



March 5, 2021

InFocus

Global equities gained over the week. News that the U.S. House had approved the Biden administration's fiscal stimulus measure, and that a third vaccine had been approved for U.S. use, boosted sentiment.

During the week, President Joe Biden claimed that the U.S. will have a vaccine supply sufficient to cover every American adult by the end of May 2021. The U.S. Senate also passed its version of President Biden's fiscal stimulus bill over the weekend.

Oil prices rose, with OPEC+ deciding to keep oil supply largely unchanged, even as demand rises. Precious metals declined over the week, with silver prices witnessing heavy selling over the week.

In U.S., the Federal Reserve's Beige Book upgraded economic growth to "moderate" from the "modest" assessment in the last report, in January, with the outlook taking a more "optimistic turn" in response to the vaccine rollout and the approach of warmer weather.

U.S. Treasury bond yields rose in response to improving growth prospects and expectations of rising inflation. Federal Reserve officials continued to dismiss concerns that that inflation expectations and bond yields are rising too fast.

| Indexes | Close | Weekly | MTD | YTD |
|-----------------------|-----------|--------|--------|--------|
| S&P/TSX | 18,380.96 | 1.78% | 1.78% | 5.44% |
| S&P500 | 3,841.94 | 0.81% | 0.81% | 2.29% |
| NASDAQ | 12,920.15 | -2.06% | -2.06% | 0.25% |
| DJIA | 31,496.30 | 1.82% | 1.82% | 2.91% |
| Russell 2000 | 2,192.21 | -0.40% | -0.40% | 11.01% |
| FTSE 100 | 6,630.52 | 2.27% | 2.27% | 2.63% |
| Euro Stoxx 50 | 3,669.54 | 0.91% | 0.91% | 3.29% |
| Nikkei 225 | 28,864.32 | -0.35% | -0.35% | 5.17% |
| Hang Seng | 29,098.29 | 0.41% | 0.41% | 6.86% |
| Shanghai Comp. | 3,501.99 | -0.20% | -0.20% | 0.83% |
| MSCI ACWI | 657.49 | 0.05% | 0.05% | 1.74% |
| MSCI EM | 1,339.31 | 0.00% | 0.00% | 3.72% |
| MSCI ACWI ESG Leaders | 2,277.80 | 0.10% | 0.10% | 2.35% |

| Fixed income | Close | Weekly | MTD | YTD |
|------------------|----------|--------|--------|--------|
| FTSE Canada Uni. | 1,166.38 | -0.92% | -0.92% | -4.49% |
| BBG Global Agg. | 538.75 | -1.01% | -1.01% | -3.58% |
| TSX Pref | 1,757.59 | 0.72% | 0.72% | 7.65% |

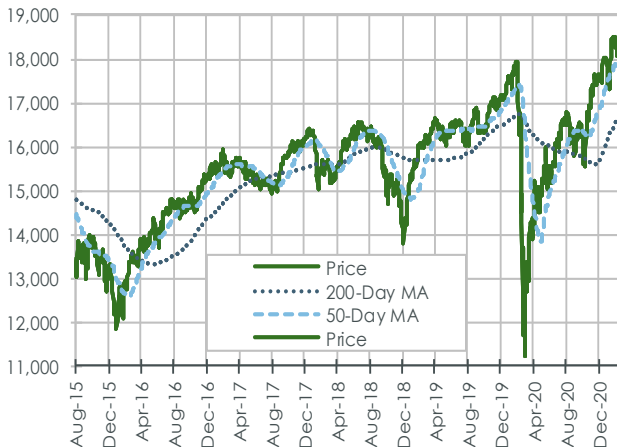
| Bond yields | Close | bps chg Weekly | bps chg MTD | bps chg YTD |
|--------------------|-------|----------------|-------------|-------------|
| 10 yr Canada Govt. | 1.50% | 14.9 | 14.9 | 82.7 |
| 10 yr U.S. Govt. | 1.57% | 16.1 | 16.1 | 65.3 |
| 30 yr Canada Govt. | 1.89% | 12.2 | 12.2 | 67.3 |
| 30 yr U.S. Govt. | 2.30% | 14.6 | 14.6 | 65.3 |

| Commodities | Close | Weekly | MTD | YTD |
|-------------|----------|--------|--------|---------|
| Oil | 66.09 | 7.46% | 7.46% | 35.74% |
| Natural gas | 2.70 | -2.53% | -2.53% | 6.42% |
| Gold | 1,700.64 | -1.93% | -1.93% | -10.42% |
| Silver | 25.25 | -5.33% | -5.33% | -4.38% |
| Copper | 407.55 | -0.42% | -0.42% | 15.65% |

| Currencies | Close | Weekly | MTD | YTD |
|------------|----------|--------|--------|--------|
| CAD/USD | 0.7900 | 0.64% | 0.64% | 0.60% |
| USD/EUR | 0.8396 | 1.36% | 1.36% | 2.57% |
| CAD/EUR | 0.6631 | 1.98% | 1.98% | 3.14% |
| USD/JPY | 108.3100 | 1.63% | 1.63% | 4.90% |
| USD/CNY | 6.4971 | 0.28% | 0.28% | -0.46% |
| USD/MXN | 21.3127 | 2.19% | 2.19% | 7.02% |
| GBP/CAD | 1.7517 | -1.25% | -1.25% | 0.55% |
| GBP/USD | 1.3841 | -0.66% | -0.66% | 1.25% |

