

# This Week in Review

**H**appy Monday! US equities finished higher last week. **Growth** (IVW +1.0%) and **Value** (IVE +0.9%) were largely in line. **Financials** put in the best performance with the banks (BKX +4.3%) helped by a big backup in rates late in the week. Inflation watchers are in line for a feast this week with the consumer price index and producer price index reports both due in. Hope you're enjoying this gorgeous summer! -  
**Regards, SFG**

## Outperforming Sectors:

- **Financials** +3.56%, **Utilities** +2.28%

## Underperforming Sectors:

- **Consumer Spls.** (0.55%), **Materials** +0.16%, **Industrials** +0.17%, **Energy** +0.32%, **Consumer Disc.** +0.37%, **Healthcare** +0.67%, **REITs** +0.68%, **Communications Svcs.** +0.75%, **Tech** +0.93%

## Other Asset Classes:

- **Treasuries** came under pressure this week with 10-year yields up 7 bp to 1.31%. The better-than-expected July employment report drove a big Friday selloff. Weakness may have been exacerbated by the extent of the rally over the last few months that has been partly chalked up to technical dynamics and met with a lot of skepticism on the Street. **The dollar index** was up 0.7%. **Gold** lost nearly 3%. **WTI crude** was down 7.7%. **CBOE Volatility Index** -11.5% to 16.15

## Weekly Highlights:

- There was no one specific factor behind the better price action this week. Some of the credit went to **another strong batch of earnings and upbeat corporate commentary**. A number of companies in industries most impacted by the virus largely downplayed the impact of the spread of the Delta variant. The economic calendar was a relative bright spot with the **upside surprise in July nonfarm payrolls the highlight**.
- The bipartisan infrastructure bill moved closer to passing the Senate. Despite the progress on the bipartisan infrastructure deal, the path to **additional fiscal stimulus remained complicated by an expected reconciliation bill focused on Democratic priorities**.
- There was also some positive spin surrounding vaccine mandates and their ability to help the US get closer to herd immunity.
- **Greater China shares saw some semblance of stabilization** following a big selloff last week on concerns about a broadening regulatory crackdown.
- While earnings and revenue beat rates remained at or near record levels, this was not surprising and there was some focus on the **lackluster reaction to Q2 results**.



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## MARKETS – July 30 – Aug 6<sup>th</sup>

S&P/TSX Composite **Up +0.93%** to 20,475

S&P 500 **Up +0.9%** to 4,437

Dow Jones **Up +0.8%** to 35,209

Nasdaq Composite **Up +1.1%** to 14,836

Russell 2000 **Up +0.9%** to 2,246

MSCI Emerging Markets **Up 1.2%** to 633

FTSE 100 **Up +1.3%** to 7,123

Hang Seng **Up +0.8%** to 26,179

Shanghai **Up +1.8%** to 3,458

Oil (WTI) **Down -8.2%** to \$67.89/bbl

Gold (Spot USD/oz) **Down -3.0%** to \$1,763.5/oz

Copper (USD/lb) **Down -3.0%** to \$4.35

## What Moved Markets?

Sources: EDGAR, Bloomberg, CNBC, Reuters, Renaissance Capital

- Job Gains Jolt Yields but Could Stifle Stocks** - All things being equal, recovery in the labor market toward pre-pandemic levels should be bullish for equities, further boosting the potential for earnings growth. But with the historic amount of Fed easing involved, the stock market could be back to a good-news-is-bad-news scenario. Fed speakers this week have floated the idea that the FOMC could be ready to start tapering in September. "There's no reason you'd want to go slow on the tapering to prolong this. You want to get it done and get it over with," Fed Governor Christopher Waller says.

Tapering would likely push Treasury yields higher, removing a key reason for the path of least resistance for stocks still being up and to the right, even at record levels. This week, Citi downgraded U.S. equities to Neutral, calling for the 10-year Treasury yield (TBT) to rise to 2%, with a 70 basis-point rise in real yields, which are now at record lows. Global equity strategist Robert Buckland writes that Citi's rate strategists "attribute much of the move to technical factors. Most notably, US treasury issuance has dropped over the summer, but will rise again later in the year. They think that this, along with ongoing economic recovery and likely QE tapering, will push 10-year bond yields back towards 2.0%." Goldman Sachs just boosted its 2021 target for the S&P 500 (SP500) to 4,700 from 4,300 in part due the lower-than-expected rates. But strategist David Kostin says that rates above 1.6% would cut fair value back down to 4,350, below current levels.

