

Weekly Update

Stocks Soar on Bullish Sentiment

August 14, 2020

The Economy

- U.S. equities, as represented by the S&P 500 Index, flirted near record-highs during the week. Bullish investor sentiment fueled the rally and eclipsed headwinds such as slowing economic data and a government stalemate regarding additional fiscal stimulus.
- Producer prices advanced by 0.6% in July, primarily within gasoline, as measured by the Department of Labor's producer-price index (which tracks the average change in prices that producers receive for goods and services). Rising producer prices further reduces the risk of deflation (a decline in the general price level), which is considered harmful during a recession as it causes a delay in consumer spending on anticipated lower prices.
- The number of job openings (a measure of labor demand) improved from 5.37 million in May to 5.88 million in June, according to the Department of Labor. U.S. private sector job openings rebounded by approximately 21% between April and June. However, job openings remain well-below their pre-pandemic levels.
- Consumer prices appreciated by 0.6% in July, according to the Department of Labor's consumer-price index, primarily due to higher gasoline and food prices. Economists expect inflation to remain muted even as prices are likely to rise on strengthening demand amid the gradual reopening of the U.S. economy.
- Total import prices grew by 0.7% in July due to higher costs for petroleum. Export prices rose by 0.8%, driven by higher fuel and agricultural prices. The increase suggested the U.S. economy is slowly returning back to life.
- Retail sales swelled by 1.2% in July as businesses continued to resume operations. Spending was concentrated in automobiles, appliances and clothing. Consumer spending accounts for about 70% of U.S. economic activity.
- Industrial production increased by 3.0% in July. Overall capacity utilization (the percentage of resources used to produce goods in manufacturing, mining, and electric and gas utilities for all U.S. facilities) expanded from 68.5% to 70.6% during the month. Manufacturing output accelerated by 3.4%.
- Initial jobless claims narrowed from 1.19 million to 963,000 during the week ending August 8, falling below 1 million for the first time since mid-March. The decline signaled a recovering labor market, but a return to pre-pandemic levels of new claims is expected to take more time. For reference, jobless claims during the global financial crisis took approximately five years to return to pre-crisis levels.
- Mortgage-purchase applications widened by 6.8% for the week ending August 7, while refinancing applications surged by 9.1%. In the same period, the average interest rate on a 30-year fixed-rate mortgage moved higher to 2.96% from 2.88%. Mortgage rates have trended historically lower due to the sustained record-low rates on long-term U.S. Treasuries since February.

Stocks

- Global equity markets were positive. Developed markets led emerging markets.
- U.S. equities were positive. Industrials and energy outperformed, while telecommunications and utilities lagged. Value stocks led growth, and large caps beat small caps.

Bonds

- The 10-year Treasury bond yield moved higher to 0.71%. Global bond markets were negative this week. High-yield bonds led, followed by global corporate bonds and global government bonds.

The Numbers as of August 14, 2020	1 Week	YTD	1 Year	Friday's Close
Global Equity Indexes				
MSCI ACWI (\$)	1.3%	1.0%	14.7%	570.8
MSCI EAFE (\$)	3.1%	-6.1%	6.4%	1912.8
MSCI Emerging Mkts (\$)	0.6%	-1.7%	13.8%	1096.2
U.S. & Canadian Equities				
Dow Jones Industrials (\$)	1.8%	-2.1%	9.2%	27931.0
S&P 500 (\$)	0.5%	4.3%	18.3%	3369.5
NASDAQ (\$)	0.1%	22.8%	41.9%	11019.3
S&P/TSX Composite (C\$)	-0.3%	-3.3%	3.0%	16495.9
U.K. & European Equities				
FTSE All-Share (£)	0.9%	-19.0%	-12.1%	3397.9
MSCI Europe ex UK (€)	2.6%	-7.3%	4.7%	1333.8
Asian Equities				
Topix (¥)	5.0%	-5.7%	9.4%	1623.4
Hong Kong Hang Seng (\$)	2.7%	-10.7%	-1.2%	25183.0
MSCI Asia Pac. Ex-Japan (\$)	0.8%	2.1%	16.5%	564.2
Latin American Equities				
MSCI EMF Latin America (\$)	-0.2%	-31.4%	-22.4%	2001.9
Mexican Bolsa (peso)	2.6%	-10.5%	1.1%	38979.6
Brazilian Bovespa (real)	-1.5%	-12.5%	2.2%	101216.3
Commodities (\$)				
West Texas Intermediate Spot	1.9%	-31.2%	-22.9%	42.0
Gold Spot Price	-4.5%	27.0%	27.2%	1934.1
Global Bond Indexes (\$)				
Bloomberg Barclays Global Aggregate (\$)	-0.6%	5.6%	5.0%	540.4
JPMorgan Emerging Mkt Bond	-0.1%	2.9%	5.5%	907.7
10-Year Yield Change (basis points*)				
US Treasury	15	-121	-82	0.71%
UK Gilt	10	-58	-16	0.24%
German Bund	9	-24	29	-0.42%
Japan Govt Bond	4	6	28	0.05%
Canada Govt Bond	14	-109	-48	0.62%
Currency Returns**				
US\$ per euro	0.4%	5.6%	6.6%	1.184
Yen per US\$	0.7%	-1.8%	0.5%	106.61
US\$ per £	0.3%	-1.3%	8.3%	1.309
C\$ per US\$	-0.9%	2.1%	-0.4%	1.326

Source: Bloomberg. Equity-index returns are price only, others are total return.
*100 basis points = 1 percentage point. **Increases in U.S. dollars (USD) per euro or pound indicate a decline in the value of the USD; increases in yen or Canadian dollars per USD indicate an increase in the value of the USD.

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