Bad News Bulls

A Publication of BMO Capital Markets Economic Research • Douglas Porter, CFA, Chief Economist, BMO Financial Group

ECONOMIC RESEARCH
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Fully realizing that this year has sometimes seemed as if it's straight out of the tenth circle of Dante's Inferno, there actually have been glimmers of good news. And there are a number of sectors and markets that have not only survived this year, but even thrived. Here is a brief summary of a few of the relative winners, dispensing with some of the more obvious candidates off the bat:

1: Equities. The S&P 500 famously reached an all-time high on Tuesday, officially ending the shortest bear market on record. Led by unstoppable tech, the index has fired back by more than 50% from the March lows. As hard as it is to comprehend now, even the Nasdaq was down 30% from its highs at the March lows (*so* five months ago); it's now up 40% y/y, driven by the "awesome 8", with Apple reaching a $2 trillion valuation this week. And while the non-tech space is no question lagging heavily, even the MSCI World index moved to flat on a year-to-date basis this week, while the TSX is down less than 3% and up from a year ago.

2: Precious metals: While gold prices have had a small stumble in the past two weeks to below $1950, the yellow metal remains a commodity rock star. Bullion is up more than 25% this year, rising when the U.S. dollar was up, and rising when the U.S. dollar was down. While there is no shortage of explanations for gold's ascent, the most compelling is that investors are simply looking for a true hedge in a world where the e-printing presses are running hot. Quietly, the real gold medal for metals, ironically, goes to silver, which is up about 50% ytd.

3: Bonds: Yes, yes, it's zero surprise that bonds have thrived amid the worst economic downturn in the post-war era. But after the briefest of sell-offs last week, bonds showed their resiliency this week with a renewed rally, even amid the ongoing tsunami of supply and a flicker of U.S. inflation in July. And, while the FOMC sounded entirely lukewarm on the possibility of yield curve control in the latest Minutes, massive QE is doing its own version of controlling yields. That's especially the case in Canada, where 10-year yields dropped back below 0.6% this week, and are down roughly 100 bps this year. Those micro yields are despite: a) Fitch's downgrade; b) the Finance Minister resigning this week; c) a galloping budget deficit, which just saw another $37 billion gulp of extra CERB/EI spending; and, d) provincial deficits which are pushing above a combined 4% of GDP. One factor holding GoC yields in check: Unlike the spike in U.S. CPI, Canadian inflation pulled back in July to just 0.1% y/y.

4: Retail sales: We are now wading into areas of good news that were patently *not* expected by the consensus a few short months ago. Right at the top of the list is retail sales, which have carved out a perfect V-shaped recovery in many key economies. For example, Canada reported today that June sales soared 23.7% after a 21.2% bounce in May, and are now up 3.8% y/y in volume terms. Even sales ex-ecommerce activity are up from a year ago. Similar results were reported Friday for the U.K. in July, and earlier stateside. Let's just repeat that fact one more time... retail sales had completely

reversed their shutdown losses by the early summer in many major economies. How many analysts were calling for that in the April depths? Answer: none. The straightforward explanation is that incomes have been extremely well-supported by government fiscal measures, and households have spent where they can spend. While many services are suffering, goods have thrived.

5: Housing: After being frozen out of the key spring selling season, the North American housing market is making up for lost time, on both sales and starts. Defying the multitude of bearish forecasts, activity in the sector has not just had a V-shaped recovery, but a full-on Z-shape (i.e., reversing earlier losses). As but one example, U.S. housing starts hit almost 1.5 million units in July, one of the best months since 2006. In the same month, existing sales also reached their highest level since 2006. Starts are now expected to be up slightly for all of this year, one of the few areas that will post net growth in 2020. While that may not sound like a big deal, note that as recently as May, the dour consensus was looking for a double-digit drop in starts this year. But U.S. housing looks positively tame compared with the fiery comeback in Canada, where July sales hit all-time highs and average prices jumped 14% y/y. Yes, these figures are likely to fade somewhat in the months ahead, and the surge reflects pent-up demand. But, again, this is many, many kilometres away from conventional wisdom just a few short months ago.

