



August 13, 2021

In focus

Global equities rose for the week on solid second-quarter earnings reports. However, rising cases of the delta variant of COVID-19 continued to drive an overall sense of caution among investors, limiting the extent of the gains.

The second-quarter earnings season is heading toward the finish line; of the 456 S&P 500 companies that have reported thus far, roughly 83% have topped revenue forecasts, and approximately 85% have bested earnings estimates, according to data compiled by Bloomberg.

The U.S. Senate passed a bipartisan infrastructure package worth roughly US\$1 trillion, including about US\$550 billion in new spending. The bill aims to rebuild traditional transportation infrastructure, improve access to broadband internet in rural areas and upgrade the electrical grid and water systems.

U.S. Treasury yields climbed through most of the week, led by increases in long-maturity yields that helped steepen the Treasury yield curve. Comments from several Federal Reserve officials supporting a sooner-than-expected tapering off of the central bank's bond purchases appeared to spur selling activity. Meanwhile, gold jumped, and crude oil prices dropped.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	20,518.07	0.21%	1.14%	17.69%
S&P500	4,468.00	0.71%	1.65%	18.95%
NASDAQ	14,822.90	-0.09%	1.02%	15.01%
DJIA	35,515.38	0.87%	1.66%	16.04%
Russell 2000	2,223.11	-1.10%	-0.14%	12.57%
FTSE 100	7,218.71	1.34%	2.65%	11.74%
Euro Stoxx 50	4,229.70	1.32%	3.43%	19.06%
Nikkei 225	28,015.02	0.70%	2.68%	2.08%
Hang Seng	26,391.62	0.81%	1.66%	-3.08%
Shanghai Comp.	3,516.30	1.68%	3.50%	1.24%
MSCI ACWI	736.02	0.66%	1.63%	13.89%
MSCI EM	1,280.86	-0.90%	0.24%	-0.81%
MSCI ACWI ESG Leaders	2,585.60	0.88%	1.88%	16.18%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,191.42	0.14%	0.03%	-2.44%
BBG Global Agg.	546.33	0.17%	-0.31%	-2.22%
TSX Pref	1,883.99	0.65%	0.16%	15.39%

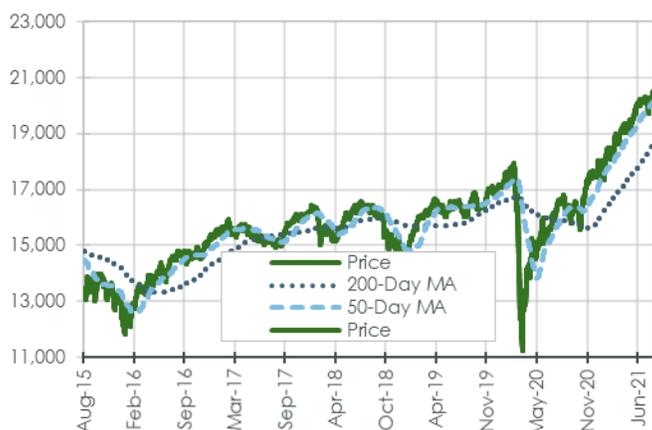
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	1.19%	-5.8	-1.8	50.8
10 yr U.S. Govt.	1.28%	-2.0	5.4	36.4
30 yr Canada Govt.	1.75%	-0.9	-0.7	54.1
30 yr U.S. Govt.	1.93%	-1.6	3.7	28.4

Commodities	Close	Weekly	MTD	YTD
Oil	68.44	0.23%	-7.45%	42.02%
Natural gas	3.86	-6.74%	-1.35%	42.37%
Gold	1,779.74	0.95%	-1.90%	-6.25%
Silver	23.75	-2.39%	-6.83%	-10.05%
Copper	438.15	0.98%	-1.66%	24.33%

