MACKENZIE Investments

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Weekly Market Snapshot

For the week ending May 7, 2021

Equities

Local currency, price only, % change

	2021-05-07	Week	QTD	YTD	1 Yr
S&P/TSX Composite	19,473	1.9%	4.1%	11.7%	31.3%
S&P/TSX Small Cap	769	3.2%	7.4%	17.3%	68.0%
S&P 500	4,233	1.2%	6.5%	12.7%	46.9%
NASDAQ	13,752	-1.5%	3.8%	6.7%	53.1%
Russell 2000	2,272	0.2%	2.3%	15.0%	77.1%
UK FTSE 100	7,130	2.3%	6.2%	10.4%	20.1%
Euro Stoxx 50	4,034	1.5%	2.9%	13.6%	40.0%
Nikkei 225	29,358	1.9%	0.6%	7.0%	49.2%
MSCI China (USD)	107	-2.2%	-0.9%	-1.4%	34.2%
MSCI EM Index (USD)	1,349	0.1%	2.4%	4.4%	50.4%

Fixed income

Total return, % change

	2021-05-07	Week	QTD	YTD	1 Yr
FTSE Canada Universe Bond Index	1,164	0.3%	0.4%	-4.7%	-1.8%
FTSE Canada All Corporate Bond Index	1,351	0.2%	0.2%	-3.3%	2.6%
Bloomberg Canada High Yield Index	163	0.1%	0.8%	3.3%	17.1%

Interest rates - Canada

Change in bps

	2021-05-07	Week	QTD	YTD	1 Yr
3-month T-bill	0.11	0	2	5	-11
GOC bonds 2 yr	0.29	-1	7	9	2
GOC bonds 10 yr	1.50	-5	-6	82	95
GOC bonds 30 yr	2.07	-1	9	86	94

Currencies and Commodities

In USD, % change

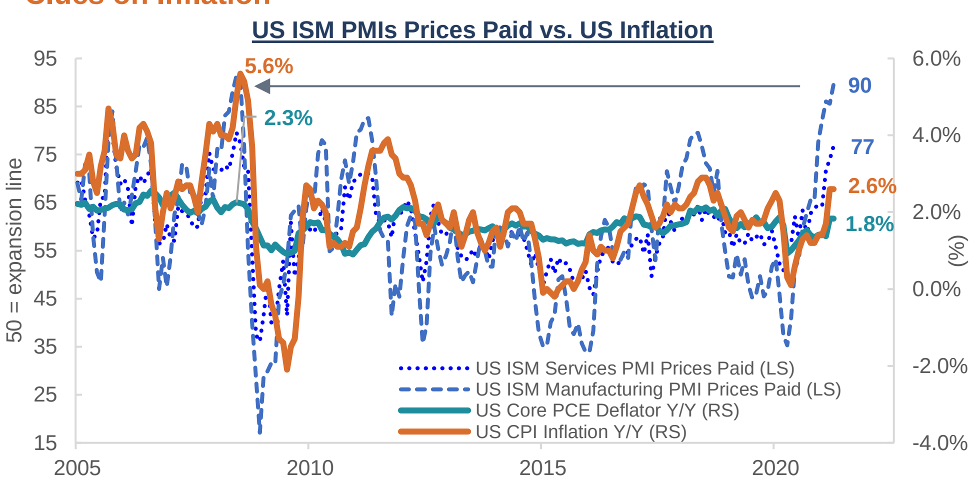
	2021-05-07	Week	QTD	YTD	1 Yr
CDN $	0.824	1.3%	3.5%	5.0%	15.2%
US Dollar Index	90.23	-1.1%	-3.2%	0.3%	-9.7%
Oil (West Texas)	64.90	2.1%	9.7%	33.8%	175.6%
Natural Gas	2.96	0.9%	10.9%	13.3%	15.4%
Gold	1,831	3.5%	7.2%	-3.5%	6.7%
Copper	4.75	6.3%	18.7%	34.7%	95.4%

Canadian sector performance

Price return, % change

	Week	YTD
Energy	4.8%	27.5%
Materials	8.5%	6.2%
Industrials	2.1%	6.5%
Cons. Disc.	0.9%	18.7%
Info Tech	-5.0%	-2.4%
Health Care	-9.3%	13.4%
Financials	1.4%	17.1%
Cons. Staples	1.3%	3.5%
Comm. Services	2.0%	11.1%
Utilities	-1.4%	0.3%
Real Estate	2.0%	15.8%

Chart of the week: Watch PMI Prices Paid for Clues on Inflation



Both the US Institute for Supply Management (ISM) Manufacturing and Services Purchasing Manager Index (PMI) readings for April declined. The drops are from very high levels; prior to the pandemic, the Manufacturing Index only crested the 60+ level twice in the previous 15 years. The 62.7 reading for the Services Index is the second-highest reading on record (back to 1997), bested only by last month's 63.8. Bottom line: activity continues to expand, but the declines indicate that the pace of activity is moderating slightly. Like many things, the devil is in the details. In the Manufacturing survey, only two sub-readings didn't decline, exports (nice to see) and prices paid. Guess what, prices paid in the Services survey also rose. Both readings are well above the highest readings since before the 2008 financial crisis (GFC). In those prior instances of elevated Prices Paid Index readings, US headline inflation ran above 5% y/y (July 2008), while core PCE ran in the 2.25% y/y range. According to the US Federal Reserve (Fed), in isolation, core inflation of 2.25% won't prompt them to raise rates - so 2.25% shouldn't scare anyone too much. Of course, back in 2008, everything hit a wall when the GFC hit shortly thereafter, so we can't know what might have happened otherwise. This time around, how the price readings in the PMI's unfold over the next few months will help to inform the transitory inflation debate. If the readings soften, that supports the 'inflation is transitory' argument; if they stay elevated, then perhaps inflation won't be so transitory.

