



August 2020

InFocus

Global equities were volatile in August as economies continued to struggle with the prospects of a second wave of COVID-19. However, better-than-expected quarterly earnings and hopes of a vaccine in the coming months supported investor sentiment. Also, signs of stabilizing economic activity in many parts of the global economy supported a healthy rise in oil prices over the month.

U.S. equities gained in August as COVID-19 cases continued to fall throughout the month. The technology-heavy Nasdaq composite index fared better than other benchmarks, gaining over 9% for the month. U.S. and China also reaffirmed their commitment to honour their “phase one” trade deal.

Meanwhile, the U.S. Federal Reserve stated its willingness to tolerate higher inflation rates of over 2%. It also announced its decision to begin buying individual credit bonds, along with exchange-traded funds. Yield on government bonds rose sharply following the news.

Indexes	Close	Monthly	YTD
S&P/TSX	16,514.44	2.14%	-3.22%
S&P500	3,500.31	7.01%	8.34%
NASDAQ	11,775.46	9.59%	31.24%
DJIA	28,430.05	7.57%	-0.38%
Russell 2000	1,561.88	5.50%	-6.39%
FTSE 100	5,963.57	1.12%	-20.93%
Euro Stoxx 50	3,272.51	3.09%	-12.62%
Nikkei 225	23,139.76	6.59%	-2.18%
Hang Seng	25,177.05	2.37%	-10.69%
Shanghai Comp.	3,395.68	2.59%	11.33%
MSCI ACWI	584.86	5.97%	3.47%
MSCI EM	1,101.50	2.09%	-1.18%

Fixed income	Close	Monthly	YTD
FTSE Canada Uni.	1,209.76	-1.13%	7.66%
BBG Global Agg.	542.91	-0.15%	6.11%
TSX Pref	1,519.03	4.55%	-1.23%

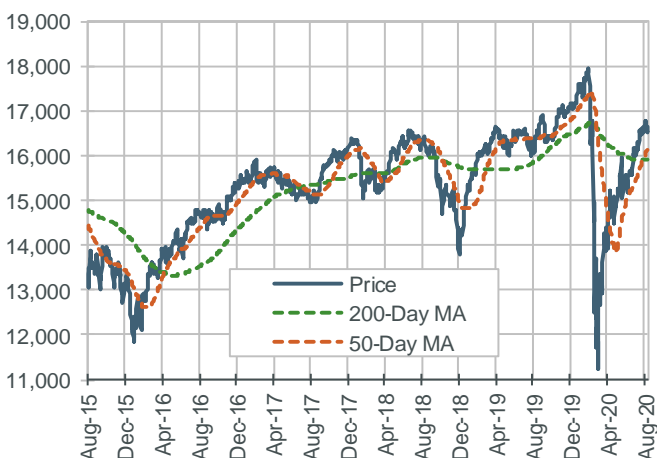
Bond yields	Close	Monthly	bps chg YTD
10 yr Canada Govt.	0.62%	15.5	-108.0
10 yr U.S. Govt.	0.70%	17.7	-121.3
30 yr Canada Govt.	1.16%	23.7	-59.9
30 yr U.S. Govt.	1.47%	28.2	-91.5

Commodities	Close	Monthly	YTD
Oil	42.61	5.03%	-25.62%
Natural gas	2.63	34.39%	12.11%
Gold	1,967.80	-0.41%	29.69%
Silver	28.14	15.39%	57.64%
Copper	306.15	5.92%	8.35%

Currencies	Close	Monthly	YTD
CAD/USD	0.7664	2.79%	-0.44%
USD/EUR	0.8378	-1.32%	-6.07%
CAD EUR	0.6421	1.42%	-6.48%
USD/JPY	105.9100	0.08%	-2.49%
USD/CNY	6.8485	-1.82%	-1.65%
USD/MXN	21.8867	-1.75%	15.64%
GBP/CAD	1.7443	-0.61%	1.26%
GBP/USD	1.3370	2.18%	0.85%

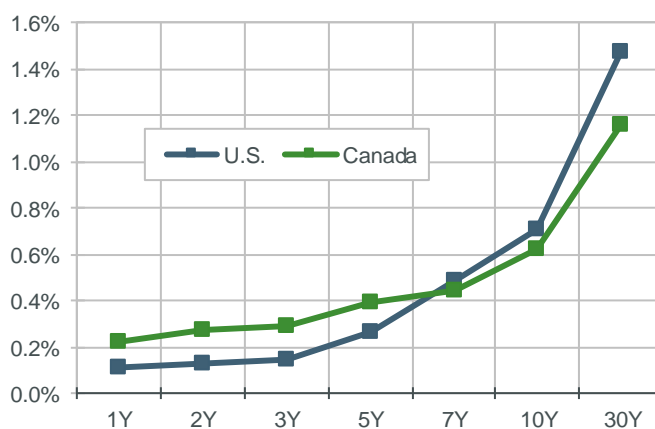
* Please refer to Appendix for the above table in Canadian dollar terms.

