

The Weekly Bottom Line

February 26, 2021

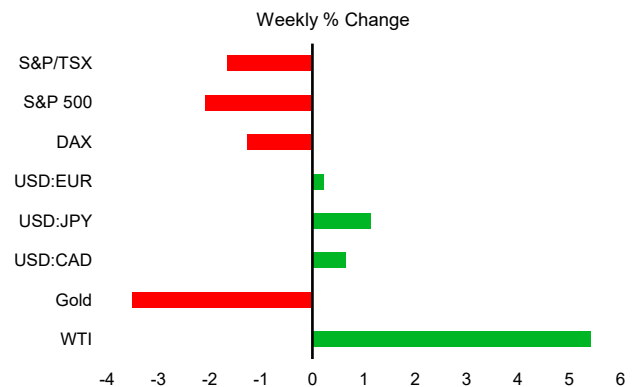
Highlights of the Week

- Federal Reserve Chairman Powell reassured markets that there will be no early tightening of monetary policy or draw-down of asset purchases even with a brighter economic outlook.
- Consumers remain at the forefront of the recovery, as personal income surges and spending rebounds on the back of income support measures.
- Jobless claims fell more than expected this week but remain three times higher than pre-pandemic levels.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	3842	3907	3935	2237
S&P/TSX Comp.	18130	18384	18493	11228
DAX	13757	13993	14109	8442
FTSE 100	6469	6624	6873	4994
Nikkei	28966	30018	30468	16553
Fixed Income Yields				
U.S. 10-yr Treasury	1.51	1.34	1.52	0.51
Canada 10-yr Bond	1.47	1.21	1.47	0.43
Germany 10-yr Bund	-0.25	-0.31	-0.19	-0.86
UK 10-yr Gilt	0.83	0.70	0.83	0.08
Japan 10-yr Bond	0.16	0.11	0.16	-0.16
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.79	0.79	0.80	0.69
Euro (USD per EUR)	1.21	1.21	1.23	1.07
Pound (USD per GBP)	1.40	1.40	1.41	1.15
Yen (JPY per USD)	106.7	105.5	111.2	102.4
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	62.5	59.2	63.6	-37.6
Natural Gas (\$US/MMBtu)	2.76	4.87	15.83	1.35
Copper (\$US/met. tonne)	9456.3	8946.8	9456.3	4625.0
Gold (\$US/troy oz.)	1722.8	1784.3	2063.5	1471.2

*As of 11:45 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Blame Rising Yields for the Drop in Equities and Gold



Note: Data as of 11:30 AM ET, Friday, February 26, 2021.
Source: Bloomberg, TD Economics

Global Official Policy Rate Targets	
Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	0.00 - 0.25%
Bank of Canada (Overnight Rate)	0.25%
European Central Bank (Refi Rate)	0.00%
Bank of England (Repo Rate)	0.10%
Bank of Japan (Overnight Rate)	-0.10%

Source: Bloomberg.

TD Economics Key Financial Forecasts													
Current Rate		2020				2021				2022			
2/26/21		Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
2-yr Govt. Bond Yield	0.16	0.23	0.16	0.13	0.13	0.15	0.18	0.20	0.20	0.20	0.25	0.30	0.35
10-yr Govt. Bond Yield	1.51	0.70	0.66	0.69	0.93	1.10	1.25	1.40	1.50	1.55	1.60	1.65	1.70
30-yr Govt. Bond Yield	2.24	1.35	1.41	1.46	1.65	1.85	1.95	2.05	2.15	2.20	2.25	2.30	2.35
Forecast by TD Economics as of December 2020; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.													

The American Consumer is Back

For a change, the S&P 500 did not have the best week. As of writing, it was down 2.4% compared to last week's close. Blame the Treasury yield. The 10-year Treasury yield hit the highest point in a year amid a more upbeat global economic outlook and rising concerns over inflation. The decline in equities was primarily led by large cap technology stocks, which have so far made major gains during the crisis. Still, the S&P 500 is 3% higher than where it was at the start of this year.

On the monetary policy front, the Federal Reserve's Chairman Powell probably had the most optimistic assessment of the economy since the start of the pandemic. He told Congress that there was "hope for a return to more normal conditions". Still, Powell signaled he is in no rush to tighten monetary policy or drawdown asset purchases even with a brighter economic outlook. The Chairman also reassured markets on the inflation front. He said that inflation dynamics do "not change on a dime" and that "the economy is a long way from our employment and inflation goals".

