Canaccord Genuity Wealth Management

Market Watch Weekly

theBasran Wealth Management Group

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APRIL'S JOBS REPORT

Stocks rose despite weaker than expected manufacturing data, then fell as tech sank on comments by Treasury Secretary Janet Yellen that rising rates might cool off an overheating economy, which she walked back. The Dow Jones Industrial Average rose 2.66% to 34,777.76; the S&P 500 was up 1.23%, to 4232.60; and the Nasdaq Composite fell 1.51%, to 13,752.24. In Canada, the S&P/TSX composite rose 1.9%, to 19,472.74.

There is a conundrum facing the U.S. economy: The very stimulus that has prompted a faster than expected recovery seems to be undermining it. That is one interpretation of the April jobs report released Friday, which showed employers added only a fraction of the jobs Wall Street expected and hired at the slowest pace since January. Economists called the report puzzling with some saying it should be ignored. After all, demand has been booming as vaccination rates increase and reopening's continue, and survey data show consumers themselves say jobs are increasing plentiful.

It's possible seasonal factors or statistical distortions explain the massive miss and there's an upward revision next month. Or the explanation may be more straightforward – that there is a labour shortage. Employers across the U.S. have been facing supply shortages in everything from lumber to steel for months. In his press conference last month, Federal Reserve Chairman Jerome Powell acknowledged bottlenecks, what he called "a temporary blockage or restriction in the supply chain for a particular good or goods…that will be resolved as workers and businesses adapt."

Maybe the Fed is looking at the wrong bottleneck. Companies say workers are increasingly hard to find, and the big, unexpected jump in April wages alongside cooler hiring suggests companies are starting to pay up for labour. With the wage increase came a slightly longer work week and a shift in part-time workers to full-time status, suggesting demand isn't the issue. On the surface, two details of the April jobs report might appear to undercut the labour-shortage explanation. Retailers, manufacturers, and transportation companies didn't slow hiring – they cut jobs. And more people entered the workforce, meaning they are actively looking for work, than those who were hired. It isn't a stretch, however, to similarly attribute those developments to a labour shortage.

Ultra-accommodative monetary policy and aggressive fiscal stimulus have pulled the economy out of a big hole. Markets saw late last month that gross domestic product rose 6.4% in the first quarter, thanks in large part to government stimulus that drove personal income up 59% higher and personal consumption 11% higher. At the same time, unemployed workers are receiving an extra $300 a week in relief through September, raising the bar for some workers to return to work at a time when many are

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MARKET SUMMARIES

(As of this morning before Market Open)

S&P/TSX Composite at 19,472.74 (up 11.70% ytd)

S&P/TSX Venture at 954.98 (up 9.10% ytd)

S&P 500 at 4,232.60 (up 12.69% ytd)

Dow Jones Industrial Avg. at 34,777.76 (up 13.63% ytd)

Nasdaq Composite at 13,752.24 (up 6.70% ytd)

Metals

Gold: $1831.30

Silver: $27.48

Copper $4.75

Energy

Brent Crude Oil: $68.15

WTI Crude Oil: $64.71

Natural Gas ($US/MMBTU): $2.93

still struggling with child care and health concerns. By virtue of generous policy, workers are gaining pricing power. Some companies can't or won't pay up, and it's possible the areas that cut jobs did so because they are finding it difficult to market, make, and move their goods.

The Institute for Supply Management said as much in its April manufacturing report released Monday. The survey's employment index expanded for the fifth straight month, "but panelists continue to note significant difficulties in attracting and retaining labour at their companies' and suppliers facilities." It's worth considering whether the U.S. economy is at a point where stimulus measures are becoming self-defeating.

WHAT'S AHEAD

President Joe Biden has earmarked $174 billion from his ambitious infrastructure plan to build out domestic supply chains for electric vehicles, noting the imperative for United States to "compete globally" to win a larger share of the EV market. The funds are just one part of Biden's plan, which calls for an ambitious $2 trillion infrstructure investment across multiple sectors. The fact sheet for the plan includes six references to China – one of these in reference to the size of the Chinese EV market, which is two-thirds larger than the domestic U.S. market. The plan says it will give EV buyers "point of sale" rebates and tax incentives to buy American-made EVs. Despite the dropping costs of batteries and EVs, consumers still need incentives to buy more expensive electric cars. Biden reportedly plans to extend the current $7,500 federal tax credit, an amount that diminishes for vehicles built by automakers including Tesla and General Motors that already have sold over 200,000 electric vehicles. Biden could drop that 200,000 ceiling as well as enhance incentives for EV buyers in disadvantaged communities. Beyond EVs, the Biden infrastructure plan calls for investing $85 billion into "modernizing existing transit," and help transit agencies expand systems to boost ridership. There's also $80 billion for intercity rail systems such as Amtrak. Biden's plan will likely see significant reshaping as it spends months making its way through Congress. What's been floated now is an aspirational initial draft. Still, the plan is historic and could help kick-start a real EV revolution in the U.S.

"To truly transform our economy, protect our security, and save our planet from the ravages of climate change, we need to ultimately make clean, renewable energy the profitable kind of energy."

Barack Obama

FINANCIAL PLANNING TIP OF THE WEEK

Assigning an Insurance Policy to a Spouse:

The Canadian Income Tax Act allows property to rollover from one spouse to another, meaning that it can be transferred without triggering a taxable disposition. This rollover applies to all types of property, including life insurance. So, if a policyholder assigns ownership of a life insurance policy to his or her spouse, they are deemed to have acquired proceeds equal to their ACB, and the spouse is deemed to have received the policy with the same ACB. This applies even if the recipient spouse paid the transferor spouse for the policy.

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