

# Weekly Market Pulse

Week ending January 8, 2021



## Market developments

### Equities:

Ending 2020 at an all-time high, equities kicked off 2021 experiencing a strong bout of volatility, with investors focused on the Georgia Senate run-offs. Democrats were able to squeeze out a victory, taking control of both seats, resulting in a 50-50 split Senate. The results come with large implications, ultimately giving Vice President-elect Kamala Harris the tie-breaker vote in areas such as COVID-19 relief efforts, climate change action, corporate tax, and regulation. The S&P 500 rose 1.83%. The S&P/TSX Composite rose 3.49%.

### Fixed income:

Bond yields rallied strongly on expectations of increased stimulus on the Democratic wins in Georgia. The U.S. Treasury 10-year yield rose 20 basis points to 1.12%. The Government of Canada 10-year yield rose 14 basis points to 0.81%.

### Commodities:

Fueled by rising stimulus expectations, copper prices rose 4.96% while oil prices rose 8.68% as Saudi Arabia surprised markets with an additional unilateral cut of 1 million barrels in February and March. Gold fell 2.62% on rising yields.

## Performance (price return)

SECURITY	PRICE	WEEK	1 MONTH	3 MONTH	YTD
<b>Equities (\$Local)</b>					
S&P/TSX Composite	18042.07	3.49%	2.29%	9.12%	3.49%
S&P 500	3824.68	1.83%	3.31%	10.96%	1.83%
NASDAQ	13201.98	2.43%	4.92%	15.59%	2.43%
DAX	14049.53	2.41%	5.81%	7.72%	2.41%
NIKKEI 225	28139.03	2.53%	6.32%	19.00%	2.53%
Shanghai Composite	3570.11	2.79%	4.69%	10.94%	2.79%
<b>Fixed Income (Performance in %)</b>					
Canada 10-Year Yield	0.81	0.14	0.07	0.20	0.14
US 10-Year Yield	1.12	0.20	0.20	0.33	0.20
German 10-Year Yield	-0.52	0.05	0.09	0.00	0.05
US High Yield Spread	3.72	-0.08	-0.28	-1.36	-0.08
<b>Commodities (\$USD)</b>					
Oil	52.73	8.68%	15.64%	28.02%	8.68%
Gold	1849.01	-2.62%	-1.15%	-2.37%	-2.60%
Copper	369.35	4.96%	5.71%	21.42%	4.96%
<b>Currencies (\$USD)</b>					
DX	90.07	0.14%	-0.99%	-3.78%	0.14%
Loonie	1.2702	-0.20%	-0.91%	-3.74%	-0.18%
Euro	0.8185	-0.02%	-0.93%	-3.74%	-0.01%
Yen	103.94	0.72%	-0.21%	-1.97%	0.67%

As of January 8, 2021

## Macro developments

### Canada – Manufacturing PMI rises to 10-year high; Employment declines on public health measures

The IHS Market Canada Manufacturing PMI rose to 57.9 in December, from 55.8 in November, the strongest reading since October 2010. Firms saw a sharp expansion in new orders. The increased production contributed to capacity pressures and job creation. Firms reported mounting supply chain pressures related to restrictions to curb COVID-19, and material shortages and higher transportation costs added to inflationary pressures. Looking forward, sentiment improved, with manufacturers remaining optimistic output will improve in 2021.

Employment fell by 63K in December, the first decline since April. The decline was driven by the services sector which fell 74K, impacted by public health measures. The unemployment rate edged up 0.1 percentage point to 8.6%.

### U.S. – FOMC expands on meaning of “substantial further progress”; Nonfarm payrolls fall on renewed restrictions; Factory orders rise

The FOMC minutes show that participants support the current pace of asset purchases. Most favored the current composition, while some were open to weighing purchases toward longer-dated maturities. On the previous wording of continuing asset purchases “until substantial further progress,” “participants commented that this judgment would be broad, qualitative, and not based on specific numerical criteria or thresholds.” Once progress had been attained, “a gradual tapering of purchases could begin and the process thereafter could generally follow a sequence similar to the one implemented during the large-scale purchase program in 2013 and 2014.”

