

Big Picture

Markets Struggle for Momentum as Coronavirus Cases Rise

It's been a volatile week for N.A. equity markets as investors continue to weigh positive economic data against a disconcerting rise in coronavirus cases in the U.S. and around the globe. Although stocks initially opened sharply lower Monday on reports of an uptick in U.S. infections, markets recovered gradually throughout the day—surging even higher after Fed Chair Jerome Powell announced that the central bank would broaden its corporate credit purchases to include individual company bonds.

Positive sentiment continued Tuesday over new data showing that U.S. consumer spending rebounded nearly 18% in May, the biggest monthly increase in retail spending going back to 1992. For many it was a sign that the recovery had turned a significant corner. By Tuesday's close, the Dow had surged more than 500 points, while the TSX added 156.

However, N.A. stocks drifted lower Wednesday in a volatile session as investors weighed a spike in infections against a surge in U.S. residential construction. By day's end, the Dow was off nearly 175 points, while the TSX tumbled 87, weighed down by weakness in the energy sector. The day's lone bright spot was the Nasdaq, which extended its winning streak to a fourth day as tech stocks continued to climb.

Thursday's session began with mixed economic news out of the U.S. The number of Americans filing for unemployment benefits was down slightly last week, but applications remained historically high at 1.5 million, outpacing economists' expectations. Also weighing on markets Thursday was news that Chinese officials had cancelled hundreds of flights in and out of Beijing on Wednesday, as they struggled to contain a fresh wave of coronavirus cases in the nation's capital. By Thursday's close, markets were essentially flat, with the Dow down 40 points and the TSX up 51.

N.A. Markets Continue Climbing

For the four days covered in this report, the Dow rose 475 points to close at 26,080, the S&P 500 added 74 points to settle at 3,115, while the tech-heavy Nasdaq surged 354 points to close at 9,943. In Canada, the TSX climbed 223 points to end at 15,480.

Strategy

U.S. manufacturing activity marks a first turn on a long road to recovery

The Federal Reserve Bank of Philadelphia's manufacturing survey marked a significant improvement in June, rising nearly 70 points month-over-month to register 27.5 and easily topping consensus of -21.4. The index read -56.6 in April and -43.3 in May. While the index rebound is encouraging, we are quick to remind that diffusion indices, such as the manufacturing activity surveys, only reflect directional movements and ignore the magnitude of such changes. They are helpful in detecting economic turning points but output levels will need to be consulted to determine the size of improvement. Accordingly, the significant rebound signals that there are more firms reporting higher levels of activity than lower or similar levels from the prior period. This data marks a first turn on a long road to recovery, one that will be marked by potential re-emergence of COVID-19 outbreaks and an accompanying lengthy period of sub-par demand. However, strength in the six-month outlook components does suggest that if a second virus wave can be prevented, factories are ready to hire, fill orders and invest. We believe continued policy support will be essential during this time to maintain momentum going forward.

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