



April 9, 2021

InFocus

Confidence that the unfolding recovery will continue to be supported by the U.S. Federal Reserve (the Fed) and other central banks – even as economic readings top expectations – gave a firm foundation to equity markets in the U.S., Canada and Europe. Central bankers repeated that they expect a transitory spike in inflation as the economy reopens. In the U.S., markets also focused on reports that White House talks with Republican leaders on infrastructure plans are not going well.

In contrast, there was some weakness in Asian equities; rising COVID-19 cases in China, India, Japan and Korea, along with concerns about renewed lockdowns, dampened investor confidence. Risk appetite also suffered from news that Chinese authorities were telling banks to limit debt growth and to clamp down on shady practices. U.S.-China discord also remained in focus, after the U.S. added Chinese supercomputer companies to its restricted list, and U.S. Senate leaders pressed for legislation targeting China over human rights and other concerns.

In fixed income, corporate bonds continued to find support among income-seeking investors. Despite a rise in bond yields on Friday, U.S. and Canadian ten- and 30-year treasury bond yields declined overall for the week. Gold prices found support given fears of rising inflation.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	19,228.03	1.25%	2.82%	10.29%
S&P500	4,128.80	2.71%	3.92%	9.92%
NASDAQ	13,900.19	3.12%	4.93%	7.85%
DJIA	33,800.60	1.95%	2.48%	10.44%
Russell 2000	2,243.47	-0.46%	1.03%	13.60%
FTSE 100	6,915.75	2.65%	3.01%	7.05%
Euro Stoxx 50	3,978.84	0.83%	1.52%	12.00%
Nikkei 225	29,768.06	-0.29%	2.02%	8.47%
Hang Seng	28,698.80	-0.83%	1.13%	5.39%
Shanghai Comp.	3,450.68	-0.97%	0.25%	-0.64%
MSCI ACWI	694.71	2.01%	3.18%	7.50%
MSCI EM	1,330.36	-0.59%	1.06%	3.03%
MSCI ACWI ESG Leaders	2,416.18	1.80%	3.05%	8.57%

Fixed Income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,165.64	0.34%	0.51%	-4.55%
BBG Global Agg.	537.47	0.60%	0.69%	-3.80%
TSX Pref	1,779.32	0.38%	0.13%	8.98%

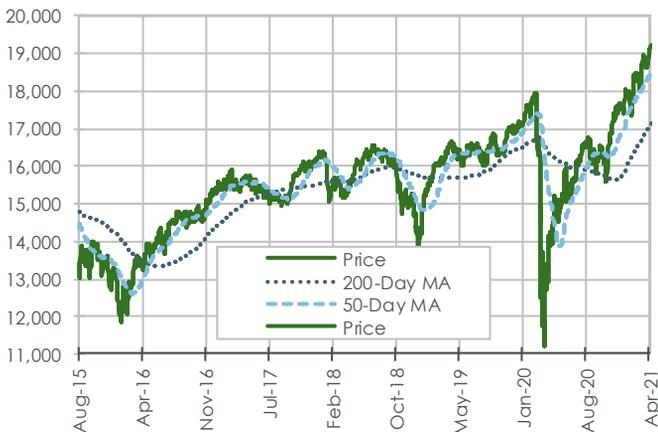
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	1.50%	-1.3	-6.1	82.0
10 yr U.S. Govt.	1.66%	-6.3	-8.2	74.5
30 yr Canada Govt.	1.92%	-3.3	-6.8	70.3
30 yr U.S. Govt.	2.33%	-2.7	-8.1	68.4

Commodities	Close	Weekly	MTD	YTD
Oil	59.32	-3.47%	0.27%	21.83%
Natural gas	2.53	-4.28%	-3.14%	-1.14%
Gold	1,743.88	0.87%	2.12%	-8.14%
Silver	25.27	1.02%	3.47%	-4.31%
Copper	404.00	1.24%	1.11%	14.64%

Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7981	0.36%	0.25%	1.63%
USD/EUR	0.8403	-1.19%	-1.43%	2.65%
CAD/EUR	0.6706	-0.84%	-1.18%	4.31%
USD/JPY	109.6700	-0.92%	-0.95%	6.22%
USD/CNY	6.5526	-0.22%	0.00%	0.39%
USD/MXN	20.1612	-0.74%	-1.33%	1.24%
GBP/CAD	1.7175	-1.33%	-0.81%	-1.42%
GBP/USD	1.3707	-0.90%	-0.55%	0.27%

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

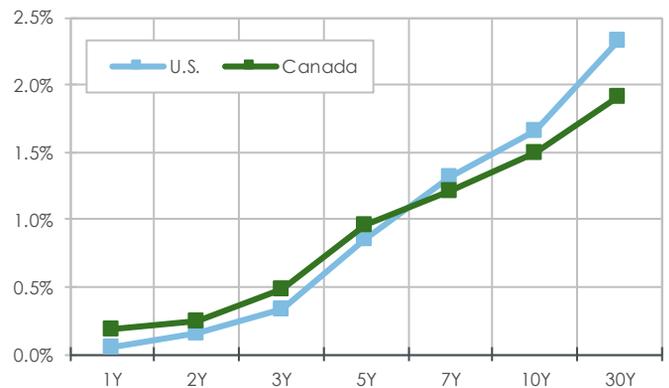
S&P/TSX Composite Index



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	March	8.0%	7.5%	8.2%
Canada net change in employment	March	100k	303.1k	259.2k
Canada international merchandise trade	Feb	C\$1.3bn	C\$1.04bn	C\$1.41bn
U.S. initial jobless claims	3-April	680k	744k	719k
U.S. durable goods orders	Feb	-1.1%	-1.2%	-1.1%
U.S. factory orders	Feb	-0.5%	-0.8%	2.6%

