Equities
Local currency, price only, % change

	11/13/2020	Week	QTD	YTD	1 Year
S&P/TSX Composite	16,676	2.4%	3.4%	-2.3%	-1.7%
S&P/TSX Small Cap	582	2.9%	9.1%	-2.3%	4.5%
S&P 500	3,585	2.2%	6.6%	11.0%	15.9%
NASDAQ	11,829	-0.6%	5.9%	31.8%	39.5%
Russell 2000	1,744	6.1%	15.7%	4.5%	9.7%
UK FTSE 100	6,316	6.9%	7.7%	-16.3%	-14.1%
Euro Stoxx 50	3,432	7.1%	7.5%	-8.4%	-7.2%
Nikkei 225	25,386	4.4%	9.5%	7.3%	8.9%
MSCI EM (USD)	1,188	1.0%	9.8%	6.6%	13.8%

Fixed income
Total return, % change

	11/13/2020	Week	QTD	YTD	1 Year
FTSE Canada Universe Bond Index	1,206	-0.2%	-0.6%	7.3%	7.2%
FTSE Canada All Corporate Bond Index	1,372	0.1%	0.0%	6.8%	7.4%

Interest rates – Canada
Change in bps

	11/13/2020	Week	QTD	YTD	1 Year
3-month T-bill	0.11	2	-1	-155	-155
GOC bonds 2 yr	0.27	2	3	-142	-130
GOC bonds 10 yr	0.73	8	17	-97	-83
GOC bonds 30 yr	1.27	5	17	-49	-43

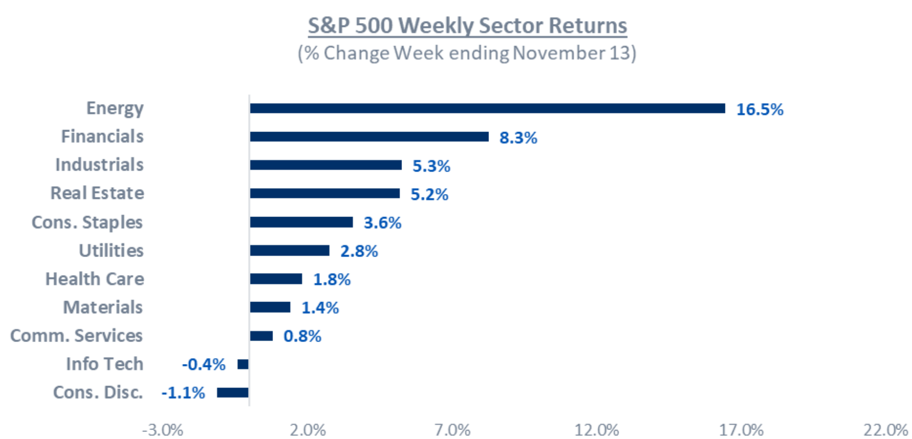
Currencies and Commodities
In USD, % change

	11/13/2020	Week	QTD	YTD	1 Year
CDN $	0.762	-0.6%	1.5%	-1.1%	0.9%
US Dollar Index	92.76	0.6%	-1.2%	-3.8%	-5.7%
Oil (West Texas)	40.13	8.1%	-0.2%	-34.3%	-29.7%
Natural Gas	3.00	3.7%	-3.9%	15.1%	11.6%
Gold	1,889	-3.2%	0.2%	24.5%	29.1%
Copper	3.19	0.8%	4.8%	12.5%	18.4%

Canadian sector performance

	Week	YTD
Energy	10.1%	-36.5%
Materials	-5.9%	21.5%
Industrials	3.4%	13.5%
Cons. Disc.	6.6%	5.9%
Info Tech	-7.7%	55.4%
Health Care	6.4%	-24.7%
Financials	6.7%	-9.1%
Cons. Staples	-1.6%	6.2%
Comm. Services	5.5%	-7.4%
Utilities	1.1%	9.6%
Real Estate	6.9%	-11.9%

Chart of the week: Reversal of Fortunes



No sooner than we touted the possibility of growth returning to its leadership position, news broke on Nov. 9 that a COVID-19 vaccine is showing great promise. The news sent the value/growth trade violently back toward value and the most beaten-down, pandemic-sensitive sectors rocketed higher. Bond yields rose and lifted financials, oil prices shot up on hopes for increased mobility (benefitting energy) and companies whose fortunes are tied to a return to normal life (such as real estate, hotels, airlines and hospitality) are seeing their shares pop. The stay-at-home, work-from-home, COVID-play trades saw weakness (largely found in information technology, communications services and the two consumer sectors). In addition to the wide sector divergence, the S&P 500 Value Index outperformed the Growth Index by 564 basis points, the largest weekly gap since 2009. The Russell 2000 Small-cap Index outperformed the S&P 500 by 392 basis points, reflecting the fact that small, "main street" businesses have been harder hit than the large multinationals.