In terms of economic data, personal income surged by 10% month-on-month in January, in line with market expectations. The strength was primarily due to the 52.6% increase in social benefits which include stimulus checks and expanded unemployment insurance benefits. Meanwhile, personal spending rose by 2.4% and was led primarily by goods which went up 5.8% (Chart 1). The rise in goods spending was seen across the board, with recreational goods and vehicles driving most of the gains. The services sector also showed resilience, eking out a 0.7% growth in

Chart 1: Goods Spending Starts the Year on a High Note

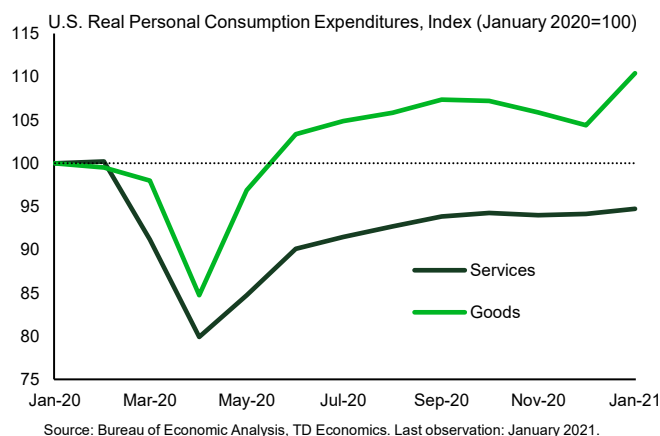
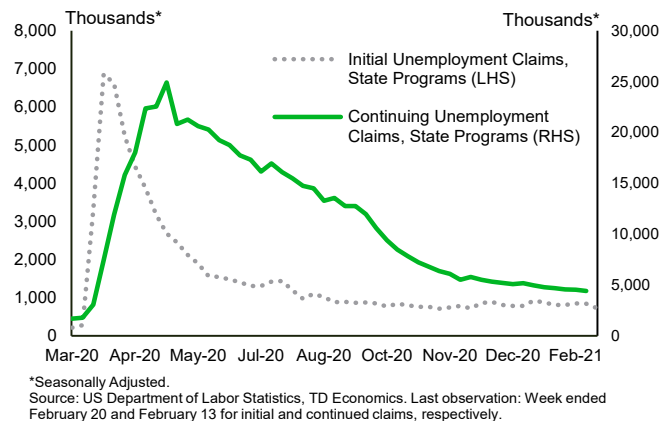


Chart 2: Unemployment Claims Are Falling, but Remain Above Pre-pandemic Levels



spending. Gains were mostly led by food services and accommodation, the industry which has been in the line of fire right from the outset of this pandemic.

Turning to the labor market, jobless claims fell far more than expected (Chart 2). Initial claims came in at 730k, down 111k from the prior week, and beating the consensus of 825k. This was the largest weekly drop since the end of August. But not all states performed the same. California and Ohio registered the biggest declines while Illinois and Missouri recorded notable growth. Continuing claims came in at 4.4 million, 41k less than the consensus and down 0.1 million from the week before. Still, both claims are almost three times higher than their pre-pandemic levels. The labor market remains the weak link in an otherwise stronger-than-expected start to the new year for the economy.

Meanwhile, revisions to the second GDP release were relatively minor. The economy grew 4.1% annualized in the final quarter of last year, slightly higher than the initial estimate of 4.0%. Government and household spending were both revised down 0.1 ppts. Meanwhile, non-residential fixed investment was adjusted up 0.2 ppts, driven by stronger spending on equipment and intellectual property products. Residential investment was also revised higher by 0.1 ppts. Given the relatively minor adjustments to the quarterly data, there were no changes to the annual GDP, which shrank 3.5%.

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Upcoming Key Economic Releases

