



July 30, 2021

## In focus

Global equities were volatile for the week as investors adopted a cautious stance amid corporate earnings news, developments around renewed COVID-19 infections, policy announcements from the U.S. Federal Reserve (the Fed) and potentially adverse regulatory developments in China.

News that the U.S. Center for Disease Control has recommended a return to indoor mask use in areas of high transmission, due to rising breakthrough cases among the vaccinated and surging cases among the unvaccinated, dampened investor confidence. China's regulatory crackdown on tech/online, education and property businesses, as well as fears that government restrictions could extend to the health care sector, also dampened sentiment.

Reactions to the Fed's policy announcement, which matched expectations of a "status quo" policy, were limited. Some said Fed Chair Jerome Powell's comments leaned to the dovish side as he repeated that the Fed expects inflation to cool and that policy makers remain far from ready to taper off asset purchases

The broadly negative sentiment contributed to a decline in U.S. and Canadian treasury bonds, with investors seeking safe-haven assets to protect themselves against adverse market developments. (A fall in yields implies a rise in bond prices.)

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	20,287.80	0.49%	0.61%	16.37%
S&P500	4,395.26	-0.37%	2.27%	17.02%
NASDAQ	14,672.68	-1.11%	1.16%	13.85%
DJIA	34,935.47	-0.36%	1.25%	14.14%
Russell 2000	2,226.25	0.75%	-3.65%	12.73%
FTSE 100	7,032.30	0.07%	-0.07%	8.85%
Euro Stoxx 50	4,089.30	-0.48%	0.62%	15.11%
Nikkei 225	27,782.42	0.85%	-3.50%	1.23%
Hang Seng	25,961.03	-4.98%	-9.94%	-4.66%
Shanghai Comp.	3,397.36	-4.31%	-5.40%	-2.18%
MSCI ACWI	724.21	-0.40%	0.59%	12.06%
MSCI EM	1,277.80	-2.55%	-7.04%	-1.04%
MSCI ACWI ESG Leaders	2,537.82	-0.33%	0.96%	14.03%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,191.05	0.11%	1.03%	-2.47%
BBG Global Agg.	548.01	0.61%	1.33%	-1.92%
TSX Pref	1,881.06	0.87%	0.80%	15.21%

Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	1.20%	-0.5	-18.6	52.6
10 yr U.S. Govt.	1.22%	-5.4	-24.6	30.9
30 yr Canada Govt.	1.76%	-2.0	-8.4	54.8
30 yr U.S. Govt.	1.89%	-2.3	-19.4	24.7

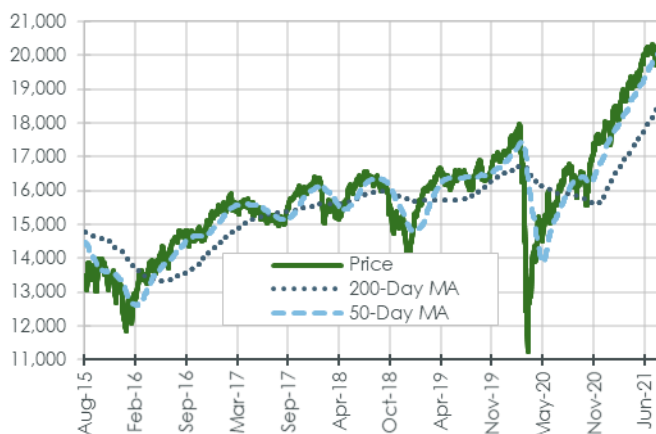
Commodities	Close	Weekly	MTD	YTD
Oil	73.95	2.61%	1.62%	53.46%
Natural gas	3.91	-3.17%	8.00%	44.32%
Gold	1,814.19	0.67%	2.49%	-4.43%
Silver	25.49	1.25%	-2.43%	-3.45%
Copper	448.25	1.88%	4.51%	27.09%

