



Equities

Local currency, price only, % change

	8/21/2020	Week	QTD	YTD	1 Year
S&P/TSX Composite	16,518	0.0%	6.5%	-3.2%	1.3%
S&P/TSX Small Cap	558	-0.9%	10.9%	-6.3%	-4.0%
S&P 500	3,397	0.7%	9.6%	5.1%	16.2%
NASDAQ	11,312	2.7%	12.5%	26.1%	41.0%
Russell 2000	1,552	-1.6%	7.7%	-7.0%	2.8%
UK FTSE 100	6,002	-1.4%	-2.7%	-20.4%	-16.7%
Euro Stoxx 50	3,260	-1.4%	0.8%	-13.0%	-4.0%
Nikkei 225	22,920	-1.6%	2.8%	-3.1%	11.2%
MSCI EM (USD)	1,092	-0.1%	9.7%	-2.0%	11.1%

Fixed income

Total return, % change

	8/21/2020	Week	QTD	YTD	1 Year
FTSE Canada Universe Bond Index	1,215	0.4%	0.6%	8.2%	6.6%
FTSE Canada All Corporate Bond Index	1,376	0.3%	1.6%	7.1%	6.9%

Interest rates – Canada

Change in bps

	8/21/2020	Week	QTD	YTD	1 Year
3-month T-bill	0.15	-1	-5	-151	-149
GOC bonds 2 yr	0.28	-1	0	-141	-113
GOC bonds 10 yr	0.54	-8	1	-116	-69
GOC bonds 30 yr	1.06	-6	8	-70	-39

Currencies and Commodities

In USD, % change

	8/21/2020	Week	QTD	YTD	1 Year
CDN \$	0.759	0.7%	3.0%	-1.4%	0.9%
US Dollar Index	93.25	0.2%	-4.3%	-3.3%	-5.1%
Oil (West Texas)	42.19	0.4%	7.4%	-30.9%	-24.3%
Natural Gas	2.45	3.9%	36.8%	5.9%	5.5%
Gold	1,940	-0.2%	9.0%	27.9%	29.1%
Copper	2.93	1.8%	7.0%	3.8%	11.3%

Canadian sector performance

	Week	YTD
Energy	-2.4%	-28.6%
Materials	1.6%	26.8%
Industrials	1.0%	6.5%
Cons. Disc.	0.0%	-5.2%
Info Tech	2.4%	68.3%
Health Care	-4.4%	-36.5%
Financials	-1.2%	-14.5%
Cons. Staples	-0.3%	7.1%
Comm. Services	0.9%	-7.0%
Utilities	1.1%	2.2%
Real Estate	0.9%	-18.8%

Chart of the week: Retail Sales Supported by CERB



The back-to-back 20+% gains for retail sales in Canada have erased the entire March-April hole. Retail sales are now up 1.3% since February's pre-lockdown level. StatCan estimates that July retail sales rose another 0.7%, marking a return to more normal levels. With the hole now filled, further gains will be much more measured. Retail sales in the U.S. have followed a similar pattern. Contrasting the North American results to those from China sheds some light on how much of this spending is supported by government income replacement programs. China adopted stimulus measures focused on investment and corporations whereas the U.S. and Canadian responses were more targeted to households. The difference is clear: Chinese retail sales faltered in July and remain 17% below pre-pandemic levels. The question remains, what will consumption look like in the months ahead as income support measures wane. While this eventuality is farther off in Canada than in the U.S., even Canada's budget watchdog, Parliamentary Budget Officer Yves Giroux, is amazed by how the country's fiscal outlook has deteriorated. As deficit estimates approach \$380 billion, he reminded Canadians to ask whether the level of spending makes sense, noting the measures should be temporary or they won't be affordable.

Highlights

U.S. equity markets gained with the S&P 500 able to post a record high on the weekly close. Equity gains were fueled by the familiar technology and consumer stocks (Apple gained a whopping 8.2% on the week to become the first U.S. public company to top USD \$2 trillion in market cap), leaving energy-, exporter- and financials-heavy international equity benchmarks with losses. Canada's S&P/TSX ended the week flat; the now influential tech and materials sectors offsetting weakness in energy and financials. Financials stepped back on a quick reversal to declining bond yields and a flatter yield curve. The yield curves flattened in the U.S. and Canada despite the U.S. Federal Reserve downplaying notions they might turn to yield curve control measures.