Highlights

Most global equity benchmarks rose sharply to open the week on positive news that a COVID-19 vaccine by Pfizer and its German partner, BioNtech, is showing great promise. The news raised hopes for other vaccines in development using similar mRNA technology. The gains faded somewhat by week's end as euphoria over the vaccine gave way to sober realities over timing, logistics around delivery and remaining uncertainties in the trials and approvals process. The info-tech heavy NASDAQ benchmark was the sole loser as investors sold COVID-winners to buy beaten-down stocks from sectors hardest hit by the pandemic (see the chart of the week for more). In typical capital markets fashion, overzealousness caused the S&P 500 to rise nearly 4% intra-day on Monday, only to give back about half that gain by week's end. Bond yields rose, but like equities, 10-year yields, that had jumped ~15 bps, ended the week up half that amount. To be sure, the weekly moves in equities and fixed income (in fact, the past two weeks) are meaningful. Several global equity benchmarks broke through to new pre-crisis highs (MSCI Emerging Markets, Russell 2000, Japan's Nikkei) and the S&P 500 crested to a fresh all-time high. Bond yields have broken out above key resistance levels (U.S. and Canadian 10-year yields rose above their falling 200-day moving averages) and yield curves continued to steepen.

Investors face a choice whether to embrace the jubilation or focus on the concerns. The spread of COVID-19 is accelerating in many parts of the world and appears likely to remain a significant threat for many months, perhaps longer (especially in less developed parts of the world). Even though the understanding and management of the disease have improved, a return to the year's earlier tradeoffs – choosing between minimizing the health threat or maximizing economic activity – is already underway. The question is: how bad will it become before it gets better? Capital markets are forward-looking and are correct to look through what might be some tough months. However, as tempting and cathartic as it may be for our battered psyches to embrace the rosy conclusion that mass vaccination leads to an early normalization (all in the context of global easy monetary and loose fiscal policies) is premature. Risks remain: the second (or third) wave may be worse than feared; the production/distribution of the vaccine could be slow or cumbersome; or, the vaccine could carry negative side effects. Outside these risks is the notion that if the battle against the virus takes a turn for the better, shouldn't that require some reckoning on the extent of fiscal spending and monetary policy? Additionally, higher yields are being cheered by value-rotation trade, but higher yields should also equate to lower equity market multiples.

Ultimately, as rational, disciplined investors, it's best to weigh both what can go right AND what can go wrong. As professional investors, we avoid knee-jerk reactions, using our experience to inform us that in the fog of fast-moving, fluid events (election outcome, vaccine prospects), markets are prone to wild swings. We expect overreaction when the narrative (especially heady emotional ones) shifts too strongly in one direction or another.

What do we see? The past several weeks' risk-on trade has taken expensive equity markets and made them even more expensive. Of course, fundamental reasons to justify fresh optimism remain and we see select opportunities emerging from the recent developments; however, we also see the current narrative leaning more to the side of greed (or hope) than it does toward fear –bullish sentiment abounds. The bottom line: a lot can still go right, but in capital markets, the cost of things going wrong has risen. Whether in life or investing, a vaccine tomorrow doesn't mean complacency today.

The week in review

- Pfizer and its German partner, BioNtech, released results of the ongoing trial for its COVID-19 vaccine – the early results display 90% effectiveness, well above the 70% expected.
- U.S. inflation remained muted, while China's disinflationary trend strengthened, as consumer prices decelerated sharply. U.S. inflation (Oct.) was 1.2% y/y (down from 1.4% y/y) and core inflation was 1.6% y/y (down from 1.7% y/y). Chinese inflation (Oct.) was 0.5% y/y (down from 1.7% y/y) and core inflation 0.5% y/y (unchanged from the prior month).
- The preliminary University of Michigan Consumer Sentiment Index (Nov.) unexpectedly dropped 4.8 pts to 81.8 (versus 82.0 expected), a three-month low.
- U.S. weekly initial jobless claims (as at Nov. 7) fell more than expected, down 48,000 to 709,000. Weekly continuing claims (as at Oct. 31) dropped 436,000 to 6.8 million. Both figures sit at their lowest levels since the beginning of the pandemic.
- Eurozone and U.K. real GDP (Q3) grew a record 12.6% q/q (versus 12.7% expected) and 15.5% q/q (versus 15.8% expected) respectively. However, the strong rebound in production is being overshadowed by the second wave of coronavirus cases and its accompanying lockdown, posing a risk to stall the recovery.
- Eurozone industrial production (Sept.) disappointed, down 0.4% m/m (versus 0.6 expected), attributable to a sharp 5.6% m/m plunge in Italy's output. However, industrial production in Germany, France, Spain and the U.K. expanded in the month, with the latter rising 0.5% m/m (versus 1.0% expected).
- Chinese credit growth remained accommodative for the economic recovery in October. Aggregate yuan financing (Oct.) more than halved to ¥1.42, largely due to seasonality (Golden Week holidays reduced the number of working days). Of that total, new loans came in at ¥690 billion, down from last month's ¥1.9 trillion level. However, total aggregate social financing jumped 13.7% y/y, the fastest growth since January 2018.

The week ahead

- Canadian, Eurozone and U.K. inflation data
- Canadian and U.S. retail sales and housing data
- U.S., Chinese and Japanese industrial production data
- Eurozone and U.K. consumer confidence surveys
- Chinese retail sales
- Japanese GDP, PMI and trade data
- 12 S&P 500 and 3 S&P/TSX companies report earnings