



August 20, 2021

In focus

Global equities declined during the week as rising cases of the delta variant of COVID-19 and signs of peaking economic growth hurt investor sentiment.

As expected, the minutes of the latest Federal Open Market Committee meeting showed that policy makers agree the economy has progressed toward the goals set by the Federal Reserve (the Fed). Most policy makers expected tapering off of asset purchases to start later this year, but some preferred to wait until 2022.

Emerging signs of an economic slowdown in China also hurt investor sentiment. Securities and Exchange Commission Chair Gary Gensler urged caution when investing in Chinese stocks because of regulatory uncertainty, as well as disclosure issues.

Oil prices fell sharply, while the U.S. dollar rose as investors flocked to safe-haven assets amid rising cases of the delta variant and fears about Fed tapering.

In fixed income markets, Treasury yields fell (and bond prices rose). Fears regarding the delta variant, dovish sentiment from some Fed policy makers and weaker-than-expected retail sales print supported the week's rally.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	20,339.02	-0.87%	0.25%	16.67%
S&P500	4,441.67	-0.59%	1.06%	18.25%
NASDAQ	14,714.66	-0.73%	0.29%	14.17%
DJIA	35,120.08	-1.11%	0.53%	14.75%
Russell 2000	2,167.60	-2.50%	-2.63%	9.76%
FTSE 100	7,087.90	-1.81%	0.79%	9.71%
Euro Stoxx 50	4,147.50	-1.94%	1.42%	16.74%
Nikkei 225	27,281.17	-2.49%	-0.01%	-0.59%
Hang Seng	24,849.72	-5.84%	-4.28%	-8.75%
Shanghai Comp.	3,427.33	-2.53%	0.88%	-1.32%
MSCI ACWI	722.58	-1.83%	-0.23%	11.81%
MSCI EM	1,220.78	-4.69%	-4.46%	-5.46%
MSCI ACWI ESG Leaders	2,549.36	-1.40%	0.45%	14.55%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,194.37	0.25%	0.28%	-2.20%
BBG Global Agg.	544.57	-0.32%	-0.63%	-2.53%
TSX Pref	1,877.67	-0.34%	-0.18%	15.01%

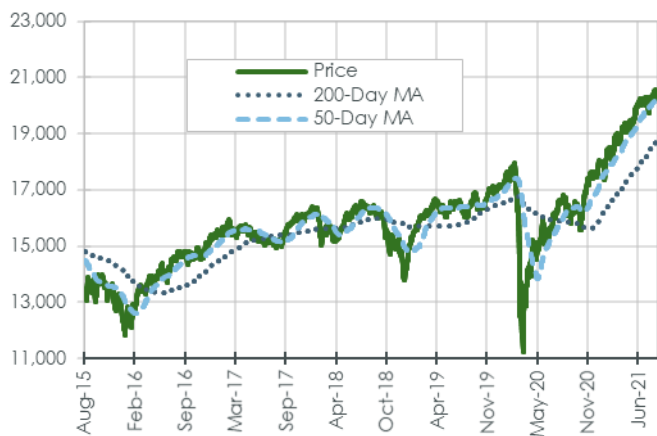
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	1.14%	-4.4	-6.2	46.4
10 yr U.S. Govt.	1.26%	-2.2	3.3	34.2
30 yr Canada Govt.	1.72%	-3.2	-3.9	50.9
30 yr U.S. Govt.	1.87%	-6.0	-2.3	22.4

Commodities	Close	Weekly	MTD	YTD
Oil	62.14	-8.90%	-15.14%	29.43%
Natural gas	3.85	-0.26%	-1.61%	42.00%
Gold	1,781.11	0.08%	-1.82%	-6.18%
Silver	23.03	-3.05%	-9.67%	-12.79%
Copper	412.30	-5.90%	-7.46%	17.00%

