

Weekly Market Pulse

Week ending April 23, 2021



Market developments

Equities:

Equities fell slightly from all-time highs last week as U.S. President Joe Biden proposed raising the long-term capital gains tax rate. The increase would see the top federal tax rate almost double to 43.4%. Though the change would only affect top earners, the move highlights Biden's shift to focus on taxes. In Canada, equities fared slightly worse as the Bank of Canada announced a further winding down of bond purchases. The S&P 500 fell 0.13% and the S&P/TSX Composite declined 1.29%.

Fixed income:

Yields edged down slightly. Markets will be watching the U.S. Fed and Bank of Japan, both set to meet this week. The focus will be on any hints of forward guidance. The U.S. Treasury 10-year yield fell 2 basis point to 1.56%. The Government of Canada 10-year yield fell 2 basis point to 1.52%.

Commodities:

Copper continued its rally from last week, rising a further 4.03%. Oil prices fell 1.57% as U.S. stockpiles rose, and on news an Indian refinery cut processing rates by 15% as a new wave of COVID-19 hit demand.

Performance (price return)

| SECURITY | PRICE | WEEK | 1 MONTH | 3 MONTH | YTD |
|--|----------|--------|---------|---------|--------|
| Equities (\$Local) | | | | | |
| S&P/TSX Composite | 19102.33 | -1.29% | 2.32% | 7.04% | 9.57% |
| S&P 500 | 4180.17 | -0.13% | 6.90% | 8.82% | 11.29% |
| NASDAQ | 14016.81 | -0.25% | 5.97% | 3.50% | 8.76% |
| DAX | 15279.62 | -1.17% | 4.21% | 10.13% | 11.38% |
| NIKKEI 225 | 29020.63 | -2.23% | 0.09% | 1.36% | 5.74% |
| Shanghai Composite | 3474.17 | 1.39% | 1.84% | -3.68% | 0.03% |
| Fixed Income (Performance in %) | | | | | |
| Canada 10-Year Yield | 1.52 | -0.02 | 0.02 | 0.67 | 0.84 |
| US 10-Year Yield | 1.56 | -0.02 | -0.06 | 0.47 | 0.64 |
| German 10-Year Yield | -0.26 | 0.01 | 0.08 | 0.26 | 0.31 |
| US High Yield Spread | 3.36 | 0.03 | -0.25 | -0.34 | -0.44 |
| Commodities (\$USD) | | | | | |
| Oil | 62.14 | -1.57% | 7.58% | 18.88% | 28.07% |
| Gold | 1777.20 | 0.04% | 2.90% | -4.23% | -6.38% |
| Copper | 433.60 | 4.03% | 6.07% | 19.58% | 23.22% |
| Currencies (\$USD) | | | | | |
| DXY | 90.83 | -0.79% | -1.63% | 0.66% | 1.00% |
| Loonie | 1.2476 | -0.26% | -0.89% | -2.02% | -1.96% |
| Euro | 0.8266 | -0.96% | -2.05% | 0.62% | 0.98% |
| Yen | 107.88 | -0.85% | -0.65% | 3.95% | 4.48% |

As of April 23, 2021

Macro developments

Canada – Bank of Canada begins winding down purchases; Federal budget deficit to decrease; CPI rises on gasoline prices

The Bank of Canada stated it would cut back its bond purchases to \$3B a week from \$4B in recognition of the strengthening economy. Central bank governor Tiff Macklem says economic activity had proven more resilient than expected. 2021 GDP was revised up to 6.5% from a previous 4.0% reading, with 2021 CPI also expected to now reach 2.3% from a previous estimate of 1.6%. Policy rates were left unchanged.

The federal budget introduced \$101.4B of stimulus amounting to 4.2% of GDP over the next three years. Overall, the budget deficit this year is expected to shrink to 6.4% from 16.1%.

CPI rose 0.5% in March, following the 0.5% increase in February. Gasoline led the increase, with prices rising 5.8%. Core CPI, excluding energy and food, rose just 0.1%. Year-over-year, CPI rose 2.2% due to the low base in March last year as the economy was hit by COVID-19. Gasoline prices rose 35.3% over the year, and year-over-year CPI excluding energy increased 1.1%.

U.S. – Markit PMI rises

The IHS Market Flash U.S. Composite PMI rose to 62.2 in April from 59.7 in March. The Services PMI rose to 63.1 from 60.4, while the Manufacturing PMI rose to 60.6 from 59.1. Activity accelerated in the month as businesses reopened. Manufacturers reported production was hampered by difficulties sourcing materials and ongoing supplier delays. Firms reported strong growth in new orders, supported by export growth. The surge in demand resulted in backlogs rising. Employment also increased as firms saw pressures on capacity and the ongoing supply chain disruptions drove input costs higher again. Firms were optimistic, stemming from expectations of loosening restrictions driving future demand.