6: Renovation activity: Even if they're not looking to buy or sell a home, many households are still very active this year. Stuck at home with limited vacation plans, North Americans seized on the opportunity to spruce up their digs, seemingly en masse. U.S. hardware stores posted a 28% y/y sales gain in July, a record. Full disclosure, when we put together a long list of areas that could benefit from the shutdowns in the spring, home renovation activity did not make the list (falling behind such worthies as home gym equipment and RVs).

7: Canadian commodity prices: Not unrelated to the strength in housing and renovation activity, lumber prices have soared to all-time highs this year. (Precious metals may be the rock stars of commodities; lumber is Drake.) At over $800, softwood lumber prices have almost doubled since the start of the year, with supply issues compounding the snap-back in demand. There was a time, boys and girls, in the not-so-distant past that forest products were the number one commodity export for Canada. As recently as 2005, their value was larger than oil exports. And while they have since faded, they are still running at roughly $40 billion annually. Besides lumber and gold, other key Canadian commodities that have thrived this year include natural gas (up 5% this year) and copper (ditto). Overall, the Bank of Canada's commodity price index has essentially come full circle this year and is now up slightly in 2020, even after nearly being carved in half during the spring meltdown in oil prices. So, despite Canada's biggest single commodity (oil) being stuck 25% below last year's level, outsized strength in lumber, gold, gas and copper has more than offset that high-profile weakness.

8: China: In many respects, the overall Chinese economy has carved out a V-shape recovery, a big factor behind the comeback in many resource prices. Hit by the virus first, the economy is almost back to normal, and is now expected to grow 2% this year. That's despite the deep swoon in Q1, and also in spite of ongoing frictions on the U.S.

trade front. In contrast to many other major economies, factories are fully back, with industrial production up almost 5% y/y last month, even as retail sales were still off 1.1% y/y. Sure, growth remains modest overall and halting, but consensus forecasts for China have been quietly climbing in recent months, not receding.

9: The euro: While it took a step back on Friday on disappointing August PMIs, the euro is still the strongest major currency this year at up 5% to almost $1.18. The ability of policymakers to agree on the recovery package earlier in the summer put to rest concerns over EU dysfunction. The euro has also been the big winner from the move out of the U.S. dollar. However, a clear risk to the currency is the rise in virus cases in some key countries, notably Spain and France, where new infections are quickly approaching the peak levels of earlier this year (even as U.S. new cases are coming back down the mountain). As an aside, the Swedish kronor has been even stronger at up almost 8% this year… just sayin'.

10: Kenya's elephant population: While not exactly economic news, we were looking for relative winners after all. Thanks to a semi-successful crackdown on poachers, Kenya's elephant population has more than doubled in the past 30 years to nearly 35,000. Of course, that's got nothing on the coyote and rabbit population closer to home.

Returning to work after a one-week hiatus, I was expecting a relatively quiet spell in the middle of August. Alas, Day 1 saw the resignation of Bill Morneau as Finance Minister, Day 2 saw him replaced officially by Chrystia Freeland and the proroguing of parliament, and Day 4 saw a cool $37 billion (or nearly 2% of GDP) in new spending on an extended CERB and an expanded EI program. Domestic markets took it all readily in stride, as the Canadian dollar is on track to nudge up 0.5% this week (even as the euro slipped slightly), bond yields are down across the board (with 10s off 6 bps), and the TSX is nearly flat. One would suppose that this week's events, while massive in any other year, barely make a dent in Dante's 2020.

It doesn't look like there will be much let-up next week. All the major Canadian banks report Q3 earnings, Jay Powell is set to give his virtual Jackson Hole speech on Thursday, the Republican National Convention will follow this week's DNC, and Canada will release its horror show Q2 GDP results on Friday. On that last point, while the long-anticipated deep dive of around 40% a.r. will hog the headlines, note that with the aforementioned snap-back in retail and housing, we are quite confident that the Q3 surge will be at least as large.

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