Big Picture

S&P 500, Nasdaq Hit New Closing Highs; U.S. Jobless Claims Increase

U.S. tech stocks turned in another powerful performance Monday, helping the Nasdaq to a record-high close, while the S&P 500 approached its own record. In Canada, the TSX rose 141 points, powered by a 5% jump in the materials sector, as gold stocks rallied.

It was another strong showing for the S&P 500 on Tuesday, as the index closed at its highest level ever. The S&P's stunning turnaround, in just 126 trading days, marked the index's fastest-ever recovery from a bear market. As of Tuesday, the S&P was up 5% for the year, while the Dow was still down more than 2% in 2020. One reason for the day's optimism was a strong showing from the U.S. housing sector, with new construction hitting levels not seen in four years. By Tuesday's close, the S&P and Nasdaq finished in positive territory, while the Dow and TSX retreated.

All four major N.A. markets lost ground on Wednesday, however, as the Fed released the minutes of its July meeting, which underscored the deep uncertainty regarding the U.S. economic recovery. The TSX finished down by nearly 50 points as declining gold prices weighed down the materials sector.

Hopes for a quick recovery waned even further Thursday as the number of new U.S. jobless claims increased by 135,00 to 1.1 million for the week ended August 15. Despite the jobs data, U.S. markets ended the day in positive territory, with the Nasdaq hitting another record high. In Canada, the TSX was up slightly, while the loonie declined against the greenback on Thursday after hitting a seven-month high on Wednesday.

Nasdaq Keeps Climbing, While Dow Loses Ground

For the four days covered in this report, the Dow lost 191 points to close at 27,740, the S&P 500 rose 12 points to settle at 3,385, while the tech-heavy Nasdaq surged 246 points to close at 11,265. In Canada, the TSX added 93 points to end at 16,607.

Strategy

Canadian inflation falls back to near-zero in July as energy and transportation categories drag on the headline

Inflationary pressures in Canada fell back to near zero in July as headline consumer price inflation rose 0.1% on a year-over-year basis in July, after an increase of 0.7% in June. Excluding gasoline, the CPI rose 0.7%. Prices rose in five of the eight major components on a year-over-year basis in July. The CPI grew at a slower pace than in June as a result of a broad-based slowdown in price growth, spanning both goods and services. Declines in air transportation prices were a major downward contributor to the headline inflation figure. Airlines were offering various incentives to promote travel such as reduced fees, discounts and promotions, according to the Statistics Canada data release Wednesday morning. Gasoline prices fell 14.9% on a year-over-year basis in July, following a 15.7% decline in June. Although gasoline prices rose 4.4% on a month over month basis amid the reopening of many businesses and services, crude oil prices were largely unchanged in July due to concerns that surging COVID-19 cases around the world could jeopardize a recovery in fuel demand.

Core measures of inflation, which knockout the volatile food and energy components, edged lower in July, down to 1.63% from 1.70% Average core inflation has been running at 1.6-1.8% for the past four months and 1.6-1.7% for the past three, signaling that the sharp initial deterioration may have passed. Still, with a tremendous amount of excess capacity introduced throughout the lockdown period, we expect overall inflationary pressures to remain muted. Indeed, the Bank of Canada (BoC) has pledged to not raise its policy rate “until economic slack is absorbed so that the 2% inflation target is sustainably achieved”. The bank’s outlook projects inflation to average 0.6% in 2020, 1.2% in 2021 and 1.7% in 2022. Policymakers expect the economy will need two full years to bounce back and while members of the Governing Council acknowledged the initial rebound from lockdowns has been strong, they highlighted their expectation for a long and slow recovery. Consumers are likely to remain cautious, which should limit inflationary pressures, excess capacity will persist, and business investment will be weak.

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