



August 06, 2021

In focus

Global equities rose for the week on better-than-expected corporate earnings for the first half of 2021 and improved investor sentiment. However, rising cases of the delta variant of COVID-19 continued to drive an overall sense of caution of among investors, limiting the extent of the gains.

Fears of overproduction by the Organization of Petroleum Exporting Countries (OPEC), as well as the impact of rising COVID-19 cases on demand, contributed to a sharp fall in oil prices. In contrast, natural gas prices have been on the rise, due to flat production and increasing demand across the world.

A solid U.S. jobs report and inflation-related concerns supported gold prices over the week. The U.S. dollar rose over the week on expectations of a better-than-expected economic recovery. Ten-year U.S. Treasury yields also rose, by seven basis points, on economic optimism.

Labour recovery in North America is creating optimism about the economic outlook, but that is offset by the increasing possibility that the Federal Reserve (the Fed) could withdraw its stimulus program. A stronger-than-expected market recovery has fuelled talk that the Fed may begin to taper off its bond-purchase program later this year, and that there are prospects of an interest rate rise in 2023.

| Indexes | Close | Weekly | MTD | YTD |
|-----------------------|-----------|--------|-------|--------|
| S&P/TSX | 20,475.42 | 0.92% | 0.92% | 17.45% |
| S&P500 | 4,436.52 | 0.94% | 0.94% | 18.12% |
| NASDAQ | 14,835.76 | 1.11% | 1.11% | 15.11% |
| DJIA | 35,208.51 | 0.78% | 0.78% | 15.04% |
| Russell 2000 | 2,247.76 | 0.97% | 0.97% | 13.82% |
| FTSE 100 | 7,122.95 | 1.29% | 1.29% | 10.25% |
| Euro Stoxx 50 | 4,174.54 | 2.08% | 2.08% | 17.51% |
| Nikkei 225 | 27,728.12 | 1.63% | 1.63% | 1.03% |
| Hang Seng | 26,179.40 | 0.84% | 0.84% | -3.86% |
| Shanghai Comp. | 3,458.23 | 1.79% | 1.79% | -0.43% |
| MSCI ACWI | 731.19 | 0.96% | 0.96% | 13.14% |
| MSCI EM | 1,292.53 | 1.15% | 1.15% | 0.10% |
| MSCI ACWI ESG Leaders | 2,563.15 | 1.00% | 1.00% | 15.17% |

| Fixed income | Close | Weekly | MTD | YTD |
|------------------|----------|--------|--------|--------|
| FTSE Canada Uni. | 1,189.74 | -0.11% | -0.11% | -2.58% |
| BBG Global Agg. | 545.41 | -0.47% | -0.47% | -2.38% |
| TSX Pref | 1,871.80 | -0.49% | -0.49% | 14.65% |

| Bond yields | Close | bps chg Weekly | bps chg MTD | bps chg YTD |
|--------------------|-------|----------------|-------------|-------------|
| 10 yr Canada Govt. | 1.24% | 4.0 | 4.0 | 56.6 |
| 10 yr U.S. Govt. | 1.30% | 7.5 | 7.5 | 38.4 |
| 30 yr Canada Govt. | 1.76% | 0.2 | 0.2 | 55.0 |
| 30 yr U.S. Govt. | 1.95% | 5.3 | 5.3 | 30.1 |

| Commodities | Close | Weekly | MTD | YTD |
|-------------|----------|--------|--------|--------|
| Oil | 68.28 | -7.67% | -7.67% | 41.69% |
| Natural gas | 4.14 | 5.77% | 5.77% | 52.65% |
| Gold | 1,763.03 | -2.82% | -2.82% | -7.13% |
| Silver | 24.33 | -4.55% | -4.55% | -7.85% |
| Copper | 434.80 | -3.00% | -3.00% | 23.28% |