Highlights

With the notable exception of the tech-heavy NASDAQ Index, most global equity markets made gains on the week. Equity markets looked for the silver lining in soggy Canadian and US employment numbers, as the reports work to keep central banks on hold for longer. Bond yields that had been drifting lower throughout the week sank briefly on the employment report but then largely shrugged it off.

The S&P 500 and S&P/TSX nudged out of their multi-week, sideways move to notch fresh all-time highs. International markets (MSCI EAFE) are close to achieving this same goal while emerging markets (MSCI EM) continue in a sideways pattern that began in March. The MSCI EM Index is testing an important technical level as it tries hard to establish a new uptrend. The index is currently a snick above the 50-day moving average (dma) and just 0.5% below the 100-dma; the Feb/Mar -10.8% correction never did breach the 200-dma. This kind of correction (10% or more) where longer-term trends are tested, but hold, is precisely the kind of healthy pause many (ourselves included) think developed markets will need to experience to set up any meaningful leg higher. Neither the TSX nor the S&P 500 has witnessed a 10% correction (on close) since the pandemic bottom of March 2020. The TSX tested its 200-dma over six months ago; for the S&P 500, it has been almost a year (June 26, 2020).

The pullback and consolidation in emerging markets isn't just technical analysis mumbo-jumbo. Emerging markets experienced this shake-out on a change in fundamentals. Monetary policy in China is tightening and Purchasing Manager Indices (PMI) readings peaked as far back as November of 2020. These conditions will eventually visit developed markets, although there is significant uncertainty around the timing. On the PMIs, that time may be now for some countries. The April US ISM Manufacturing PMI fell sharply; Canada's manufacturing PMI weakened; while France and Germany's flatlined. To be clear, the readings are still very good, and one month does not yet make a trend, but ticks lower are the first step to marking a peak. Similarly, the data out of China remains robust, and we expect the same for other economies. Still, capital markets price at the margin and changes in momentum and direction are important turning points.

As for monetary policy, Canada has taken a step toward tightening; the Bank of England hinted at it but quickly clarified they didn't mean anytime soon. Similarly, US Treasury Secretary Janet Yellen tripped up when discussing inflation and interest rates. The former Fed Chair caused markets to swoon when she said, "it may be that interest rates will have to rise somewhat to make sure our economy doesn't overheat." Ms. Yellen quickly backtracked that she wasn't forecasting interest-rate increases nor sending the Fed a message. Not to be outdone on muddying the waters, the Fed's semi-annual financial stability report highlighted that asset prices are vulnerable to significant declines if investor sentiment shifts. This is pretty rich, considering it can be argued that the Fed's zero interest rate policies, gushers of liquidity, and fiscal-spending-enabling bond buying are precisely the things that have stoked investor sentiment, provided investors with cash to invest, and ingrained the 'buy the dip' mentality. When you drive the real risk-free rate negative, what do you think investors will do? After a decade of spiking the punch bowl, warning that there could be a hangover feels a little late – but better late than never.

The week in review

- Canadian employment (Apr.) plummeted (-207,000 versus -150,000 expected), eroding a good chunk of last month's 303,100 gain. The report was stained by most of the losses being full-time positions, a segment largely unscathed in prior lockdowns. The unemployment rate jumped 0.6% to 8.1%, while the participation rate slipped 0.3% to 64.9%
- Canada's merchandise trade balance (Mar.) shifted back into a deficit of $1.14 billion (versus a $0.55 billion surplus expected). Following an upwardly revised $1.4 billion surplus the prior month, exports rose 0.5% m/m imports popped 5.5% m/m.
- US non-farm payrolls (Apr.) disappointed heavily (+266,000 versus +1,000,000 expected), with last the two month's meaty gains being revised down a combined 78,000. The unemployment rate inched up 0.1% to 6.1%, while average hourly earnings unexpectedly rose (+0.3% y/y versus -0.4% expected). US weekly initial jobless claims (as at May. 1) dropped 92,000 (498,000 versus 538,000 expected), reaching another pandemic low. Weekly continuing claims (as at Apr. 24) unexpectedly rose 37,000 (3.69 million versus 3.62 million expected).
- The US trade deficit (Mar.) widened $3.9 billion to a new record ($74.4 billion; in line with expectations). Imports surged 6.3% to a record $274.5 billion, while exports were up 6.6% to $200 billion, a one-year high.
- The Bank of England held their monetary policy steady, including leaving their Bank Rate at a record low 0.1%. The Bank's tone was a little more optimistic, upgrading their 2021 GDP projections to 7.25% from 5%.
- Eurozone retail sales (Mar.) rose (+2.7% m/m versus +1.6% expected), decelerating from last month's upwardly revised 4.2% pace.
- Chinese trade surplus (Apr.) unexpectedly widened ($43 billion versus $28 billion expected), with exports continuing to surge, up 32.3% y/y. Imports also climbed an outsized 43.1% y/y, signalling strong domestic demand.
- Purchasing Managers Index (PMI) recap (Apr.): Canadian Markit Manufacturing down 1.3 pts to 57.2, Canadian Ivey down 12.3 to 60.6; US ISM Manufacturing down 4.0 to 60.7, US ISM Services down 1.0 to 62.7, US Markit Manufacturing revised down 0.1 to 60.5; US Markit Services revised up 1.6 to 64.7; Chinese Markit Services revised up 1.6 to 56.3.

The week ahead

- No material data releases in Canada
- US retail sales, consumer and business sentiment data
- US and Chinese inflation
- US and Eurozone industrial production
- Eurozone GDP and trade data
- Chinese trade, money supply and social financing data
- 17 S&P 500 and 62 S&P/TSX companies report earnings

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