glc asset management

Weekly Market Snapshot

For the week ending September 4, 2020

Equities

Local currency, price only, % change

	9/4/2020	Week	QTD	YTD	1 Year
S&P/TSX Composite	16,240	-2.8%	4.7%	-4.8%	-1.3%
S&P/TSX Small Cap	549	-2.7%	9.2%	-7.7%	-6.2%
S&P 500	3,434	-2.1%	10.8%	6.3%	16.9%
NASDAQ	11,313	-3.3%	12.5%	26.1%	41.8%
Russell 2000	1,537	-2.6%	6.6%	-7.9%	3.5%
UK FTSE 100	5,799	-2.8%	-6.0%	-23.1%	-20.7%
Euro Stoxx 50	3,261	-1.7%	0.8%	-12.9%	-5.5%
Nikkei 225	23,205	1.4%	4.1%	-1.9%	12.4%
MSCI EM (USD)	1,109	-1.1%	11.4%	-0.5%	11.9%

Fixed income

Total return, % change

	9/4/2020	Week	QTD	YTD	1 Year
FTSE Canada Universe Bond Index	1,220	1.1%	1.0%	8.6%	6.5%
FTSE Canada All Corporate Bond Index	1,381	0.9%	2.0%	7.5%	6.9%

Interest rates – Canada

Change in bps

	9/4/2020	Week	QTD	YTD	1 Year
3-month T-bill	0.14	-1	-6	-152	-148
GOC bonds 2 yr	0.27	0	-1	-142	-106
GOC bonds 10 yr	0.59	-4	7	-111	-54
GOC bonds 30 yr	1.10	-9	11	-66	-31

Currencies and Commodities

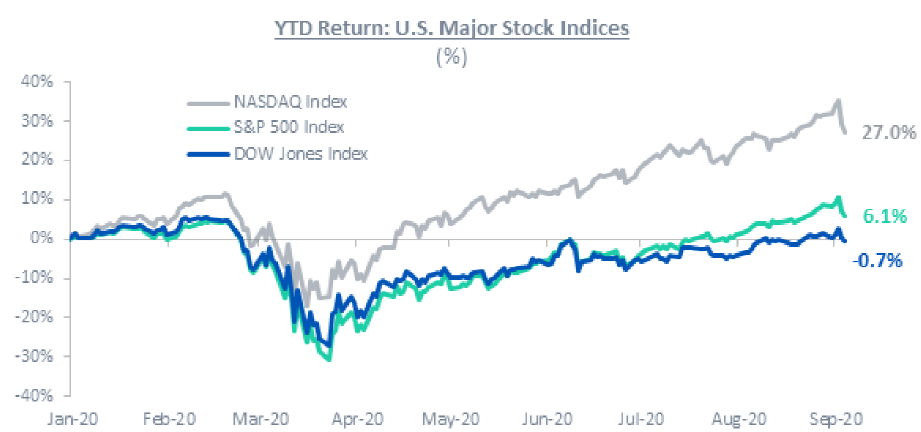
In USD, % change

	9/4/2020	Week	QTD	YTD	1 Year
CDN $	0.766	0.3%	4.0%	-0.5%	1.3%
US Dollar Index	92.78	0.4%	-4.7%	-3.7%	-5.8%
Oil (West Texas)	39.77	-7.4%	1.3%	-34.9%	-29.3%
Natural Gas	2.58	-2.8%	36.9%	10.1%	8.1%
Gold	1,934	-1.6%	8.6%	27.5%	24.6%
Copper	3.08	1.9%	12.2%	8.9%	16.7%

Canadian sector performance

	Week	YTD
Energy	-4.3%	-32.0%
Materials	-2.1%	25.6%
Industrials	-2.6%	3.7%
Cons. Disc.	-2.3%	-6.0%
Info Tech	-5.5%	60.7%
Health Care	-3.8%	-37.5%
Financials	-3.0%	-14.0%
Cons. Staples	-0.4%	3.3%
Comm. Services	-1.6%	-9.0%
Utilities	-0.7%	-0.1%
Real Estate	-2.6%	-20.8%

Chart of the week: Markets Tripped Up by Tech



The Information Technology sector led the markets lower. The percentage of tech exposure dictated the extent of the selloff: the NASDAQ at a hefty 48% tech weight was off the most; the S&P 500 next at 29%; and, the Dow Jones Industrials (Dow) at 24% off the least. The week started off with a bang for tech and new economy stocks when Monday, Aug. 31, saw trading in Apple and Tesla spike after both companies executed stock splits. Typical post-split enthusiasm saw USD $200 billion added to the market value for the two giants before the stocks hit a wall. By the end of the week, shares of Apple were down 9.9% from their earlier week record and shares of Tesla had fallen as much as 22% in four days. Tesla is not (yet) in the S&P 500, nor in the Dow, but the Dow is seemingly trying to add more tech exposure as it made significant changes on Aug. 31 (not surprising, given the outperformance of tech even considering the week's mild pullback). The Dow replaced Pfizer, Raytheon Technologies and ExxonMobil (the oldest current member of the index, having joined in 1928) with Salesforce, Amgen and Honeywell. However, because the Dow is a stock-price-weighted index, Apple's four-to-one stock split works to reduce the Dow's weighting in tech stocks, with the addition of Salesforce bringing it back up slightly.