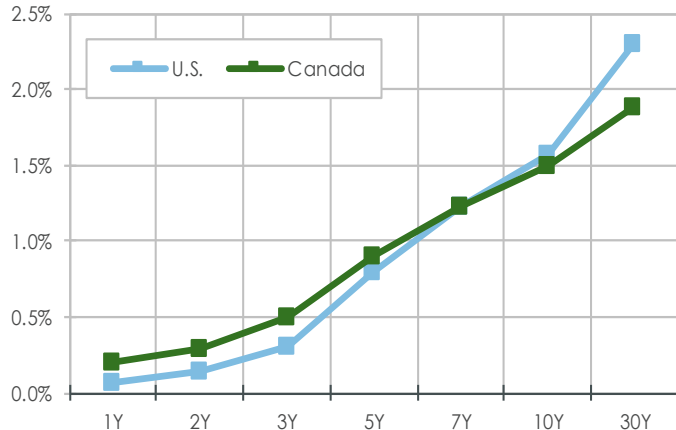
* Please refer to Appendix for the above table in Canadian dollar terms.

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 GDP MoM | Dec | 0.1% | 0.1% | 0.8% |
| Canada markit manufacturing PMI | Feb | - | 54.8 | 54.4 |
| U.S. Initial Jobless Claims | Feb-27 | 750k | 745k | 736k |
| U.S. ISM Manufacturing | Feb | 58.9 | 60.8 | 58.7 |
| Eurozone markit manufacturing PMI | Feb | 57.7 | 57.9 | 57.7 |
| China Caixin Manufacturing PMI | Feb | 51.4 | 50.9 | 51.5 |

Canada

Canadian equities followed global market cues, with the energy and communication services sectors rising strongly. In contrast, the information technology and health care sectors declined.

Canada's merchandise exports surged, with the trade surplus rising to \$1.4 billion in January, the largest rise since 2014. According to Statistics Canada, real GDP grew 2.3% in the last quarter of 2020, surpassing expectations and boosting investor sentiment.

In contrast, Canadian auto sales in February were down 10%, as compared with February 2020.

U.S.

U.S. equities gained over the week, riding on the positive news related to COVID-19 vaccination programs and the passage of President Biden's fiscal stimulus plan by the lower house of the U.S. Congress. The U.S. Senate also passed the bill over the weekend, with some modifications; although its impact remains to be seen in the market, the expectations are generally favourable.

Among sectors, energy and financials led the gains, the while consumer discretionary and information technology sectors were the main laggards.

Among companies in the news, aircraft manufacturer Boeing rose on news of a large order from United Airlines. Less positively, retailer

Target fell after missing margin expectations.

In U.S. economic news, the Institute for Supply Management's February manufacturing index, at 60.8, exceeded Econoday's high estimate. Weekly jobless claims also held onto the great bulk of the previous week's improvement, rising by only 9,000 to 745,000; this reduced the four-week average by nearly 20,000, to 790,750, and marked a three-month low.

Rest of the world

Markets reacted badly to a Bloomberg report that ECB officials see no need for dramatic steps to stem the recent rise in bond yields. On the positive side, markets noted reports that German Chancellor Angela Merkel was planning a gradual relaxation of COVID-19 curbs. U.K. markets outperformed on positive reaction to the U.K. budget, which includes a five-month extension of a government jobs rescue plan.

Eurozone retail sales were much weaker than expected in January, down 5.9% on the month in a decline that went far below expectations and marked the poorest performance since last April, in the midst of the first COVID-19 wave.

Japan's Markit manufacturing PMI increased to 51.4 in February, little changed from the flash estimate of 51.3, and confirming an increase from 49.8 in January. The Markit China PMI services index fell from 52.0 in January to 51.5, indicating that activity in the sector had expanded for a tenth consecutive month, but at a slower pace for the third consecutive month.

Looking ahead

| Economic indicators | Period | Survey | Prior period |
|----------------------------------|--------|--------|--------------|
| Canada unemployment rate | Feb | 9.2% | 9.4% |
| Canada wholesale trade sales MoM | Jan | 4.5% | -1.3% |
| U.S. U. of Michigan sentiment | Mar | 78.0 | 76.8 |
| U.S. MBA mortgage applications | Feb | -- | 0.5% |
| Eurozone GDP YoY | Q4 | -5.0% | -5.0% |
| China CPI YoY | Feb | -0.3% | -0.3% |

