

# Weekly Market Pulse

Week ending November 27, 2020



## Market developments

### Equities:

The market rally continues, with a third vaccine candidate showing positive trial results. Market sentiment rose as President Donald Trump said he would relinquish power to president-elect Joe Biden if the Electoral College affirms the win. Fed minutes show that more guidance and tweaks to asset purchases may come, but policy will remain accommodative. The S&P 500 rose 2.27%, ending the week at an all-time high. The Nasdaq also ended at an all-time high, and the Dow Jones Industrial Average touched an all-time high, breaking 30,000 briefly. The S&P/TSX rose 2.22%.

### Fixed income:

Bond yields rose slightly on more optimism. The U.S. Treasury 10-year yield rose a basis point, ending the week at 0.84%. The Government of Canada 10-year yield rose 3 basis points ending the week at 0.68%.

### Commodities:

The reflation trade continues, while gold fell 4.45%. The OPEC+ coalition is in talks to contemplate an extension of production cuts. Oil gained 8.00% and copper gained 3.43%.

## Performance (price return)

SECURITY	PRICE	WEEK	1 MONTH	3 MONTH	YTD
<b>Equities (\$Local)</b>					
S&P/TSX Composite	17396.56	2.22%	8.59%	3.97%	1.95%
S&P 500	3638.35	2.27%	7.30%	4.41%	12.62%
NASDAQ	12205.85	2.96%	6.78%	4.99%	36.03%
DAX	13335.68	1.51%	10.55%	1.83%	0.65%
NIKKEI 225	26644.71	4.38%	13.45%	14.80%	12.63%
Shanghai Composite	3408.31	0.91%	4.73%	1.74%	11.74%
<b>Fixed Income (Performance in %)</b>					
Canada 10-Year Yield	0.68	0.03	0.08	0.01	-1.02
US 10-Year Yield	0.84	0.01	0.07	0.09	-1.08
German 10-Year Yield	-0.59	-0.01	0.03	-0.18	-0.40
US High Yield Spread	4.33	-0.17	-0.83	-0.73	0.40
<b>Commodities (\$USD)</b>					
Oil	45.52	8.00%	15.04%	5.76%	-25.45%
Gold	1787.79	-4.45%	-6.30%	-7.35%	17.83%
Copper	340.40	3.43%	10.04%	14.71%	21.70%
<b>Currencies (\$USD)</b>					
DX	91.78	-0.66%	-1.25%	-1.31%	-4.78%
Loonie	1.2989	-0.81%	-1.49%	-1.06%	-0.01%
Euro	0.8359	-0.90%	-1.42%	-1.18%	-6.28%
Yen	104.09	0.22%	-0.32%	-2.33%	-4.16%

As of November 27, 2020

## Macro developments

### Canada – Small business sentiment muted

Small business sentiment remains muted as the CFIB Business Barometer rose to 55.7 in November from 53.3. On average, firms continue to operate at 70% capacity and the three-month outlook remains low.

### U.S. – Markit PMI rises on vaccine hopes; Durable goods orders increase for sixth month; Consumer income falls while spending rises; FOMC minutes show more guidance to come

The IHS Markit Flash U.S. Composite PMI rose to 57.9 in November from 56.3. The Services PMI increased to 57.7 from 56.9 while the Manufacturing PMI surged to 56.7 from 53.4. Business activity continues to pick up, with the readings indicating the fastest expansion seen in over 5 years. Firms reported rising output and new orders, mostly driven by domestic demand. Growth in the export business lagged. A steep rise was seen in employment, driven by a surge in services, while hiring slowed in manufacturing. The improved demand also allowed firms to raise prices, aiding in offsetting the increase in input costs. Optimism for the year ahead grew on the recent vaccine developments and the end of election uncertainty.

Durable goods orders increased for the sixth consecutive month, rising 1.3% in October. The increases were widespread but highest in computers and fabricated metal products.

Personal income fell 0.7% in October while spending rose 0.5%. The decrease in income was due to a decrease in government benefits, primarily the Lost Wages Supplemental Payments. The compensation portion of incomes rose with an increase in private wages and salaries.

The FOMC minutes show Fed members discussed their asset purchase program. Participants agreed that maintaining an accommodative policy stance was essential to foster economic recovery and to achieve the Fed's long-run 2% inflation objective. But many are in favor of updating their guidance, which suggests that more forward guidance may come in December. One possibility discussed was to extend the average maturity of purchases, following the Bank of Canada's move just weeks prior.

### International – Euro area PMI falls into contraction; Germany ifo survey shows return of pessimism; ECB worries of falling inflation

The IHS Markit Flash Eurozone PMI fell to 45.1 in November from a neutral reading of 50.0. The Manufacturing PMI fell to 55.5 from 58.4, remaining expansionary, while the Services PMI fell to 41.3 from 46.9. The reading signals a sharp downturn in November amid more aggressive restrictions while the broad-based deterioration left services the hardest hit from lockdown measures. Germany was the only country to continue to grow—slightly—with the Composite PMI dropping to 52.0 from 55.0.

The Germany ifo Business Climate Index fell to 90.7 in November from 92.5. Optimism fell as the second wave of the coronavirus hit Germany. Manufacturing was the only sector where conditions improved as incoming orders rose, partially offset by falling expectations. Services, trade, and contraction all fell.

Minutes from the European Central Bank reaffirmed the messaging from the last meeting: the central bank will recalibrate its tools in the upcoming meeting. The central bank observes the economic recovery is losing momentum and inflation expectations are worsening, noting that “35% of all items were currently posting negative growth rates and underlying price pressures were also weak, raising concerns over a lasting impact.”

## Quick look ahead

### Canada – GDP (December 1); Labour force survey (December 4)

Statistics Canada had previously provided a preliminary estimate of a 0.7% gain in September, which, if accurate, would mean that GDP expanded approximately 10% (47% annualized) in Q3. The focus will be on the October estimate when part of Canada went back into lockdown. Job numbers beat expectations in October, but job growth had significantly slowed, and with restrictions becoming more severe, the November labour force survey will also be key to watch. Market consensus calls for a job gain of 20K.

### U.S. – Fed Beige Book (December 2); Jobless claims (December 3); Non-farm payrolls (December 4)

The Fed Beige Book will give more color on the economic conditions in the U.S., followed by labour releases. The first is the weekly jobless claims number, which had risen consecutively for the last two weeks but showed signs of a stalling recovery. The second is November non-farm payrolls. Markets continue to expect the labour market to recover, but at a slower pace. Market consensus is for a gain of 500K, compared to 638K the month prior.

### **International – China PMI, Korea GDP and exports, and Euro area CPI (December 1); Germany factory orders (December 4)**

The China PMI for November is projected to remain in expansionary territory as the manufacturing sector of major trade partners held up amid the second wave. Korea Q3 GDP will be released, with the economy projected to grow 1.9% on a surge in exports. The export reading for November will also be released, projected to post a strong gain of 9.6% year-over-year. Preliminary data had shown that exports remained resilient even as second waves hit.

The ECB minutes last week warned of weak inflation, with 35% of items falling in price. The euro area CPI is expected to fall 0.3% in November. Germany factory orders had recovered strongly, expanding for five straight months, and are expected to post another small gain for October. There is risk that the second wave may have hindered growth, but other indicators have shown the manufacturing sector to have held steady.

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