

Weekly Market Pulse

Week ending April 30, 2021



Market developments

Equities:

Markets were essentially flat last week. U.S. GDP showed strong growth on recovering consumption but slightly missed expectations. Monetary policy was unchanged by the Fed, who reaffirmed they would hold steady in the face of transitory inflation and said it was not time to begin thinking about tapering. U.S. President Joe Biden announced another massive US\$1.8T education and childcare stimulus package. The expectation is that Biden would look to fund the plan through tax increases on the wealthy. The S&P 500 rose 0.03%. The S&P/TSX Composite rose 0.02%.

Fixed income:

Yields rose higher on President Biden's proposed US\$1.8T stimulus package even as the Fed committed to keeping rates low and policy loose. The U.S. Treasury 10-year yield rose 7 basis point to 1.63%. The Government of Canada 10-year yield rose 3 basis point to 1.55%.

Commodities:

Oil rose 2.32%. Market confidence further increased as OPEC+ announced it would proceed with increasing supply. Copper prices rose 3.30% nearing all-time highs on a combined tight supply and strong demand as economies rebound.

Performance (price return)

SECURITY	PRICE	WEEK	1 MONTH	3 MONTH	YTD
Equities (\$Local)					
S&P/TSX Composite	19108.33	0.03%	2.15%	10.22%	9.61%
S&P 500	4181.17	0.02%	5.62%	12.57%	11.32%
NASDAQ	13962.68	-0.39%	7.03%	6.82%	8.34%
DAX	15135.91	-0.94%	0.85%	12.68%	10.33%
NIKKEI 225	28812.63	-0.72%	-2.11%	4.15%	4.99%
Shanghai Composite	3446.86	-0.79%	-0.28%	-1.04%	-0.75%
Fixed Income (Performance in %)					
Canada 10-Year Yield	1.55	0.03	0.01	0.66	0.87
US 10-Year Yield	1.63	0.07	-0.08	0.56	0.71
German 10-Year Yield	-0.20	0.06	0.08	0.32	0.37
US High Yield Spread	3.28	-0.07	-0.19	-0.50	-0.52
Commodities (\$USD)					
Oil	63.58	2.32%	5.00%	21.80%	31.04%
Gold	1769.13	-0.45%	4.98%	-4.25%	-6.81%
Copper	447.90	3.30%	12.58%	25.96%	27.28%
Currencies (\$USD)					
DXY	91.30	0.48%	-2.14%	0.79%	1.51%
Loonie	1.2287	-1.51%	-2.75%	-3.84%	-3.44%
Euro	0.8320	0.65%	-2.53%	0.98%	1.64%
Yen	109.31	1.33%	-0.95%	4.42%	5.87%

As of April 30, 2021

Macro developments

Canada – GDP expands; Retail sales rise

Real GDP grew 0.4% in February, following the 0.7% rise in January. Service-producing industries rose 0.6%, driven by retail trade, accommodation and food services, and professional services. Meanwhile goods producers posted a contraction of 0.2%, the first since April 2020. Mining, quarrying, and oil and gas extraction declined 2.8%. Manufacturing also contracted 0.9%, dragged lower by transportation equipment manufacturers and related semiconductor shortages. Preliminary data suggest GDP rose 0.9% in March, which would result in Q1 GDP expanding 1.6%.

Retail sales rose 4.8% in February, following the 1.1% decline in January. Clothing sales grew 23.7%, furniture and home furnishings surged 18.0%, gasoline station sales rose 12.3%, and sales at motor vehicles and parts dealers increased 5.0%. StatsCan estimates March retail sales rose a further 2.3% in March.

U.S. – Fed holds the line; GDP rises on strong consumption; Jump in personal income flows through to spending; Durable goods orders rise

Monetary policy was unchanged at the Fed meeting. The Fed recognizes the strengthening economy and says the recent rise in inflation is transitory. The stance shows the central bank is not concerned about inflation running out of control and reinforces the Fed's commitment to average inflation targeting. Chairman Jerome Powell reiterated it was not yet time to begin thinking about tapering and said the Fed would communicate such decisions "well in advance."

Real GDP rose 6.4% annualized in Q1, or 1.6% quarter-over-quarter. Market consensus was 6.7% annualized. Consumption rose 10.7% annualized, driven by a demand rebound for goods, which surged 23.6% compared to services, which increased just 4.6%. Government spending also supported the growth, rising 6.3% annualized. Domestic investment fell 5.0% annualized, dragged by a decline in inventory investment partially offset by higher fixed investment. Net exports also detracted from the headline number, with exports falling and imports rising.

