



October 1, 2021

In focus

Global equities declined for the week as the markets struggled with inflation worries and rising interest rate concerns. Inflation rates reached new highs in the U.S. and in Europe, hampering investor sentiment. Rising oil and gas prices and supply constraints also weighed on the markets.

Rising long-term bond yields, signals that the Federal Reserve may soon start to taper off its asset purchases and a slightly more hawkish tone from central banks globally in recent weeks also weighed on equities.

U.S. Treasury Secretary Janet Yellen testified that the U.S. government would run out of cash by October 18, 2021, and stated that a failure to raise the country's debt ceiling could pave the way for the possibility of the first-ever U.S. default.

Oil and natural gas prices continued to rise over the week amid strong demand and supply concerns. Natural gas prices in the U.S. have now doubled on a year-on-year basis, supported by heavy demand across all industries.

German Chancellor Angela Merkel announced her decision to step down from her position after over 16 years in power. A new chancellor will form the government after the result of elections conducted on September 26 are out.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	20,150.87	-1.23%	0.40%	15.59%
S&P500	4,357.04	-2.21%	1.15%	16.00%
NASDAQ	14,566.70	-3.20%	0.82%	13.02%
DJIA	34,326.46	-1.36%	1.43%	12.15%
Russell 2000	2,241.63	-0.29%	1.69%	13.51%
FTSE 100	7,027.07	-0.35%	-0.84%	8.77%
Euro Stoxx 50	4,035.30	-2.96%	-0.32%	13.59%
Nikkei 225	29,452.66	-2.63%	0.00%	7.32%
Hang Seng	24,575.64	1.59%	0.00%	-9.75%
Shanghai Comp.	3,568.17	-1.24%	0.00%	2.74%
MSCI ACWI	712.44	-2.47%	0.41%	10.24%
MSCI EM	1,246.60	-1.46%	-0.52%	-3.46%
MSCI ACWI ESG Leaders	2,508.49	-2.60%	0.52%	12.71%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,176.65	-0.24%	0.31%	-3.65%
BBG Global Agg.	537.63	-0.50%	0.30%	-3.78%
TSX Pref	1,927.68	1.78%	0.53%	18.07%

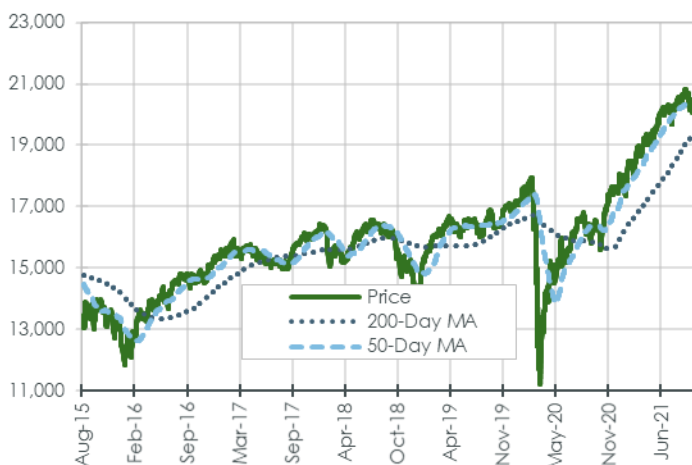
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	1.47%	9.2	-4.0	79.2
10 yr U.S. Govt.	1.46%	1.1	-2.6	54.8
30 yr Canada Govt.	1.96%	5.2	-3.7	74.3
30 yr U.S. Govt.	2.03%	4.5	-1.6	38.4

Commodities	Close	Weekly	MTD	YTD
Oil	75.88	2.57%	1.13%	58.58%
Natural gas	5.62	8.06%	-4.23%	100.97%
Gold	1,760.98	0.60%	0.23%	-7.24%
Silver	22.54	0.53%	1.66%	-14.63%
Copper	418.85	-2.26%	2.43%	18.86%

Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7907	0.04%	0.28%	0.69%
USD/EUR	0.8626	1.10%	-0.14%	5.38%
CAD/EUR	0.6820	1.13%	0.13%	6.08%
USD/JPY	111.0500	0.29%	-0.22%	7.55%
USD/CNY	6.4448	-0.33%	0.00%	-1.26%
USD/MXN	20.4487	1.97%	-0.93%	2.68%
GBP/CAD	1.7135	-0.94%	0.30%	-1.65%
GBP/USD	1.3546	-0.97%	0.53%	-0.91%

