



June 25, 2021

## In focus

Global equities rebounded from declines in the previous week as inflation fears moderated. News of a deal on U.S. infrastructure spending also lifted investor sentiment.

Major U.S. equity indexes such as the S&P 500 and the technology-heavy NASDAQ Composite Index rose to new highs and recorded their best weekly gains since early April.

Muted economic data may have helped calm investors' fears about economic overheating and inflation. Several figures released during the week indicated healthy expansion, but came in below consensus estimates.

Falling global inventories pushed oil prices to their highest levels since October 2018.

In fixed income markets, treasury prices fell as yields increased. In the investment-grade corporate bond market, trading volumes became more robust, and bonds across all maturities saw healthy demand. The high-yield market was fairly quiet, but stronger, and sentiment appeared to be mostly positive.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	20,230.26	1.15%	2.53%	16.04%
S&P500	4,280.70	2.74%	1.82%	13.97%
NASDAQ	14,360.39	2.35%	4.45%	11.42%
DJIA	34,433.84	3.44%	-0.28%	12.51%
Russell 2000	2,334.40	4.32%	2.88%	18.21%
FTSE 100	7,136.07	1.69%	1.62%	10.46%
Euro Stoxx 50	4,120.66	0.91%	2.01%	15.99%
Nikkei 225	29,066.18	0.35%	0.71%	5.91%
Hang Seng	29,288.22	1.69%	0.47%	7.55%
Shanghai Comp.	3,607.56	2.34%	-0.22%	3.87%
MSCI ACWI	721.91	2.26%	1.47%	11.70%
MSCI EM	1,379.59	1.35%	0.25%	6.84%
MSCI ACWI ESG Leaders	2,518.94	2.29%	1.58%	13.18%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,174.90	-0.45%	0.62%	-3.79%
BBG Global Agg.	540.86	-0.04%	-0.87%	-3.20%
TSX Pref	1,865.48	0.01%	-0.26%	14.26%

Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	1.45%	8.7	-3.3	77.6
10 yr U.S. Govt.	1.52%	8.6	-7.0	61.1
30 yr Canada Govt.	1.90%	10.0	-13.6	68.5
30 yr U.S. Govt.	2.15%	13.6	-13.4	50.4

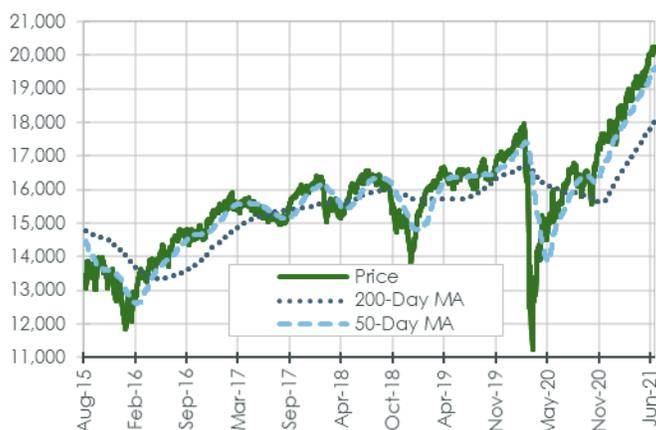
Commodities	Close	Weekly	MTD	YTD
Oil	74.05	3.87%	12.03%	53.09%
Natural gas	3.50	8.74%	17.08%	30.20%
Gold	1,781.44	0.98%	-6.58%	-6.16%
Silver	26.10	1.22%	-6.87%	-1.14%
Copper	428.95	3.03%	-8.40%	21.62%

Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.8134	1.40%	-1.88%	3.58%
USD/EUR	0.8378	-0.61%	2.43%	2.35%
CAD/EUR	0.6814	0.77%	0.50%	5.99%
USD/JPY	110.7500	0.49%	1.07%	7.26%
USD/CNY	6.4562	0.05%	1.35%	-1.09%
USD/MXN	19.8239	-4.04%	-0.45%	-0.45%
GBP/CAD	1.7067	-0.83%	-0.45%	-1.93%
GBP/USD	1.3879	0.50%	-2.34%	1.53%

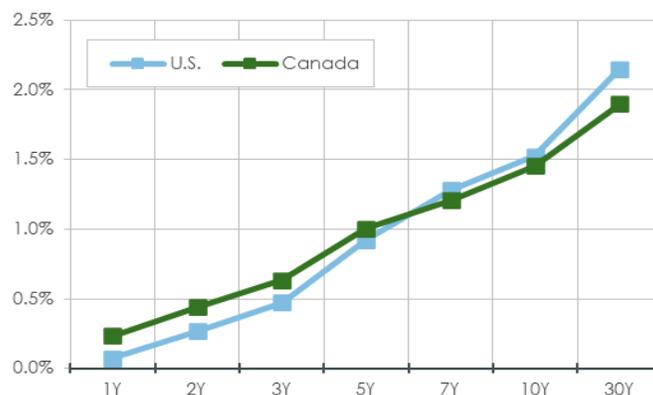
\* Please refer to Appendix for the above table in Canadian dollar terms.