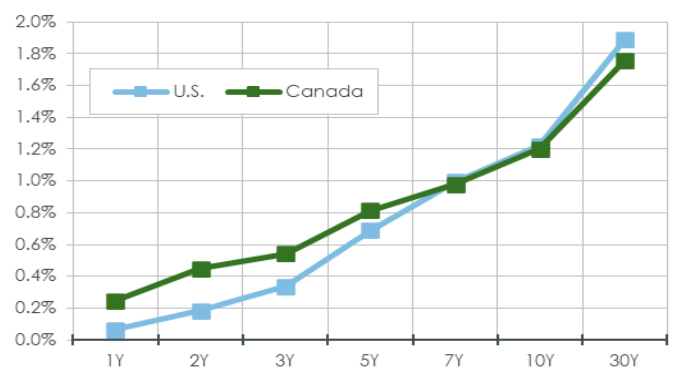
Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.8019	0.75%	-0.58%	2.11%
USD/EUR	0.8426	-0.81%	-0.09%	2.93%
CAD/EUR	0.6758	-0.04%	-0.65%	5.12%
USD/JPY	109.7200	-0.75%	-1.25%	6.27%
USD/CNY	6.4614	-0.31%	0.07%	-1.01%
USD/MXN	19.8675	-0.99%	-0.35%	-0.24%
GBP/CAD	1.7334	0.34%	1.07%	-0.39%
GBP/USD	1.3904	1.13%	0.53%	1.71%

\* 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	June	3.20%	3.10%	3.60%
Canada GDP MoM	May	-0.30%	-0.30%	-0.50%
U.S. MBA mortgage applications	23-Jul	-	5.70%	-4.00%
U.S. initial jobless claims	24-Jul	385k	400k	424k
U.S. new home sales	June	796k	676k	724k
U.S. durable goods orders	June	2.20%	0.80%	3.20%

## Canada

Robust materials sector performance, along with positive contributions from sectors such as consumer staples, consumer discretionary and industrials, lifted Canadian equities for the week. This contrasted with a large decline in the information technology sector and a modest decline in the communication services sector, which was in part a result of some weaker-than-expected earnings for U.S. technology companies.

Among economic data, inflation in Canada eased from a decade high. The Bank of Canada maintained that the rise in inflation is largely transitory. Core inflation, which strips off highly volatile products from its calculation, remained at 2.2%.

## U.S.

U.S. equities started the week plagued by worries about the delta variant of COVID-19, along with a sell-off in Chinese markets after China's latest regulatory crackdown on online businesses. Weakness in U.S. home sales and Dallas Fed manufacturing reports played into the view that growth in the U.S. could be peaking.

Earnings from heavyweight information technology sector names such as Facebook, Apple and Amazon, among others, fed into a sense of caution. Google rose on a better-than-expected earnings announcement, Microsoft edged lower on the day of its strong earnings announcement, and Apple declined after its guidance disappointed investors. In the energy sector, ExxonMobil and Chevron came under pressure on the day both exceeded earnings expectations.

Among consumer product leaders in the news, Procter & Gamble announced earnings and revenue ahead of expectations. Colgate-Palmolive's earnings guidance reflected pressure on margins from rising input prices. Caterpillar, the heavy equipment giant, reported

disappointing guidance amid uncertainty about market conditions and inflation.

Weakness in the consumer discretionary sector, as well as the information technology and communication services sectors, was the leading driver of U.S. equity market weakness. In contrast, the cyclically sensitive materials and energy sectors rose strongly.

In economic news, the advance estimate of second-quarter GDP showed the pace of expansion little changed, up to 6.5%, after 6.3% in the first quarter. Growth was driven by eager consumer spending. Personal consumption was up 11.8% and gave by far the largest lift to growth.

## Rest of the world

European equities ended the week slightly lower due to weakness in Germany and France. Market developments in China following a regulatory crackdown on the domestic tech sector caused a spike in volatility that drove a global market sell-off. Stabilization followed as Beijing authorities attempted to soothe the markets, and strong European second-quarter earnings underpinned some of the risk sentiment. Supportive central bank policy, with dovish messaging from both the Fed and the European Central Bank, also buoyed markets. Macro fundamentals remained supportive, and positive COVID-19 developments in the U.K. offered hope for the rest of the region.

In China, Tencent, the online games and social media platform operator, declined after regulators rejected its acquisition of a streaming music business, among other ongoing measures that have battered its business. Meituan declined after regulators announced new requirements for its food delivery workers.