Central bank meetings

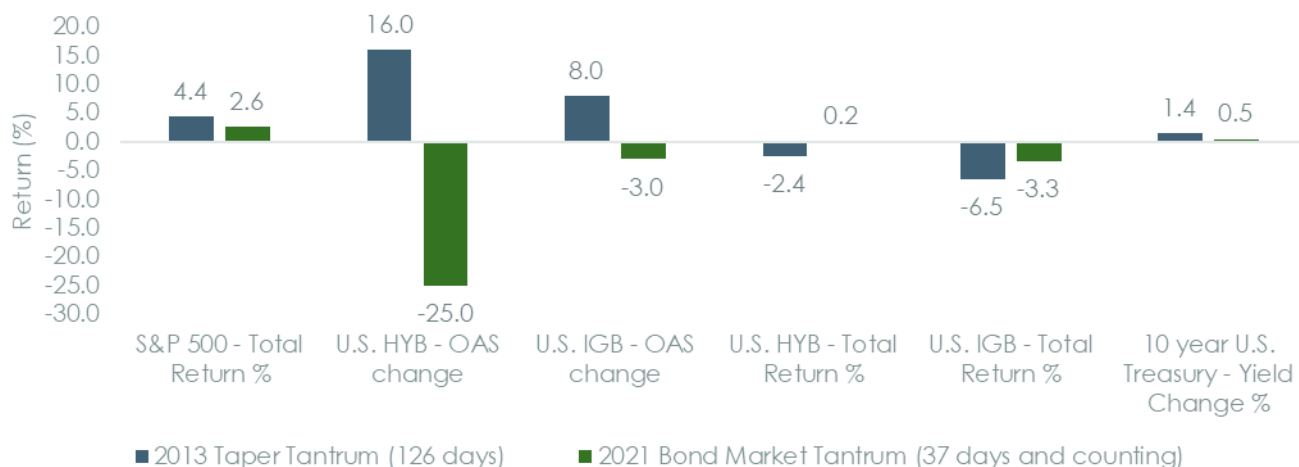
| Central banks | Date | Probability of change | Current rate |
|-------------------------------|-----------|-----------------------|--------------|
| Bank of Canada | 10-Mar-21 | 1.2% | 0.25% |
| European Central Bank | 11-Mar-21 | 0.7% | 0.00% |
| Federal Open Market Committee | 17-Mar-21 | -5.4% | 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

A short comparison of bond market tantrums

U.S. Treasury yields have been on a gradual rise since August, but their upward acceleration since the end of January has been uncomfortably rapid, reviving memories of the 2013 "taper tantrum." A typical U.S. investment-grade bond index today has a less favourable duration profile, dollar prices and ratings mix, which could translate into higher price volatility than in the past. Quality has deteriorated as well, with BBB-rated bonds now making up more than half of the market, compared with less than 25% in the 1990s. The changes in market composition suggest that U.S. investment-grade bond valuations are even richer historically than headline market levels would suggest. In contrast, while U.S. high-yield bond credit spreads appear similarly expensive historically, their level is still 3.6 times more than that of investment grade – in line with their long-term historical average.



Source: Fidelity International, Refinitiv, 5 March 2021. High yield and investment grade bonds based on ICE BAML indices. U.S. HYB – U.S. High Yield Bonds, U.S. IGB – U.S. Investment Grade Bonds

Appendix

Global markets (Returns in Canadian dollar terms)

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| S&P500 | 3,841.94 | 0.44% | 0.44% | 1.46% |
| NASDAQ | 12,920.15 | -2.43% | -2.43% | -0.56% |
| DJIA | 31,496.30 | 1.45% | 1.45% | 2.08% |
| Russell 2000 | 2,192.21 | -0.77% | -0.77% | 10.11% |
| FTSE 100 | 6,630.52 | 1.01% | 1.01% | 3.10% |
| Euro Stoxx 50 | 3,669.54 | -0.86% | -0.86% | -0.17% |
| Nikkei 225 | 28,864.32 | -2.21% | -2.21% | -0.51% |
| Hang Seng | 29,098.29 | -0.07% | -0.07% | 5.85% |
| Shanghai Comp. | 3,501.99 | -0.93% | -0.93% | 0.48% |
| MSCI ACWI | 657.49 | -0.32% | -0.32% | 0.92% |
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| 10 yr U.S. Govt. | 1.57 | 16.1 | 16.1 | 65.3 |
| 30 yr Canada Govt. | 1.89 | 12.2 | 12.2 | 67.3 |
| 30 yr U.S. Govt. | 2.30 | 14.6 | 14.6 | 65.3 |
| Commodities | Close | Weekly | MTD | YTD |
| Oil | 83.66 | 6.78% | 6.78% | 34.93% |
| Natural gas | 3.42 | -3.14% | -3.14% | 5.79% |
| Gold | 2,152.88 | -2.54% | -2.54% | -10.89% |
| Silver | 31.96 | -5.95% | -5.95% | -4.96% |
| Copper | 515.89 | -1.05% | -1.05% | 14.96% |
| Currencies | Close | Weekly | MTD | YTD |
| CAD/USD | 0.7900 | 0.64% | 0.64% | 0.60% |
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Source : Bloomberg, Refinitiv DataStream.
All equity indexes returns are price returns and do not include dividends.

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