Canada

The information technology, materials and real estate sectors gained strongly, supporting weekly gains in Canadian equity markets. The financials, utilities and communication services sectors also made gains. Investor confidence increased as a result of positive economic data both in the U.S. and in Canada. In contrast, there was some weakness in the energy sector, reflecting falling oil and natural gas prices.

U.S.

Another surprisingly strong U.S. economic reading boosted equities on Monday, while bond yields stayed relatively flat. News that the ISM services PMI soared to 63.7 in March, following a strong rise in non-farm payrolls, underscored expectations of a robust recovery and an accompanying rebound in corporate profits. Gains were seen nearly across the board, with energy and real estate the only significant laggards.

Among companies in the news, Google advanced on a favourable Supreme Court ruling in its copyright dispute with Oracle. Tesla advanced on better-than-expected production figures that pushed the consumer discretionary sector higher. The employment index jumped 4.5 points, to 57.2, which is an unusually strong reading, topping January's 55.2 as the best month of the pandemic. Job openings rose significantly in February, up 3.8% on the month.

Fears that the recent run of strong economic results would lead to less generous policy contributed to some volatility mid-week, but the Federal Open Market Committee minutes showed policy makers had maintained their accommodative stance. Fed Chair Jerome Powell's comments restated the Fed's familiar patient position on the economy. Powell hailed recent strong economic indicators but said the recovery is

uneven and incomplete, and vowed continued monetary support.

Risk appetite was hemmed in on Friday by inflation worries and an associated uptick in bond yields, after an upside surprise in Chinese producer prices overnight was followed by another surprisingly large increase in U.S. producer price figures.

Rest of the world

Asia saw all major markets giving back some of their earlier gains, primarily due to a rise in COVID-19 cases. In China, despite an upbeat services sector PMI, markets declined for the week, due to tensions with the U.S. and rising COVID counts. The Caixin Chinese services PMI rose nearly three points in March, to 54.3, underpinned by a significant rise in employment. Japanese equities also declined, partly due to some profit taking. European markets opened on Tuesday to some gains, after reports that the U.K. may be on track for a full reopening by June.

Despite gains for the week, sentiment in continental European markets was somewhat dampened by a worsening COVID-19 picture and slower progress on vaccines, although it is still expected that vaccines will roll out across Europe in the second quarter. In economic data, German industrial production continued to surprise on the downside in February. The 1.6% mid-quarter fall made for the first back-to-back decline since March/April last year, and annual growth dropped from -3.9% to -6.1%. French industrial production was also much weaker than expected in February.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada Bloomberg Nanos Confidence Index	9-April	-	64.1
U.S. CPI (MoM)	March	0.5%	0.4%
U.S. industrial production (MoM)	March	2.5%	-2.2%
U.S. initial jobless claims	10-April	700k	744k
U.S. housing starts	March	1600k	1421k
U.S. retail sales (MoM)	March	5.5%	-3.0%

Central bank meetings

Central banks	Date	Probability of change	Current rate
Bank of Canada	21-Apr-21	6.5%	0.25%
European Central Bank	22-Apr-21	-2.9%	0.00%
Bank of Japan	27-Apr-21	-6.2%	-0.10%
Federal Open Market Committee	28-Apr-21	1.6%	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 fall in volatility may indicate higher market vulnerability

The CBOE Volatility Index (VIX), a measure of implied risk in the equity market, has burst through a key technical level, supposedly on a new wave of investor optimism. The Index recently fell below 20 for the first time since the start of the coronavirus pandemic. An important indicator of investor risk appetite, the VIX rises when investors fear higher equity market volatility and falls when they become more bullish. In light of a number of risks, such as a potential corporate tax hike, the uncertain pace of economic recovery and higher inflation, investors should note that while broad risk appetite and sentiment indicators are not yet flashing "Danger," a continued fall in the VIX will indicate that investors are positioning for more expected good news, and the market will be more vulnerable if these expectations are not met.

The CBOE Volatility Index (VIX)



Source: Fidelity International, Refinitiv, 09 April 2021.

Appendix

Global markets (Returns in Canadian dollar terms)

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Commodities	Close	Weekly	MTD	YTD
Oil	74.33	-3.82%	0.02%	19.88%
Natural gas	3.17	-4.63%	-3.39%	-2.72%
Gold	2,185.20	0.51%	1.87%	-9.56%
Silver	31.65	0.65%	3.21%	-5.86%
Copper	506.20	0.87%	0.86%	12.80%
Currencies	Close	Weekly	MTD	YTD
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