



May 14, 2021

In focus

Global equities declined for most of the week under review, before recovering toward the end. The week started with losses in the U.S. as investors rotated out of growth stocks on worries about rising inflation. On Monday, rising commodity prices, along with a sharp rise in high-frequency indicators of consumer mobility, dining out, air travel and falling Covid-19 cases in the U.S., triggered fears that with the recovery coming, interest rates could rise.

Growth and momentum stocks suffered the most, with large technology names such as Facebook and Amazon coming under pressure; these stocks are seen as the most vulnerable to repricing when interest rates rise. Information technology, communications services and consumer discretionary stocks all lagged. Chipmakers and software weighed on tech.

Markets recovered somewhat on Thursday and Friday. Federal Reserve officials continued to urge everyone to look past the scary inflation readings, and anticipated much lower numbers starting in the fall.

In fixed income, interest rates on long-term bonds increased to reflect both higher inflation and higher economic growth expectations. The rise in interest rates resulted in some losses for bond holders, given the inverse relation between interest rates and bond prices.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	19,366.69	-0.54%	1.35%	11.09%
S&P500	4,173.85	-1.39%	-0.18%	11.12%
NASDAQ	13,429.98	-2.34%	-3.82%	4.20%
DJIA	34,382.13	-1.14%	1.50%	12.34%
Russell 2000	2,224.63	-2.07%	-1.85%	12.65%
FTSE 100	7,043.61	-1.21%	1.06%	9.03%
Euro Stoxx 50	4,017.44	-0.42%	1.07%	13.08%
Nikkei 225	28,084.47	-4.34%	-2.53%	2.33%
Hang Seng	28,027.57	-2.04%	-2.43%	2.92%
Shanghai Comp.	3,490.38	2.09%	1.26%	0.50%
MSCI ACWI	699.13	-1.58%	-0.38%	8.18%
MSCI EM	1,307.53	-3.04%	-2.97%	1.26%
MSCI ACWI ESG Leaders	2,433.77	-1.75%	-0.28%	9.36%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,156.70	-0.62%	-0.32%	-5.28%
BBG Global Agg.	541.47	-0.46%	0.17%	-3.09%
TSX Pref	1,834.44	0.32%	1.15%	12.36%

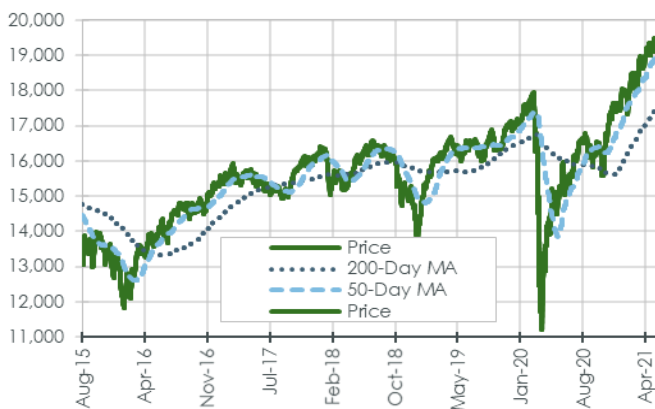
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	1.56%	6.2	1.3	88.2
10 yr U.S. Govt.	1.63%	5.1	0.2	71.5
30 yr Canada Govt.	2.19%	11.5	10.8	97.6
30 yr U.S. Govt.	2.34%	6.3	4.3	69.5

Commodities	Close	Weekly	MTD	YTD
Oil	65.37	0.72%	2.82%	34.42%
Natural gas	2.96	0.10%	1.02%	13.40%
Gold	1,843.43	0.67%	4.20%	-2.89%
Silver	27.42	-0.10%	5.81%	3.87%
Copper	465.45	-1.98%	4.17%	31.99%

Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.8262	0.24%	1.52%	5.21%
USD/EUR	0.8234	0.15%	-1.03%	0.59%
CAD/EUR	0.6804	0.40%	0.53%	5.83%
USD/JPY	109.3500	0.69%	0.04%	5.91%
USD/CNY	6.4371	0.06%	-0.58%	-1.38%
USD/MXN	19.8654	-0.26%	-1.88%	-0.25%
GBP/CAD	1.7069	0.57%	0.55%	-1.91%
GBP/USD	1.4097	0.81%	1.99%	3.12%

