TD Wealth

2021

Q3

Quarterly
Market Review

Market Commentary + 15 Minutes = Current Insights

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HIGHLIGHTS

October 5, 2021

Canadian & U.S. Fixed Income

- The Canadian government bond index fell 0.6% in Q3; the U.S. government bond index rose 0.1%.
- Canadian and U.S. investment-grade corporate bond indices registered returns of -0.1% and 0.0%, respectively.
- U.S. investment-grade corporate spreads modestly widened by 4 bps over the quarter, and U.S. sub-investment-grade ("high-yield") corporate spreads widened by 21 bps

U.S. Equities

- Equity markets in the U.S. struggled to maintain all-time highs as risk sentiment turned fragile. Investors were jolted by inflation, infections in China and monetary tightening, triggering pullbacks that intensified near the end of the quarter.
- The S&P 500 rose 0.6% in Q3, the Dow fell 1.5% and the Nasdaq Composite Index fell 0.2%
- Seven of 11 sectors in the S&P 500 produced a positive return. Financials and utilities rose the highest, with returns of 2.7% and 1.8% respectively. Industrials was the worst-performing sector, down 4.2%.
- Large-cap stocks outperformed small-caps; growth stocks outperformed value.

Canadian Equities

- Despite a rise in oil prices, the broad Canadian index underperformed its U.S. counterpart as the Fed's forward-messaging on tapering strengthened the greenback, sending investors around the world into U.S. assets.
- The S&P/TSX Composite Index ended the quarter up 0.2%. Seven of 11 S&P/TSX sub-indices posted positive returns.
- Large-cap stocks outperformed small-caps in Q3; value stocks outperformed growth.

International Equities

- International developed markets outperformed their American peers in Q3, with Japanese shares leading
- The MSCI Emerging Markets Index plunged 6.6%, led by declines in Brazil, where growing resentment over President Bolsonaro's mishandling of the pandemic has led to country-wide protests.
- Chinese shares seesawed on a dimming economic outlook, as new infections led to strict lockdowns in certain regions.
- Russian and Indian shares outperformed significantly on rising energy prices and, in India, easing infections.

Unless otherwise indicated, performance figures are stated on a total return basis. This document is for distribution to Canadian clients only. Please refer to Appendix A of this report for important disclosure information.

Canadian & U.S. Fixed Income

Government Bond Yield	Canada			United States		
	Current (%)	Q/Q Change (pp)	YTD Change (pp)	Current (%)	Q/Q Change (pp)	YTD Change (pp)
91-Day Treasury Bill	0.13	-0.01	0.06	0.03	-0.01	-0.03
2-Year Government Bonds	0.53	0.08	0.33	0.28	0.03	0.15
5-Year Government Bonds	1.10	0.13	0.71	0.96	0.08	0.60
10-Year Government Bonds	1.51	0.12	0.83	1.49	0.02	0.57
30-Year Government Bonds	1.99	0.15	0.78	2.04	-0.04	0.40

Source: Bloomberg Finance L.P. as of September 30, 2021. Index returns are reported on a total-return basis; pp (percentage point).

Fixed Income Indices	Q3 Return (%)	YTD Return (%)
FTSE Canada Universe Bond Index	-0.5	-4.0
FTSE Canada Universe All Government Bond Index	-0.6	-4.5
FTSE Canada All Corporate Bond Index	-0.1	-2.4
FTSE Canada Real Return Bond Index	-0.3	-4.3
FTSE Canada Provincial Bond Index	-0.8	-5.5

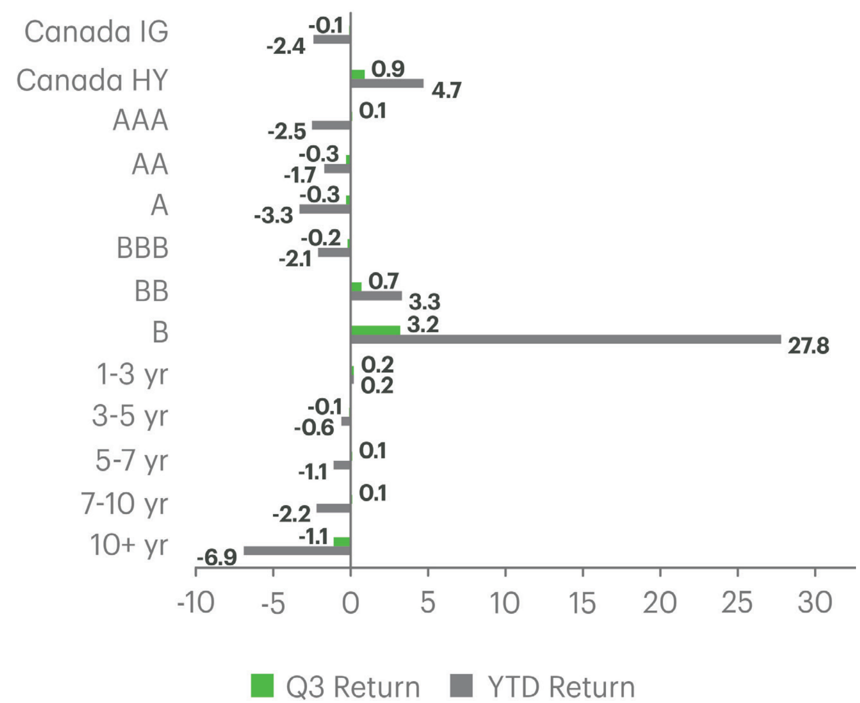
Source: Bloomberg Finance L.P. as of September 30. Index returns are reported on a total-return basis.