## Looking ahead

Economic indicators	Period	Survey	Prior period
Canada Markit manufacturing PMI	July	--	56.50
Canada unemployment rate	July	7.40%	7.80%
Canada building permits MoM	June	6.30%	-14.80%
U.S. initial jobless claims	Jul-21	382k	400k
U.S. ISM manufacturing	July	60.9	60.6
Markit U.S. manufacturing PMI	July	63.1	63.1

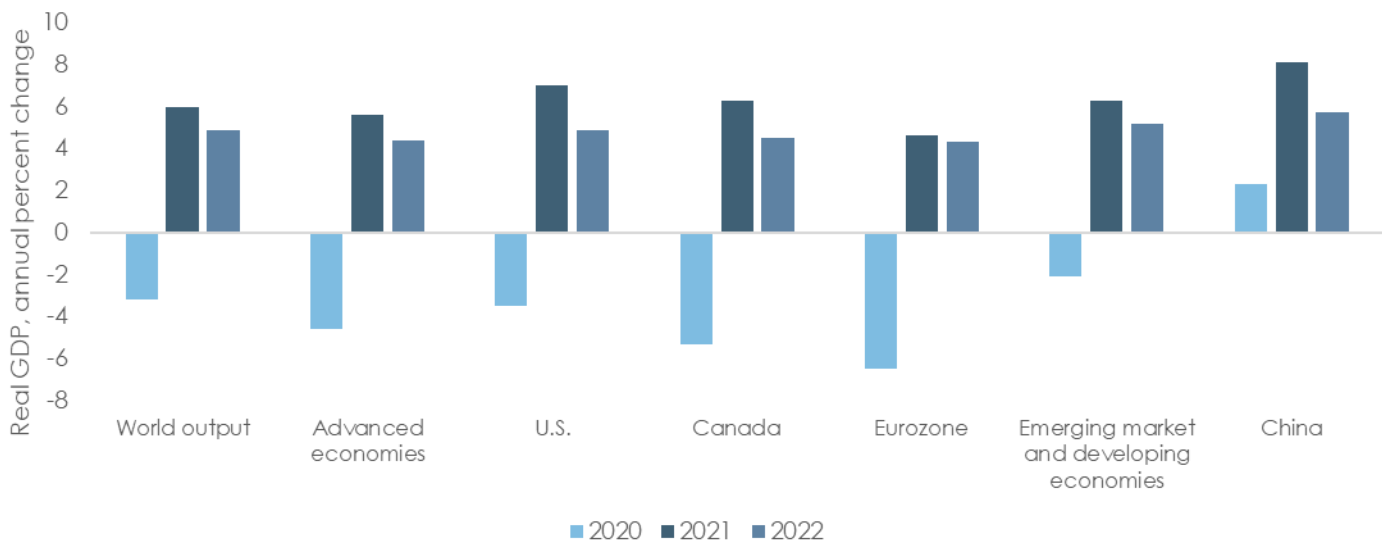
Central bank meetings			
Central banks	Date	Probability of change	Current rate
Bank of England	5-Aug-21	0.7%	0.10%
Bank of Canada	8-Sep-21	4.9%	0.25%
European Central Bank	9-Sep-21	-0.7%	0.00%
Federal Open Market Committee	22-Sep-21	-5.9%	0.25%
Bank of Japan	22-Sep-21	-2.5%	-0.10%

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

### IMF World Economic Outlook

In its latest update, the IMF World Economic Outlook has revised its growth expectations, marking up 2022 growth estimates for developed market economies and marking down estimates for emerging and developing market economies. The increase for developed economies is largely due to various fiscal and monetary policies, government support and successful vaccination programs. Emerging and developing economies, however, are struggling with weak financial conditions, rising inflation and other pandemic-related problems. IMF also expects inflation to be largely transitory in nature, but notes the need to remain vigilant.



Source: IMF, World Economic Outlook Update, July 2021.

## Appendix

Global markets (Returns in Canadian dollar terms)				
Indexes	Close	Weekly	MTD	YTD
S&P/TSX	20,287.80	0.49%	0.61%	16.37%
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30 yr U.S. Govt.	1.89%	-2.3	-19.4	24.7
Commodities	Close	Weekly	MTD	YTD
Oil	92.22	1.84%	2.22%	50.28%
Natural gas	4.88	-3.89%	8.64%	41.33%
Gold	2,262.04	-0.09%	3.06%	-6.38%
Silver	31.78	0.48%	-1.90%	-5.47%
Copper	558.98	1.11%	5.12%	24.46%
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