



June 18, 2021

In focus

Global equities were down for the week. Stocks declined after a surprisingly hawkish tone from the Federal Reserve (the Fed) at its June 15–16 policy meeting, along with late-week comments from a Fed official about potentially earlier-than-expected rate hikes, weighed on investor sentiment.

The Summary of Economic Projections released after the meeting showed that policy makers now expect two rate hikes by the end of 2023, indicating a faster pace of tightening than earlier projections. Fed Chair Jerome Powell reiterated that high inflation is likely to be transitory, but stressed that the inflation outlook is uncertain.

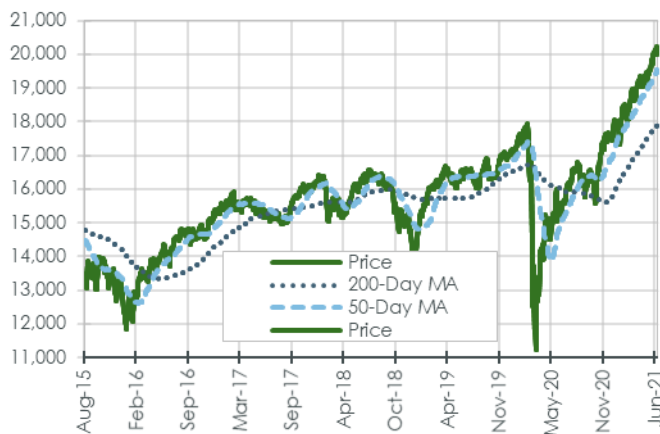
U.K. inflation jumped again in May, accelerating to 2.1%, on higher prices for clothing, fuel and meals in restaurants and bars. The increase was above economists' forecasts and the Bank of England's target.

U.S. Treasuries were volatile following the Fed policy meeting. The ten-year U.S. Treasury yield increased sharply after the meeting on Wednesday, and then fell on Thursday and Friday.

Global markets (Returns in Canadian dollar terms)				
Indexes	Close	Weekly	MTD	YTD
S&P/TSX	19,999.59	-0.69%	1.36%	14.72%
S&P500	4,166.45	0.29%	1.98%	8.05%
NASDAQ	14,030.38	1.96%	5.01%	6.04%
DJIA	33,290.08	-1.28%	-0.79%	5.95%
Russell 2000	2,237.75	-2.05%	1.49%	10.37%
FTSE 100	7,017.47	-1.47%	0.08%	7.10%
Euro Stoxx 50	4,083.37	-0.69%	1.17%	8.75%
Nikkei 225	28,964.08	1.80%	2.73%	-3.70%
Hang Seng	28,801.27	2.08%	1.81%	2.91%
Shanghai Comp.	3,525.10	-0.44%	-0.81%	0.00%
MSCI ACWI	705.97	0.32%	2.26%	6.41%
MSCI EM	1,361.25	0.71%	1.94%	2.69%
MSCI ACWI ESG Leaders	2,462.60	0.32%	2.34%	7.78%
Fixed income				
	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,180.26	0.33%	1.07%	-3.36%
BBG Global Agg.	541.06	1.52%	2.48%	-5.20%
TSX Pref	1,865.27	-0.47%	-0.27%	14.25%
Bond yields				
	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	1.37%	-0.3	-12.0	68.9
10 yr U.S. Govt.	1.44%	-1.4	-15.6	52.5
30 yr Canada Govt.	1.80%	-13.5	-23.6	58.5
30 yr U.S. Govt.	2.01%	-12.5	-27.0	36.8
Commodities				
	Close	Weekly	MTD	YTD
Oil	89.30	3.60%	11.63%	44.54%
Natural gas	4.01	0.02%	11.27%	17.22%
Gold	2,199.52	-3.63%	-4.41%	-8.96%
Silver	32.18	-5.20%	-4.83%	-4.31%
Copper	519.01	-6.07%	-8.12%	15.56%
Currencies				
	Close	Weekly	MTD	YTD
CAD/USD	0.8022	-2.48%	-3.23%	2.15%
USD/EUR	0.8429	2.06%	3.06%	2.97%
CAD/EUR	0.6762	-0.46%	-0.27%	5.18%
USD/JPY	110.2100	0.50%	0.57%	6.74%
USD/CNY	6.4531	0.85%	1.30%	-1.14%
USD/MXN	20.6593	3.94%	3.54%	3.74%
GBP/CAD	1.7210	0.34%	0.38%	-1.10%
GBP/USD	1.3810	-2.11%	-2.83%	1.02%