- Rising Covid Restrictions** - Companies are taking the lead in adopting mask and vaccine requirements as COVID Delta cases grow and equities remain resilient. A host of headlines about new policies and restrictions hit Tuesday, including New York City requiring proof of vaccination for entry to restaurants, gyms and leisure events. But again, most moves came from private companies.

Tyson Foods (TSN) will require its workforce to be vaccinated, J.P. Morgan (JPM) is re-evaluating its back-to-the-office policies and Microsoft is requiring vaccinations for its returning workforce. In addition, Google parent Alphabet (GOOGL) has approved 85% of employee requests to work from home or relocate once its offices open, Bloomberg reports. Amid all those moves, Wall Street put together a rally from midday into the close, with recovery sectors leading the way.

Strength in cyclicals, which would be the hardest hit on worries about a stalled economic reopening, could indicate that investors feel the economy can weather moves to stem the spread of the Delta variant. That would be in contrast to last month, when the Delta spread was a major reason for sell-side strategists to hesitate on new allocations, according to BofA.

Looking for the peak. Thomas Lee of Fundstrat Global Advisors argues the company and locality moves will help by driving up vaccination rates. "Policymaker panic about Delta variant is triggering a vaccination resurgence = good," Lee writes in a note. "The positive upshot of a panic by policymakers is that more Americans are getting vaccinated.

If "the Delta variant does not peak in the next few weeks (as is somewhat expected) then the chances of lockdowns will rise, and that will potentially impact earnings," Kinsale Trading writes.

If "the Delta variant is causing any sort of headwind on the economy, it'll show up in the service sector PMI first, as people pullback on eating out, etc," Kinsale says.

Wells Fargo says it does not think the Delta variant will be a "game changer" for the U.S. economy and sticks with its portfolio recommendation to favor cyclicals, especially Industrials (XLI) and Materials (XLB).

- **Ready For Takeoff** - Air travel continues to return with a vengeance as many look to take a long due summer vacation or see family for the first time in more than a year. Another high mark was set on Sunday despite a renewed threat from rising coronavirus case numbers fueled by the Delta variant. More than 2.2M people went through airport checkpoints nationwide, according to the Transportation Security Administration, notching the highest number since Feb. 28, 2020.

*Thought bubble:* Not only does the U.S. have a strong vaccination rate (it just reached 70% of all adults), but the country also has a strong domestic market. Contrast that to nations that rely more on international travel or require digital health passes or negative PCR tests to board a plane. For the broader market, airline industry executives are relying on the easing of travel restrictions for things to snap back and some say consolidation may be in the cards post-pandemic as carriers look to shore up their balance sheets.

Meanwhile, the resurgence of travel, coupled with bad weather, has led to delays and flight cancellations. Airlines are struggling to rebuild networks and have been caught short-staffed after urging employees to take buyouts or leaves of absence to cut labor costs during the pandemic (they still received \$54B in taxpayer money). Sen. Maria Cantwell (D-Wash), chair of the Senate Commerce Committee, is even questioning airlines to explain the high numbers of flight delays and cancellations.

Case in point: American Airlines ([AAL](#)) scrapped hundreds of flights on Monday following disruptions caused by severe thunderstorms that swept through its Dallas/Fort Worth International hub. Florida-based discount carrier Spirit Airlines ([SAVE](#)) additionally canceled about one-third of its flights and is "working around the clock to get back on track." At least 40% of Southwest (NYSE:LUV) and Spirit flights were also delayed on Sunday, which created long lines at ticket counters at Orlando International Airport.

- **Infrastructure Week** - Senators were back on Capitol Hill on Sunday as a bipartisan group of lawmakers put the finishing touches on a \$1T infrastructure package. Touting the long-term economic benefits of the bill, key Democratic Senator Joe Manchin said the 2,702-page measure was likely to pass before the end of the week and would "keep us going for five to 10 years." The plan is one of President Biden's top legislative priorities and would be the largest investment in U.S. roads, bridges, ports and transit in decades.

*What's in it?* The Infrastructure Investment and Jobs Act includes \$550B in new spending over five years, on top of \$450B in previously approved funds. \$110B would be allocated for roads and bridges, \$66B for rail, \$55B for water and wastewater infrastructure and \$39B for public transit. There's also money for ports, high-speed broadband internet, replacing lead water pipes and building a network of electric vehicle charging stations.