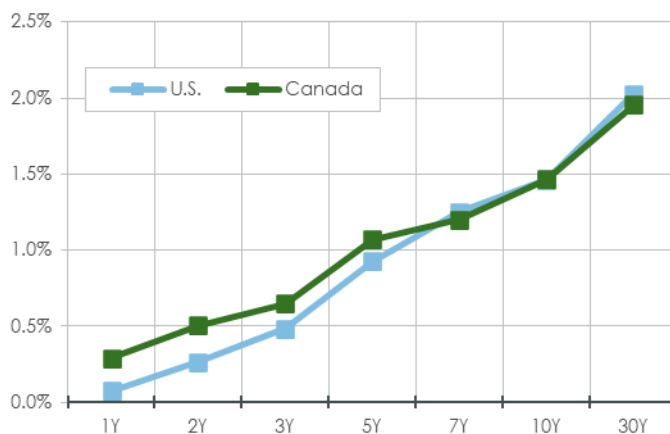
* Please refer to Appendix for the above table in Canadian dollar terms.

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 GDP MoM	Jul	-0.2%	-0.1%	0.6%
Markit Canada manufacturing PMI	Sep	-	57.0	57.2
U.S. initial jobless claims	Sep 25	330k	362k	351k
U.S. ISM manufacturing	Sep	59.5	61.1	59.9
Markit eurozone manufacturing PMI	Sep	58.7	58.6	58.7
China manufacturing PMI	Sep	50.0	49.6	50.1

Canada

Canadian equities declined, following global cues. The information technology and consumer discretionary sectors detracted over the week, while the energy sector led the gains, due to rising prices. In economic news, real GDP edged down by 0.1% in July, following a 0.6% increase in June. Total economic activity in July was approximately 2% below the pre-pandemic level of February 2020. The manufacturing sector contracted 1.1% in July, largely due to declines in durable goods manufacturing.

U.S.

U.S. equities declined early in the week as investors worried about rising inflation in the market. Among sectors, only energy made any gains over the week, while the health care and information technology sectors detracted.

Uncertainty about congressional action on raising the federal debt ceiling and the prospect of a government shutdown later this week dampened market sentiment. Inflation and supply chain worries remained consistent themes in corporate updates. On the positive side, comments from multiple central bankers left expectations of very slow Federal Reserve tapering intact and indicated plenty of global monetary accommodation in the meantime. Concern about China's energy crunch and an attendant slowdown in Asian growth also added to negative sentiment.

Among companies, Dollar Tree, the budget retailer, rallied after announcing a big share buyback. Natural and organic food company United Natural Foods also soared after exceeding earnings expectations. In contrast, AMD, a semiconductor manufacturing company, declined, with investors eyeing its exposure to cryptocurrency mining. Multinational information technology company Hewlett-Packard also declined after a downgrade by JP Morgan.

In U.S. economic news, new jobless claims rose 11,000, to 362,000, in the week ended September 25. The increase was above market expectations and the third week in a row of higher claims for regular unemployment benefits.

Rest of the world

European equities followed the global trajectory, declining over the period. However, markets recovered a bit in the latter half of the week. Expectations that Chinese authorities would intervene to support growth encouraged sentiment, as did the U.S. Federal Reserve's policy guidance, which was in line with expectations.

Weaker-than-expected Chinese and Japanese economic reports fanned concerns about a global slowdown, alongside ongoing supply chain disruptions linked to the pandemic. The energy crunch in China and Europe continued to attract attention, with utilities hurt by concern about rising fuel costs, and industrials hurt by concern about power outages and other disruptions. An uptick in European bond yields reflected the focus on inflation worries, with commodity prices rising.

ECB President Christine Lagarde expressed a more optimistic tone regarding a possible hike in interest rates. She made it clear that the ECB did not want to jeopardize the still fragile economic recovery by tightening monetary policy too soon. She stated that the central bank should not "overreact to transitory supply shocks that have no bearing on the medium term."