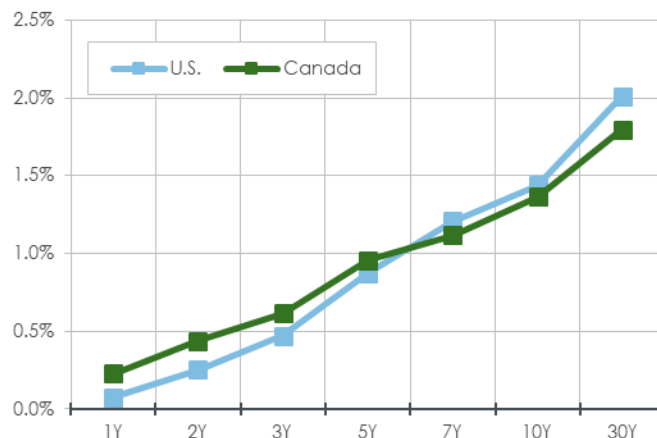
* Please refer to Appendix for the above table in Canadian dollar terms.

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	May	3.5%	3.6%	3.4%
Canada housing starts	May	277.5k	275.9k	268.6k
Canada manufacturing sales MoM	Apr	-1.1%	-2.1%	4.0%
U.S. initial jobless claims	Jun 12	360k	412k	375k
U.S. retail sales advance MoM	May	-0.8%	-1.3%	0.9%
U.S. housing starts	May	1630k	1572k	1517k

Canada

Canadian equities declined for the week as the materials, health care and consumer discretionary sectors fell. In contrast, information technology advanced over the week.

In economic developments, data showed that Canada's annual inflation rate accelerated in May to the fastest pace in a decade, with the effects of last year's economic shutdowns continuing to put upward pressure on some consumer goods, and prices for shelter and passenger vehicles rising.

The Bank of Canada said last week that it anticipates headline inflation will remain near 3% through the summer before easing later in 2021, when base-year effects should fade and a weakened economy will continue to put downward pressure on prices.

U.S.

U.S. equities declined for the week, with a surprisingly hawkish tone at the Fed's June 15–16 policy meeting weighing on investor sentiment.

Large-cap equities held up better than small caps. Growth stocks easily outperformed value; investors sold companies in the energy and financials sectors amid fears that the Fed will remove its accommodative policies and raise rates sooner than markets had anticipated.

Policy makers acknowledged that progress on vaccinations has allowed the economic recovery from the pandemic to gain strength, and Fed Chair Jerome Powell acknowledged that Fed officials have begun to discuss slowing the central bank's bond purchases, the first step toward eventually raising interest rates.

The Summary of Economic Projections released after the meeting showed that policy makers now expect two rate hikes by the end of 2023, indicating a faster pace of tightening than earlier projections. Powell reiterated that high inflation is likely to be transitory, but stressed the uncertainty of the inflation outlook.

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Rest of the world

Shares in Europe fell after the Fed indicated that it would increase rates sooner than previously expected. Core eurozone government bond yields rose with U.S. Treasury yields after the Fed signalled plans to begin raising interest rates in 2023. However, dovish comments from the European Central Bank helped to moderate the move.

The Bank of Japan left key policy rate targets and guidance unchanged at its June monetary policy meeting, as widely expected. It extended the duration of the special coronavirus financing support program by six months, to the end of March 2022, giving Japan's vaccination drive more time to work.