Fixed income markets were uneventful, with government bond yields range-bound for most of the quarter. There was one end-of-quarter surprise, however, after the Fed's hawkish tone triggered the rare combined sell-off of risk assets and government bonds. The FTSE Canada Universe Bond Index fell 0.5% in Q3, while the Bloomberg U.S. Aggregate Bond Index (CAD-hedged) was near flat at 0.1% over the same period. The negative returns for the Canadian bond universe were due solely to the rise in interest rates over the quarter; risk assets within the index were mostly flat.

In the U.S., the highlight was the September FOMC meeting, at which the Fed signalled that it would soon begin to reduce the pace of asset purchases. The statement noted, "If progress continues broadly as expected, the Committee judges that a moderation in the pace of asset purchases may soon be warranted." In all, the comments suggest the Fed is likely to announce the taper at the November meeting and reduce the pace of purchases by $15 billion per month, thus allowing it to end purchases by the middle of next year.

North of the border, Bank of Canada Governor Tiff Macklem offered some more detail on the BoC's reinvestment phase during his economic progress speech

Canadian Fixed Income



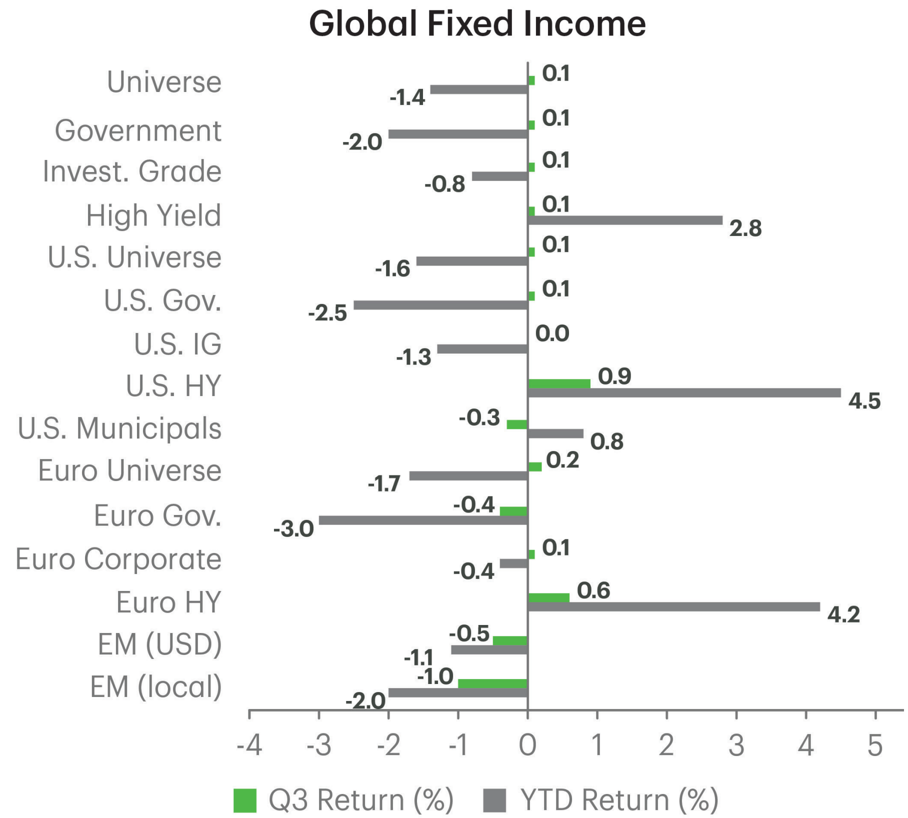
Source: Bloomberg Finance L.P. as of September 30, 2021. Index returns are reported on a total-return basis.

in early September. The Governor stated that the Bank's first removal of stimulus would probably be achieved through rate hikes, while the reinvestment phase would imply reductions in both primary- and secondary-market purchases of government of Canada bonds. The speech did not dwell on the economic contraction in Q2 and repeated that growth should pick up in the second half of the year. Macklem also noted that the Bank would be watching inflation expectations and wage growth, given uncertainty around the strength and persistence of temporary factors on CPI.

