



November 26, 2021

In focus

Global equities were volatile over an eventful week as global inflation indicators firmed up, bond yields rose and, on Friday, reports of a new COVID variant, which the World Health Organization (WHO) called Omicron, led to a sharp sell-off. Volatility measures rose and sovereign bond yields declined on Friday as investors sought protection against uncertainty and the risk of defaults.

Oil and commodity prices corrected, with markets pricing in a much bleaker economic outlook. Travel stocks, including airlines, were hit hard by expectations of renewed travel restrictions. Among sectors, consumer discretionary, information technology, industrials and materials were among the worst-performing sectors.

In fixed income, yields on ten- and 30-year treasury bonds in Canada and in the U.S. declined. In commodities, natural gas prices increased, but copper, gold and silver prices declined.

Against this backdrop, investors will likely continue to focus on interest rates, the longer-term outlook for inflation and valuations. The likely effect of the omicron variant of COVID remains unclear.

Indexes	Close	Weekly	MTD	YTD
S&P/TSX	21,125.90	-1.99%	0.42%	21.18%
S&P500	4,594.62	-2.20%	-0.23%	22.33%
NASDAQ	15,491.66	-3.52%	-0.04%	20.20%
DJIA	34,899.34	-1.97%	-2.57%	14.03%
Russell 2000	2,245.94	-4.15%	-2.23%	13.73%
FTSE 100	7,044.03	-2.49%	-2.67%	9.03%
Euro Stoxx 50	4,089.58	-6.13%	-3.79%	15.11%
Nikkei 225	29,499.28	-0.83%	2.10%	7.49%
Hang Seng	24,080.52	-3.87%	-5.11%	-11.57%
Shanghai Comp.	3,564.09	0.10%	0.47%	2.62%
MSCI ACWI	733.53	-2.83%	-1.57%	13.50%
MSCI EM	1,223.13	-3.63%	-3.29%	-5.28%
MSCI ACWI ESG Leaders	2,606.80	-3.17%	-1.99%	17.13%

Fixed income	Close	Weekly	MTD	YTD
FTSE Canada Uni.	1,167.99	0.28%	0.64%	-4.36%
BBG Global Agg.	533.26	-0.03%	-0.28%	-4.56%
TSX Pref	1,930.48	-0.78%	-1.11%	18.24%

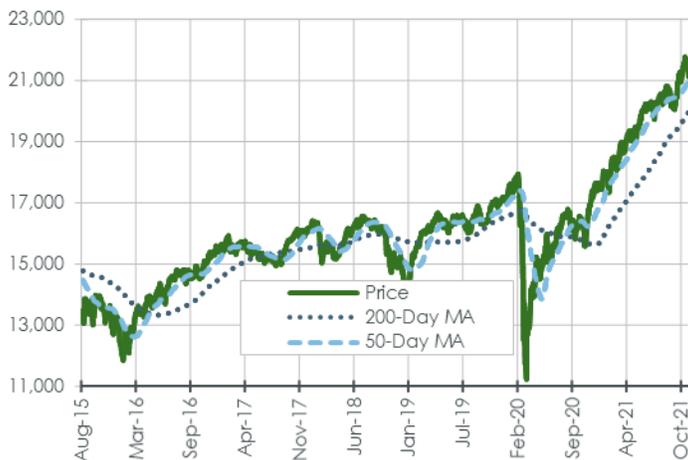
Bond yields	Close	bps chg Weekly	bps chg MTD	bps chg YTD
10 yr Canada Govt.	1.61%	-5.3	-11.8	92.8
10 yr U.S. Govt.	1.47%	-7.3	-7.9	56.0
30 yr Canada Govt.	1.96%	-5.4	-4.7	74.4
30 yr U.S. Govt.	1.82%	-8.9	-11.2	17.6

Commodities	Close	Weekly	MTD	YTD
Oil	68.15	-10.26%	-16.67%	43.50%
Natural gas	5.48	6.45%	-0.94%	82.20%
Gold	1,802.59	-2.34%	1.08%	-5.04%
Silver	23.16	-5.94%	-3.13%	-12.30%
Copper	429.10	-2.39%	-1.13%	21.89%

Currencies	Close	Weekly	MTD	YTD
CAD/USD	0.7817	-1.18%	-3.17%	-0.46%
USD/EUR	0.8834	-0.34%	2.13%	7.92%
CAD/EUR	0.6906	-1.53%	-1.10%	7.42%
USD/JPY	113.3800	-0.54%	-0.50%	9.81%
USD/CNY	6.3933	0.10%	-0.19%	-2.05%
USD/MXN	21.9234	5.25%	6.61%	10.09%
GBP/CAD	1.7059	0.37%	0.63%	-2.08%
GBP/USD	1.3337	-0.85%	-2.52%	-2.44%