## 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 retail sales	Apr	-5.0%	-5.7%	4.5%
Markit eurozone manufacturing PMI	Jun	62.3	63.1	63.1
U.S. personal income	May	-2.5%	-2.0%	-13.1%
U.S. initial jobless claims	Jun 19	380k	411k	418k
U.S. GDP annualized QoQ	1Q	6.4%	6.4%	6.4%
U.S. Markit manufacturing PMI	Jun	61.5	62.6	62.1

## Canada

Canadian equities gained in line with global markets. Among sectors, health care stocks gained the most, followed by consumer discretionary and energy companies. Conversely, utilities and consumer staples stocks declined.

In economic news, Canadian retail sales experienced their sharpest decline in 12 months, falling 5.7% year-over-year in April, as reported by Statistics Canada. The decline coincides with the rise of the pandemic's third wave, which resulted in renewed public health restrictions across most of the country.

## U.S.

U.S. stock indexes bounced back as investors came to consider last week's selloff, a reaction to worries about Federal Reserve tightening, as excessive.

Comments by Jerome Powell, Chair of the Federal Reserve (the Fed) soothed investors when he signalled that the Federal Open Market Committee will not preemptively raise interest rates on inflation fears alone. In an address to members of Congress, he acknowledged recent price increases had been larger than expected, but suggested they are largely a result of supply chain bottlenecks, and that inflation should fall back to the Fed's long-term goal.

News of an infrastructure deal also supported investor sentiment. The Biden administration and a bipartisan group of ten senators announced a deal on \$597 billion in infrastructure spending, including roads, bridges, water infrastructure and broadband. The deal, which is a fraction of Biden's original proposal, must still be

approved in Congress, including the Senate, where it may face a filibuster. Many Democratic investment priorities were omitted and may be considered in a separate measure later.

Among sectors, energy stocks rose along with oil prices. Financials outperformed after big banks passed the Fed's stress tests, which clears them to resume stock buybacks and dividends.

In economic data, existing home sales slid another 0.9 percent in May; however, this was the smallest decline in the last four months.

## Rest of the world

European shares tracked global markets higher. A reaffirmation of ultra-loose monetary policy supported investor sentiment. European Central Bank President Christine Lagarde told a European Parliament committee it was important "not to withdraw support too early." She said the outlook for the eurozone economy was "brightening" and that economic activity "should improve strongly" in the second half of the year. She also said rising inflation would begin to decline at the start of 2022 as temporary factors fade out.

The Bank of England left its key interest rate unchanged at 0.1%, and voted by eight to one to maintain its asset purchase program until the end of the year.

In Asia, markets in China and Japan posted gains. During the week, the Japanese yen fell against the U.S. dollar to its lowest level since March 2020. Sentiment for the yen weakened amid disappointing domestic economic data.

## Looking ahead

Economic indicators	Period	Survey	Prior period
Markit Canada manufacturing PMI	June	-	57.0
Canada GDP MoM	April	-0.8%	1.1%
U.S. change in non-farm payrolls	June	700k	559k
U.S. initial jobless claims	Jun 26	389k	411k
U.S. ISM manufacturing	June	61.0	61.2
U.S. unemployment rate	June	5.7%	5.8%

Central bank meetings			
Central banks	Date	Probability of change	Current rate
Bank of Canada	14-Jul-21	6.3%	0.25%
Bank of Japan	16-Jul-21	-3.2%	-0.10%
European Central Bank	22-Jul-21	-0.3%	0.00%
Federal Open Market Committee	28-Jul-21	-0.6%	0.25%
Bank of England	5-Aug-21	0.3%	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

### Look through transitory inflation and toward earnings.

A closely watched measure of U.S. inflation jumped in May, beating consensus estimates and posting the highest reading for over a quarter of a century. While this feeds into popular fears about higher yields and the knock-on effects in equity markets, the reading is most likely transitory, with a contained impact on interest rates.

For equity markets, a better guide is earnings comparisons with pre-pandemic levels. These tell us that the profit outlook is very favourable this year, and that cyclical stocks are well positioned. Beyond that, we could see demographics and higher taxes slow progress.



Source: Note: US PCE monthly, YoY, seasonally adj. Real yield calculated using breakeven rate. Fidelity Canada ULC, Refinitiv, FRED, June 2021.

## Appendix

Global markets (Returns in Canadian dollar terms)				
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Commodities	Close	Weekly	MTD	YTD
Oil	91.04	2.44%	14.18%	47.80%
Natural gas	4.30	7.24%	19.33%	25.71%
Gold	2,190.35	-0.42%	-4.81%	-9.34%
Silver	32.10	-0.24%	-5.06%	-4.54%
Copper	527.35	1.61%	-6.65%	17.42%
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