Though the spike in government bond yields led to a retreat of fixed income assets, heightened volatility had little impact on credit spreads, which remained mostly flat and maintained their resiliency over the quarter. Broad global fixed income, represented by the Bloomberg Barclays Global Aggregate Index (CAD-hedged), was flat at 0.1% during the quarter. Canadian government bonds underperformed U.S. Treasuries and the global universe, with the U.S. Treasury index (CAD-hedged) staying flat, while the Canadian government bond index detracted by 0.6%. The U.S. 10-year Treasury yield started the quarter at 1.47% and ended at 1.49%, while the equivalent Canadian government bond yield started at 1.39% and ended at 1.5%, gaining 11 bps.

With continued support from central banks and persistent demand, credit markets remained calm amid the interest-rate volatility. On the Canadian side, the investment-grade spread tightened by 3 bps and ended the quarter at an option-adjusted spread of 105 bps, 2 bps tighter over the quarter. The sector remained near flat at -0.1%, outperforming the aggregate Canadian fixed income index return of -0.5%. With stable spreads over the quarter, the outperformance can be attributed to the lower interest-rate sensitivity of the credit markets. Diving deeper, returns on Canadian BBBs detracted the least, coming in at -0.2% and modestly beating higher-quality A- and AA-rated credit (both at -0.3%).

Medium-maturity corporate bonds outperformed short- and long-maturity bonds as credit spreads near the belly of the credit curve compressed over the quarter, offsetting the losses from higher interest rates. Over the quarter, the shortest-maturity cohort of one- to three-year bonds returned 0.2% without much impact from interest-rate volatility; the medium-maturity cohort of seven- to 10-year and five- to seven-year returned 0.1%; three- to five-year returned -0.1%; and 10-year-plus detracted the most, at -1.1%. An increase in real yields offset the improving inflation contribution for Canadian real-return bonds as the sector detracted by 0.3%, outperforming the government bond universe (-0.6%). Canadian provincial bonds, also with higher interest-rate sensitivity, underperformed corporate bonds over the quarter, returning -0.8%.



Source: Bloomberg Finance L.P. as of September 30, 2021. Index returns are reported on a total-return basis.

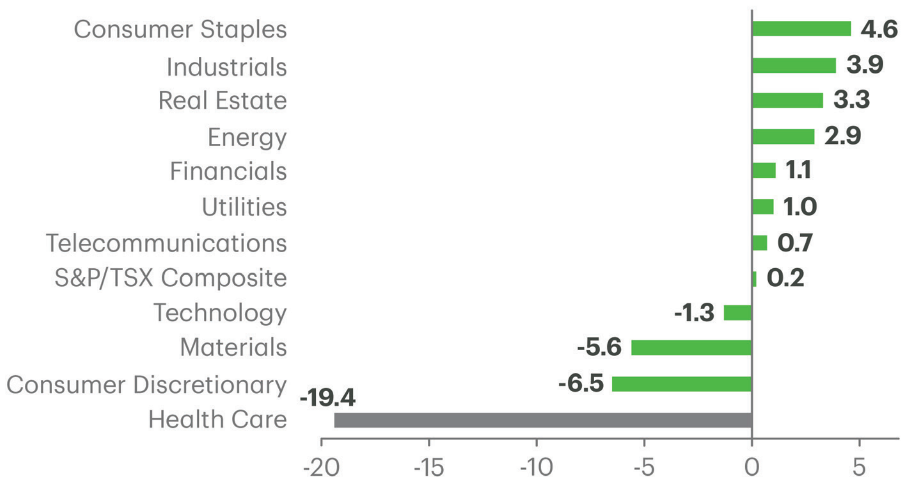
For global corporates, we witnessed a modest rise in government bond yields and spread-tightening losses, which together were offset by the income generated over the period. U.S. investment-grade corporate spreads modestly widened by 4 bps over the quarter, and U.S. sub-investment-grade ("high-yield") corporate spreads widened by 21 bps. The U.S. investment-grade corporate bond universe (CAD-hedged) was flat, modestly outperforming the global investment-grade corporate universe (CAD-hedged) at 0.1%. U.S. sub-investment-grade corporate bonds (CAD-hedged) gained 0.9% over the quarter, outperforming the global sub-investment-grade corporate universe (CAD-hedged) at 0.1%. USD emerging-market debt returned -0.5%, driven by sensitivity to U.S. government bond yields, while local-currency debt returned -1.0%, driven by strength in the U.S. dollar.

