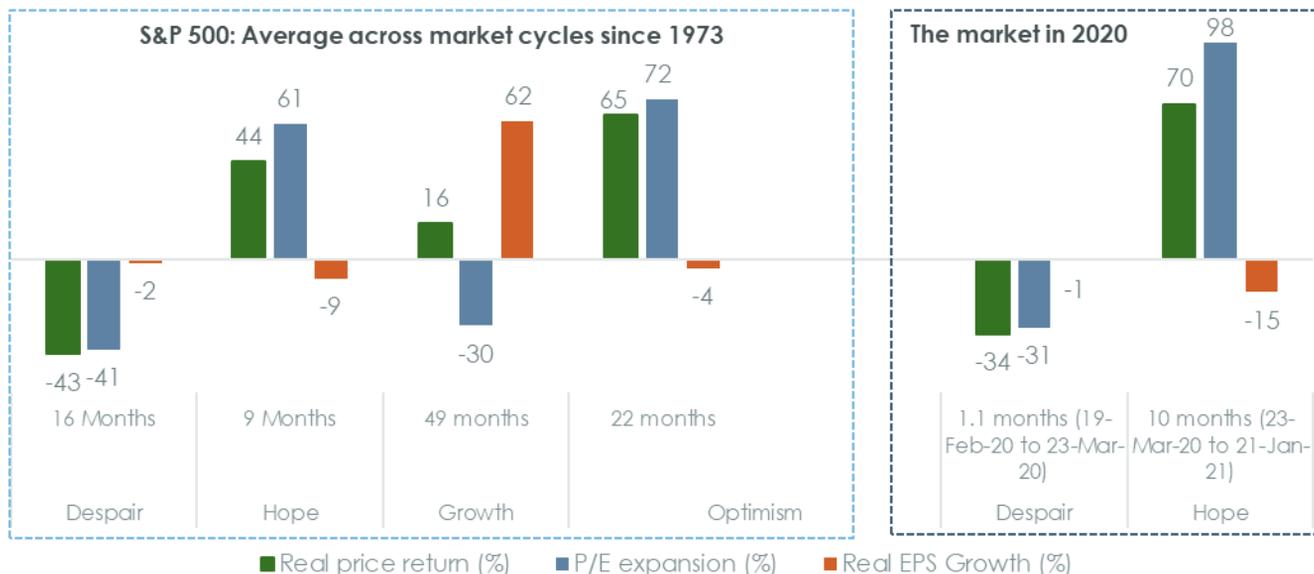
Central banks	Date	Probability of change	Current rate
Bank of Canada	21-Apr-21	17.1%	0.25%
European Central Bank	22-Apr-21	-1.9%	0.00%
Bank of Japan	27-Apr-21	-8.1%	-0.10%
Federal Open Market Committee	28-Apr-21	2.1%	0.25%
Bank of England	6-May-21	0.0%	0.10%

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

The typical pattern of the equity market cycle

As shown in the chart below, the powerful, valuation-driven initial rally in equity markets between March and September last year is typical of the initial "hope" phase of a bull market, which generally begins during a recession when earnings are still falling. This phase is generally followed by what we call the "growth" phase, and is typically characterized by earnings expansion. Often, the transition between the two phases is marked by heightened volatility and a market setback as investors wait for, or begin to doubt, the recovery that has been priced – just as we saw after the initial sharp rebound in equity markets in 2009. Many bubbles build up late in an economic and investment cycle as investors become increasingly confident about the economic environment.



Source: Goldman Sachs Investment Research, Refinitiv Datastream, I/B/E/S, Robert Shiller

Appendix

Global markets (Returns in Canadian dollar terms)

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Natural gas	3.17	-2.33%	-10.24%	-1.97%
Gold	2,181.72	1.25%	-1.24%	-9.70%
Silver	32.80	1.42%	-3.47%	-2.45%
Copper	514.06	-0.48%	-1.40%	14.56%
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