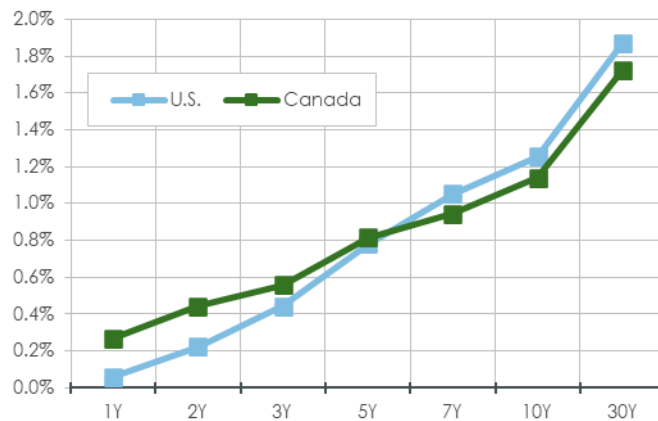
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7799	-2.39%	-2.74%	-0.69%
USD/EUR	0.8547	0.81%	1.44%	4.41%
CAD/EUR	0.6666	-1.59%	-1.36%	3.69%
USD/JPY	109.7800	0.17%	0.05%	6.32%
USD/CNY	6.5015	0.37%	0.62%	-0.39%
USD/MXN	20.3651	2.44%	2.50%	2.26%
GBP/CAD	1.7469	0.66%	0.78%	0.39%
GBP/USD	1.3623	-1.75%	-2.02%	-0.34%

* 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
Canada CPI YoY	July	3.4%	3.7%	3.1%
Canada retail sales MoM	Jun	4.5%	4.2%	-1.9%
U.S. MBA mortgage applications	13-Aug	-	-3.9%	2.8%
U.S. initial jobless claims	14-Aug	365k	348k	377k
U.S. industrial production MoM	July	0.5%	0.9%	0.2%
U.S. housing starts	July	1600k	1534k	1650k

Canada

Canadian equities edged lower, with commodity-linked sectors leading the losses as fears of a slowdown in global growth dented oil and metal prices. Among sectors, materials and energy stocks led the declines, while consumer staples and utilities gained.

On the economic front, Canadian inflation surged in July, with consumer prices rising at the fastest pace in a decade, driven by increasing shelter costs and continuing supply chain problems.

U.S.

U.S. equities also fell for the week. Mixed economic data, along with fears of rising cases of the delta variant, hurt investor sentiment. Concerns that the Fed would soon begin to taper off its asset purchases also contributed to the losses. Worries that growth might be peaking also seemed to hamper sentiment.

Growth stocks lagged value/cyclicals, but both weakened. Large caps outperformed small-cap stocks. Among sectors, energy shares performed worst, while gains in a wide range of health care stocks boosted that sector.

Among companies in news, Home Depot fell sharply after its same-store sales missed expectations; observers fretted that the home remodelling boom is going bust. Lowe's, the home improvement chain, surged on better-than-expected earnings and same-store sales results. TJX, the budget retailer, gained when revenue significantly exceeded expectations. Target, the retail chain, fell after it topped analyst expectations but missed the "whisper numbers."

In U.S. economic news, retail sales fell 1.1% in July, a larger contraction than the anticipated 0.2% decline. Excluding motor vehicles, sales were down 0.4%, while analysts had expected a 0.2% increase.

Separately, industrial production rose 0.9% in July, powered by an 11.2% increase in motor vehicles. Excluding motor vehicles, industrial production was up 0.4%. Finally, the housing market index fell five points in the August reading, completely missing estimates and marking the lowest showing of the pandemic boom. Housing starts missed expectations, falling 7.0% monthly to 1.534 million. However, permits were boosted by a jump for multi-family units, and rose 2.6% in July to a 1.635 million annual rate, which exceeded the consensus expectation of 1.620 million.

Rest of the world

European equities retreated as investors fretted about surging coronavirus infections in key markets, the situation in Afghanistan and signs of slowing growth in China.

In the Asia-Pacific region, Japan's stock market finished sharply lower. Japanese carmaker Toyota Motor announced its plans to cut production for September by 40% from its previous plan; this cast doubt on the economic recovery and prompted a broad sell-off in shares of automakers and companies producing materials for autos, such as steel and rubber manufacturers.

