Equities

Local currency, price only, % change

	10/9/2020	Week	QTD	YTD	1 Year
S&P/TSX Composite	16,563	2.2%	2.7%	-2.9%	1.1%
S&P/TSX Small Cap	559	4.5%	4.8%	-6.1%	2.1%
S&P 500	3,477	3.8%	3.4%	7.6%	19.1%
NASDAQ	11,580	4.6%	3.7%	29.1%	46.5%
Russell 2000	1,638	6.4%	8.6%	-1.9%	10.7%
UK FTSE 100	6,017	1.9%	2.6%	-20.2%	-16.0%
Euro Stoxx 50	3,273	2.6%	2.5%	-12.6%	-5.5%
Nikkei 225	23,620	2.6%	1.9%	-0.2%	10.1%
MSCI EM (USD)	1,123	3.8%	3.7%	0.7%	13.0%

Fixed income

Total return, % change

	10/9/2020	Week	QTD	YTD	1 Year
FTSE Canada Universe Bond Index	1,209	-0.4%	-0.4%	7.6%	6.4%
FTSE Canada All Corporate Bond Index	1,368	-0.3%	-0.3%	6.5%	6.4%

Interest rates – Canada

Change in bps

	10/9/2020	Week	QTD	YTD	1 Year
3-month T-bill	0.09	-3	-3	-157	-154
GOC bonds 2 yr	0.26	2	2	-143	-121
GOC bonds 10 yr	0.63	6	7	-107	-68
GOC bonds 30 yr	1.23	11	12	-53	-28

Currencies and Commodities

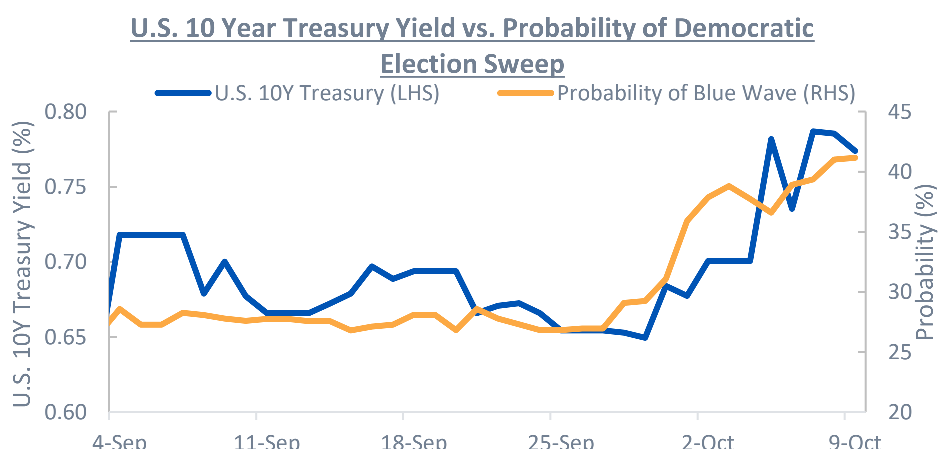
In USD, % change

	10/9/2020	Week	QTD	YTD	1 Year
CDN $	0.763	1.5%	1.6%	-0.9%	1.7%
US Dollar Index	93.06	-0.8%	-0.9%	-3.5%	-6.1%
Oil (West Texas)	40.60	9.6%	0.9%	-33.5%	-22.8%
Natural Gas	2.74	12.4%	8.5%	12.9%	13.0%
Gold	1,930	1.6%	2.4%	27.2%	28.2%
Copper	3.08	3.5%	1.6%	9.1%	18.3%

Canadian sector performance

	Week	YTD
Energy	4.2%	-36.9%
Materials	2.1%	27.0%
Industrials	2.3%	10.7%
Cons. Disc.	5.0%	1.4%
Info Tech	3.2%	74.4%
Health Care	13.6%	-33.8%
Financials	1.7%	-13.4%
Cons. Staples	-0.8%	8.0%
Comm. Services	0.3%	-9.5%
Utilities	0.9%	8.0%
Real Estate	0.9%	-17.9%

Chart of the week: Bond Yields Rise with Increasing Odds of a ‘Blue Wave’



Capital markets are positioning for the rising probability that the Democrats take control of the White House and both sides of Congress (a ‘Blue Wave’). U.S. government bond yields have been tracking the odds of a ‘Blue Wave’ for about a month. With ‘Blue Wave’ odds rising, the 10-year Treasury yield is flirting with a four-month high. A ‘Blue Wave’ means more fiscal spending, which means more government borrowing and likely higher inflation – two things that should send bond yields higher. Rising yields are a headache for bond investors, but if yields settle out at some higher (but still historically low) level, it will mean a little more income for investors. On the other hand, rising yields (and the attendant steepening of the yield curve) are positive signs for the recovery and can relieve some of the pressure off financials, which can be part of an equity sector rotation that can serve as a source of support for equity markets.

