



**Equities**

Local currency, price only, % change

	9/25/2020	Week	QTD	YTD	1 Year
S&P/TSX Composite	16,065	-0.8%	3.5%	-5.8%	-4.3%
S&P/TSX Small Cap	527	-6.8%	4.8%	-11.5%	-9.1%
S&P 500	3,298	-0.6%	6.4%	2.1%	10.5%
NASDAQ	10,914	1.1%	8.5%	21.6%	35.1%
Russell 2000	1,475	-4.0%	2.3%	-11.6%	-4.9%
UK FTSE 100	5,843	-2.7%	-5.3%	-22.5%	-19.9%
Euro Stoxx 50	3,137	-4.5%	-3.0%	-16.2%	-10.7%
Nikkei 225	23,205	-0.7%	4.1%	-1.9%	5.4%
MSCI EM (USD)	1,059	-4.5%	6.4%	-5.0%	5.3%

**Fixed income**

Total return, % change

	9/25/2020	Week	QTD	YTD	1 Year
FTSE Canada Universe Bond Index	1,217	0.0%	0.7%	8.3%	7.7%
FTSE Canada All Corporate Bond Index	1,376	-0.2%	1.7%	7.1%	7.5%

**Interest rates – Canada**

Change in bps

	9/25/2020	Week	QTD	YTD	1 Year
3-month T-bill	0.14	-1	-6	-152	-150
GOC bonds 2 yr	0.25	-1	-3	-144	-134
GOC bonds 10 yr	0.54	-4	2	-116	-86
GOC bonds 30 yr	1.07	-3	8	-69	-50

**Currencies and Commodities**

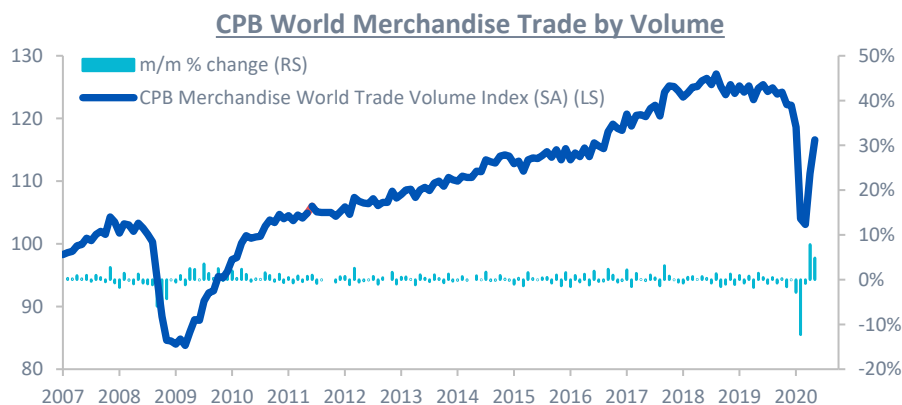
In USD, % change

	9/25/2020	Week	QTD	YTD	1 Year
CDN \$	0.747	-1.4%	1.4%	-3.0%	-0.9%
US Dollar Index	94.64	1.8%	-2.8%	-1.8%	-4.4%
Oil (West Texas)	40.10	-2.5%	2.1%	-34.3%	-28.8%
Natural Gas	2.14	4.4%	13.4%	-8.8%	-11.4%
Gold	1,862	-4.6%	4.5%	22.7%	23.8%
Copper	2.97	-4.7%	8.3%	5.1%	12.0%

**Canadian sector performance**

	Week	YTD
Energy	-3.0%	-36.8%
Materials	-5.4%	23.6%
Industrials	1.2%	7.6%
Cons. Disc.	1.2%	-6.0%
Info Tech	6.0%	62.2%
Health Care	-9.4%	-41.7%
Financials	-1.7%	-16.1%
Cons. Staples	4.2%	9.6%
Comm. Services	0.3%	-10.1%
Utilities	1.6%	4.3%
Real Estate	-1.7%	-21.0%

**Chart of the week: Trade Rebounding, But Pace is Slowing**



World trade continues to rebound. It increased by 4.8% m/m in July (on a volume basis) as more and more countries emerged from lockdowns. However, the pace of improvement is softening (a theme we expected and see in many data points). June's 7.9% increase was the first m/m increase of the year; trade was already weakening before the declaration of a global pandemic in March. Between January and May, trade fell a whopping 17.2%. For comparison, during the financial crisis, trade fell 19% in 10 months while this time around it fell 17% in half that time. Post 2009, it took 27 months for trade to reach new highs. Further gains in trade are expected, but a return of virus containment measures isn't the only worry – international trade tensions were weighing on trade long before COVID-19. Crises tend to accelerate existing trends, with trade tensions and a retreat from globalization being merely one (for more, see [GLC Insights: Crises Accelerate Trends](#)). We expect an extended, bumpy ride before we see world trade recover to pre COVID-19 levels.