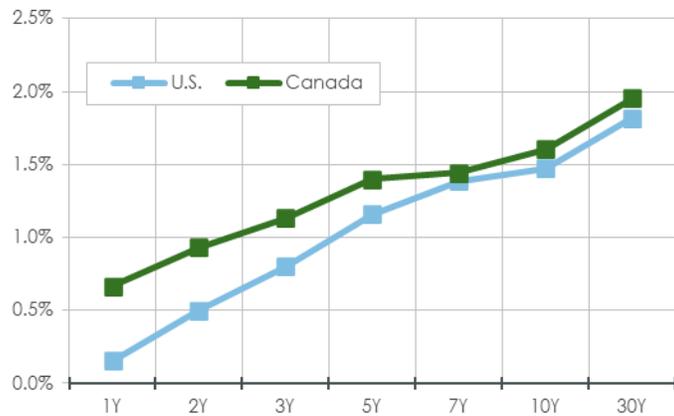
* Please refer to Appendix for the above table in Canadian dollar terms.

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
U.S. GDP annualized QoQ	3Q	2.2%	2.1%	2.0%
Markit U.S. manufacturing PMI	Nov	59.1	59.1	58.4
U.S. initial jobless claims	20-Nov	260k	199k	270k
U.S. MBA mortgage applications	19-Nov	-	1.8%	-2.8%
Markit eurozone manufacturing PMI	Nov	57.4	58.6	58.3
Eurozone consumer confidence	Nov	-5.5	-6.8	-4.8

Canada

Canadian equities declined for the week, in line with global peers. From a sector perspective, information technology shares declined the most, followed by the consumer staples and materials sectors.

In the information technology sector, online e-commerce platform operator Shopify was a key laggard; the company's Black Friday sales growth fell short of expectations. Alimentation Couche-Tard also made a major detraction; its quarterly earnings fell a little short of expectations. Conversely, Toronto-Dominion Bank and Canadian Natural Resources were among the leading drivers of gains for the week.

In economic news, Canadian retail sales data came in better than consensus expectations. Retail sales fell by just 0.6% in September, against Bloomberg consensus expectations of a 1.7% decline for the month.

U.S.

U.S. equities started the week with mixed results across key indexes as investors responded to the confirmation of Jay Powell as Chair of the Federal Reserve (the Fed) for a second term. President Joe Biden's decision to reappoint Powell sparked a rise in bond yields; the market evidently sees him as more hawkish than new Vice Chair Lael Brainard, who was the other likely choice to lead the Fed.

Markets noted hawkish comments from other policy makers, including Atlanta Fed President Raphael Bostic, who said hotter economic data may oblige the Fed to accelerate its tapering, which would allow the bank to raise rates sooner if needed.

For most of the week, investors favoured the value and cyclical segments of the market, areas that tend to benefit in an inflationary environment, while growth lagged somewhat. However, sentiment soured toward the end of the week in response to news of a new and potentially more dangerous and transmissible COVID.

Among sectors, disappointing earnings from Gap and Nordstrom undercut consumer discretionary stocks; both reported supply chain trouble. Autodesk, the software company, declined after warnings of supply chain problems and the effects of the pandemic on business conditions. On the positive side, agricultural machinery-focused John Deere beat earnings expectations, despite labour strikes. Energy stocks gained for the week despite a sharp correction in oil prices on Friday and the U.S. President's announcement that the country would release 50 million barrels of oil from its oil reserves.

In economic news, a sharp fall in jobless claims, along with expected faster increases in prices for personal consumption expenditures and better-than-expected personal income and spending, supported an optimistic outlook for the economy.

Rest of the world

European equities declined for the week. In addition to the worrying rise in COVID-19 infections, coupled with news of the new variant, a weaker-than-expected reading from Germany's Ifo survey weighed on risk appetite. The Ifo business climate index declined from 97.7 in October to 96.5 in November, the lowest reading since February. Market confidence was shaken as countries across Europe reimposed curfews and other restrictions intended to limit the latest wave of infections.

Most Asian equity markets declined, due to a variety of factors, including reports of the new COVID-19 variant. However, the Shanghai composite index edged higher. Market sentiment was supported by Chinese Premier Li Keqiang's statement that the government should step up efforts to stabilize key sectors.