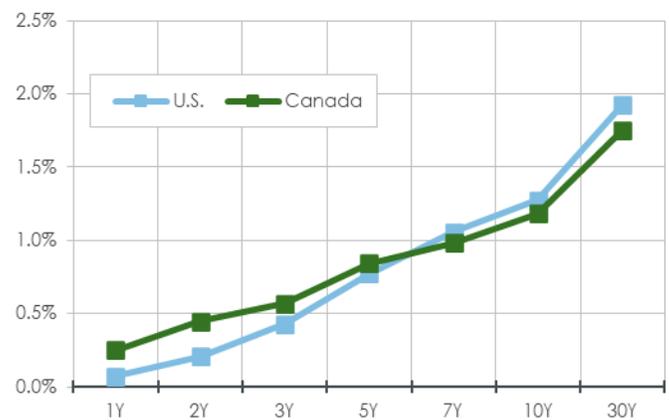
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7990	0.29%	-0.36%	1.74%
USD/EUR	0.8478	-0.28%	0.62%	3.57%
CAD/EUR	0.6774	0.00%	0.24%	5.37%
USD/JPY	109.5900	-0.60%	-0.12%	6.14%
USD/CNY	6.4774	-0.09%	0.25%	-0.76%
USD/MXN	19.8794	-0.82%	0.06%	-0.18%
GBP/CAD	1.7355	-0.33%	0.12%	-0.27%
GBP/USD	1.3866	-0.04%	-0.27%	1.43%

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

S&P/TSX Composite Index



Treasury yield curves



Source: Bloomberg, Refinitiv DataStream. Index returns are in local currency. All equity indexes are price returns and do not include dividends.

Economic indicators	Period	Survey	Actual	Prior period
U.S. CPI MoM	July	0.5%	0.5%	0.9%
U.S. initial jobless claims	07-Aug	375k	375k	387k
U.S. MBA mortgage applications	06-Aug	-	2.8%	-1.7%
Eurozone ZEW survey expectations	Aug	-	42.7	61.2
China CPI YoY	July	0.8%	1.0%	1.1%
Japan PPI YoY	July	5.0%	5.6%	5.0%

Canada

Canadian equities gained modestly for the week, in sync with the global markets. The gains were led by the real estate and financial sectors. In contrast, the health care and energy sectors declined for the week.

Canadian Prime Minister Justin Trudeau called an early election for September 20, citing the need for a new mandate to ensure voters approve of his Liberal government's plan for recovering from the COVID-19 pandemic.

U.S.

U.S. equities also gained for the week, with most sectors advancing, led by materials. Energy stocks slipped on concerns about oil producers' discipline on the supply side, as well as worries that the upsurge in coronavirus infections could weigh on global demand.

The U.S. Senate passed a bipartisan infrastructure package worth roughly US\$1 trillion, including about US\$550 billion in new spending. The bill aims to rebuild traditional transportation infrastructure, improve access to broadband internet in rural areas and upgrade the electrical grid and water systems.

In a somewhat light week for U.S. economic data releases, all eyes were on the latest inflation numbers from the Bureau of Labor Statistics. The consumer price index (CPI) increased by 0.5% sequentially in July, a deceleration from the 0.9% registered in June, and the smallest month-over-month uptick since March.

The August preliminary University of Michigan Consumer Sentiment Index fell unexpectedly to its lowest level since 2011. The drop in sentiment was widespread and came amid dampened confidence across all aspects of the economy; the resurgence of COVID-19, in the form of the delta variant, was cited as a primary culprit.

Rest of the world

European equities advanced as investors focused on the economic recovery and shrugged off worries about surging coronavirus infections in key markets and signs of slowing growth in Asia.

Industrial production in the eurozone fell 0.3% sequentially in June, with supply bottlenecks weighing on German factory output.

The U.K. economy expanded by 4.8% sequentially in the second quarter, driven by a rise in household consumption as lockdown rules were lifted. The quarterly rate was below the Bank of England's forecast of 5%. The level of GDP is 4.4% below where it stood at the end of 2019, lagging the recovery in other advanced economies. U.K. exports to the E.U. strengthened in June, rising 1.2% and exceeding the pre-Brexit level of December 2020 for a second month.

In the Asia-Pacific region, Japan's stock market registered modest gains for the week. Japanese wholesale prices rose in July at their quickest annual rate in 13 years, mainly due to rising import costs amid surging commodity prices.