Chinese stocks recorded their third weekly loss. The yield on China's ten-year government bond rose five basis points, to 3.20%. Weaker-than-expected May economic data from the National Bureau of Statistics led some economists to conclude that the country's growth momentum has peaked. Retail sales grew a below-forecast 4.5%, based on a two-year average annual growth rate, barely above April's pace and roughly half of the pre-pandemic rate.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada retail sales	Apr	-5.0%	3.6%
Markit eurozone manufacturing PMI	Jun	62.3	63.1
U.S. personal income	May	-2.7%	-13.1%
U.S. initial jobless claims	Jun 19	380k	412k
U.S. GDP annualized QoQ	1Q	6.4%	6.4%
U.S. Markit manufacturing PMI	Jun	61.5	62.1

Central bank meetings

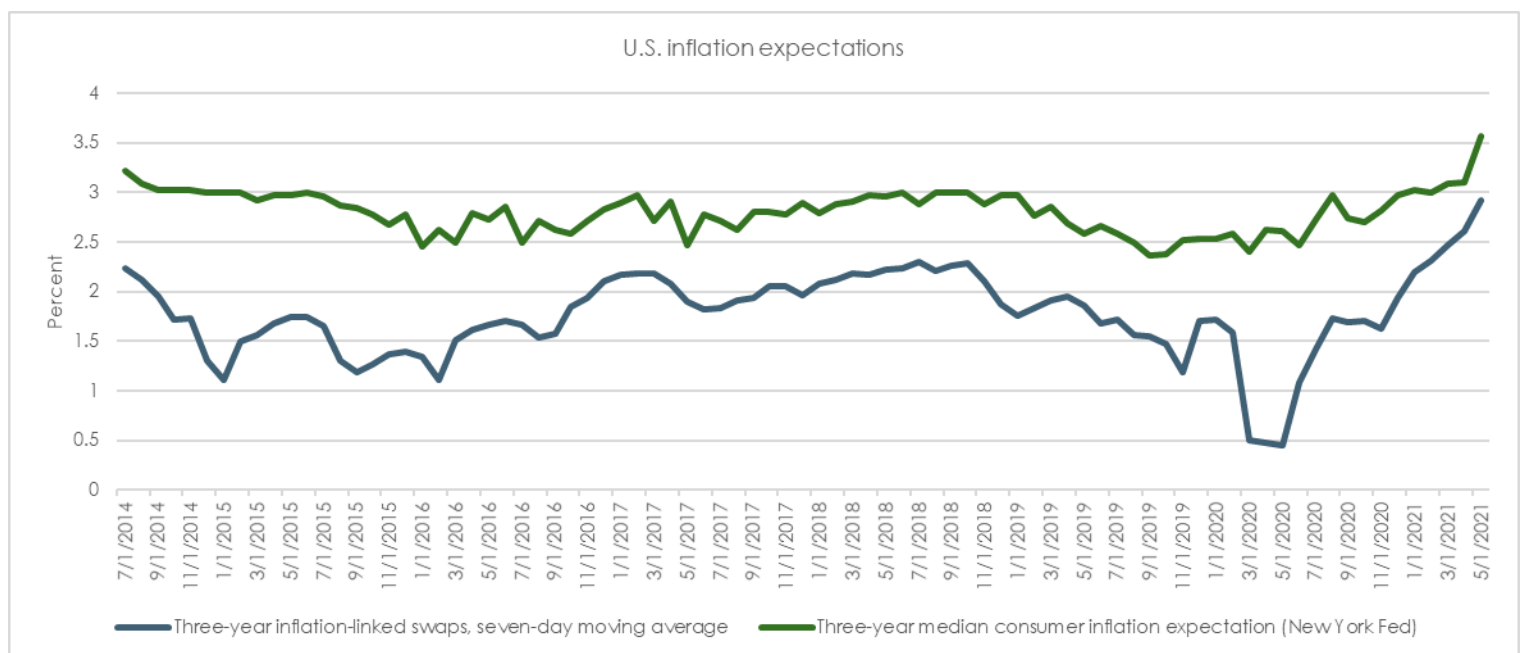
Central banks	Date	Probability of change	Current rate
Federal Open Market Committee	16-Jun-21	6.2%	0.25%
Bank of Japan	18-Jun-21	-8.9%	-0.10%
Bank of England	24-Jun-21	0.4%	0.10%
Bank of Canada	14-Jul-21	-7.0%	0.25%
European Central Bank	22-Jul-21	-0.3%	0.00%

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

U.S. inflation expectations

The inflation expectations of consumers, investors and the Fed are all in tune, especially for the shorter horizons. Data suggest that inflation expectations for the next year are ticking up. Notably, investors see the inflation flare-up as transitory – the result of base effects and supply bottlenecks – and expect a return to normal values in the long term.



Source: Fidelity Investments Canada ULC, Refinitiv DataStream. June 18, 2021.

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