

August 2021 market update

The Canadian economy shrunk in the second quarter, ending a nine-month streak.

Sept. 8, 2021



Introduction

The rising threat of the COVID-19 Delta variant prompted some governments to reintroduce some economic restrictions in August, but the effect on the global economy was relatively muted. The manufacturing and service sectors saw the pace of growth slow, particularly in China, although those sectors broadly continue to operate at relatively high levels. While the global economy continued upward momentum during the month, high inflation in response to a low base effect, widespread shortages of raw materials and rising consumer demand remains a risk. Meanwhile, U.S. Federal Reserve Board (“Fed”) Chair Jerome Powell said that they are looking to taper asset purchases this year, but interest rates will remain steady until inflation and employment progresses towards the Fed’s goals.

August experienced some bouts of volatility, but global equity markets finished higher. The approval of the Pfizer-BioNTech vaccine by the U.S. Food and Drug Administration (“FDA”) paired with comments from the Fed that interest rates are likely to stay lower for longer helped to offset concerns about the spread of the Delta variant. In Canada, gains in the Information Technology and Communication Services sectors helped push the S&P/TSX Composite Index to a new record high. South of the border, the NASDAQ Composite Index, S&P 500 Index and Dow Jones Industrial Average also set new records. Yields on the 10-year government bonds in Canada and the U.S. moved higher, while oil and gold prices ticked lower during the month.

Canadian economy shrinks in second quarter

Canada’s gross domestic product (“GDP”) unexpectedly shrank by 1.1%, annualized, in the second quarter of 2021. Economists were expecting GDP to expand by 2.5%. This marks the first contraction in Canada’s economy since the second quarter of 2020. Rising government spending was offset by lower home resale activity, including all associated transactions costs, and exports. Real estate investment has been one of the key contributors to growth since the third quarter of 2020, but the pullback in sales in the second quarter hindered overall economic growth. Slower growth in consumer spending in the period also contributed to the drop in GDP. The second-quarter result suggests the pandemic can still have a negative impact on economic conditions, both in Canada and around the world. Statistics Canada estimated that Canada’s economy fell by 0.4% in July, raising uncertainty about the strength of the Canadian economy.

U.S. Fed preparing to taper asset purchases

The Fed is starting to lay the groundwork to begin tapering its asset purchases this year. The minutes from the Fed’s most recent meeting at the end of July show that while there is consensus to slow asset purchases, the timing and scale of the asset purchase reductions continue to be debated. While some believed progress is being made towards its inflation goals, others argue that employment has not progressed enough to warrant an imminent pullback in purchases. The Fed is also monitoring the COVID-19 Delta variant, which may delay parents return to the office as their children return to the classrooms. Meanwhile, Fed Chair Jerome Powell reinforced the tapering message at the highly watched annual Jackson Hole Economic Policy Symposium, which connects policymakers, economists, and central bankers from around the world. The minutes and comments from Jackson Hole did provide some clarity to investors on the direction of the Fed, which helped lift equity markets, particularly later in the month.

U.S. infrastructure plan advances

The US\$1 trillion Infrastructure Investment and Jobs Act is a step closer to being passed into law in the U.S. The final vote on the bill, which has bipartisan support, is expected by September 27. The spending plan will help repair and build infrastructure across the country, including roads, rail, public transit and environmental remediation, among other projects. A study by S&P suggests the spending plan could help create jobs and raise per capita personal income, which may also boost consumer spending over the next few years.

Vaccine news boosts equity markets

While shots of Pfizer-BioNTech's COVID-19 vaccine have been going into arms for months, the FDA granted full approval of the vaccine on August 23. It is the first vaccine to receive full approval; the vaccines by Moderna and Johnson & Johnson continue to be given on an emergency basis. By granting full approval, governments and businesses hope it will help solidify confidence in the vaccine and encourage those concerned about its safety to get vaccinated. As vaccines were administered, it helped lift confidence that more normal conditions would return. Despite the ongoing concern of the Delta variant, the approval of the Pfizer vaccine contributed to positive investor sentiment in August.

Market performance - as at August 31, 2021

Equity Markets	Level	Month to date	Year to date	One year
S&P/TSX Composite Index C\$	20,582.94	1.45%	18.07%	24.64%
S&P 500 Index US\$	4,522.68	2.90%	20.41%	29.21%
Dow Jones Industrial Average US\$	35,360.73	1.22%	15.53%	24.38%
MSCI EAFE Index US\$	2,356.42	1.52%	9.73%	23.83%
MSCI Emerging Markets Index US\$	1,308.67	2.42%	1.35%	16.84%

Fixed Income Markets	Level	Month to date	Year to date	One year
FTSE Canada Universe Bond Index C\$	1,189.57	-0.12%	-2.59%	-1.67%
FTSE World Investment Grade Bond Index US\$	251.10	-0.47%	-2.68%	-0.44%

Currencies	Level	Month to date	Year to date	One year
CAD/USD	0.7927	-1.04%	0.95%	3.50%

Commodities	Level	Month to date	Year to date	One year
West Texas Intermediate (US\$/bbl)	68.50	-7.37%	41.18%	60.76%

Gold (US\$/oz)	1,813.62	-0.03%	-4.46%	-7.84%
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