Personal income increased 21.1% in March, driven largely by the distribution of stimulus payments while compensation rose 1.0%. The reading flowed into consumer spending which increased 4.2%, driven largely within goods. The Bureau of Economic Analysis noted that spending for goods in March was 19% above February 2020, while spending for services remained 3% below. Notable service sectors that have yet to recover include recreation, transportation, and accommodation and food services.

Durable goods orders rebounded 0.5% in March, following the 0.9% decline in February. Markets had expected growth of 2.3% on the back of a reversal from a weak February due to weather, but the reading was dragged lower by a decrease in aircrafts. Excluding transportation, orders rose 1.6% on strength from metal products and machinery.

International – Bank of Japan meeting revises growth; China PMI declines; Eurozone GDP falls while CPI rises; Germany ifo sentiment improves

The Bank of Japan (BoJ) made no policy changes at its meeting but did provide updated economic forecasts. Growth expectations were upwardly revised for 2021 and 2022 to 4.0% and 2.4%, and the central bank released its 2023 growth projections rate of 1.3%. The inflation forecast was revised lower to just 0.1% in 2021, rising to 0.8% and 1.0% the following years. The BoJ said it was too early to discuss an exit strategy from the stimulus programs, and the adjustments to a more flexible monetary policy framework at the previous meeting were not made for an exit. The latest inflation forecasts also suggest the BoJ will continue to provide monetary policy support.

The official China Composite PMI fell to 53.8 in April from 55.3 in March. The Manufacturing PMI fell to 51.1 from 51.9 and the Non-manufacturing PMI fell to 54.9 from 56.3. Despite the decline, both readings remain in expansionary territory and suggest that the Chinese economy is normalizing. Manufacturing activity continues to expand at a slower pace, with employment declining in the month. The data continues to show price pressure stemming from raw materials. In the non-manufacturing PMI, construction and services are both indicating solid expansion.

Eurozone GDP fell by 0.6% in Q1 2021, following the 0.7% decline in Q4, as the region struggled to contain COVID variants forcing government lockdowns. GDP in Germany fell 1.7%, 0.5% in Greece, and 0.4% in Italy. On the other hand, the economies of France and Belgium expanded 0.4% and 0.6% respectively.

Eurozone inflation rose 0.6% in April following the 0.9% increase in March, accelerating in the year-over-year reading to 1.6%. In year-over-year terms, energy was by far the largest contributor with prices rising 10.3%. Excluding energy, prices rose just 0.6% for the year.

The Germany Ifo Business Climate Index rose to 96.8 in April from 96.6 in March. Companies said that their current situation had improved, while optimism over the future was lower. Manufacturing and trade sentiment rose, while those in services and construction declined. Manufacturing firms noted high demand and rising capacity utilization but were less optimistic, with 45% of companies reporting supply bottlenecks.

Quick look ahead

Canada – Manufacturing PMI (May 3); Labour force survey (May 5)

We kick off the month with an updated April iteration of the Markit Manufacturing PMI, followed by April employment data. Markets are anticipating a decline of 163K, as coronavirus cases started to accelerate in late March forcing government lockdowns once again.

U.S. – Factory orders (May 4); Nonfarm payrolls (May 7)

Factory orders are expected to have increased 1.4% in March, rolling off the negative impact of the cold weather experienced in February.

The focus of the week will be nonfarm payrolls, where markets are calling for an increase of 975K. The unemployment rate is expected to decline 0.3 of a point to 5.7% as a result. The forecast is in stark contrast to Canada, where expectations are negative, showcasing a recovery on the back of a solid vaccine distribution.

International – South Korea exports (May 2); Bank of England (May 4); China Caixin PMI (May 6); Germany industrial production and China exports (May 7)

South Korea exports are expected to continue strong momentum this year, expected to have surged 47% in April compared to last year. Strong semiconductor demand from major trading partners and a low base should provide a tailwind.

The Bank of England will release revised economic forecasts at their meeting and is expected to revise the numbers higher on stronger activity and solid vaccine distribution. Despite the revisions, policy will likely be kept unchanged, but the forecast could give insight into the timing asset purchase tapering.

Germany industrial production is expected to have gained 2.3% in March, reversing the 1.6% decline in February. The Ifo survey released last week showed sentiment has further improved.

Even with the official China PMIs released last week, the Caixin PMIs will be disseminated by markets as activity looks to be slowing. And lastly, similar to South Korea, China exports should continue their robust growth this year.

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