

# Weekly Market Pulse

Week ending January 29, 2021



## Market developments

### Equities:

Volatility surged last week as equities sold off. The Fed reiterated continued monetary support on the moderating pace of the vaccine rollout. However, the headline last week was Main Street taking the battle to Wall Street. Small investors piled into heavily shorted companies, taking on the opposite side of large hedge funds shorts. This retail craze spurred bouts of volatility in the market. The S&P 500 fell 3.31%. The S&P/TSX Composite fell 2.85%.

### Fixed income:

Yields in Canada rose on a strong GDP reading. In the U.S., yields stayed low with the Fed saying it was too early to discuss tapering asset purchases. The U.S. Treasury 10-year yield fell 2 basis points to 1.07. The Government of Canada 10-year yield rose 4 basis point to 0.89%.

### Commodities:

Copper prices fell 1.93% on a combination of concerns around Chinese demand, as well as the U.S. recovery. Gold and oil prices were unchanged.

## Performance (price return)

SECURITY	PRICE	WEEK	1 MONTH	3 MONTH	YTD
<b>Equities (\$Local)</b>					
S&P/TSX Composite	17337.02	-2.85%	-1.18%	10.63%	-0.55%
S&P 500	3714.24	-3.31%	-0.34%	12.21%	-1.11%
NASDAQ	13070.69	-3.49%	1.72%	16.85%	1.42%
DAX	13432.87	-3.18%	-2.39%	15.82%	-2.08%
NIKKEI 225	27663.39	-3.38%	0.35%	18.56%	0.80%
Shanghai Composite	3483.07	-3.43%	3.08%	6.43%	0.29%
<b>Fixed Income (Performance in %)</b>					
Canada 10-Year Yield	0.89	0.04	0.18	0.26	0.21
US 10-Year Yield	1.07	-0.02	0.13	0.24	0.15
German 10-Year Yield	-0.52	-0.01	0.05	0.12	0.05
US High Yield Spread	3.79	0.09	-0.02	-1.53	-0.01
<b>Commodities (\$USD)</b>					
Oil	52.20	-0.13%	8.75%	44.32%	7.58%
Gold	1847.65	-0.43%	-1.63%	-1.07%	-2.67%
Copper	355.60	-1.93%	0.08%	16.34%	1.05%
<b>Currencies (\$USD)</b>					
DXY	90.53	0.33%	0.60%	-3.64%	0.66%
Loonie	1.2777	0.35%	-0.32%	-4.11%	0.41%
Euro	0.8239	0.29%	0.93%	-3.83%	0.65%
Yen	104.68	0.87%	1.06%	0.07%	1.38%

As of January 29, 2021

## Macro developments

### Canada – GDP expands

Real GDP rose 0.7% in November, following October's 0.4% increase. Output in goods-producing industries rose 1.2% while services increased 0.5%. Total economic activity remains about 3.5% below pre-pandemic levels seen last February. StatsCan estimates that GDP rose 0.3% in December with retail, food services, and wholesale expected to have dragged on the reading. The estimate implies that GDP rose 1.9% in Q4 and overall declined 5.1% for the year.

### U.S. – Fed policy unchanged; GDP rises; Personal income and spending decline

The Fed made no policy changes, as expected, and reiterated its stance on asset purchases until it sees “substantial further progress.” With the path to economic recovery dependant on the vaccine rollout, Chairman Jerome Powell said it was too early to discuss tapering purchases.

Real GDP rose 4.0% in Q4, following the 33.4% rise in Q3. Investments and personal consumption rose, offset by a decline in government spending and net exports. Within consumption, the rise was driven by spending within services, while spending on goods decreased. The reading missed market consensus of 4.2% on weaker consumption. Overall GDP contracted 2.5% for the year.

Personal income rose 0.6% in December, following the 1.3% decline in November. Income rose on high government benefits, reflecting the increase in pandemic unemployment compensation, as well as wages and salaries. Personal spending fell 0.2%, following the 0.7% decline in November. The drop in spending was led by goods, but services also contributed.

### International – ifo Business Climate deteriorates; Germany GDP expands slightly; France GDP contracts

The Germany ifo Business Climate Index fell to 90.1 in January from 92.2. Business conditions fell across the board: manufacturing, services, trade, and construction. The drop comes as the second virus wave has brought the recovery to a halt, leading to deterioration in both the current situation and future expectations.

Germany real GDP expanded 0.1% in Q4. The recovery was slowed by the second coronavirus wave, resulting in another lockdown. Household consumption fell, while strong exports and construction supported the economy. Overall, GDP declined 5.0% for the year.

France real GDP declined 1.3% in Q4. Consumption fell 5.4% with coronavirus restrictions in place for much of the quarter, while business investment and exports rose. GDP for 2020 fell 8.3%.

## Quick look ahead

### Canada – Manufacturing PMI (February 1); Labour force survey (February 5)

This week we will get an update on the manufacturing sector. Then the labour force survey for January will be released, with expectations for another net job loss as lockdowns continue.

### U.S. – Factory orders (February 4); Nonfarm payrolls (February 5)

Factory orders are expected to have continued to rise in December, with market expectations of 0.7% growth as manufacturers have fared comparably well during this crisis.

We will also get an update on the labour market. Nonfarm payrolls are expected to post a slight increase of 58K in January, leaving the unemployment rate unchanged at 6.7%.

### International – China PMI (February 2); Eurozone CPI (February 3); Eurozone retail sales and Bank of England meeting (February 4); Germany factory orders (February 5)

The first data release internationally will be Chinese business activity and sentiment though PMIs. Though well-contained, the country has seen clusters of cases appear.

In Europe, we have a few releases. CPI is expected to have risen 0.4% in January. A large contributor will be the fact that Germany's six-month tax cut is coming to an end. Rising gasoline prices should also contribute.

The Bank of England will likely leave policy unchanged, but will release a revised forecast. The central bank will likely downgrade its near-term outlook as the country continues to fight the coronavirus. There may also be more details on the pace of asset purchases.

Germany factory orders for December are expected to post a decline. The consensus forecast is projecting a fall of 1.5%.

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