U.S. ISM Services Index- February*

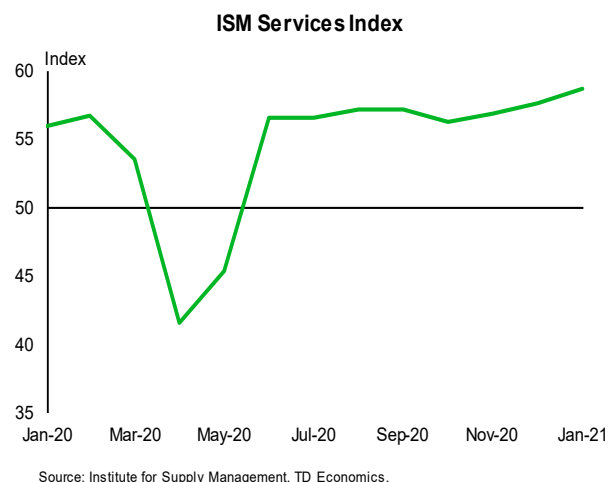
Release Date: Mar 1, 3, 2020

Previous: Manufacturing 58.7; Services 58.7

TD Forecast: Manufacturing 59.5; Services 58.7

Consensus: Manufacturing 58.6; Services 58.7

Business surveys already reported for February have generally been as strong, or stronger, than the surveys for January, consistent with high readings again for the ISM indexes; we forecast a rise in the manufacturing index and no change in the services index. Survey readings are likely being boosted by optimism about COVID and fiscal stimulus.



U.S. Employment - February*

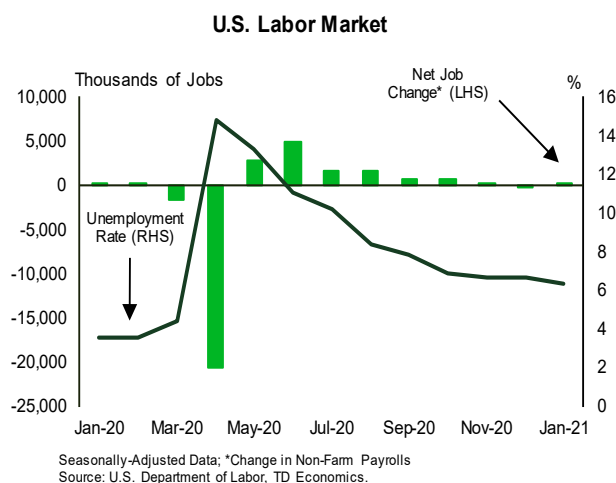
Release Date: March 5, 2020

Previous: NFP 49k; UE rate 6.3%; AHE 0.2% m/m, 5.4% y/y

TD Forecast: NFP 300k; UE rate 6.3%; AHE 0.2% m/m, 5.3% y/y

Consensus: NFP 145k, UE rate 6.4%; AHE 0.2% m/m, 5.3% y/y

The employment data have been much weaker than the spending data and the survey data over the last two months, with payrolls up just 49k in January after declining by 227k in December, but the February report will probably show momentum starting to pick up again. More improvement is likely as COVID restrictions are eased further. Recovery will likely take a while; payrolls are down by 9.9mn since last February (pre-COVID). The unemployment rate is officially 6.3%, but we estimate



a 9.7% rate after adjusting for a COVID-related decline in the participation rate as well as lingering classification issues.

*Forecast by Rates and FX Strategy Group. For further information, contact TDRates&FXCommoditiesResearch@tdsecurities.com

Recent Key Economic Indicators: Feb 22 - 26, 2021					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Feb 23	S&P CoreLogic CS US HPI NSA	Dec	Y/Y % Chg.	10.4	9.5
Feb 23	Conf. Board Consumer Confidence	Feb	Index	91.3	88.9
Feb 24	New Home Sales	Jan	Thsd	923.0	885.0
Feb 25	Cap Goods Orders Nondef Ex Air	Jan	M/M % Chg.	0.5	1.5
Feb 25	Core Personal Consumption Expenditure	4Q	Q/Q % Chg.	1.4	1.4
Feb 25	Durable Goods Orders	Jan	M/M % Chg.	3.4	1.2
Feb 25	Gross Domestic Product Annualized	4Q	Q/Q % Chg.	4.1	4.0
Feb 25	Initial Jobless Claims	Feb 20	Thsd	730.0	841.0
Feb 25	Personal Consumption	4Q	Q/Q % Chg.	2.4	2.5
Feb 25	Pending Home Sales	Jan	M/M % Chg.	-2.8	0.5
Feb 26	Advance Goods Trade Balance	Jan	Blns	-83.7	-83.2
Feb 26	Personal Consumption Expenditure Core Deflator	Jan	Y/Y % Chg.	1.5	1.4
Feb 26	Personal Consumption Expenditure Deflator	Jan	Y/Y % Chg.	1.5	1.3
Feb 26	Personal Income	Jan	M/M % Chg.	10.0	0.6
Feb 26	Real Personal Spending	Jan	M/M % Chg.	2.0	-0.8
Canada					
Feb 25	CFIB Business Barometer	Feb	Index	62.5	58.7
Feb 26	Industrial Product Price	Jan	M/M % Chg.	2.0	1.5
International					
Feb 23	UK ILO Unemployment Rate 3Mths	Dec	%	5.1	5.0
Feb 23	EZ Consumer Price Index	Jan	Y/Y % Chg.	0.9	0.9
Feb 25	MX Gross Domestic Product NSA	4Q	Y/Y % Chg.	-4.3	-4.5
Feb 25	JN Tokyo Consumer Price Index	Feb	Y/Y % Chg.	-0.3	-0.5
Feb 25	JN Retail Sales	Jan	Y/Y % Chg.	-2.4	-0.2
Feb 26	IN Gross Domestic Product	4Q	Y/Y % Chg.	0.4	-7.3