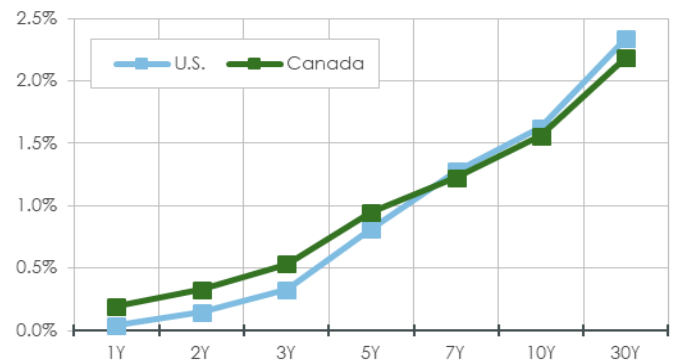
Please refer to Appendix for the above table in Canadian dollar terms.

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 Bloomberg Nanos confidence index	7-May	--	63.9	63.6
Canada manufacturing sales	March	3.5%	3.5%	-1.1%
U.S. initial jobless claims	8-May	490k	473k	507k
U.S. CPI MoM	April	0.20%	0.80%	0.60%
U.S. retail sales advance MoM	April	1.00%	0.00%	10.70%
Germany ZEW survey expectations	May	72.0	84.4	70.7

Canada

Inflation concerns dominated Canadian equities, which declined for the week. However, there was broad dispersion in returns across sectors. Financials rose, with a higher interest rate outlook lifting earning expectations. This contrasted with weakness in the information technology and consumer discretionary sectors, where investors worried about "stretched valuations," which typically refers to the prices paid for a company's estimated future earnings.

In economic developments, Canada's wholesale and manufacturing sales climbed higher in March, driven by gains in the motor vehicle, petroleum, coal and food product industries. The building materials and supplies subsector also registered a healthy rise in sales.

U.S.

U.S. markets opened the week with losses centred on market leaders in information technology, communication services and consumer discretionary sectors. Expectations of higher long-term inflation supported gains in previously beaten down sectors such as materials, consumer staples and financials. Value outperformed growth-style investing for the week.

Investors focused on concerns about labour shortages as the U.S. economy reopens, post-pandemic supply chain disruptions and high-frequency data pointing to rising strength in consumption. Markets were riveted by rising commodities prices and Chinese producer price figures that showed inflation ticking up.

U.S. equities recouped some of their losses as Federal Reserve officials continued to portray the inflation uptick and supply disruptions as transitory, and after Federal Reserve Governor Lael Brainard repeated that generous government payouts were not causing workers to stay out of the labour force.

In economic data, job openings rose well beyond expectations in March, to 8.123 million, the largest total on record. Further emphasizing the strength, openings in February were revised more than 150,000 higher, to 7.526 million, the second-highest total on record. Consumer prices surged by 0.8% in April.

Rest of the world

European investors were also concerned that an upside surprise in Chinese producer price figures and an ongoing rally in commodities prices were contributing to rising inflation. Bad company news added to fears: Lufthansa, the German airline operator, declined after saying it will seek new financing, and shares in British Airways owner IAG fell after it sold a big convertible bond to help it weather an uncertain outlook. On the positive side, European Central Bank officials downplayed taper talk, including Executive Board member Isabel Schnabel, who called the recent inflation spike transitory. In economic news, U.K. GDP in the first quarter declined, but industrial production expanded in March, compared with February. Meanwhile, eurozone industrial production figures came in on the soft side relative to expectations.