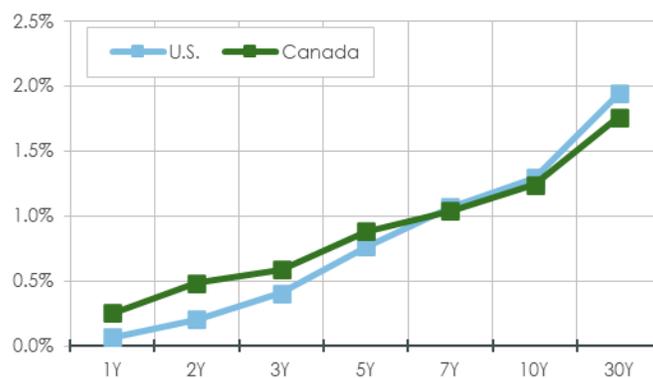
| Currencies | Close | Weekly | MTD | YTD |
|------------|----------|--------|--------|--------|
| CAD/USD | 0.7967 | -0.65% | -0.65% | 1.45% |
| USD/EUR | 0.8502 | 0.90% | 0.90% | 3.86% |
| CAD/EUR | 0.6774 | 0.24% | 0.24% | 5.37% |
| USD/JPY | 110.2500 | 0.48% | 0.48% | 6.78% |
| USD/CNY | 6.4831 | 0.34% | 0.34% | -0.68% |
| USD/MXN | 20.0432 | 0.88% | 0.88% | 0.65% |
| GBP/CAD | 1.7413 | 0.46% | 0.46% | 0.06% |
| GBP/USD | 1.3872 | -0.23% | -0.23% | 1.48% |

* 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 |
|---------------------------------|--------|--------|--------|--------------|
| Markit Canada manufacturing PMI | July | - | 56.2 | 56.5 |
| Canada unemployment rate | July | 7.4% | 7.5% | 7.8% |
| U.S. initial jobless claims | 31-Jul | 383k | 385k | 399k |
| Markit U.S. manufacturing PMI | July | 63.1 | 63.4 | 63.1 |
| U.S. unemployment rate | July | 5.7% | 5.4% | 5.9% |
| Caixin China manufacturing PMI | July | 51.0 | 50.3 | 51.3 |

Canada

Canadian equities gained for the week, led by the financials and information technology sectors. In contrast, the materials and health care sectors declined for the week.

Canada's July labour market report, released last Friday, showed a 94,000 rise in employment, adding to an increase of 230,700 in June. Boosted by an additional \$2.4 billion in exports to the U.S., Canada also posted a trade surplus in June of \$3.2 billion, sparking market chatter about more QE tapering by the Bank of Canada. The unemployment rate also fell by 0.3%, to land at 7.5% for July, led by rising employment in the accommodation and food services industries.

U.S.

U.S. equities also gained for the week, led by the financials and utilities sectors, while the consumer staples sector detracted. The delta variant remains a cause of concern, making up the bulk of new COVID-19 cases in the country, which have averaged around 100,000 a day. Health officials in U.S. are warning of renewed restrictions, hampering investor sentiment.

The U.S. Senate inched closer to passing the \$1 trillion infrastructure bill after a couple of Republicans joined the Democrats in favour of passing the bill, following lengthy negotiations.

Among companies in focus, PepsiCo agreed to sell its Tropicana juice brand to private equity firm PIA Partners for \$ 3.3 billion. Athletic apparel maker Under Armour gained during the week after beating expectations, while consumer products company Clorox fell after missing expectations.

In economic news, U.S. non-farm payrolls rose 943,000 in July to beat the survey consensus of 900,000. The U.S. trade deficit, reflecting pent-up demand for imports,

deepened by nearly \$5 billion in June to an unexpectedly steep \$75.7 billion.

Fed Governor Christopher Waller joined St. Louis Fed President James Bullard earlier in the week in saying that policy accommodation may be pulled back "sooner" than many expect, given a solid recovery in the U.S. economy.

Rest of the world

European equities ended the week higher following global cues. Concerns regarding rising COVID-19 cases in the region, with the reintroduction of containment measures, affected investor sentiment.