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Mar 1 - 5, 2021						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Mar 1	9:00	<i>Fed's Williams Makes Opening Remarks at Conference Hosted by his Bank on Culture</i>				
Mar 1	9:45	Markit US Manufacturing PMI	Feb	Index	58.5	58.5
Mar 1	10:00	ISM Manufacturing	Feb	Index	58.6	58.7
Mar 1	14:00	<i>Fed's Bostic, Mester and Kashkari Discuss Racism and Economy</i>				
Mar 2	13:00	<i>Fed's Brainard Speaks to the Council on Foreign Relations</i>				
Mar 2	14:00	<i>Fed's Daly Speaks to Economic Club of New York</i>				
Mar 2		Wards Total Vehicle Sales	Feb	Mlns	16.5	16.6
Mar 3	8:15	ADP Employment Change	Feb	Thsd	150.0	174.0
Mar 3	9:45	Markit US Services PMI	Feb	Index	58.9	58.9
Mar 3	10:00	<i>Fed's Harker Discusses Equitable Workforce Discovery</i>				
Mar 3	10:00	ISM Services Index	Feb	Index	58.7	58.7
Mar 3	13:00	<i>Fed's Evans Discusses the Economic Outlook</i>				
Mar 3	14:00	U.S. Federal Reserve Releases Beige Book				
Mar 4	8:30	Initial Jobless Claims	Feb 27	Thsd	798.0	730.0
Mar 4	8:30	Unit Labor Costs	4Q	Q/Q % Chg.	6.7	6.8
Mar 4	10:00	Cap Goods Orders Nondef Ex Air	Jan	M/M % Chg.	-	0.5
Mar 4	10:00	Durable Goods Orders	Jan	M/M % Chg.	-	3.4
Mar 4	10:00	Factory Orders	Jan	M/M % Chg.	1.1	1.1
Mar 4	10:00	Factory Orders Ex Trans	Jan	M/M % Chg.	-	1.4
Mar 4	12:05	<i>Fed Chair Powell Discusses the U.S. Economy</i>				
Mar 5	8:30	Average Hourly Earnings	Feb	M/M % Chg.	0.2	0.2
Mar 5	8:30	Change in Nonfarm Payrolls	Feb	Thsd	145.0	49.0
Mar 5	8:30	Trade Balance	Jan	Blns	-67.5	-66.6
Mar 5	8:30	Unemployment Rate	Feb	%	6.4	6.3
Canada						
Mar 1	9:30	Markit Canada Manufacturing PMI	Feb	Index	-	54.4
Mar 2	8:30	Gross Domestic Product	Dec	M/M % Chg.	0.1	0.7
Mar 2	8:30	Quarterly Gross Domestic Product Annualized	4Q	Q/Q % Chg.	7.2	40.5
Mar 5	8:30	Int'l Merchandise Trade	Jan	Blns	-1.4	-1.7
International						
Mar 1	4:00	EZ Markit Eurozone Manufacturing PMI	Feb	Index	57.7	57.7
Mar 1	4:30	UK Markit UK PMI Manufacturing SA	Feb	Index	54.9	54.9
Mar 1	18:30	JN Jobless Rate	Jan	%	3.0	2.9
Mar 2	5:00	EZ Consumer Price Index Estimate	Feb	Y/Y % Chg.	0.9	0.9
Mar 3	7:00	BZ Gross Domestic Product	4Q	Y/Y % Chg.	-1.5	-3.9
Mar 4	5:00	EZ Retail Sales	Jan	Y/Y % Chg.	-1.3	0.6
Mar 4	5:00	EZ Unemployment Rate	Jan	%	8.3	8.3

Source: Bloomberg, TD Economics.

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