Weekly Market Pulse

Week ending October 2, 2020

Market developments

Equities:

Stocks managed to finish the week higher in volatile trading despite a mess of a presidential debate, news that Trump tested positive for COVID-19 and weaker than expected economic data. The S&P 500 rose 1.51%, the technology heavy NASDAQ Composite rose 1.48%, and the S&P/TSX rose 0.83%.

Fixed income:

Bond market yields rose in Canada and the U.S. and fell across Europe on weak headline inflation data. The U.S. Treasury 10-year yield rose 4 basis points, ending the week at 0.69%. The Government of Canada 10-year yield also rose 2 basis points ending the week at 0.56%.

Commodities:

Commodities had a mixed week. The U.S. dollar fell 0.85% which helped gold rise 2.08%, however oil continued its decline, falling 8.10% to US$36.99 a barrel, while copper was flat.

Performance (price return)

SECURITY	PRICE	WEEK	1 MONTH	3 MONTH	YTD
Equities ($Local)					
S&P/TSX Composite	16199.25	0.83%	-2.99%	3.69%	-5.06%
S&P 500	3348.42	1.51%	-6.49%	6.98%	3.64%
NASDAQ	11075.02	1.48%	-8.14%	8.50%	23.43%
DAX	12689.04	1.76%	-4.19%	0.64%	-4.23%
NIKKEI 225	23029.90	-0.75%	-0.93%	3.99%	-2.65%
Shanghai Composite	3218.05	-0.04%	-5.48%	4.12%	5.51%
Fixed Income (Performance in %)					
Canada 10-Year Yield	0.56	0.02	0.01	0.00	-1.14
US 10-Year Yield	0.69	0.04	0.05	0.02	-1.22
German 10-Year Yield	-0.54	-0.01	-0.06	-0.11	-0.35
US High Yield Spread	5.40	-0.26	0.40	-0.88	1.47
Commodities ($USD)					
Oil	36.99	-8.10%	-10.89%	-9.00%	-39.42%
Gold	1900.33	2.08%	-2.19%	7.04%	25.25%
Copper	297.55	0.08%	-0.92%	8.85%	6.38%
Currencies ($USD)					
DXY	93.84	-0.85%	1.06%	-3.58%	-2.65%
Loonie	1.3309	-0.58%	2.02%	-1.88%	2.46%
Euro	0.8538	-0.70%	1.22%	-4.04%	-4.27%
Yen	105.39	-0.18%	-0.74%	-1.96%	-2.96%

As of October 2, 2020

Macro developments

Canada – Summer GDP highlights bounce-back in the hardest hit sectors as Ontario and Quebec extend COVID-19 restrictions

Last week Quebec extended its COVID-19 restrictions to include complete closure of restaurants and bars in Montreal and Quebec City for at least four weeks, while Ontario announced Friday tighter restrictions on public gatherings and indoor venues. The extension of restrictions in heavily populated areas has the potential to weigh heavily on activity in the accommodation and entertainment sectors.

Canadian July GDP rose 3.0% month-over-month with sectors that had restrictions lifted during the summer benefiting most. The accommodation and food services sector rose 20% month-over-month and remains 33% lower compared to pre-pandemic levels while the arts, entertainment and recreation sector rose 14% month-over-month, remaining 52% lower compared to pre-pandemic levels. Given the re-introduction of COVID-19 restrictions, these sectors are likely to face renewed pressure in the fourth quarter.

Lastly, the Canadian Markit Manufacturing PMI for September increased to 56.0 from 55.1 in August, the highest reading since August 2018 and the third consecutive month of expansion. Both output and new orders components rose during the month showing some resilience in the manufacturing sector.

U.S. – President Trump tests positive for COVID-19; stimulus package at standstill as economic data disappoints

Early Friday President Trump announced that both he and the First Lady had tested positive for COVID-19, adding to an already uncertain political environment. The president is reported to be experiencing mild symptoms and Chief of Staff Mark Meadows told reporters that Trump “will remain on the job.” The US$2.2 trillion stimulus bill passed the House with no Republican support and remained on life support as Speaker Nancy Pelosi negotiates with Treasury Secretary Steven Mnuchin to determine where to go next.