Canadian Equities

Indices	Q3 Return (%)	YTD Return (%)
S&P/TSX Composite Index	0.17	17.48
S&P/TSX 60 Index	0.21	18.83
S&P/TSX Completion Index	0.1	12.72
S&P/TSX Cdn SmallCap Index	-2.54	16.73
S&P/TSX Preferred Share Index	1.53	13.17

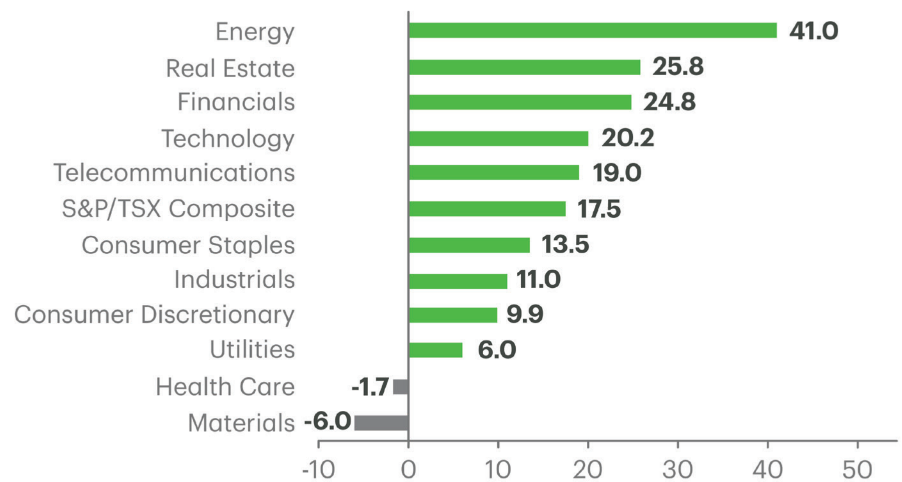
Source: Bloomberg Finance L.P. as of September 30, 2021. Total index values and returns, except the S&P/TSX Preferred Share Index which is reported on a price-return basis

Q3 S&P/TSX Sector Returns (%)



Source: Bloomberg Finance L.P., as of September 30, 2021. Index Total Returns.

YTD S&P/TSX Sector Returns



Source: Bloomberg Finance L.P., as of September 30, 2021. Index Total Returns.

Canadian equities managed to stay afloat, just barely, in Q3. Despite a rise in oil prices, the broad index underperformed its U.S. counterpart slightly as the Fed's forward-messaging on tapering strengthened the greenback, sending investors around the world into U.S. assets. Gold prices plunged nearly 5% on news of tightening monetary policy, while the Canadian dollar fell 2.5% on the news. Buoyancy in the energy sector came as a result of lower-than-expected U.S. inventories and ominous energy shortages in India and China.

As fears intensify over another pandemic wave, decades-high inflation and the possibly premature withdrawal of stimulus, risk sentiment is coming under pressure. The S&P/TSX Composite Index ended the quarter up 0.2%, with seven of 11 sub-indices posting positive returns. Large-cap value stocks outperformed in the third quarter. Small-cap stocks (S&P/TSX Canadian Small Cap Index) fell by 2.5%, underperforming large-cap stocks (S&P/TSX 60 Index), which rose 0.2%. Growth stocks (MSCI Canada Growth Index) declined 0.7% over the quarter, underperforming value stocks (MSCI Canada Value Index), which ended the quarter up 0.51%.

West Texas Intermediate finished the quarter at US$75.03, up just 2.1% since the end of June and 54.6% for the year. In July, a deal by OPEC+ to increase supply sent prices down 6%, but a shortage in China is keeping the market tight. Financials rose 0.3% in Q3, which reflects offsetting performance from insurance companies (+1.3%) and banks (-1.1%). The spot price of gold, meanwhile, ended the quarter at US$1,757, down just 0.7% since the end of June and 7.3% for the year.

At the end of August, Statistics Canada reported abysmal economic figures for Q2. Real GDP in the second quarter swung back to contraction, falling an annualized 1.1% — well below consensus expectations for a 2.5% expansion (and a significant reversal from the first quarter's blistering 5.5% pace). This weakness was driven by a cooling real estate market, leading to a 12.4% drop in residential investment. Plunging exports also contributed, as disruptions in the global supply of microchips hobbled automotive exports and led to a 15% drop in exports. Overall, the poor showing left GDP about 2% below pre-pandemic levels (at the end of 2019).