S&P/TSX Composite Index



Source: Bloomberg, Refinitiv DataStream. Index returns are in local currency. All equity indexes are price returns and do not include dividends.

Treasury yield curves



Economic indicators	Period	Survey	Actual	Prior period
Canada housing starts	July	205.0k	245.6k	212.1k
Canada CPI (YoY)	July	0.5%	0.1%	0.7%
Canada unemployment rate	July	11.0%	10.9%	12.3%
Canada GDP(MoM)	Jun	5.8%	6.5%	4.5%
Markit Canada manufacturing PMI	July	-	52.9	47.8
U.S. change in nonfarm payrolls	July	1480k	1763k	4791k
U.S. ISM Manufacturing Index	July	53.6	54.2	52.6
U.S. CPI (MoM)	July	0.3%	0.6%	0.6%
Markit U.S. manufacturing PMI	July	51.3	50.9	50.9
U.S. industrial production (MoM)	July	3.0%	3.0%	8.4%
U.S. initial jobless claims	Aug 22	1000k	1006k	1104k

Canada

Canadian equities advanced for the month of August, led by the materials, consumer staples and information technology sectors.

Meanwhile, Canadian GDP suffered its steepest quarterly decline on record, with a 11.5% decline for the three months ended June 30. According to Statistics Canada, household spending fell by 13.1%, and business investment was down by 16.2%, due to restricted business activities. Export and imports volumes also fell sharply during the second quarter.

However, some economists believe that the worst is already over, and the economy is showing signs of recovery, supporting investor sentiment. The Canadian government also announced a financial assistance plan to encourage recovery efforts.

U.S.

The consumer discretionary and utilities sectors advanced, supporting robust gains in U.S. equity markets and offsetting some weakness in the energy sector.

New infections from COVID-19 came down steadily over the month. This, coupled with the government's insistence on a quick economic reopening, supported investor sentiment. President Donald Trump also announced certain relief measures and unemployment benefits through an executive action, after Congress failed to come to a consensus on a COVID-19 relief bill.

In political developments, both the Democratic and Republican parties held their national conventions last month, at which Joe Biden and Donald Trump accepted their presidential nominations.

U.S. GDP contracted sharply at an annual rate of 31.7% during the quarter ended June 30. New jobless claims are coming down, but are still moving around the one million mark.

Rest of the world

European nations continue to struggle against a second wave of COVID-19, with a gradual rise in cases in several countries. Among major European economies, the U.K. suffered the most, with GDP contracting by 20.4% over the second quarter. Among other nations, GDP declined by 18.5% in Spain, 13.8% in France and 9.7% in Germany for the same period.

In the Asia-Pacific region, Japan's prime minister, Shinzo Abe, resigned, citing poor health. A new leader is expected to be chosen by the LDP and approved by Japan's parliament in the next few weeks. Japan's jobless rate rose to 2.9% in July, hampering sentiment.

Chinese industrial profits rose 19.6% year-on-year in July as the Chinese manufacturing sector continued to recover from the initial impact of the COVID-19 pandemic.

India continues to struggle with a falling economy, and is recording about 80,000 COVID-19 cases a day as the lockdown ends and markets open.

Looking ahead

Economic indicators	Period	Survey	Prior period
Canada housing starts	Aug	-	245.6k
Canada net change in employment	Aug	250.0k	418.5k
Canada unemployment rate	Aug	10.1%	10.9%
Canada GDP(MoM)	July	-	6.5%
Markit Canada manufacturing PMI	Aug	-	52.9
U.S. change in nonfarm payrolls	Aug	1350k	1763k
U.S. ISM Manufacturing Index	Aug	54.8	54.2
U.S. CPI (MoM)	Aug	0.3%	0.6%
Markit U.S. manufacturing PMI	Aug	53.6	53.6

Central bank meetings			
Central banks	Date	Probability of change	Current rate
Bank of Canada	9-Sep	-2.9%	0.25%
European Central Bank	10-Sep	-4.5%	0.00%
Federal Open Market Committee	16-Sep	-6.6%	0.25%
Bank of England	17-Sep	-0.8%	0.10%
Bank of Japan	17-Sep	5.1%	-0.10%