Nonfarm payrolls declined 140K in December, the first monthly decline since April. The deterioration of the labour market reflects the surge in COVID-19 cases resulting from renewed restrictions as the leisure and hospitality industry lost 498K jobs. The losses were partially offset by gains in professional and business services, retail trade, and construction. The unemployment rate was unchanged at 6.7%.

Factory orders rose 1.0% in November, following the 1.3% increase in October. Transportation equipment drove the increase, rising 2.1%.

### International – Japan industrial production unchanged; China PMI remains strong; Eurozone retail sales fall; Germany factory orders and industrial production rise

Japanese industrial production was unchanged in November, following the 4.0% rise in October. Growth was hampered by falling production of consumer goods and the reading suggests that the recent wave of infections is weighing on the recovery.

The Caixin China General Composite PMI fell to 55.8 in December from 57.5. The reading fell from a 10-year high but continues to signal a robust recovery in progress. The Manufacturing PMI fell to 53.0 from 54.9 and the Services PMI fell to 56.3 from 57.8. Output and new business grew at a slower but a continued strong pace. Export growth weakened, likely due to the rising case count in major trade countries. Manufacturers were cautious on hiring, with workforce numbers broadly unchanged, while service providers continued to hire. Costs continued to rise at a substantial pace. Manufacturers reported higher material costs, particularly in metals, while service firms mentioned higher staffing costs. The degree of optimism remains high amid forecasts of stronger economic conditions and the end to the pandemic.

Eurozone retail sales fell 6.1% in November, following the 1.4% increase in October. The decline was attributed to non-food products, which declined 8.6%.

Germany factory orders rose 2.3% in November, following the 3.3% increase in October. Domestic orders increased by 1.6% while foreign orders increased by 2.9%, driven by strong demand from the euro area. By industry, strong growth was seen in chemicals, metals, and electronics. Auto orders fell for the first time since April.

Germany industrial production rose 0.9% in November, following the 3.2% increase in October. Production of energy fell, while construction and manufacturing rose. Within manufacturing, the output of consumer goods fell 1.7%, offset by rises in intermediate and capital goods.

## Quick look ahead

### Canada – Bank of Canada Business Outlook Survey (January 11)

The Bank of Canada Business Outlook Survey for Q4 will be released. The Q3 report showed below average hiring intentions and weak capital expenditure intentions given the uncertainty. Since then, optimism is likely to have improved given the vaccine news. The report will also give an update on consumer demand and financial conditions.

### U.S. – Fed Beige Book and CPI (January 13); Retail sales, industrial production, and Empire Manufacturing (January 15)

The Fed will release an updated Beige Book which will provide a report on the recovery process. Then we have CPI, which is expected to have risen 0.4% in December due to supply chain disruptions and rising gasoline prices.

On Friday we have a slew of releases to watch for. Retail sales may have declined in December as cases surged and renewed restrictions were put in place. The momentum seen in industrial production could continue given the strength of the manufacturing sector. And lastly, the Empire Manufacturing survey will be the first update on the manufacturing sector for the new year.

### International – China CPI (January 10); China exports and ECB minutes (January 14); UK GDP (January 15)

China CPI is expected to be unchanged in December on a year-over-year basis, with falling pork prices expected to be a drag on the reading. Meanwhile, China exports are expected to have expanded 13.0% in December on a year-over-year basis. The PMI surveys that came out last week shows that foreign demand had held up in December.

In Europe, the ECB minutes of the December meeting will be released. Markets will watch for any macroeconomic updates given the new virus strain. The ECB had expanded the Pandemic Emergency Purchase Program by 500B euros, and there may be hints of possible additional monetary responses going forward. The UK GDP reading for November will be released and will reflect the impact of the resurgence. Market consensus is for a fall of 4.6%. Similar to the initial outbreak, the services sector is expected to have been hit hard.

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