In Asia, Chinese equities bucked the trend, with the Shanghai composite index ending the week with solid gains. Most sectors rallied, with financials, health care and industrials outperforming, while energy and utilities lagged. Chinese producer prices rose 6.8%, above expectations, and the most since 2017. Equity market performance in the rest of Asia was mixed, with investors buying into stocks and sectors that they viewed as oversold. COVID-19 fears hurt Japan and Taiwan, where cases rose and new lockdowns are expected. In Japan, tech shares, along with precision instruments and transportation, contributed to a sharp rise on Friday.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada CPI YoY	April	3.2%	2.2%
Canada housing starts	April	290.0k	335.2k
Canada retail sales MoM	March	2.3%	4.8%
Markit U.S. manufacturing PMI	May	60.2	60.5
U.S. housing starts	April	1705k	1739k
Eurozone CPI YoY	April	1.6%	1.3%

Central bank meetings

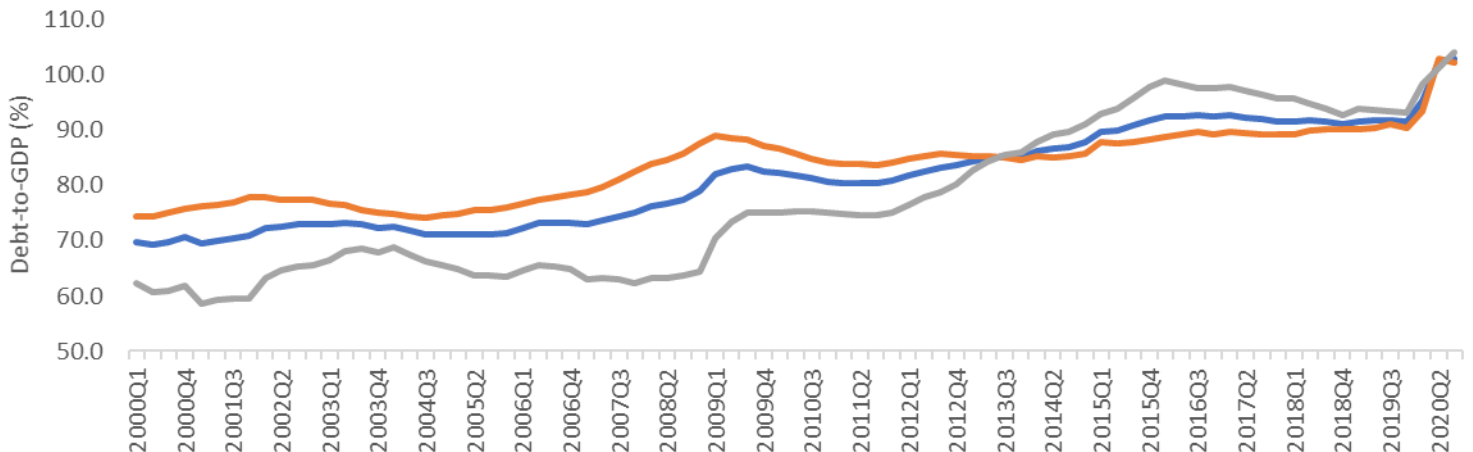
Central banks	Date	Probability of change	Current rate
Federal Open Market Committee	16-Jun-21	8.1%	0.25%
Bank of England	24-Jun-21	0.4%	0.10%
Bank of Canada	9-Jun-21	-6.2%	0.25%
European Central Bank	10-Jun-21	-4.6%	0.00%
Bank of Japan	18-Jun-21	-16.2%	-0.10%

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

Spotlight

As interest rates declined, corporate debt increased.

Leverage (debt) in non-financial sectors reached historic highs after policy makers stepped in to prevent disruption to the flow of credit to households and firms. According to the IMF's financial stability report, while the extraordinary monetary and fiscal policy support in response to the COVID-19 shock has certainly helped to cushion its impact, leverage in the non-financial sectors has increased further in both advanced and emerging market economies. For investors, this brings into focus the value of fundamental research – a focus on company fundamentals to assess the likely impacts on an individual company's prospects in the broader market. While debt in itself may not be bad, overextended companies can face downside risks to growth when the tide turns.



Source: IMF Global Financial Stability Report, as at April 2021.

Appendix

Global markets (Returns in Canadian dollar terms)				
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Commodities	Close	Weekly	MTD	YTD
Oil	79.12	0.48%	1.27%	27.77%
Natural gas	3.58	-0.14%	-0.49%	7.79%
Gold	2,231.58	0.46%	2.65%	-7.64%
Silver	33.19	-0.33%	4.21%	-1.29%
Copper	563.36	-2.22%	2.61%	25.45%
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