Highlights

Global equity markets jumped higher amid gains for a broad array of risk assets, while sovereign bond yields rose to test their highest levels in four months. U.S. equities led the charge with the S&P 500, NASDAQ and Russell 2000 posting their best one-week gains since at least early July. All sectors rose, and gains in the U.S. market were very broad-based (the equal-weighted version of the S&P 500 outperformed the cap-weighted). One can be forgiven for wondering how risk assets can move so meaningfully higher amidst the long list of global concerns: COVID-19 daily case counts are breaking records in the U.S. (including within the White House), Canada and many other parts of the world; Brexit talks are falling apart; remaining confusion and political wrangling over further U.S. fiscal spending (and central bankers warning of 'tragic' outcomes if politicians fail to act); the U.S. election less than a month away; the U.S. President tweeting about how he will make China "pay a big price for what they've done to the world"; and, the U.S. government releasing a scathing report claiming the market-darling "Big Tech" firms are ripe for breakup on anti-competitive/anti-trust concerns. All of it adds up to equity markets climbing the proverbial "wall of worry" (as they often do) by seeing through much of these concerns and seeking to focus on the silver lining.

In that silver lining lies hope for the eventual arrival of U.S. fiscal stimulus. It's a reasonable expectation and markets are adopting a 'we've seen this movie before' attitude toward the President's 'on again/off again' tweets regarding a deal. It's almost a prerequisite that the President would take to threatening on Twitter before any deal is reached. If no deal emerges before the election, and the Republicans win, stimulus will flow anyway; if the Democrats win in a 'Blue Wave' (the odds of which are climbing), even more money will flow. Risk assets are also benefitting from the rising odds of a decisive Democratic victory on November 3 simply because that diminishes the perceived worst-case scenario of a prolonged contested election outcome.

A Biden 'Blue Wave' was thought to be a negative for equities. However, the clouds that envelop the silver lining may not be as bad as initially feared. While taxes, the minimum wage and regulations would be expected to go up, significant offset would arise due to a large increase in government spending, easing trade tensions and a likely weakening of the U.S. dollar. Signs of these appeared in capital markets this week: the U.S. dollar weakened and has now reversed all of its September strength; the Chinese yuan jumped to its highest level since April of 2019; and, emerging market equities posted solid performance. Yet the S&P 500 will still need to reconcile some of the negatives. For example, it's estimated that the Trump tax cuts added $30 to S&P 500 earnings per share (EPS); Biden's tax plan, if enacted as stated today, is estimated to trim $13 to $16 off S&P 500 EPS. At earnings multiples in the low 20Xs, this is equivalent to 300 to 350 points of the S&P 500 index, or roughly 8 to 10%. The fiscal spending and weaker U.S. dollar would add back to EPS, to the extent that a mid-single-digit impact is more plausible. The S&P 500 is now down only 3% from its Sept. 2 peak; perhaps markets have embraced too much of the silver lining and not enough of the clouds? For more of our thoughts on the U.S. election, check out our latest ***GLC Insights: Don't let politics "Trump" your investment plan***.

The week in review

- Canadian employment (Sept.) blew past expectations, increasing 378,200 (versus +150,000 expected) and accelerating from last month's 245,800 gain. The unemployment rate plunged 1.2% to 9.0%, while the participation rate rose 0.6% to 65%. Most of the gains were from full-time jobs and the large increase can be attributable to schools reopening. Canada has now recovered over 75% of the 3 million jobs lost at the beginning of the pandemic.
- Canada merchandise trade deficit (Aug.) narrowed to $2.45 billion (versus $2.05 billion expected) from an upwardly revised $2.5 billion in the prior month. Exports and imports both dipped 1% m/m.
- The U.S. goods trade deficit (Aug.) widened to $67.1 billion (versus $66.2 billion expected) from a downwardly revised $63.4 billion in the prior month. This is the largest deficit since 2006 amid a 3.2% pick up in imports (stocking up for seasonal holiday shopping), outweighing the 2.2% increase in exports.
- Eurozone retail sales (Aug.) popped 4.4% m/m (versus 2.5% expected), as pent-up demand and higher savings boosted consumption.
- U.K. real GDP (Aug.) decelerated to 2.1% m/m (versus +4.6% expected), as the nation's economic recovery stalled alongside mounting COVID-19 cases. Output remains ~10% lower than before the lockdown. Adding to the headwinds, Brexit negotiations seemed to have soured, with the U.K. threatening to pull out of trade talks, barring further clarity after the Oct. 15 E.U. Summit.
- Purchasing Managers Index (PMI) recap (Sept.): Canadian Ivey Index plummeted 13.5 pts to 54.3; U.S. ISM Services rose 0.9 pts to 57.8, U.S. Markit services held steady at 54.6; Eurozone Markit services was revised 0.4 pts higher to 48.0; U.K. Markit services was revised 1.0 pts higher to 56.1; Japan Jibun services slipped was revised 1.3 pts higher to 46.9; and, Chinese Caixin Services rose 0.8 pts to 54.8.

The week ahead

- Canadian housing data
- U.S., Eurozone and Chinese inflation data
- U.S. retail sales
- U.S., E.U. and Japanese industrial production
- European Union Summit (with Brexit implications)
- Eurozone employment and trade data
- Chinese financing and money supply data
- Q3 earnings season kicks off with 30 S&P 500 and 2 S&P/TSX companies