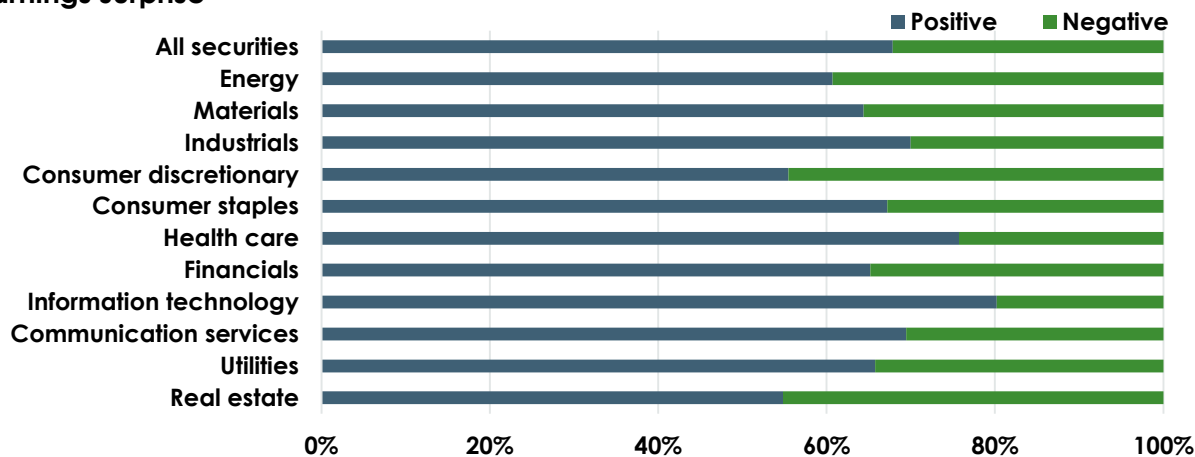
Source: Bloomberg. Probability of change implies the possibility of a central bank hiking interest rates during their upcoming meeting. A negative number in this case means chances of a rate cut rather than a hike.

Spotlight

Second-quarter earnings: Covid-19 winners and losers are emerging.

The second-quarter earnings season has been unlike almost any other. We saw a swift shutting down of economies, followed by a gradual reopening, which created a highly unusual environment for business operations. Earnings have been much better than expected, with around 70% of companies beating consensus forecasts of both earnings and revenues. This is significantly above the historical norm: it reflects a rebound in activity, but also, more importantly, the fact that expectations had been heavily tempered. While earnings came in some 20% above expectations, quarter-on-quarter growth was down around 70% in Europe (compared to a 40% decline in the first quarter), down 35% in the U.S. and down 21% in emerging markets.

Earnings surprise



Source: Fidelity International, Bloomberg, Data as at 17 August 2020.

Appendix

Global markets (Returns in Canadian dollar terms)

Indexes	Close	Monthly	YTD
S&P/TSX	16,514.44	2.14%	-3.22%
S&P500	4,565.10	4.03%	8.88%
NASDAQ	15,357.55	6.54%	31.89%
DJIA	37,078.47	4.58%	0.11%
Russell 2000	2,037.00	2.57%	-5.93%
FTSE 100	10,415.39	0.50%	-19.77%
Euro Stoxx 50	5,097.71	1.53%	-6.60%
Nikkei 225	285.19	3.64%	0.51%
Hang Seng	4,236.73	-0.48%	-9.80%
Shanghai Comp.	646.66	1.58%	13.76%
MSCI ACWI	762.78	3.03%	3.98%
MSCI EM	1,436.58	-0.75%	-0.69%
Fixed income	Close	Monthly	YTD
FTSE Canada Uni.	1,209.76	-1.13%	7.66%
BBG Global Agg.	708.39	-2.86%	6.58%
TSX Pref	1,519.03	4.55%	-1.23%
Bond yields	Close	bps chg Monthly	bps chg YTD
10 yr Canada Govt.	0.62%	15.5	-108.0
10 yr U.S. Govt.	0.7048%	17.7	-121.3
30 yr Canada Govt.	1.16%	23.7	23.7
30 yr U.S. Govt.	1.47%	28.2	28.2
Commodities	Close	Monthly	YTD
Oil	42.61	2.18%	-25.29%
Natural gas	2.63	30.74%	12.60%
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Silver	28.14	12.33%	58.31%
Copper	306.15	3.04%	8.83%
Currencies	Close	Monthly	YTD
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GBP/USD	1.337	2.18%	0.85%

Source : Bloomberg, DataStream.
All equity indexes returns are price returns and do not include dividends.



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