With stimulus payments in the U.S. coming to an end in late July, August personal income data showed personal income fell 2.7% month-over-month. The drop in unemployment benefit payments outpaced an increase in wages, which rose 1.3% month-over-month in August matching the July increase. Total personal spending increased 1.0% month-over-month, and the fall personal income is expected to weigh on growth until Congress agrees on a stimulus extension.

The U.S. added 661,000 jobs in September falling short of expectations. The weakness in job growth was partly due to a drop in government education employment as the new school year has shifted online. The continued slowing in job growth indicates the economic recovery is entering a weaker phase than the summer. Lastly, the ISM manufacturing survey dropped to 55.4 in September from 56.0 in August, which was at odds with the improvement in most of the regional surveys.

International – European inflation hits new lows; China’s industry shows strength while Japanese companies still downbeat on business conditions

Headline inflation across the euro area turned negative in September for the first time since mid-2016, falling 0.3% year-over-year, while the core inflation rate hit a record low of 0.2% year-over-year. The weakness in inflation was driven by the German VAT cut, delayed summer sales and the significant drop in the tourism sector. Falling inflation puts pressure on the European Central Bank to take more policy action especially as the Federal Reserve has adjusted its framework to let inflation run longer.

In China, the official Manufacturing PMI rose to 51.5 in September with new export orders moving above the 50.0 expansionary level to 50.8—a good sign for global growth. The non-manufacturing survey hit 55.9, the highest level since 2013 with the employment competent improving.

Lastly, the Bank of Japan third quarter Tankan survey showed sentiment improving; however, the views on business conditions remain negative. A bounce in exports has helped production although the improvement has been less than expected. The large manufacturer sentiment index rose to -27 from -34 in 2Q, less than the consensus expectation of -24 and the first rise after 6 quarters of declines. The non-manufacturing index rose to -12 from -17 in Q2, less than the consensus expectation of -9. Large companies across Japan expect a 1.4% increase in capex spending in 2020, lower than the 3.2% projection in 2Q.

Quick look ahead

Canada – International Merchandise Trade (October 6); Housing starts (October 8); Net Change in Employment (October 9)

This week we get international merchandise trade for August which is expected to fall to -$2.50 billion from -$2.45 billion in July, worsening Canada's trade position. Housing starts are released Thursday with expectations of 245.0K units on an annualized basis for September, down from 262.4K in August. On Friday we get the net change in employment for September, with expectations of a 152.5K rise helped by a boost from the re-opening of schools and people returning to their offices. The monthly pace of employment gains has slowed from 950K in June to 245K in August.

U.S. – Markit Service PMI and ISM Services (October 5); Trade Balance (October 6); FOMC minutes (October 7)

The focus this week will be on the president's health and its implications for the stimulus bill, Supreme Court nomination and the election. The Markit Services PMI is expected to stay flat at 54.6 and ISM Services survey is expected to fall from 56.9 in August to 56.2 September, but both surveys remain above the 50.0 level and in expansionary territory. The trade balance on Tuesday is expected to worsen to -$66.1 billion in August from -$63.6 billion in July as the advanced goods trade report showed imports outpacing exports. Lastly, the FOMC minutes will be closely scrutinized for how long Fed officials will allow inflation to rise above the 2.0% level.

International – Eurozone Retail Sales (October 5); Germany Factory orders (October 6); Germany Industrial Production (October 7)

Retail sales in the eurozone are expected to turn positive in August, rising 2.5% from a 1.3% fall in July. The national data which has already been published for Germany, France and the Netherland show that sales rose in August. Germany factory orders are expected to rise slightly to 2.9% in August while German industrial production is expected to rise 1.8% in August from 1.2% in July. Previous business surveys across Germany suggest the manufacturing recovery will continue in August.