Senators have clashed over how to pay for the package after ideas like raising revenue from a new gas tax were rejected. Current thought is to finance some of the bill through \$205B in untapped COVID-19 relief aid, as well as unemployment assistance that was turned back by some states, but those sources might not pass muster with deficit hawks. The Senate could also impose changes that potentially complicate its chances of becoming law, like paying for the bill via tax hikes on corporations and wealthy Americans earning more than \$400K per year.

**Outlook:** GOP Senator Susan Collins believes that at least 10 Republican senators will support the measure, enabling it to clear a 60-vote procedural hurdle. However, the bill would still need to get through the House of Representatives, where some Democratic progressives have suggested that the \$1T price tag is inadequate. Democrats also aim to pass the bill alongside a second multi-trillion dollar package on "human infrastructure," though Biden has confirmed that the "physical infrastructure" proposal would not be dependent on that initiative.

## The Week Ahead

- **Stocks** - A big week for infrastructure could be on tap, which has Barron's digging for bargains. Filtering for companies that tend to get hired at the start of infrastructure projects and still look cheap yields a list of Atlas Technical Consultants (ATCX), Jacobs Engineering Group (J), Montrose Environmental Group (MEG), Parsons (PSN) and Tetra Tech (TTEK). In the consumer sector, Spectrum Brands Holdings (SPB) is called one of the few companies that lets investors play multiple COVID-era trends at once, and at a discount. Meanwhile, Royal Dutch Shell (RDS.A) is named the top pick among Big Oil stocks due to its peer-beating profitability, strong business mix and rich payout. The cover story this week dives into what stocks investors should play when the "return to the office" arrives. The delayed back-to-work basket includes exposure to real estate, consumer spending and corporate tech spending - with Ross Stores (ROST), Hudson Pacific Properties (HPP), Cisco Systems (CSCO), Microsoft (MSFT), WW International (WW), Starbucks (SBUX), Ruth's Hospitality Group (RUTH) and Boston Properties (BXP) all making the list.
- **EV watch:** The electric vehicle sector is more than likely to have another bouncy week as analysts and investors dig into the implications of President Biden's executive order that sets a target for zero-emission vehicles to account for half of all automobiles sold in the U.S. by 2030. The pressure on EV startups has increased with huge investments and commitments by legacy players like General Motors (GM), Ford (F) and Volkswagen (VWAGY) to their electrification programs. Electric Mile Solutions (ELMS) and Hyzon Motors (HYZN) are two zero-emission stocks that investors are starting to latch on to.
- **Space watch:** Another busy week is setting up the space sector. Northrop Grumman (NGC) is scheduled to launch a cargo shipment to the International Space Station. In South Texas, SpaceX (SPACE) has the Starship spacecraft stacked on top of a prototype of its Super Heavy booster, which itself is loaded up with 29 Raptor rocket engines. The stacked spacecraft is reportedly the tallest assembled rocket ever developed in history. Meanwhile, the hard-luck Boeing (BA) Starliner will be looking to get back to the launch pad after a valve issued is resolved. Traders will also be watching Astra Space (ASTR) after the stock soared more than 20% when a window for the company's first commercial orbital launch with the United States Space Force was announced.
- **Earnings - Earnings spotlight: Monday, August 9th:** Tyson Foods (TSN), US Foods (USFD), AMC Entertainment (AMC) and Nutrien (NTR).

**Earnings spotlight: Tuesday, August 10th:** Sysco (SYY), ChipMOS Technologies (IMOS), Coinbase Global (COIN) and fuboTV (FUBO).

**Earnings spotlight: Wednesday, August 11th:** Perrigo (PRGO), Wendy's (WEN), Lordstown Motors (RIDE), Nio (NIO), Coupang (CPNG), eBay (EBAY) and Bumble (BMBL).

**Earnings spotlight: Thursday, August 12th:** Baidu (BIDU), TAL Education (TAL), GoodRX (GDRX), CyberArk (CYBR), Disney (DIS), Airbnb (ABNB), DoorDash (DASH) and ContextLogic (WISH).

**Earnings spotlight: Friday, August 13th:** Embraer (ERJ) and AMMO (POWW).

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*Sources: EDGAR, Bloomberg, CNBC, Reuters, Renaissance Capital*



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