Japanese equities also took their cue from Wall Street, with the Nikkei 225 index declining over the week. Risk appetite suffered from concern about growth in the U.S., after an unexpected uptick in jobless claims and uncertain prospects for U.S. fiscal measures. Soft Chinese data and a focus on China's power crunch also weighed heavily on Japanese markets.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada unemployment rate	Sep	6.9%	7.1%
U.S. initial jobless claims	Oct 02	350k	362k
U.S. MBA mortgage applications	Oct 01	-	-1.1%
U.S. unemployment rate	Sep	5.1%	5.2%
Markit eurozone composite PMI	Sep	56.1	56.1
China money supply M2 YoY	Sep	8.2%	8.2%

Central bank meetings

Central banks	Date	Probability of change	Current rate
Bank of Canada	10/27/2021	7.6%	0.25%
European Central Bank	10/28/2021	-0.3%	0.00%
Bank of Japan	10/28/2021	-1.7%	-0.10%
Federal Open Market Committee	11/3/2021	1.7%	0.25%
Bank of England	11/4/2021	11.0%	0.10%

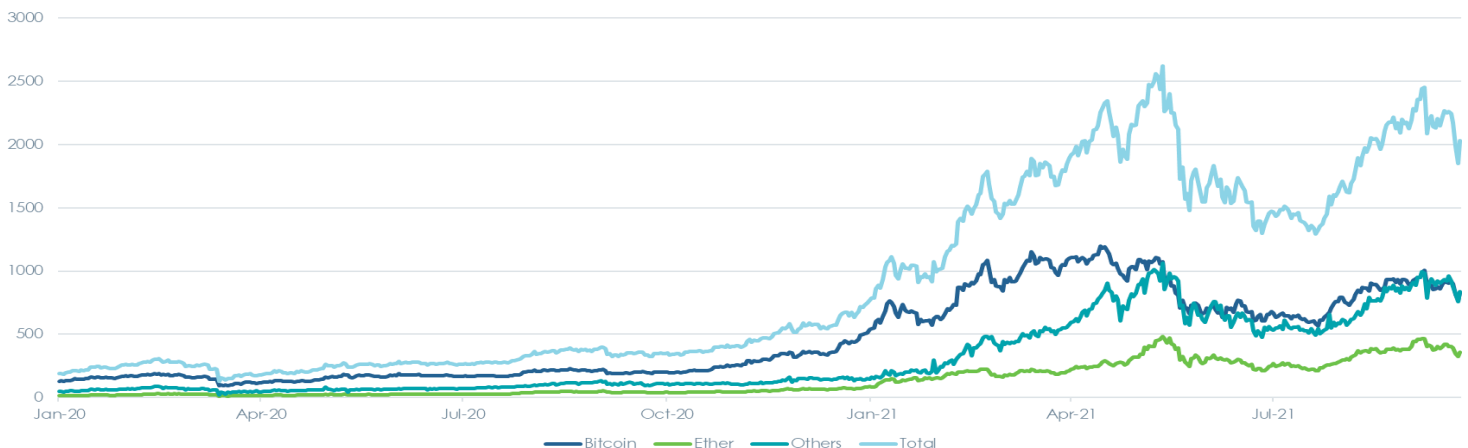
Source: Bloomberg. Probability of change implies the possibility of a central bank hiking interest rates during their upcoming meeting. A negative number in this case means chances of a rate cut rather than a hike.

Spotlight

Crypto assets continue to grow through ups and downs

The market capitalization of crypto assets has grown significantly amid large bouts of price volatility. Cryptocurrencies saw a huge bull run earlier this year, followed by a sharp drop in May as institutional holders' concerns about the global regulatory scrutiny of the crypto ecosystem escalated. The sharp declines during May were also likely exacerbated by investors' high use of leverage. The market has recovered since then, with the market value of crypto assets again breaching the \$2 trillion mark. The risk-adjusted returns of bitcoin over the past year are similar to the performance of the S&P 500. These crypto assets and their returns can appear more attractive compared with other asset classes that also experience large drawdowns, such as local currency bonds and equities in some emerging market and developing economies with weak fundamentals.

Market capitalization for crypto assets



Source: Bloomberg Finance L.P., IMF staff calculations.

Appendix

Global markets (Returns in Canadian dollar terms)				
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Commodities	Close	Weekly	MTD	YTD
Oil	95.97	2.53%	0.85%	57.50%
Natural gas	7.11	8.02%	-4.49%	99.59%
Gold	2,227.32	0.56%	-0.04%	-7.81%
Silver	28.50	0.47%	1.34%	-15.25%
Copper	529.72	-2.30%	2.15%	18.04%
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