Consumer spending was flat, with growth of 0.2%, but the negligible headline figure ignores the evolutionary change taking place below the surface. In the second quarter, consumers returned in droves to the leisure and hospitality sector, which had until recently been closed, leading to a rebound in services spending (up 7.3%). This, however, was almost precisely offset by a big drop in goods spending (down 7%), which hampered retailers in the quarter. Business investment, meanwhile, rebounded on machinery and equipment expenditures (up 24.9%), while investment in non-residential structures (up 5.1%) and intellectual property (up 3.3%) also advanced.

TD Economics expects economic growth to rebound in Q3, with growth forecast at 4%. However, experience abroad with the delta variant suggests that the battle to contain it could be prolonged. Provinces and businesses are responding with policies on vaccine passports, mandatory vaccination and regular testing. While this will help mitigate the impact of delta, business and consumer confidence could be impaired. Already, the spread of delta has led economists to slash their expectations for the year, both in Canada and the United States. TDE, for its part, has cut its 2021 forecast for Canadian economic growth from 6.1% to 4.9%.

The labour market, by contrast, has boomed in recent months thanks to Canada's high vaccination rate and low hospitalizations (relative to the U.S.), as well as policies that keep businesses open. The Canadian economy added 231,000 jobs in June, 94,000 in July and 90,000 in August — handily beating expectations as newly opened businesses ramped up hiring to meet the demand of pent-up customers. The unemployment rate fell to 7.1% in August, the lowest it's been since the start of the pandemic. Delta, however, could still complicate the hiring picture in the coming months, even if hospitalizations remain low; weaker consumer confidence could lead to weaker spending activity. Still, employment at the end of August was almost back to normal — just 0.8% below pre-pandemic levels (in February 2020).

Good news on the labour front was matched by solid gains in household wealth, which rose 3.7% in Q2. The increase in net worth was surprising, given the record-setting pace in Q1 (up 6.0%) and some cooling in the residential market. Gains in Q2 came, rather, from financial assets, thanks to robust growth in equities and reduced interest expenses. Even though household debt is up nearly 7% from a year ago — driven by record increases in mortgage debt — interest payments are 4.3% lower. Households spent on average 13.3% of their disposable income on interest, compared to 15% prior to the pandemic (Q4 2019). This, along with higher wages in a tightening labour market, has boosted savings. In Q2, the personal savings rate rose to 14.2% (13% in Q1).

Perhaps not surprisingly, the rise in household wealth and personal savings brought with it a rise in prices, although inflation has not been as high in Canada as in the United States. From June through August, core inflation (CPI-Common) hovered around 1.8%, while the more volatile consumer price index (which includes energy and food prices) recorded an annual increase of 4.1% in August due in part to a whopping 33% rise in gasoline prices. While the Bank of Canada is monitoring the situation closely, it decided at its last policy meeting to hold the overnight rate at 0.25% until core inflation rises sustainably above 2% — now expected sometime in the second half of 2022. TD Economics, for its part, expects "liftoff" to occur in the fourth quarter of 2022.

Preferred Shares

Canadian preferred shares lost steam in Q3, after a 14-month rally from the lows of March 2020. The S&P/TSX Preferred Share Index traded sideways for most of the quarter, before a spike in rates near the end of September pushed the market to close 1.5% higher. The main driver for the jump in yields was the Fed's signal on earlier-than-expected tapering due to higher-than-projected inflation in 2022 and 2023. The five-year Treasury yield was up 8 bps for the quarter, while the five-year government of Canada yield increased 13 bps, to 1.10%, still below pre-pandemic levels. The index is up 2.8% since Q2 and 17.5% for the year.

