glc asset management

Weekly Market Snapshot

For the week ending September 18, 2020

Equities

Local currency, price only, % change

	9/18/2020	Week	QTD	YTD	1 Year
S&P/TSX Composite	16,199	-0.1%	4.4%	-5.1%	-3.6%
S&P/TSX Small Cap	566	3.5%	12.4%	-5.0%	-3.1%
S&P 500	3,319	-0.6%	7.1%	2.7%	10.4%
NASDAQ	10,793	-0.6%	7.3%	20.3%	32.0%
Russell 2000	1,537	2.6%	6.6%	-7.9%	-2.0%
UK FTSE 100	6,007	-0.4%	-2.6%	-20.4%	-17.9%
Euro Stoxx 50	3,284	-1.0%	1.5%	-12.3%	-6.9%
Nikkei 225	23,360	-0.2%	4.8%	-1.3%	6.4%
MSCI EM (USD)	1,109	1.5%	11.4%	-0.5%	8.5%

Fixed income

Total return, % change

	9/18/2020	Week	QTD	YTD	1 Year
FTSE Canada Universe Bond Index	1,217	-0.2%	0.7%	8.3%	8.0%
FTSE Canada All Corporate Bond Index	1,379	-0.1%	1.8%	7.3%	8.0%

Interest rates – Canada

Change in bps

	9/18/2020	Week	QTD	YTD	1 Year
3-month T-bill	0.15	0	-5	-151	-148
GOC bonds 2 yr	0.26	0	-3	-144	-134
GOC bonds 10 yr	0.58	3	5	-112	-86
GOC bonds 30 yr	1.10	4	11	-66	-49

Currencies and Commodities

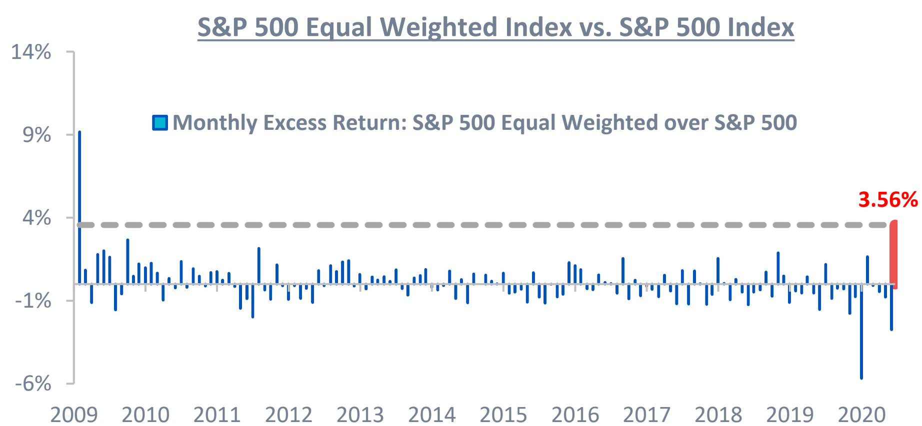
In USD, % change

	9/18/2020	Week	QTD	YTD	1 Year
CDN $	0.757	-0.2%	2.8%	-1.6%	0.7%
US Dollar Index	92.93	-0.4%	-4.6%	-3.6%	-5.7%
Oil (West Texas)	41.11	10.1%	4.7%	-32.7%	-29.3%
Natural Gas	2.05	-9.7%	8.5%	-12.7%	-16.5%
Gold	1,951	0.5%	9.5%	28.6%	30.6%
Copper	3.12	2.5%	13.6%	10.3%	17.3%

Canadian sector performance

	Week	YTD
Energy	-1.1%	-34.8%
Materials	1.4%	30.6%
Industrials	0.5%	6.3%
Cons. Disc.	-0.2%	-7.2%
Info Tech	-1.4%	53.0%
Health Care	5.1%	-35.6%
Financials	-0.8%	-14.6%
Cons. Staples	-0.3%	5.2%
Comm. Services	-1.9%	-10.4%
Utilities	1.7%	2.7%
Real Estate	2.0%	-19.7%

Chart of the week: U.S. Equity Market Breadth Improving



The S&P 500 Index proper is a market cap-weighted index and, as such, momentum of large stock weights in the index have an outsized impact. The benchmark's outperformance has been driven by large and growing weights in the FAAMG stocks (Facebook, Amazon, Apple, Microsoft and Google) whose combined weighting at August 31 was 24% of the index. All of the FAAMG's stock prices have taken a hit in September, each down between 10% and 14%. Concern has been increasing that the growing popularity (and hence concentration) of the S&P 500 in these five names will eventually end poorly. The equally weighted version of the S&P 500 Index is performing much better in September, with the monthly performance spread over its cap-weighted peer widening to 3.56%, putting it on track for the best relative gain since April 2009. This is early evidence there's a solution to breadth concentration concerns where a healthy rotation occurs away from these mega-cap stocks to a broader swath of the market.

Source: Bloomberg, unless otherwise noted

Highlights

Global equity markets were largely flat on the week, continuing to consolidate their summer gains. North American large-cap indices are still hovering near their 50-day moving averages. The S&P 500, S&P/TSX and NASDAQ all have corrected to the extent that they're little changed from July 31. The higher they had flown, the sharper their decline: since September 2, the TSX is off 3%, S&P 500 off 7.3% and the NASDAQ, in correction territory, down 10.5%.