## Highlights

Global equity markets continued to struggle as concerns about global growth grow on increasing COVID-19 case counts across North America and Europe (daily new case counts in Europe have surpassed those in the U.S.). Adding to this challenge are faltering and (maybe) fading prospects for a U.S. fiscal package. Real-time economic indicators are generally pointing to the rebound losing momentum in many economies, especially on the service side. Most services Purchasing Manager Index readings took a step back – the European reading slid below 50, indicating contraction. This month's downtick in the J.P. Morgan global PMIs represents the earliest-ever momentum loss the indicator has ever experienced after a U.S. recession in 50-years. The torrid pace of the big bounce-back was never sustainable (that's just math); markets are now beginning to ask the question, "Now that the early gains have been made, how hard of a grind will the next phase of the recovery be?" Safe-haven assets were of little help on the week as credit spreads widened a little and sovereign yields only fell slightly. However, since the S&P/TSX peaked on August 26, bonds have delivered the relied-upon safety, with the FTSE Canadian Universe Bond Index up 0.53%. Gold on the other hand, has been absent as safe harbour, both for the week and since the equity market weakness began. The yellow metal has dipped below USD \$1,900, and is down 4.75% since August 26.

The Information Technology sector bucked the downtrend, as tech's allure returned, drawing investors back to the comfort of secular growth and solid balance sheets. Tech stocks have been the segment hardest hit over the past few weeks and valuations have improved (albeit from very, very high down to just very high). The forward price-earnings multiple for the S&P 500 Info Tech sub-sector has corrected from ~31X to as low as 27.4X, still elevated compared to the 10-year average of 16.8X and even to the 5-year average of 19.4X. We have been highlighting that major indices need to test their 50- and 100-day moving averages and both the S&P 500 and S&P/TSX are trying to consolidate in between these levels. However, neither has entered full correction territory on a closing basis. The S&P 500 slipped beyond the -10% downdraft on an intraday basis, but buyers (likely programmed) stepped in and bought that important level; the TSX hasn't dipped below a 6% swoon.

The prospects for further U.S. fiscal stimulus may become embroiled in the debate surrounding the replacement for Judge Ginsberg on the U.S. Supreme Court (SCOTUS). The appointment of a Republican-friendly SCOTUS judge further stokes mounting concerns about post-election uncertainty. Fear is growing that the election will be a very close call (and the incumbent President alluding to putting up a fight, questioning the peaceful transition of power) and may require the Supreme Court to weigh in and arbitrate an outcome. This has the potential to extend election uncertainty for weeks. While we don't see the U.S. election as being crucial to the path for equities over the medium to long term, the virus and the economy carry much more sway. Near term, the prospect of an uncertain outcome has the potential to jolt risk assets: the only modern context is the 2000 Bush-Gore episode when the S&P 500 fell 5% in the period between the Nov. 7 election and Al Gore's concession on Dec 13. It's difficult to know how instructive that experience is considering the S&P 500 was in the front half of what turned out to be a bursting tech bubble (-49% between Mar. 24, 2000 and Oct. 9, 2002).

## The week in review

- Canada's Liberal minority government Throne Speech promised full use of government fiscal measures to help Canadians through the pandemic, with the government pledging, "as long as it lasts, whatever it takes". Meanwhile, the Federal budget deficit ballooned to \$148.6 billion (April to July) and is estimated to crest \$343 billion for the fiscal year.
- The U.S. Congress passed a resolution to keep the government funded through to Dec. 11, 2020.
- U.S. new home sales (Aug.) unexpectedly jumped 4.8% to 1.0 million units annualized (versus +890,00 expected). The surprise increase comes after a sizzling three months of upwardly revised gains. Meanwhile, U.S. existing home sales (Aug.) rose for the third straight month, up 2.4% m/m to 6.0 million units annualized (in line with expectations).
- U.S. weekly initial jobless claims (as at Sept. 19) edged higher by 4,000 to 870,000, while weekly continuing claims (as at Sept. 12) slipped 167,000 to 12.6 million.
- U.S. durable goods orders (Aug.) rose 0.4% m/m (versus +1% expected). While this marks a fourth consecutive monthly increase, the latest increase was smaller than expected and less than the previous rebounding results. However, July's big jump was revised up from 11.4% to 11.7%. Core orders (non-defense durable goods orders excluding transportation) beat expectations, rising 1.8% m/m (versus 1% expected) and July was revised up from 1.9% to 2.5%. Core shipments also improved by 3.3% with an upward revision to July's increase from 2% to 2.4%. While the headline reading disappointed, the details were more encouraging and pointed to solid business spending in Q3.
- European consumer confidence (Sept.) remains moribund: the index rose 0.8 pts to -13.9 but was better than the expected -14.7. The U.K.'s GfK Consumer Confidence Index managed to improve to -25 from -27 (versus -27 expected) despite renewed anxieties over Brexit.
- Preliminary Purchasing Managers Index (PMI) recap (Sept.): U.S. Markit manufacturing crept up 0.4 pts to 53.5, services fell 0.4 pts to 54.6; Eurozone Markit manufacturing rose 2.0 pts to 53.7, services fell 2.9 pts to 47.6; U.K. Markit manufacturing 0.9 pts to 54.3, services declined 3.7 pts to 55.1; and, Japan Jibun manufacturing slipped inched up 0.1 pts to 47.3, services rose 0.6 pts to 45.6.

## The week ahead

- Canadian GDP
- U.S. presidential debate
- U.S. trade, housing, PCE inflation, personal spending and income data
- U.S. and Eurozone employment and consumer confidence data
- Japanese retail sales and industrial production
- Purchasing Manager Indices globally

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