



May 21, 2021

In focus

Global equities posted mixed results in a volatile week of trading. Concerns about a surge in inflation and when the Federal Reserve might begin to taper off its asset purchase program weighed on investor sentiment. This was partially offset by upbeat preliminary PMI readings.

Minutes from the meeting of the Federal Open Market Committee (FOMC) in late April offered additional insight into policy makers' thinking on the economy and inflationary pressures. Investors focused on a statement that "a number of participants" suggested that policy makers "begin discussing a plan" for tapering off the Fed's monthly asset purchase program, which stands at US\$120 billion.

On the inflation front, FOMC members acknowledged the potential for inflation to run "temporarily" above their 2% target, due to "transitory supply chain bottlenecks" that would eventually disappear. Many policy makers noted that longer-term inflation expectations remain in line with the central bank's longer-term goals.

In fixed income, U.S. Treasury yields increased following the release of the FOMC's April meeting minutes, with longer-term yields rising more than short, steepening the yield curve.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	19,527.30	0.83%	2.19%	12.01%
S&P500	4,155.86	-0.43%	-0.61%	10.64%
NASDAQ	13,470.99	0.31%	-3.52%	4.52%
DJIA	34,207.84	-0.51%	0.98%	11.77%
Russell 2000	2,215.27	-0.42%	-2.26%	12.17%
FTSE 100	7,018.05	-0.36%	0.69%	8.63%
Euro Stoxx 50	4,025.78	0.21%	1.28%	13.32%
Nikkei 225	28,317.83	0.83%	-1.72%	3.18%
Hang Seng	28,458.44	1.54%	-0.93%	4.51%
Shanghai Comp.	3,486.56	-0.11%	1.15%	0.39%
MSCI ACWI	701.57	0.35%	-0.04%	8.56%
MSCI EM	1,330.04	1.72%	-1.30%	3.00%
MSCI ACWI ESG Leaders	2,443.58	0.40%	0.12%	9.80%

Fixed Income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,159.43	0.24%	-0.08%	-5.06%
BBG Global Agg.	543.10	0.30%	0.47%	-2.80%
TSX Pref	1,842.95	0.46%	1.62%	12.88%

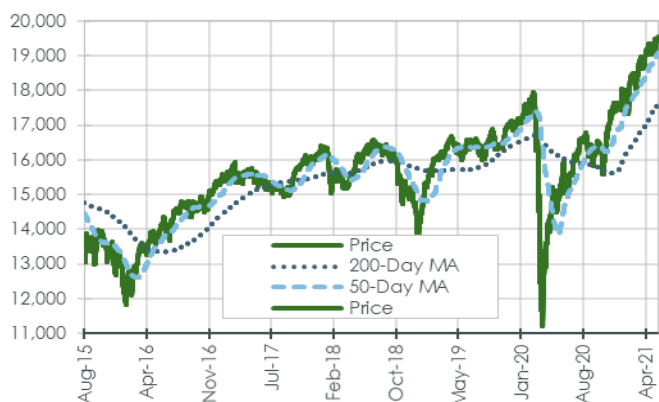
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	1.54%	-1.6	-0.3	86.6
10 yr U.S. Govt.	1.62%	-0.7	-0.4	70.8
30 yr Canada Govt.	2.15%	-3.5	7.3	94.1
30 yr U.S. Govt.	2.32%	-2.3	2.1	67.3

Commodities	Close	Weekly	MTD	YTD
Oil	63.58	-2.72%	0.16%	31.04%
Natural gas	2.91	-1.86%	-0.85%	11.30%
Gold	1,881.25	2.05%	6.34%	-0.90%
Silver	27.56	0.52%	6.36%	4.40%
Copper	448.10	-3.73%	0.29%	27.07%

Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.8285	0.25%	1.82%	5.50%
USD/EUR	0.8209	-0.30%	-1.33%	0.28%
CAD/EUR	0.6802	-0.03%	0.52%	5.80%
USD/JPY	108.9600	-0.36%	-0.32%	5.53%
USD/CNY	6.4340	-0.05%	-0.63%	-1.43%
USD/MXN	19.9543	0.45%	-1.44%	0.20%
GBP/CAD	1.7076	0.09%	0.44%	-1.99%
GBP/USD	1.4150	0.38%	2.37%	3.51%

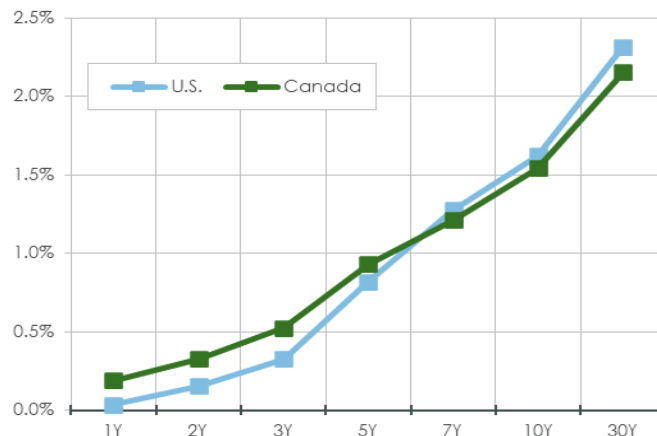
Please refer to Appendix for the above table in Canadian dollar terms