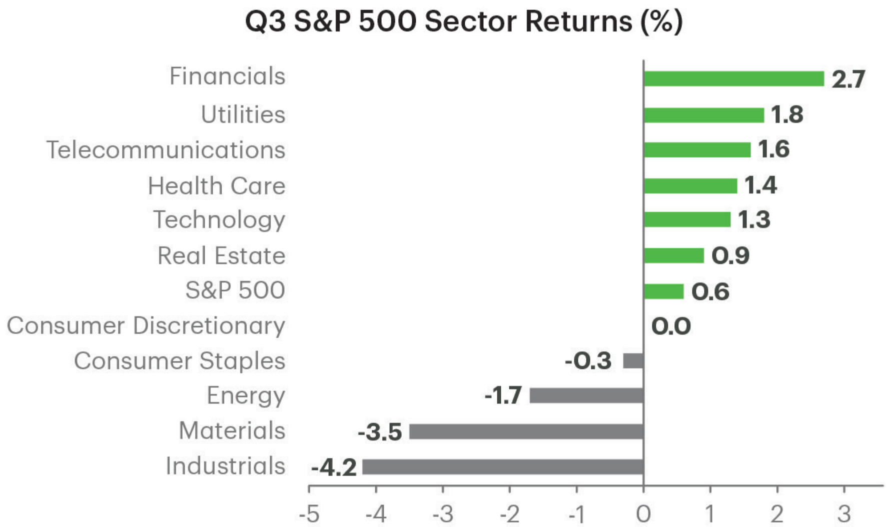
The trend of redeeming issues with a high reset spread continued, with large issuers favouring the debt market as a source of funding. Total redemptions during the quarter amounted to $2.5 billion, and this excludes the announcements from Toronto-Dominion Bank and Westcoast Energy Inc. to redeem TD.PF.H and W.PR.M for a total of $1.3 billion. The amount of fixed rate-reset redemptions in 2021 stands at $8 billion, or 13% of the total outstanding at the end of 2020. Emera Inc. bucked the trend by tapping the market with a $150-million perpetual that was priced at 4.60%. Interestingly, three out of the four new issues in 2020 and 2021 have been perpetuals.

The average yield on investment-grade fixed rate-resets was unchanged, at 4.6%. The yield on investment-grade perpetuals was slightly lower at 5.0%, which at the 1.3 conversion factor is equivalent to a yield of 6.5%.

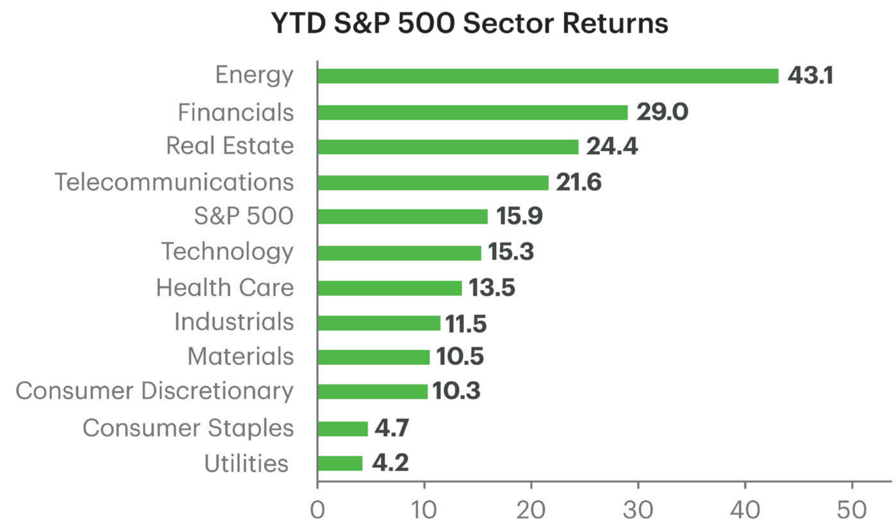
U.S. Equities

Indices	Q3 Return (%)	Q3 Return (%, C$)	YTD Return (%)	YTD Return (%, C$)
Dow Jones Industrial Average Index	-1.46	0.76	12.12	11.41
S&P 500 Index	0.58	2.84	15.92	15.19
S&P 400 Index	-1.76	0.45	15.52	14.79
NASDAQ Composite Index	-0.23	2.02	12.66	11.94
Russell 2000 Index	-4.36	-2.21	12.41	11.7

Source: Bloomberg Finance L.P. as at September 30, 2021. Total index values and returns. Index returns calculated in local currency and C$.



Source: Bloomberg Finance L.P., as at September 30, 2021. Index Total Returns.



Source: Bloomberg Finance L.P., as at September 30, 2021. Index Total Returns.

Equity markets in the U.S. struggled to maintain all-time highs as risk sentiment turned fragile. Investors were jolted by high inflation, rising infections in China and the imminent tapering of stimulus, triggering five significant pullbacks that intensified near the end of the quarter. The first came in mid-July, after OPEC struck a deal over oil supply even as a new outbreak in China raised doubts about demand. This drove oil prices down 6% and prompted an equities selloff. Markets rebounded in short order, thanks to central bank dovishness, but by mid-August, cracks began to appear in the international stimulus framework. Meeting minutes in the lead-up to the Fed's annual symposium in Jackson Hole exposed a growing rift between board members — some of whom believed that tapering was already overdue. Markets plunged again on the news but were once again soothed by a commitment by the Fed chair to remain cautious.

