



Equities

Local currency, price only, % change

	8/28/2020	Week	QTD	YTD	1 Year
S&P/TSX Composite	16,706	1.1%	7.7%	-2.1%	2.7%
S&P/TSX Small Cap	565	1.2%	12.2%	-5.2%	-2.8%
S&P 500	3,508	3.3%	13.2%	8.6%	21.5%
NASDAQ	11,696	3.4%	16.3%	30.3%	48.9%
Russell 2000	1,578	1.7%	9.5%	-5.4%	7.2%
UK FTSE 100	5,964	-0.6%	-3.3%	-20.9%	-16.2%
Euro Stoxx 50	3,316	1.7%	2.5%	-11.5%	-1.5%
Nikkei 225	22,883	-0.2%	2.7%	-3.3%	11.7%
MSCI EM (USD)	1,122	2.7%	12.7%	0.6%	16.2%

Fixed income

Total return, % change

	8/28/2020	Week	QTD	YTD	1 Year
FTSE Canada Universe Bond Index	1,207	-0.7%	-0.1%	7.4%	5.2%
FTSE Canada All Corporate Bond Index	1,369	-0.5%	1.1%	6.6%	5.8%

Interest rates – Canada

Change in bps

	8/28/2020	Week	QTD	YTD	1 Year
3-month T-bill	0.15	0	-5	-151	-147
GOC bonds 2 yr	0.28	0	-1	-142	-105
GOC bonds 10 yr	0.63	9	11	-107	-49
GOC bonds 30 yr	1.19	13	21	-57	-18

Currencies and Commodities

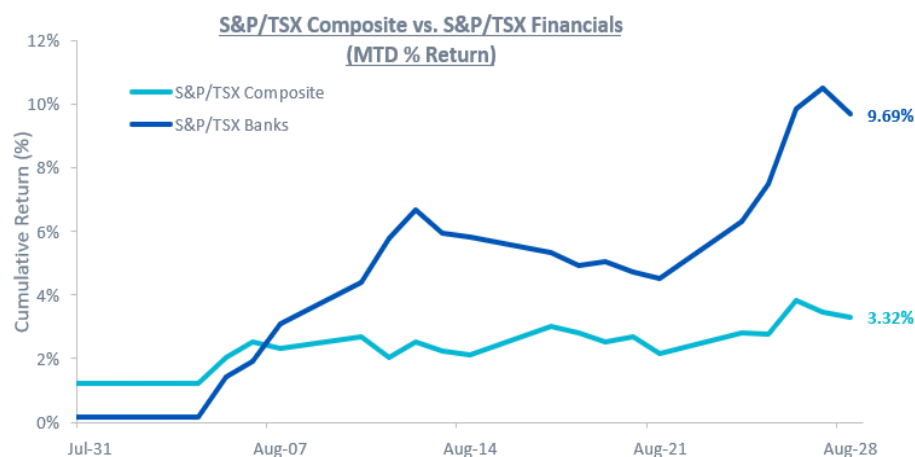
In USD, % change

	8/28/2020	Week	QTD	YTD	1 Year
CDN \$	0.763	0.6%	3.6%	-0.8%	1.6%
US Dollar Index	92.37	-0.9%	-5.2%	-4.2%	-5.9%
Oil (West Texas)	42.97	1.8%	9.4%	-29.6%	-23.0%
Natural Gas	2.66	3.3%	40.8%	13.3%	12.0%
Gold	1,965	1.3%	10.3%	29.5%	27.7%
Copper	3.02	2.9%	10.1%	6.9%	15.8%

Canadian sector performance

	Week	YTD
Energy	-0.5%	-28.9%
Materials	1.2%	28.3%
Industrials	0.0%	6.5%
Cons. Disc.	1.5%	-3.8%
Info Tech	1.1%	70.1%
Health Care	2.3%	-35.0%
Financials	3.8%	-11.3%
Cons. Staples	-3.2%	3.7%
Comm. Services	-0.5%	-7.5%
Utilities	-1.6%	0.6%
Real Estate	0.2%	-18.6%

Chart of the week: Shares of Canadian Banks Surge on Earnings Beats



Five of the six big banks reported better-than-expected earnings, powering the S&P/TSX Banks Index higher by 5% on the week. Originally back in Q2, massive loan loss provisioning cast a gloomy outlook for banks. However, the third quarter saw banks post record profits from their wealth management and capital markets divisions, as the banks benefitted from increased equity and FICC* trading volumes, as well as investment banking fees. These segments, alongside falling credit loss provisions, helped soften the economic impact of the pandemic – a pleasant surprise given many analysts had loan loss provisions peaking this quarter. While loan loss provisions remain at elevated levels and ate into overall profit from the core personal and commercial banking business, the overall results provide a less negative outlook for the banks. Headwinds do remain – lower-for-longer bond yields and interest rates, mixed economic signals and pandemic-driven uncertainty.

*Fixed income, currencies and commodities.