Looking ahead

Economic indicators	Period	Survey	Prior period
U.S. initial jobless claims	27-Nov	250k	199k
U.S. ISM manufacturing	Nov	61.1	60.8
U.S. Conference Board consumer confidence	Nov	110.7	113.8
U.S. factory orders	Oct	0.5%	0.2%
Canada unemployment rate	Nov	6.6%	6.7%
Canada quarterly GDP annualized	Q3	3.3%	-1.1%

Central bank meetings

Central banks	Date	Probability of change	Current rate
Bank of Canada	8-Dec-21	6.0%	0.25%
Federal Open Market Committee	16-Dec-21	-3.9%	0.25%
Bank of England	16-Dec-21	33.0%	0.10%
European Central Bank	16-Dec-21	4.1%	0.00%
Bank of Japan	17-Dec-21	1.3%	-0.10%

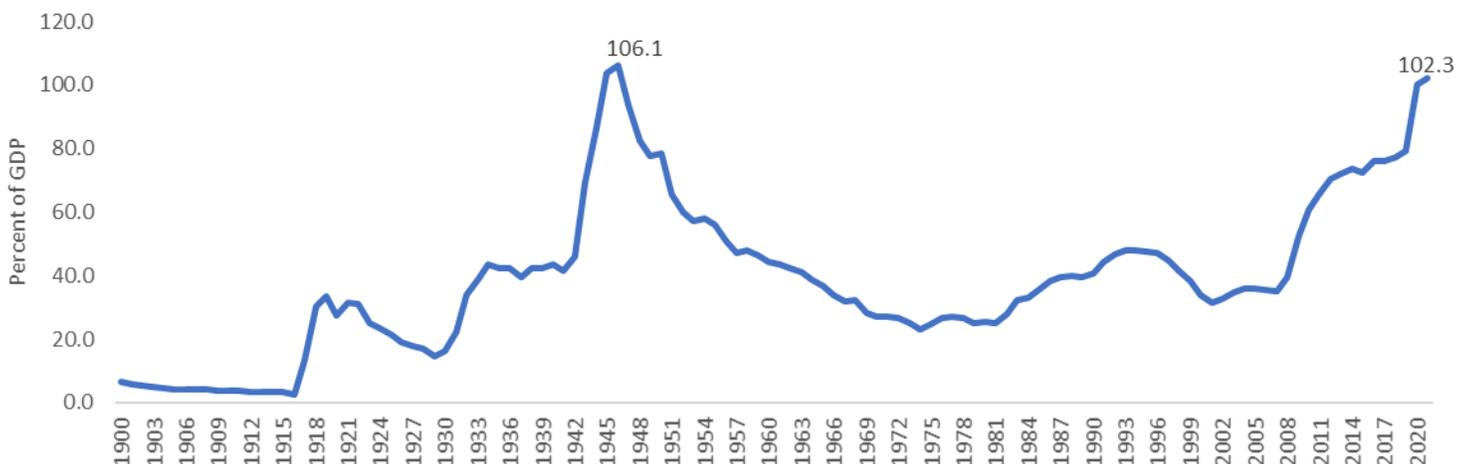
Source: Bloomberg. Probability of change implies the possibility of a central bank hiking interest rates during their upcoming meeting. A negative number in this case means chances of a rate cut rather than a hike.

Spotlight

U.S. public debt holdings support low interest rates.

The chart below shows the percentage of U.S. federal debt held by the public, according to the Congressional Budget Office (CBO). Federal debt held by the public has reached 100% of GDP for the first time since the second world war, and the CBO expects that the amount will continue to rise over the coming years. This data is important in the context of the recent rise in inflation and the strength of economic data. It remains to be seen if bond yields on federal debt remain suppressed, because a large number of retirees remain invested in federal bonds, suppressing yields, or if rising inflation and the need for fiscal spending will drive up yields.

Federal debt held by the public, 1900 to 2021



Source: Fidelity Investments Canada ULC, CBO.

Appendix

Global markets (Returns in Canadian dollar terms)

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Commodities	Close	Weekly	MTD	YTD
Oil	87.18	-9.19%	-13.94%	44.16%
Natural gas	7.01	7.72%	2.30%	83.04%
Gold	2,305.71	-1.17%	4.39%	-4.57%
Silver	29.62	-4.91%	0.05%	-11.91%
Copper	548.93	-1.23%	2.11%	22.45%
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