From there, market sensitivity only intensified, with three pullbacks in September. Early in the month, stocks fell as the European Central Bank officially began to withdraw stimulus, tapering its bond-buying program by 80 billion euros per month. Then, nearing the end of the quarter, investors retreated after news emerged about the possible collapse of Chinese real estate developer Evergrande — a global giant with liabilities worth approximately 2% of China's GDP. Finally, a couple of day before the end of the quarter, spiking Treasury yields sent shares crashing yet again.

The markets, still awash in stimulus, managed to stay mostly flat despite the volatility caused by these setbacks. The S&P 500 rose 0.6% in Q3, the Dow Jones Industrial Average fell 1.5% and the Nasdaq Composite Index fell 0.2%. Seven of 11 sectors in the S&P 500 produced a positive return. Financials and utilities rose the highest, with returns of 2.7% and 1.8% respectively. Industrials was the worst-performing sector, down 4.2%. Large-cap growth stocks outperformed during the quarter. Large-cap stocks (S&P 500) rose by 0.6%, outperforming small-cap stocks (Russell 2000), which returned -4.4% in the third quarter. Growth stocks (S&P 500 Growth Index) registered a total return of 1.9% during the quarter, outperforming value stocks (S&P 500 Value Index), which returned -0.9%.

The economy expanded an annualized 6.6% in Q2 (6.3% in Q1) — about two points lower than forecast due to the impact of the delta variant's late-quarter surge, but a solid showing nonetheless as consumers rushed to newly reopened businesses. Without the benefit of $1,400 stimulus cheques, though, disposable income fell 61% in the quarter, although this had little effect on spending given the US$2.5 trillion in savings amassed during the pandemic. Spending shifted dramatically in Q2 as high-touch businesses like restaurants and hotels reopened. Services spending was up 12.0% (4.6% in Q1), although it was also strong for consumer goods. Overall, spending jumped a remarkable 11.9% in Q2 (11.4% in Q1). Growth in business investment, meanwhile, decelerated to 9.3% (12.9% in Q1) — a marked slowdown but still sky high by historical standards. Spending on equipment continued to come in at a double-digit pace, decelerating only marginally to 13.0%. Investment in intellectual property also rose significantly, rising 10.7%.

By the end of the third quarter, however, business confidence had dimmed noticeably as supply disruptions and other "long-haul" effects of the pandemic came home to roost. The Institute of Supply Management's Manufacturing Index rose to 59.9 in August, up marginally from July's reading, at 59.5, but way down from its peak of 64.7 in March. The ISM Services Index, meanwhile, fell to 61.7 in August from an all-time high of 64.1 in July. (Readings above 50 denote economic expansion.) Total economic activity is now slightly above its pre-pandemic level (up 0.8%), but TD Economics is predicting a slowdown as the delta wave throws up roadblocks. Real GDP is forecast to rise only 3.4% in Q3. TDE has also lowered its projection for full-year economic growth to 5.6% from 6.9%.

The impact of delta is also clearly visible in the labour-market data. Initially, in the wake of the reopening, the leisure and hospitality sector saw spectacular gains in hiring, particularly for restaurants. Non-farm payroll reports for June and July posted monthly gains around 900,000 — easily beating expectations and helping lift compensation by 0.9% in August (m/m) as the tight market for service workers led to higher hourly wages. But the latest wave has prompted a backslide to January levels. Job growth stalled in the month of August, coming in at 235,000. What's worse, hiring at restaurants actually turned negative, with 42,000 job losses. Despite the setback, the unemployment rate continued to fall month to month, from 5.4% to 5.2%. While GDP has risen above pre-pandemic levels, labour has yet to reach this mark. As of the end of August, the American economy employed 5.3 million, or 3.5%, fewer workers than it did before the pandemic. Over the next couple of months, delta is likely to weigh on high-touch service sectors, but the variant's impact is expected to fade with time.

Indeed, containment of the delta wave may be exactly what's needed to spur monetary tightening. Recent remarks by Fed Chair Jerome Powell suggest that, with inflation at 30-year highs, tapering is likely to begin by year's end. Stripping out volatile food and energy prices, inflation hit 4.5% in June, 4.3% in July and 4.0% in August. The inflation data support the Fed's view that spikes in recent months are transitory. Going forward, however, inflation is expected to remain above target, leading the Fed in September to speed up its schedule for rate hikes. The central bank now expects one rate hike by the end of 2022. TD Economics concurs, expecting the upper bound of the federal funds target range to stay at 0.25% until the fourth quarter of next year.