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	April	3.2%	3.4%	2.2%
Canada housing starts	April	285.0k	268.6k	334.8k
Canada retail sales MoM	March	2.3%	3.6%	5.8%
Markit U.S. manufacturing PMI	May	60.2	61.5	60.5
U.S. housing starts	April	1704k	1569k	1733k
Eurozone CPI YoY	April	1.6%	1.6%	1.3%

Canada

Canadian equities followed global market cues, with the information technology and health care sectors rising strongly. The information technology sector advanced after Shopify shares increased following an announcement that Google and Shopify are ramping up their efforts to compete against Amazon in e-commerce. In contrast, the energy and industrials sectors declined.

Canada's annual inflation rate hit 3.4%, the highest level in nearly a decade, as gasoline prices posted a record year-over-year rise and inflation continued to rebound from the plunge at the start of the COVID-19 pandemic.

U.S.

U.S. equities gained ground later in the volatile week, aided by the release of preliminary estimates for the IHS Markit Flash U.S. Composite PMI Output Index, which came in at a record 68.1 in May, a significant improvement from April's 63.5 reading and above the consensus forecast.

The services sector component of the survey was especially strong, with the flash PMI reading climbing to a record 70.1, from 64.7 in April. The PMI for the manufacturing sector advanced to 61.5, a month-over-month improvement from 60.5.

The large-cap S&P 500 Index ended modestly lower, and the tech-heavy NASDAQ Composite Index gained a little ground. In the S&P 500 Index, health care posted the largest gain. Energy and industrials lost ground.

Minutes from the FOMC meeting in late April hinted that the Federal Reserve may discuss tapering off its asset purchases, which currently stand at US\$120 billion.

On the inflation front, FOMC members acknowledged the potential for inflation to run "temporarily" above

their 2% target, due to "transitory supply chain bottlenecks" that would eventually disappear, although some highlighted the risk that price increases could reach "unwelcome levels before they become sufficiently evident to induce a policy reaction." Still, many policy makers noted that longer-term inflation expectations remain in line with the central bank's longer-term goals.

Rest of the world

Shares in Europe rose on signs that the economy is rebounding as restrictions instituted to control the coronavirus's spread begin to ease. However, worries about inflation curbed gains.

Core eurozone bond yields ended higher on expectations that the European Central Bank could slow its bond purchases. Peripheral eurozone bond yields fell.

The U.K. moved to phase two of its plan for lifting coronavirus restrictions, allowing social mixing indoors, greater physical contact and foreign travel, despite official concerns about a rapidly spreading variant of the coronavirus.

Eurozone business activity accelerated in May at the fastest pace in three years as virus containment measures eased, a survey of purchasing managers by IHS Markit showed. The flash composite PMI reached 56.9 in May, an improvement from the 53.8 registered in the preceding month. The services sector index climbed to 55.1, from 50.5.

Chinese stocks recorded a mixed week. The benchmark Shanghai composite index shed 0.1%, while the large-cap CSI 300 Index, whose growth stocks have fallen in recent weeks, added 0.5%. In the fixed income market, yields on Chinese bonds fell following disappointing April economic data.

Looking Ahead

Economic indicators	Period	Survey	Prior period
Eurozone consumer confidence	May	-	-5.1
U.S. U. of Mich. sentiment index	May	83.0	82.8
U.S. initial jobless claims	May 22	425k	444k
U.S. GDP annualized QoQ	1Q	6.5%	6.4%
U.S. personal income	Apr	-14.3%	21.1%
China industrial profits YoY	Apr	-	92.3%

Central bank meetings

Central banks	Date	Probability of change	Current rate
Bank of Canada	9-Jun-21	2.9%	0.25%
European Central Bank	10-Jun-21	0.4%	0.00%
Federal Open Market Committee	16-Jun-21	7.4%	0.25%
Bank of Japan	18-Jun-21	-4.5%	-0.10%
Bank of England	24-Jun-21	0.1%	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

Falling interest rates have favoured growth-style investing.

The chart below shows the performance of Russell 2000 value stocks relative to growth stocks against U.S. government ten-year Treasury bond yields. Historically, growth stocks have tended to benefit in a falling-interest-rate environment. This stands to reason, because low cost of capital (low interest rate) means higher valuations, as a company's future earnings are discounted at a lower rate, creating a much higher value. This explains, in part, some of the volatility seen over the past week. It may be worth noting that in a rising-interest-rate environment, which also reflects higher growth expectations, markets have often favoured value-style investing.



Source: Fidelity International, Refinitiv, as at December 2020.

Appendix

Global markets (Returns in Canadian dollar terms)

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Commodities	Close	Weekly	MTD	YTD
Oil	76.74	-2.97%	-1.63%	24.21%
Natural gas	3.51	-2.11%	-2.62%	5.49%
Gold	2,270.79	1.76%	4.45%	-6.01%
Silver	33.27	0.23%	4.45%	-1.06%
Copper	540.86	-3.97%	-1.50%	20.44%
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