Canadian and U.S. housing markets have been blistering hot in the last two months. Existing home sales experienced the strongest monthly gain on record in Canada and the largest back-to-back increase in the U.S. Record low interest rates and pent-up demand from lockdown measures have unleashed a torrent of homebuyers. Work-from-home is also believed to be a catalyst as the newfound ability for many office workers, who often reside in the middle-to-upper class and have been largely unaffected by the crisis, have been incentivized to seek out larger homes (potentially at a discount further away from city centres) or to improve their existing living situations. These trends were evident in very good earnings results from the likes of Home Depot, Lowes, Target and Walmart. With a large employment footprint and a substantial positive multiplier effect, the housing sector is a beacon of strength for the North American economy – a situation not typically associated with elevated unemployment levels, but then very little is 'typical' these days. However, reasons to be cautious exist in the medium to long term: Canadian household debt, which has grown 49% faster than GDP since 2005, sits at a record high 102% of GDP (March figures) and by all accounts is expected to increase in the next few quarters ahead. In the U.S., FHA mortgages (their affordable housing program) now have the highest delinquency rate in over four decades, up 6% to almost 16% as of June. Some of the pickup in the delinquency rate reflects a policy choice of increased forbearance and is not due to a sudden wave of defaults and foreclosure. However, workers displaced by the crisis have been supported by exceptional government fiscal measures and mortgage payment deferral programs. This extremely accommodative fiscal environment is not sustainable in the longer term. Absent these measures, should the labour market recovery stumble, potentially a large proportion of households and landlords will then be incapable of resuming making payments on their mortgages. At that point, rising delinquencies will matter and they typically cause weakness for house prices – a negative for the economy in multiple ways.

The week in review

- Canada's new Finance Minister Chrystia Freeland announced an additional four-week extension to its CERB income support program, alongside other benefits, including expanding eligibility for employment insurance. These measures will push the government's projected deficit up by \$37 billion to \$380 billion.
- Canadian retail sales surged 23.7% m/m in June (versus 24.5% expected), accelerating from the prior month's 21.2% jump.
- Canadian existing home sales (July) skyrocketed 26.0% m/m seasonally adjusted (versus +20.0% expected), the largest gain on record. Accordingly, home prices jumped a seasonally adjusted 2.3% m/m, also one of the highest monthly increases on record.
- U.S. existing home sales (July) soared 24.7% m/m to 5.86 million units annualized (versus 5.41 million expected). July marked the largest two month gain on record and the highest volume since 2006.
- European consumer confidence remained gloomy in August. Eurozone Consumer Confidence (Aug.) improved marginally up to -14.7 pts (versus -15.0 expected), while the U.K. GfK Consumer Confidence survey (Aug.) held steady at its low level of -27.0 pts (versus -25.0 expected).
- Inflation recap (July): Canadian inflation was +0.1% y/y, down from +0.7% y/y and core inflation was +1.3% y/y, down from +1.4% y/y; Eurozone inflation +0.4%, unchanged and core inflation +1.2% y/y, unchanged; U.K. inflation +1.0% y/y, up from +0.6% y/y and core inflation +1.8% y/y, up from +1.4% y/y; and Japanese inflation +0.3% y/y, up from +0.1% y/y and core inflation flat y/y, unchanged. Global inflation remains muted, despite expectations for an increase and last month's modest acceleration.
- Preliminary Purchasing Managers Index (PMI) recap (Aug.): U.S. Markit manufacturing up 2.7 pts to 53.6, services up 4.8 pts to 54.8; Eurozone Markit manufacturing down 0.1 pts to 51.7, services down 4.6 pts to 50.1; U.K. Markit manufacturing up 2.0 pts to 55.3, services up 3.6 pts to 60.1; and, Japan Jibun manufacturing up 1.4 pts to 46.6, services down 0.4 pts to 45.0. Global PMI surveys are showing signs of world economic activity picking up, as many major countries' readings are above the 50-point mark.

The week ahead

- Canadian and U.S. trade data
- Canadian GDP data
- U.S. personal spending and income data
- U.S. housing and durable goods orders data
- U.S. and Eurozone consumer confidence surveys
- 16 S&P 500 companies and 9 S&P/TSX companies report earnings, including the kickoff for the Canadian banks

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