German industrial production fell unexpectedly for the third month in a row and for the fifth time in six months, underlining the damage being done by disruptions to global supply chains, and helping explain the upside cost pressures at the producer level. Shortages of raw materials and skilled labour also capped the U.K.'s construction PMI, which, at 58.7 in July, missed expectations by more than five points, signalling the first slowdown in the sector since the U.K.'s last lockdown at the beginning of the year.

In the Asia-Pacific region, China's PMI composite rose sharply in July to 53.1, from 50.6 in June, indicating a strong rebound in activity in the aggregate economy. Though conditions weakened in the manufacturing sector, services strengthened in July. Among companies, Tencent fell early in the week, over concerns about a regulatory crackdown on the online entertainment industry.

In Japan, earnings reports have helped offset COVID-19-related cases, which are rising at a record pace. Elsewhere, the Reserve Bank of India left its policy rate unchanged, at 4%. Although inflation has been above the RBI's target range, Bank Governor Shaktikanta Das said the central bank remains in "whatever it takes" mode to support the recovery.

Looking ahead

| Economic indicators | Period | Survey | Prior period |
|----------------------------------|--------|--------|--------------|
| U.S. CPI MoM | July | 0.5% | 0.9% |
| U.S. initial jobless claims | 07-Aug | 375k | 385k |
| U.S. MBA mortgage applications | 06-Aug | - | -1.7% |
| Eurozone ZEW survey expectations | Aug | - | 61.2 |
| China CPI YoY | July | 0.8% | 1.1% |
| Japan PPI YoY | July | 5.0% | 5.0% |

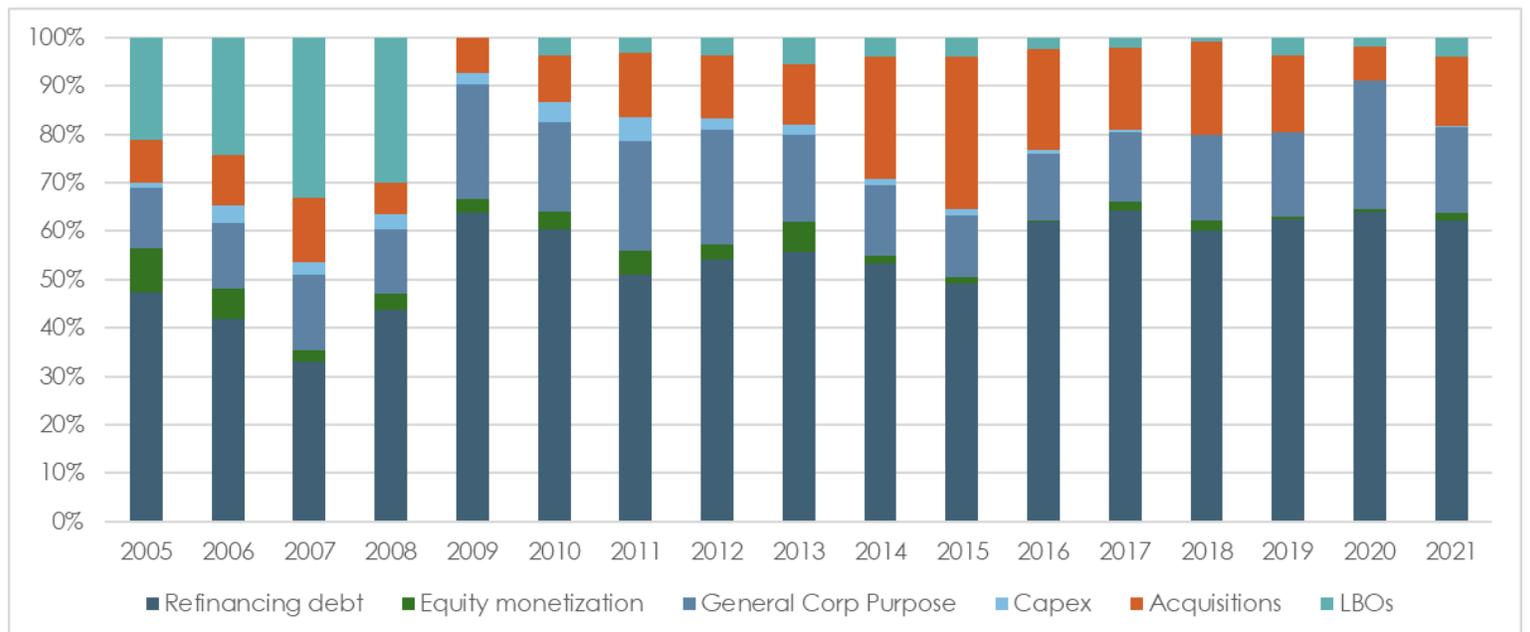
| Central bank meetings | | | |
|-------------------------------|-----------|-----------------------|--------------|
| Central banks | Date | Probability of change | Current rate |
| Bank of Canada | 8-Sep-21 | 0.0% | 0.25% |
| European Central Bank | 9-Sep-21 | -1.5% | 0.00% |
| Federal Open Market Committee | 22-Sep-21 | -4.6% | 0.25% |
| Bank of Japan | 22-Sep-21 | -7.1% | -0.10% |
| Bank of England | 23-Sep-21 | 0.7% | 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

