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1. Weekly Markets Changes

[July 24, 2020]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,997.06 -126.42 -0.78%	3,215.63 -9.1 -0.28%	26,469.89 -202.1 -0.76%	10,363.18 -140.01 -1.33%	\$0.7451 +0.84c +1.14%	\$1,902.02 +91.60 +5.06%	\$41.34 +0.75 +1.85%

2. Goldman Sachs agrees to a \$3.9 billion 1MDB settlement with Malaysia

[July 24, 2020] Goldman Sachs has agreed to a \$3.9 billion deal with the Malaysian government to settle claims relating to the bank's role in the huge corruption scandal at 1Malaysia Development Berhad, the sovereign wealth fund.

The government of Malaysia has agreed to drop all criminal and regulatory proceedings in Malaysia involving the firm, including pending proceedings against subsidiaries of Goldman Sachs and certain current and former directors, Goldman Sachs said in a statement.

The Wall Street bank will pay the Malaysian government \$2.5 billion, and provide a guarantee that it also receives "at least \$1.4 billion in proceeds from assets related to 1MDB seized by governmental authorities around the world," it added.

"This settlement represents assets that rightfully belong to the Malaysian people," said Tengku Dato' Sri Zafrul Aziz, Malaysia's Minister for Finance, in a statement.

The case relates to bond sales that Goldman Sachs arranged and underwrote for 1MDB, from which the US Justice Department alleges \$4.5 billion was stolen. The Justice Department accused Malaysian financier Jho Low, who had ties to the film "The Wolf of Wall Street," of masterminding a plot to channel the money from the fund to former Malaysian Prime Minister Najib Razak's bank accounts.

Razak has been charged by Malaysian authorities with money laundering, among other things. He has denied any wrongdoing. A verdict in his case is due on Tuesday. Low is a fugitive sought by US and Malaysian authorities and may have been hiding in Wuhan, China, where the coronavirus outbreak began, in February.

Prosecutors in Malaysia first filed charges against the US investment bank and two former employees, in 2018. Last year, Malaysia charged 17 current and former Goldman Sachs employees, including Richard Gnodde, the CEO of Goldman Sachs International. At the time, the bank said the charges were "misdirected" and would be "vigorously defended."

In February, the Federal Reserve Board permanently banned Andrea Vella, a senior Goldman Sachs executive, from working in the banking industry for engaging in "unsafe and unsound practices" in relation to the scandal. Friday's settlement does not cover two former Goldman Sachs bankers, Roger Ng and Tim Leissner, the latter of whom has already pleaded guilty to multiple Justice Department charges related to money laundering.

"Today's settlement is an important step towards putting the 1MDB matter behind us and will help enable the Malaysian government to move forward with additional recovery efforts and to execute on its economic priorities," said Goldman Sachs in an additional statement.

The Malaysian Ministry of Finance said that "this settlement by Goldman Sachs represents its acknowledgment of the misconduct of two of its former employees in the broader 1MDB fraudulent and corruption scheme" adding that the settlement does "not affect Malaysia's claims against Jho Low and other parties related to the 1MDB scandal."

Goldman Sachs said it expected "to materially increase its provisions for litigation and regulatory proceedings" for the second quarter as a result of the settlement.

3. US-China tensions and a stalling recovery are a tough cocktail for investors

[July 24, 2020] Investors are waking up to the big risks posed to markets as US-China tensions ratchet up and America's economic recovery appears to have stalled.

What's happening: Beijing ordered Washington to shut down its consulate in the city of Chengdu after US authorities forced the Chinese consulate in Houston to cease operations earlier this week. The announcement sent global stocks lower. The Shanghai Composite closed down 3.9%, while European shares fell sharply in early trading.

Meanwhile, the United States on Thursday reported an increase in first-time claims for unemployment benefits for the first time since late March — a major indication that the US economic recovery has lost steam this summer as Covid-19 cases spike across much of the country. The data sent the S&P 500 tumbling 1.2% on Thursday.

Rising US-China tensions and hard evidence that the recovery has hit a speed bump are a brutal cocktail for investors, which have largely put aside risks to the outlook in the past month. The S&P 500 hit its highest level since February earlier this week, but enthusiasm has since dampened.

"The escalating tensions between the world's two superpowers come at a time when US equities have been struggling to maintain their stellar rise," FXTM market analyst Han Tan said.

Initial jobless claims, in particular, are a wake-up call to those who have argued that fresh shutdowns aimed at containing the pandemic will remain local in scope and economic impact.

"Several high frequency data sources suggest that the labor market recovery is stalling due to the worsening virus situation," Goldman Sachs strategists Joseph Briggs and David Choi told clients Friday. They expect US employment will show no improvement in July.