International – ECB to continue faster pace of purchases; Europe and Japan PMIs rise on solid manufacturing activity; UK unemployment declines

The ECB confirmed market expectations that bond purchases under the Pandemic Emergency Purchase Programme would “continue to be conducted at a significantly higher pace” following an assessment of financing conditions. ECB president Christine Lagarde said it would be premature to discuss phasing out crisis tools, and that the ECB “will purchase flexibly according to market conditions and with a view to preventing a tightening of financing conditions that is inconsistent with countering the downward impact of the pandemic on the projected path of inflation.”

The IHS Markit Flash Eurozone Composite PMI rose to 53.7 in April from 53.2 in March. The Services PMI rose to expansionary territory of 50.3 from 49.6, while the Manufacturing PMI rose to 63.3 from 62.5. Manufacturing continues to lead the recovery, expanding for the tenth straight month. Manufacturers reported strong new orders growth, with backlogs and employment gaining as firms struggle to keep up with demand. Services firms lagged as efforts to contain the virus remains an issue. Nonetheless, many member countries reported their first expansion in months. New orders fell marginally, while employment rose. Both manufacturing and services firms reported input cost inflation accelerating, often linked to supply shortages, and indicated that costs were often passed through to customers. The outlook improved on virus recovery hopes.

The Australian Bureau of Statistics Flash Japan Composite rose to 50.2 in April from 49.9 in March. The Manufacturing PMI rose to 54.2 from 53.3, while the Services PMI was unchanged at 48.3. Manufacturing activity improved. Output and new orders expanded, supported by new export business. Meanwhile services continue to lag. The reading was unchanged, with new business contracting again. Despite subdued demand, services firms added to their workforce albeit at a slower pace. The outlook remains positive, though some firms voiced concerns that the resurgence of the virus could dampen prospects.

The UK unemployment rate fell to 4.9% for the three months ending February, from 5.0% in January. Overall, employment declined by 73K.

Quick look ahead

Canada – Retail sales (April 28); GDP (April 30)

The retail sales reading for February will be released, for which StatsCan had previously estimated a gain of 4.0%. A preliminary estimate for March will also be available, and if it's in line with the U.S., could support a strong reading with encouraging signs of spending in discretionary sectors.

GDP data for February will also be released. The reading will likely show some effect of the temporary lifting of some lockdowns. A preliminary estimate for March will also be provided, as an early indicator of how the economy is faring as parts of the country move back into lockdown.

U.S. – Durable goods orders (April 26); Fed meeting (April 28); GDP (April 29); Personal income and spending (April 30)

Durable good orders for March should have rebounded from February as the harsh weather effects roll off. Market consensus is for an increase of 2.5%.

The Fed meeting will be a key event to watch. Fed chair Jerome Powell has held his position on remaining committed to the central bank's policy stance and has said that it was not time to think about tapering yet. Markets are keen for any hints of the path to policy normalization.

Q1 GDP data will be released. Market consensus is for growth of 6.9% , driven by strong consumer consumption.

Lastly, personal income and spending numbers for March are expected to surge. Personal income may be boosted due to stimulus cheques, and spending is expected to rise as that money is spent.

International – Bank of Japan meeting and Germany ifo survey (April 26); China PMI (April 29); Eurozone CPI and GDP (April 30)

The Bank of Japan had announced some changes to its monetary framework last time around following its policy review. The changes mostly gave the central bank more flexibility, and markets will look for clarity on guidelines.

The April iteration of the Germany ifo survey will give insight on how each sector is faring as the country has extended lockdowns.

Similarly, the official China PMIs for April will shed light on the Chinese economy.

Lastly, a slew of CPI and GDP data for European countries will be available, including France, Germany, and others.

Aviso Wealth Inc. ("Aviso Wealth") is the parent company of Credential Qtrade Securities Inc. ("CQSI"), Credential Asset Management ("CAM"), Qtrade Asset Management ("QAM") and Northwest & Ethical Investments L.P. ("NEI"). NEI Investments is a registered trademark of NEI. Any use by CQSI, CAM, QAM or NEI of an Aviso Wealth trade name or trademark is made with the consent and/or license of Aviso Wealth. Aviso Wealth is a wholly-owned subsidiary of Aviso Wealth Limited Partnership, which in turn is owned 50% by Desjardins Financial Holdings Inc. and 50% by a limited partnership owned by the five Provincial Credit Union Centrals and the CUMIS Group Limited. Mutual funds and other securities are offered through Credential Securities and Qtrade Advisor, a division of Credential Qtrade Securities Inc. Mutual funds are offered through Credential Asset Management Inc. and Qtrade Asset Management (a tradename of Credential Asset Management Inc).

This material is for informational and educational purposes and it is not intended to provide specific advice including, without limitation, investment, financial, tax or similar matters. This document is published by CQSI, CAM and QAM and unless indicated otherwise, all views expressed in this document are those of CQSI, CAM and QAM. The views expressed herein are subject to change without notice as markets change over time.