International Equities

Indices	Q3 Return (%)	Q3 Return (%, C$)	YTD Return (%)	YTD Return (%, C$)
FTSE 100 Index	1.96	1.69	13.08	10.8
DAX Index	-1.74	-1.89	11.24	4.08
CAC 40 Index	0.44	0.28	20.04	12.9
MSCI Europe (LC) Index	0.64	0.76	15.72	9.94
Nikkei 225 Stock Average	2.98	4.97	8.92	0.29
MSCI Emerging Markets Free (LC) Index	-6.57	-6.03	0.98	-1.87

Source: Bloomberg Finance L.P. as of September 30, 2021. Total index values and returns. Index returns calculated in local currency and C$.

International developed markets outperformed their American peers in Q3, with the FTSE 100 nearing the top of that list. The British blue-chip index returned a solid 2%, despite whipsawing volatility. Risk sentiment was tested repeatedly by decades-high inflation, the Fed's early tapering signal, and rising infections even as restrictions in the UK were set to ease. Bank stocks were further impaired by the government's plan to raise taxes on dividends. Stocks were held up by buoyant earnings throughout the quarter and positive economic data. GDP rebounded 4.8% in Q2 (q/q seasonally adjusted, down 1.6% in Q1) as the economy reopened, although activity in June remained 2.2% below pre-pandemic levels. Bank of England Governor Andrew Bailey said that the case for higher interest rates "appeared to have strengthened" after the BoE in September nudged up inflation forecasts. Still, the Bank has yet to pull the trigger on any tightening measures. Business confidence, however, appears to be faltering in the face of staff and supply shortages and rising infections. The IHS Markit / CIPS UK Composite PMI fell to a six-month low of 55.3 in August from July's 59.2.

European equities underperformed their UK counterparts in Q3, with the MSCI Europe Index rising 0.6%. Extreme volatility was evident throughout the third quarter, as investors turned skittish after seven straight months of gains, due mainly to weakening Chinese data and tightening monetary policy. Strong corporate earnings, however, kept stocks near all-time highs. Easing infections across the continent, moreover, supported the reopening of business and a better-than-expected economic expansion in Q2; real GDP grew 2.2% (q/q seasonally adjusted, 0.3% in Q1). Inflation came in at 3.0% in August — a 10-year high — prompting the ECB to begin tapering asset purchases by 80 billion euros per month. Markets plunged on the news but were quickly soothed by dovish remarks by ECB President Christine Lagarde. Business confidence deteriorated near the end of the quarter, as supply bottlenecks and high input prices raised doubts over the economic recovery. The IHS Markit Eurozone Composite PMI fell sharply to 56.1 in September from 59.0 in August.

Japan's Nikkei 225 Stock Average led developed markets with a 3.0% gain in Q3 after sweeping political changes led to the promise of fresh stimulus. Japanese equities, plagued by political and economic uncertainty, got a boost in September after the resignation of Prime Minister Yoshihide Suga. Negative perceptions around Suga's handling of the pandemic led to his decision to hand leadership over to Fumio Kishida, who has called for a stimulus package worth "several tens of trillions of yen." The Bank of Japan followed suit with a commitment to maintain low rates even amid expansionary fiscal policy. In Q2, the Japanese economy expanded a modest 1.9% in annualized terms (q/q seasonally adjusted, -3.6% in Q1), which was better than expected given a state of emergency that has run off and on from April through September. These lockdowns have devastated business confidence in Japan. In August, the IHS Markit Japan Composite PMI came in at a contractionary 45.9 — the weakest reading in 12 months and down from July's 48.8.

Emerging markets plunged as investors fled markets tied to China, where variant infections have cropped up, and flocked to assets in the U.S. and Europe, where inflation has prompted renewed calls for monetary tightening. The MSCI Emerging Markets Index fell 6.6% in Q3, led by a steep decline in Brazil. The economy there fell back into contraction in Q2, shrinking 0.1% (q/q, +1.2% in Q1), while growing resentment over President Bolsonaro's mishandling of the pandemic has led to protests. Chinese shares seesawed on the dimming outlook. While economic growth accelerated to 1.3% (q/q, 0.4% in Q1), a slowdown is expected due to the recent lockdowns. Both Russia and India outperformed significantly. Russian shares surged on rising energy prices and the easing threat of sanctions, while economic expansion accelerated to 3.5% in Q2 (q/q 1.0% in Q1). Indian shares also enjoyed robust growth, with little volatility, after a devastating pandemic wave in the second quarter abated. The economy grew a record 20.1% y/y in Q2 (1.6% in Q1) — the result of flattering base effects. TD Economics forecasts 2021 growth of 5.3%, 8.5%, 3.5% and 9.3%, respectively, for these nations.

Appendix A – Important Disclosures

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