Up next: A closely-watched gauge of economic activity posts Friday for Europe and the United States. Given growing concerns, it could have an impact on markets.

A flash reading of the Purchasing Managers' Index for the 19 countries that use the euro showed business activity jumping for the first time since February as the restrictions continue to ease.

"The significant improvement indicates that demand is bouncing back as economies reopen," ING economist Bert Colijn said. But risks remains as businesses continue to slash jobs "at a considerable pace."

Summer blockbuster season isn't happening

Film studios and movie theaters had hoped to pull off a summer miracle. But as Covid-19 cases shoot up across swaths the United States, companies are quickly reversing course.

The latest: Disney said Thursday that "Mulan," which was set for an August 21 release date, has been taken off the calendar, my CNN Business colleague Frank Pallotta reports.

"Over the last few months, it's become clear that nothing can be set in stone when it comes to how we release films during this global health crisis, and today that means pausing our release plans for 'Mulan' as we assess how we can most effectively bring this film to audiences around the world," a Walt Disney Studios spokesperson said in a statement.

The decision is a big blow to struggling theaters, which have built their reopening plans around the anticipated release of blockbusters like "Mulan." Warner Bros.' "Tenet," a thriller from Christopher Nolan, was delayed again earlier this week.

Prior to Disney's announcement, AMC Theatres, the world's biggest movie-theater chain, said it would postpone the reopening of its US theaters to "mid-to-late August."

Investor insight: Disney's reliance on packing crowds into theme parks and movie theaters has been brutal for its business during the pandemic, sending shares down 18% this year.

But theater chains have been hit even harder; shares of AMC Entertainment are off 44% year-to-date. The company, short on cash and at risk of bankruptcy, reached a deal with investors to secure \$300 million in new funding earlier this month.

Nothing is normal: The coronavirus pandemic will disrupt Disney's release schedule for the next decade.

All scheduled "Star Wars" and "Avatar" films between 2021 and 2027 are being pushed back one year. That means there will be no "Avatar 2" next year and no new Star Wars film in 2022.

The FTSE 100's most valuable company makes ice cream

The FTSE 100 was once dominated by oil giants and big multinational banks. Now its most valuable member is Unilever, the company that owns the Lipton tea brand and Dove personal care products.

Shares of the consumer goods company have jumped more than 7% this week after the company reported results that were helped by a rise in eating and cleaning at home.

"Consumers have eaten more soups, used more meal kits and accompanied their meals with mayonnaise and ice cream as dessert," CEO Alan Jope told analysts Thursday.

The ice cream effect: Sales of ice cream to eat at home increased by 15% in the first half of the year and 26% between April and June, Unilever said Thursday, "significantly offsetting" a loss in sales in public places. The Magnum and Ben and Jerry's brands got special shout-outs for growth. Unilever is now worth nearly \$155 billion, pacing ahead of drugmaker AstraZeneca, Royal Dutch Shell, HSBC and BP. But the market value of the entire FTSE 100 is still lower than the combined value of just Apple and Microsoft, which lead the S&P 500.

4. Bill Ackman: Biden or Trump can't solve the market's uncertainty problem

[July 23, 2020] Hedge fund billionaire Bill Ackman, who said in March that "hell is coming" for the US economy, is now warning of another risk.

"Regardless of who our next president is, whether it's President Trump or Biden, there's going to be uncertainty, and uncertainty from a business point of view," Ackman told CNN's Christine Romans on Wednesday.

Investors have a lot to chew on with the Covid-19 pandemic, an unprecedented recession, the presidential election in November and renewed US-China tensions.

Ackman thinks it's unrealistic to bet on a coronavirus vaccine before next year. As for the rest of 2020, the economic recovery will ebb and flow, he said, with rebounds at varying speeds across different parts of the country.

"My view is the second half of 2021 things are coming back to look normal," Ackman told CNN.

Although companies in certain Wall Street sectors have deep enough pockets to withstand the current recession, smaller businesses are at great risk. These smaller companies are a crucial driver of the US economy and they need protection during this crisis, Ackman said.

But Ackman has at times been labeled a pandemic profiteer, after disclosing that his hedge fund Pershing Square made \$2.6 billion during the March stock market rut. He was quoted in March warning that "hell is coming" for the US economy -- after he made a substantial bet against the market.

His latest venture, a billion-dollar 'blank check' company that began trading on the New York Stock Exchange Wednesday under the ticket PSTH.U', raised \$4 billion at \$20 per share and traded up some 8% up during Wednesday's session.

