Big Picture

U.S. Markets Hoping for Coronavirus Relief Package; Gold Tumbles Tuesday

The Dow opened strong this Monday, extending its winning streak to seven sessions, as investors weighed the likelihood of fresh federal stimulus spending and slowing rates of new coronavirus infections in the U.S.

Energy and material stocks led the way on Monday, while the Nasdaq dropped as key tech giants declined. By Monday's close, the Dow was up 358 points, while the TSX rose 61, buoyed by rising oil prices and positive data out of China.

The Dow's winning streak ended on Tuesday, however, as the prospects for a broad coronavirus relief package dimmed considerably in Washington. While all four major N.A. markets ended the day in the red, the biggest story of the day might have been gold prices, which fell by as much as 6%, its worst single-day decline since March.

N.A. equity markets were back on track Wednesday as the S&P 500 pushed toward its first record close since February, just missing the mark in late trading. The strong showing thus far in August has been accompanied by rising U.S. bond yields, an indicator that investors are becoming more optimistic about the pace of the economic recovery. Crude prices were up more than 2% Wednesday as data showed U.S. oil inventories had fallen.

While initial U.S. jobless claims fell to 963,00 for the prior week, the standoff between Republicans and Democrats over a coronavirus relief package was still unresolved on Thursday. Consequently, U.S. markets were mixed, with Dow and S&P 500 slightly off, while the Nasdaq registered a small gain. In Canada, weakening crude prices and the stalled U.S. relief package weighed on the TSX, which was off 45 points for the day.

U.S. Markets Up Again; TSX Slightly Off

For the four days covered in this report, the Dow rose 464 points to close at 27,897, the S&P 500 rose 22 points to settle at 3,373, while the tech-heavy Nasdaq gained 31 points to close at 11,042. In Canada, the TSX shed 14 points to end at 16,530.

Strategy

U.S. retail sales and industrial production in July rose at a slower pace than previous months as overall demand remains weak

U.S. retail sales rose for a third consecutive month in July, though at a slower-than-expected pace, again highlighting the moderation in the pace of recovery. The value of retail purchases rose 1.2% on a month-over-month basis, according to data published by the Commerce Department this morning, falling short of consensus at 2.1%. Even so, the total value of retail sales is now above pre-pandemic levels, with July purchases also up 2.7% from a year earlier. The slowdown in retail sales reflects declines of automobile purchases and building materials, alongside weaker gains at restaurants and clothing stores, compared with June figures. Still, nine of thirteen categories notched month-over-month increases, and electronic and appliance stores marked a gain of more than 20%. The report confirms recent high-frequency data readings that suggest the economic rebound has plateaued in recent weeks as the easy, early recovery has been completed. The U.S. economy still has some momentum left in July, the question remains how will consumers and businesses cope with more modest government aid in 3Q.

A separate report out Friday from the U.S. Federal Reserve showed total industrial output rose 3% in July from the prior month for its third consecutive gain, in-line with projections, as a surge in automobile production and unusually warm temperatures boosted the overall figure. Still, the Fed's index of industrial output remains 8.3% below its level in February. The report also showed plenty of spare capacity as the utilization rate remains well below the 75% that prevailed before the virus took hold. Capacity utilization stood at 69.2% in July. Utility output rose 3.3% on the month, while mining activity increased 0.8%, marking its first increase since the beginning of the year. Well drilling in the oil and gas sector slipped another 8% in July after falling 18% in June. Drilling activity has fallen more than 70% from prior year levels as the decline in oil prices and demand uncertainty prompted exploration and production outfits to reign in project development. Tepid demand domestically and abroad remains a headwind for the manufacturing sector and we expect production and utilization will remain depressed until a vaccine, or therapy is developed.

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