Chinese stocks recorded modest gains despite worries that increased government oversight of the country's technology and private education industries would spread to other sectors. On the economic front, China reported that total social financing, a broad measure of new credit in the economy, had risen by 10.7% year-over-year in July, the slowest pace since February 2020 and down from 11% in June.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada CPI YoY	July	3.4%	3.1%
Canada retail sales MoM	Jun	4.5%	-2.1%
U.S. MBA mortgage applications	13-Aug	-	2.8%
U.S. initial jobless claims	14-Aug	365k	375k
U.S. industrial production MoM	July	0.5%	0.4%
China industrial production YoY	July	7.9%	8.3%

Central bank meetings

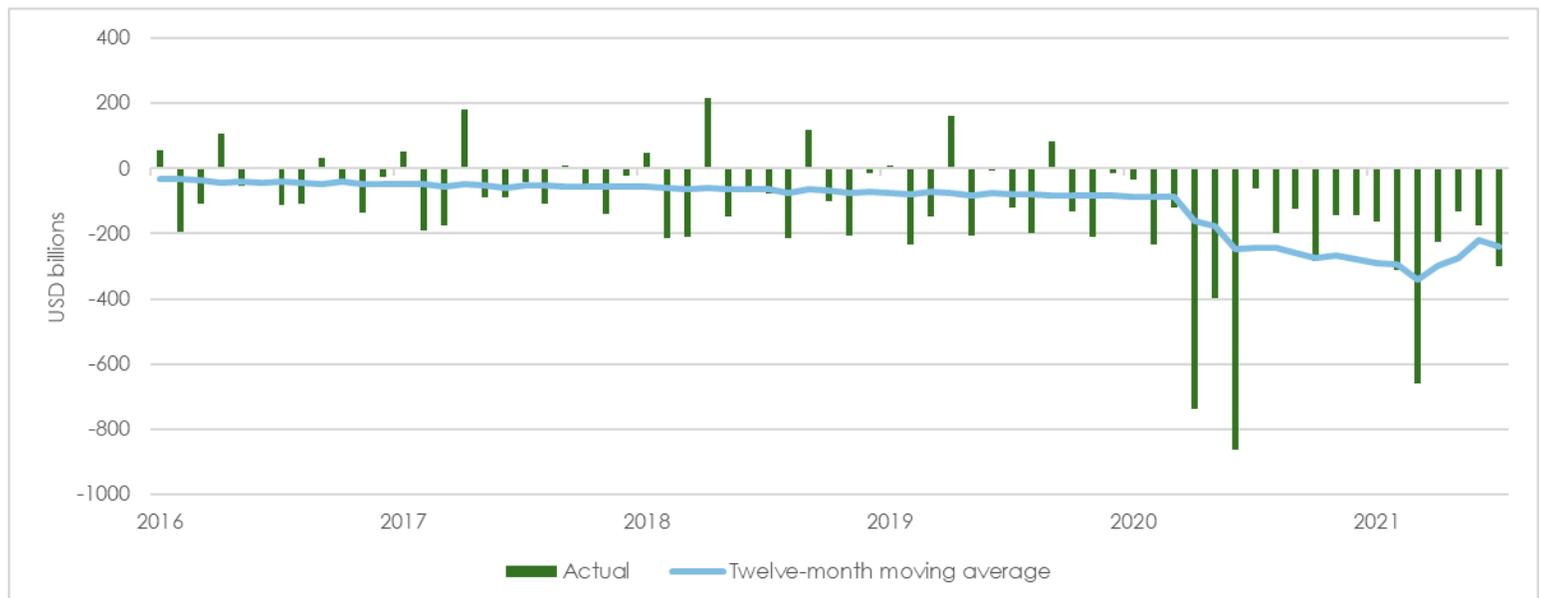
Central banks	Date	Probability of change	Current rate
Bank of Canada	8-Sep-21	-2.4%	0.25%
European Central Bank	9-Sep-21	-1.6%	0.00%
Federal Open Market Committee	22-Sep-21	-3.6%	0.25%
Bank of Japan	22-Sep-21	-4.7%	-0.10%
Bank of England	23-Sep-21	0.2%	0.10%

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

U.S. federal government budget balance

The chart below shows the U.S. federal government budget balance since 2016. If President Joe Biden's budgetary plans are approved, debt levels are expected to rise faster, because higher spending would only be partially matched by increases to revenue. It might be worth keeping an eye on the debt ceiling, which currently stands at US\$28.5 trillion and will soon need to be raised again.



Source: Fidelity Investments Canada ULC, Refinitiv, Fathom Consulting, as at July 2021.

Appendix

Global markets (Returns in Canadian dollar terms)

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Natural gas	4.83	-7.01%	-1.00%	39.93%
Gold	2,227.38	0.62%	-1.53%	-7.81%
Silver	29.73	-2.67%	-6.48%	-11.59%
Copper	548.37	0.69%	-1.30%	22.20%
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Source: Bloomberg, Refinitiv DataStream.

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