Refinancing debt dominates high-yield corporate debt issuance.

The chart below shows the aggregate debt raised in the U.S. high-yield market. A sharp fall in interest rates saw companies refinance their debt, raising 69% of monthly volume in June 2021. Meanwhile, debt issuance to fund capex increased, after having declined to zero in 2020 to about a third of one percent. Meanwhile, debt raised to fund acquisitions and leveraged buy-outs has also increased, indicating an improvement in corporate sentiment.



Source: ICE Data Services and Moody's (default rate) and New Issue Proceeds as of 6/30/21.

Appendix

Global markets (Returns in Canadian dollar terms)

| Indexes | Close | Weekly | MTD | YTD |
|-----------------------|-----------|----------------|-------------|-------------|
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| NASDAQ | 14,835.76 | 1.85% | 1.85% | 13.29% |
| DJIA | 35,208.51 | 1.52% | 1.52% | 13.22% |
| Russell 2000 | 2,247.76 | 1.70% | 1.70% | 12.02% |
| FTSE 100 | 7,122.95 | 1.79% | 1.79% | 10.22% |
| Euro Stoxx 50 | 4,174.54 | 1.94% | 1.94% | 11.21% |
| Nikkei 225 | 27,728.12 | 1.88% | 1.88% | -6.93% |
| Hang Seng | 26,179.40 | 1.48% | 1.48% | -5.71% |
| Shanghai Comp. | 3,458.23 | 2.19% | 2.19% | -1.34% |
| MSCI ACWI | 731.19 | 1.70% | 1.70% | 11.35% |
| MSCI EM | 1,292.53 | 1.89% | 1.89% | -1.49% |
| MSCI ACWI ESG Leaders | 2,563.15 | 1.73% | 1.73% | 13.35% |
| Fixed income | Close | Weekly | MTD | YTD |
| FTSE Canada Uni. | 1,189.74 | -0.11% | -0.11% | -2.58% |
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| 30 yr Canada Govt. | 1.76% | 0.2 | 0.2 | 55.0 |
| 30 yr U.S. Govt. | 1.95% | 5.3 | 5.3 | 30.1 |
| Commodities | Close | Weekly | MTD | YTD |
| Oil | 85.70 | -7.06% | -7.06% | 39.66% |
| Natural gas | 5.20 | 6.46% | 6.46% | 50.47% |
| Gold | 2,213.59 | -2.14% | -2.14% | -8.38% |
| Silver | 30.54 | -3.91% | -3.91% | -9.17% |
| Copper | 545.75 | -2.37% | -2.37% | 21.51% |
| Currencies | Close | Weekly | MTD | YTD |
| CAD/USD | 0.7967 | -0.65% | -0.65% | 1.45% |
| USD/EUR | 0.8502 | 0.90% | 0.90% | 3.86% |
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Source: Bloomberg, Refinitiv DataStream. All equity indexes returns are price returns and do not include dividends.

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