Chinese stocks also fell on worries that a regulatory clampdown on the country's technology and private education industries would spread to other sectors.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada industrial product price MoM	July	-	0.0%
U.S. GDP annualized QoQ	Q2	6.7%	6.5%
U.S. MBA mortgage applications	20-Aug	-	-3.9%
U.S. initial jobless claims	21-Aug	350k	348k
U.S. durable goods orders	July	-0.3%	0.9%
Markit U.S. manufacturing PMI	Aug	62.3	63.4

Central bank meetings

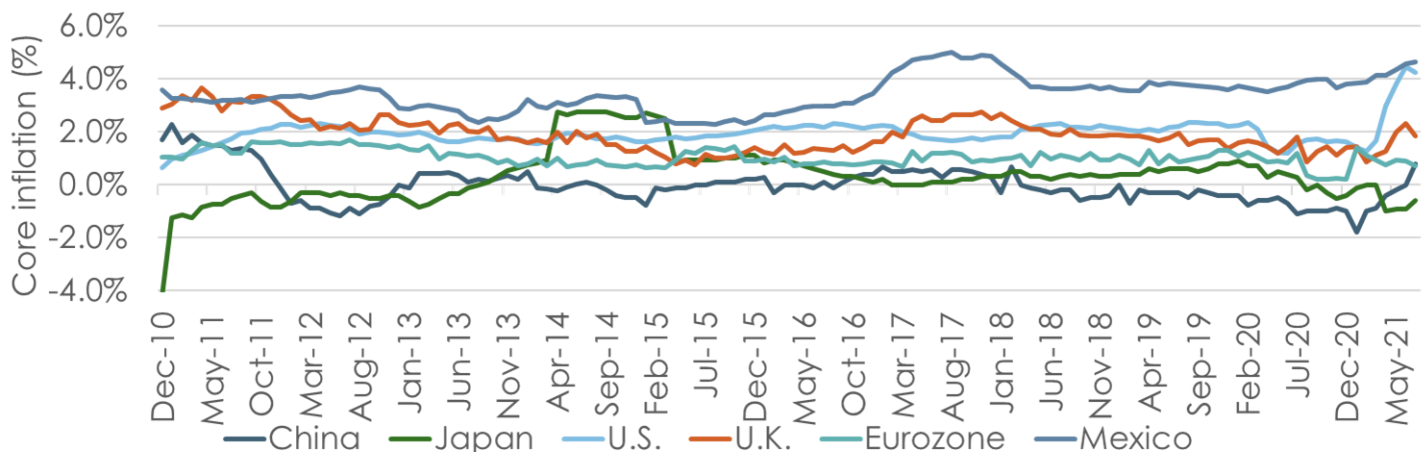
Central banks	Date	Probability of change	Current rate
Bank of Canada	8-Sep-21	0.4%	0.25%
European Central Bank	9-Sep-21	-4.6%	0.00%
Federal Open Market Committee	22-Sep-21	-5.9%	0.25%
Bank of Japan	22-Sep-21	-1.1%	-0.10%
Bank of England	23-Sep-21	0.8%	0.10%

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

Inflationary pressures will linger.

The chart below shows that core inflation (in which the influence of energy and food prices is removed) has spiked in key global economies. In the U.S., increases in prices for used cars, lumber and air travel accounted for most of the rise in core inflation, reflecting pandemic-related disruptions rather than a rapid exhaustion of spare capacity. One-off level shifters, such as the expiration of last year's temporary value-added tax cut in Germany and the increase in the shelter component of U.S. consumer prices as rent and mortgage moratoriums expire, have also increased inflation temporarily. Unlike supply-driven inflation, demand-driven inflation is good for the economy, as we see at present, and leads to higher GDP growth.



Source: Fidelity Investments Canada ULC, Refinitiv.

Appendix

Global markets (Returns in Canadian dollar terms)

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Natural gas	4.94	2.18%	1.17%	42.98%
Gold	2,283.91	2.54%	0.97%	-5.47%
Silver	29.52	-0.69%	-7.13%	-12.21%
Copper	528.66	-3.60%	-4.85%	17.81%
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