There has been money to be made in stocks as the relative laggards from the March lows have quietly made gains. International and emerging markets were relative winners on the week and have been since the end of July (e.g., the MSCI EAFE Index is up 5%). Similarly, small-cap indices stood out as absolute winners on the week; and since mid-summer, the S&P/TSX Small Cap Composite and U.S. Russell 2000 Index have both made gains. There has been movement at the sector level too, with value-based sectors outperforming growth. In Canada, this is epitomized in the battle for Canada's largest public company (by market cap) between Shopify and Royal Bank (RBC). The 13% correction for Shopify shares against a 3.3% gain for RBC's shares since July 31 has vaulted RBC back into the top spot (but just by a hair with RBC at 5.98% versus 5.63% for Shopify). This rotation across geographies, market caps and underlying sectors is exactly the kind of healthy market internals we like to see.

Covid-19 case counts continue to accelerate in Europe and Canada, with the U.S. also seeing a stall in their recent improvement. U.S./China tensions playing out in the tech space with continued uncertainty around WeChat and Tik Tok (U.S. contemplating bans, sales or shutdowns) isn't helping the tech sector shake its malaise. Economic data brought few surprises, but the numbers are normalizing (U.S. and Canada retail sales, U.S. industrial production and housing are all steadying after their wild spring swings). The Federal Reserve (Fed) kept the Fed funds target range steady at between 0% to 0.25%. They reiterated their extremely accommodative stance, citing that policy will be accommodative until both maximum employment and inflation targets are met. This implies low rates will be here for a long while; gains in unemployment are flattening out and the 2% inflation target has proven illusory for a decade. In fact, monthly y/y PCE inflation has only risen above 2% just 14 out of 138 months since the 2008 financial crisis. Combining low unemployment and inflation is even rarer: using the Fed's 4.1% full-unemployment rate and 2% PCE inflation (since 1960), when the monthly PCE price series becomes available, those combined conditions have only been fulfilled less than 10% of the time.

Bond yields rose slightly, but issuance is smashing records. Investment-grade corporate issuance YTD at USD $2.62 trillion across the globe has already eclipsed previous full-year records. The week saw Delta Air Lines raise USD $9 billion – the airline industry's largest debt sale ever. Delta itself is junk-rated, but this fresh debt is backed by its frequent-flier program and carries a BBB investment-grade rating. Some of the debt yields as much as 4.75% – more than double the average 2.31% yield on the lowest-rated unsecured investment-grade bonds in the Bloomberg Barclays index. The deal was so popular that Delta boosted the offering size from an original USD $6.5 billion. The flourishing debt market is passing off risk the government might otherwise have taken. Delta and the previous USD $25 billion Boeing raised in April have allowed both companies to declare that they do not expect to need additional federal aid. Still, all of this wouldn't be possible without the hand of the government, as monetary policies of low yields and money printing to buy bonds force investors to reach for yield anywhere they can find it.

The week in review

- Canadian retail sales (July) edged modestly higher by 0.6% (versus +1.0% expected) following the massive 23% bounce back in the prior month. StatsCan's flash estimate for August retail sales forecasts a monthly gain of 1.1%.
- U.S. retail sales (Aug.) decelerated to 0.6% m/m (versus +1.0% expected) amid fiscal aid drying up and small businesses struggling to stay afloat. The control measure, which excludes autos and gas, fell 0.1% m/m (versus +0.3 expected).
- U.S. weekly initial jobless claims (as at September 12) continued to decline, dropping 33,000 to 860,000, while weekly continuing claims (as at September 5) fell a further 916,000 to 12.6 million. The next fiscal stimulus deal (currently deadlocked in Congress) will be critical for the labour market going forward.
- The Bank of England held its Bank Rate steady at 0.1% and will continue its £745 billion asset purchase program. The bank discussed the potential implementation of negative interest rates if necessary.
- The Bank of Japan held its key policy rate at -0.10%. Their statement was more dovish, as they raised the country's economic assessment amid a rebound in exports and industrial production.
- Industrial production recap: U.S. industrial production (Aug.) decelerated to 0.4% m/m (versus +1.0% expected); Eurozone industrial production (July) rose 4.1% (versus +4.2% expected); and, Japanese industrial production (July) was revised up 0.7% to 8.7%.
- Inflation recap (July): Canadian inflation was +0.1% y/y, unchanged and core inflation was +1.5% y/y, up from +1.4% y/y; Eurozone inflation -0.2%, unchanged and core inflation +0.4% y/y, unchanged; U.K. inflation +0.2% y/y, down from +1.0% y/y and core inflation +0.9% y/y, down from +1.8% y/y; and, Japanese inflation +0.2% y/y, down from +0.3% y/y and core inflation was -0.4% y/y, down from +0.0% y/y.
- Chinese economic data in August showed an acceleration in the world's second-largest economy's recovery. Chinese industrial production jumped 5.6% y/y (versus +5.1% expected), retail sales were higher than expected, advancing 0.5% y/y (versus 0.0% expected), while Chinese fixed asset investment was only 0.3% lower versus a year ago (versus -0.4% expected).

The week ahead

- Canadian Parliamentary Throne Speech
- Canada's Budget Balance report
- U.S. housing and durable goods data
- Eurozone and U.K. consumer confidence surveys
- Purchasing Manager Indices globally