Highlights

Global equity markets ended the week down modestly, a late-day rally on Friday masked a larger selloff through mid-week. Few catalysts from the economic or corporate world existed to spark the selloff as economic data (employment and PMIs in particular) was solid. A checkback was overdue as markets had run hard and fast through August. The Nasdaq 100 had just come off its most relentless run since the dot-com era and (prior to the selloff) was sitting 28% above its 200-day moving average – a level not seen since mid-2000. The S&P 500 was down on only five days in August. Most sectors were weak, but tech bore the brunt of it. Encouragingly, the pockets of relative strength were in areas most exposed to the broader economy, such as banks (the S&P 500 banks sub-index rose 0.89%) and shares of companies most beaten up by COVID. Airlines, hotels/resorts and cruise lines all rose, suggesting the overall damage was more linked to the tech sector's frothiness.

The volatility was also likely induced by some profit-takers piling on at the first whiff of weakness; weakness that may have been triggered by activity in the options market. Data by the CBOE Options Exchange shows that U.S. equity call-options volume has risen 68% this year, with much of the activity being tiny lot sizes associated with individual retail traders. However, reports abound that Japanese investment behemoth Softbank has also been active, buying options tied to around $50 billion worth of individual tech stocks. The booming demand for call options forces options dealers to recalibrate their books, hedging the positions by buying the underlying stocks. These trades create a 'snowball' effect; however, the problem is the same thing can happen on the downside.

All in all, the week's market action reminded some that while stock prices over the long run have an upward bias, in the short term, two-way price action is healthy. Perhaps others learned an important lesson about the nature of the options market. For us, it offers a glimmer of hope that an important rotation of leadership away from high flying tech names to a broader swath of the market is possible, a healthy development we would welcome.

The week in review

- Canadian employment (Aug.) added 246,000 jobs (versus +250,000 expected), still leaving employment 5.7% below pre-pandemic levels. The unemployment rate fell -0.7% to 10.2%, while the participation rate crept up +0.3% to 64.6%.
- Canada merchandise trade deficit (July) widened to $2.5 billion (versus $1.6 billion expected) from a downwardly revised $1.6 billion in the prior month. Exports jumped +11.1% m/m based on a sharp recovery in oil and autos, while imports rose +12.7% m/m. Notably, total trade volumes are just 4% shy of the pre-pandemic level.
- U.S. non-farm payrolls (Aug.) rose 1.37 million (versus 1.35 million expected), marking four straight months of gains. The jobless rate dropped -1.8% to 8.4% (versus 9.8% expected); however, permanent layoffs jumped 534,000 to 3.4 million, which is up 2.1 million since February, showing that some industries (especially hospitality) continue to struggle.
- U.S. weekly initial jobless claims (as at Aug. 29) fell 130,000 to 881,000, breaking under the one million mark once again, while weekly continuing claims (as at Aug. 21) dropped 1.2 million to 13.3 million.
- The U.S. goods trade deficit (July) swelled to $63.6 billion (versus $58.0 billion expected), its widest in 12 years. Imports rose +10.9% relative to an +8.1% gain in exports.
- Eurozone economic data is hinting at a slowdown in the strong rebound of the last few months. Eurozone retail sales (July) disappointed, falling -1.3% m/m (versus +1.0% expected), the jobless rate (July) rose +0.2% to 7.9% and consumer prices (August) fell -0.4% m/m, dragging the annual rate negative for the first time in four years to -0.2% y/y from +0.4% prior.
- Japanese economic data showed signs of a rebound in activity, but soft consumer sentiment lingers. On the bright side, industrial production (July) jumped +8.0% m/m (versus +5.0% expected), as the hard-hit auto industry rebounded strongly. However, retail sales (July) fell -3.3% m/m, following last month's +13.1% rebound and consumer confidence (Aug.) declined once again, dipping to 29.3 pts.
- Purchasing Managers Index (PMI) recap (Aug.): Canadian Markit manufacturing jumped 2.2 pts to 55.1; U.S. Markit manufacturing slipped 0.5 pts to 53.1, services fell 1.2 pts to 56.6; U.S. ISM manufacturing accelerated 1.8 pts to 56.0; Eurozone Markit manufacturing held steady at 51.7, services rose 0.4 pts to 50.5; U.K. Markit manufacturing inched down 0.1 pts to 55.2, services fell 1.3 pts to 58.8; Japan Jibun manufacturing rose 0.6 pts to 47.2, services remained at 45.0; and, China Caixin manufacturing edged up 0.3 pts to 53.1, services inched downwards 0.1 pts to 54.0.

The week ahead

- Canadian and European monetary policy announcements
- Canadian housing and national accounts data
- U.S. and Chinese inflation data
- Eurozone industrial production
- Eurozone and Japanese GDP data
- Chinese trade, money supply and financing data
- 2 S&P 500 companies and 6 S&P/TSX companies report earnings