Highlights

Global equity markets rose on the week. The S&P 500 strung together a fifth straight week of gains amid declining COVID-19 cases in the U.S., positive news surrounded vaccine developments, Germany and France boosted fiscal stimulus spending and, most importantly, the Fed reaffirmed its dovish stance. Equity markets responded positively to the Fed's remarks (which was curious as the change was previously well telegraphed), and investors adjusted to an environment that most likely locks in zero-bound interest rates for longer. In North America, financials and technology stocks outperformed. The Fed announcement sent bond yields higher: U.S. and Canadian 10-year yields reached their highest levels since early June and the 10s-2s yield curve steepened to levels not seen since the same time. U.S. dollar weakness saw the loonie crest USD 76¢ for the first time since January.

At the U.S. Federal Reserve's (Fed) Jackson Hole Symposium, Chairman Powell announced a new approach to setting U.S. monetary policy. The Fed will allow inflation to go above its current target if the labour market and the broader economy remain weak. The change comes after the Fed's year-long review of its inflation targeting strategy and was motivated by the Fed's persistent undershooting of its 2% inflation target. The Fed will now aim for an average 2% inflation rate over time as opposed to simply reaching 2%. The Fed made it abundantly clear that, in practice, this means that "following periods when inflation has been running below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time." Powell did not, however, provide a specific timeframe for how the average would be calculated. The Fed also adjusted its approach to the labour market, whereby it will start focusing exclusively on shortfalls from full employment rather than deviations. This suggests the labour market can only be a reason to ease policy; previously there was two-way treatment where policy would be tightened if unemployment was deemed to be too low. The practical implications of all these moves are to allow both inflation and the labour market to run hotter. Conversely in Canada, newly appointed Bank of Canada Governor, Tiff Macklem, reinforced the importance of anchoring inflation expectations to their target, ensuring real interest rates can be lowered if necessary.

History suggests we'll be in this environment for quite some time. It took almost seven years for the Fed to begin normalizing after the Great Financial Crisis, while rates were pegged to zero for over a decade during the Great Depression. The concern is the effectiveness of monetary policy to influence inflation. When one looks at the failure of Europe or Japan to reach their inflation targets, and even the Fed's inability to reach theirs, it begs the question of whether a relationship exists. Other issues to consider are the implications of an uncertain and higher inflation target. New targets invariably send mixed signals to the bond market and, in turn, pushes investors further out the risk spectrum. With a dislocation between the real economy and financial asset prices already existing, a more dovish Fed will only amplify this predicament. All things considered, we continue to see equities as expensive and priced for perfection, leaving them fragile. We continue to recommend investors remain well balanced.

The week in review

- Canadian real GDP (Q2) plummeted -38.7% (quarterly annualized), the steepest drop on record. Slightly better than initially estimated, the majority of the weakness occurred in the first half of the period. Preliminary GDP estimates for Q3 bring some optimism, as the economy looks to have rebounded +6.5% m/m in June (versus +5.8% expected) and +3.0% m/m in July.
- The Bloomberg Nanos Canadian Confidence Index (Aug.) continued its climb higher, rising 1.1 pts to 52.8.
- Canadian current account deficit (Q2) narrowed \$2.5 billion to \$8.6 billion (versus \$12.2 billion expected), while the goods trade deficit shrank a lesser \$1.0 billion to \$7.7 billion. A record \$33.2 billion drop in exports weighed on trade. Large declines in autos and energy were noteworthy reasons for the fall.
- U.S. personal spending (July) decelerated to +1.9% m/m (versus +1.6% expected) following last month's upwardly revised +6.2% jump. Meanwhile, personal incomes crept up +0.4% m/m (versus -0.2% expected). The core PCE deflator, the Federal Reserve's preferred inflation measure, rose to +1.3% y/y, still far from the Fed's new average 2% inflation targeting strategy.
- U.S. durable goods orders (July) smashed expectations, spiking +11.2% m/m (versus +4.8% expected). A 77% spike in defence aircraft was the main contributor. Core orders (non-defense capital goods orders, excluding aircraft) rose +1.9% m/m (in line with expectations) following an upwardly revised +4.3% advance in the prior month.
- The U.S. goods trade deficit (July) widened to \$79.3 billion (versus \$72 billion expected) from an upwardly revised \$71.0 billion in the prior month. Imports fell further relative to exports, hinting at a more muted rebound in Q3 GDP.
- U.S. weekly initial jobless claims (as at Aug. 22) fell 98,000 to 1 million, while weekly continuing claims (as at Aug. 15) dropped 223,000 to 14.5 million.
- The U.S. Conference Board's Consumer Confidence Survey continued to decline, down 6.9 pts to 84.8. The University of Michigan Consumer Sentiment Index (Aug.) was revised up 1.3 pts to 74.1 (versus 72.8 expected).

The week ahead

- Canadian, U.S., Eurozone and Japanese employment data
- Canadian and U.S. trade data
- The U.S. Federal Reserve's Beige Book Survey
- Eurozone inflation data
- Eurozone and Japanese retail sales data
- Japanese industrial production and consumer confidence
- Global Purchasing Manager Indices
- 7 S&P 500 companies and 3 S&P/TSX companies report earnings

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