Now it's unicorn hunting season for Pershing Square Tontine Holdings, the newly IPOed funding vehicle of Ackman's hedge fund. The investment

vehicle — or special purpose acquisition company — will merge with companies it wants to invest in and thereby take them public.

"It's a way for us to take a private company public and to inject five billion dollars of cash into a private company, either to pay down debt, to accelerate growth, to buy out some investors who are looking for liquidity," Ackman said.

The process is more efficient than a traditional IPO, which includes extensive regulatory filings and a roadshow, he added. And this isn't exactly a great climate for an initial public offering.

"Uncertainty is the enemy of the IPO process," he added.

Plus, "there are more privately owned family businesses that are worth \$10 billion, and more now, than ever before in history," which makes investing in a private company very appealing, he said.

A mature 'unicorn' -- that is a more developed but innovative business -- "is probably the sexiest category" to look at, Ackman said.

5. Annual inflation rose in June, StatsCan says

[July 22, 2020] Statistics Canada says the consumer price index for June was up 0.7% compared with one year ago, ending a run of negative inflation that began in April in the wake of the Covid-19 pandemic.

The consumer price index had registered two months of negative readings leading up to June, first with 0.2% annualized decline in April, then a further 0.4% drop in May.

The average economist estimate from data firm Refinitiv forecasted an annualized inflation rate of 0.3% for the month.

The turnaround from May to June matched the fastest acceleration in the headline inflation reading since March 2011.

Fuelling the rise was an increase in clothing and footwear after two months of declines as brick-and-mortar stores were closed due to Covid-19.

Gasoline prices edged up as more people were on the road after businesses and public services gradually reopened, and what the agency called a general increase in local travel during June.

Statistics Canada says that excluding gasoline, the consumer price index rose 1.2% in June.

CIBC senior economist Royce Mendes says the increase in business activity across the country as restrictions ease led to a rebound in prices. In a note, he says inflation should remain in positive territory as the economy continues to reopen.

“While any fears of deflation appear premature at this point, the economy will likely only be generating modest rates of inflation even with some supply-chain disruptions,” he writes.

The Bank of Canada forecast last week that annual inflation will be 0.6% this year and vowed to maintain its key interest rate at the effective lower bound of 0.25% until inflation hits its 2% target.

Statistics Canada reports that mortgage interest costs fell for the second consecutive month, this time by 0.3%, partly due to declining bond yield and the central bank’s rapid rate cut in March.

The agency says prices rose the most in Alberta compared to June 2019 when commodity prices fell and the provincial government eliminated a carbon tax. Year-over-year price growth was the weakest in the Atlantic provinces, held down by low prices for furnace fuel oil that is more commonly used in the region.

In Ontario, electricity prices rose 17.2% on a month-over-month basis, the largest monthly increase since May 2003, Statistics Canada says. The agency attributes the change to higher prices kicking in June 1 in the province after the Ford government reduced fees in March as people were ordered to stay home to slow the spread of Covid-19.

6. EU leaders strike 'historic' \$2 trillion deal to rebuild Europe's economy

[July 21, 2020] After almost five days of fraught discussions, European leaders have agreed to create a €750 billion (\$858 billion) recovery fund to rebuild EU economies ravaged by the coronavirus crisis.

The European Commission will borrow the money on financial markets and distribute just under half of it — €390 billion euros (\$446 billion) — as grants to the hardest hit EU states, with the rest provided as loans. Leaders also agreed a new EU budget of nearly €1.1 trillion (\$1.3 trillion) for 2021-2027, creating combined spending power of about €1.8 trillion (\$2 trillion).

"It is an ambitious and comprehensive package combining the classical [budget] with an extraordinary recovery effort destined to tackle the effects of an unprecedented crisis in the best interest of the EU," the EU leaders said in a joint declaration.

The deal focuses on providing funding across three pillars: helping businesses rebound from the pandemic, rolling out new measures to reform economies over the long haul, and investing to help protect against "future crises." It came after days of deadlock and fractious talks that were described as some of the most bitterly divided in years.

"We did it! Europe is strong. Europe is united," European Council President Charles Michel said at a press conference Tuesday. "This is a good deal, this is a strong deal, and most importantly, this is the right deal for Europe right now."

Michel said it was the first time that members of the European Union were "jointly enforcing our economies against the crisis."

The European Union is battling a savage recession triggered by the pandemic, and the hardest-hit countries such as Italy and Spain urgently need fresh economic relief.

The European Commission said earlier this month that it expects the EU economy to shrink 8.3% in 2020, considerably worse than the 7.4% slump predicted two months ago.

Before Tuesday, agreement had been thwarted by deep divisions over the overall size of the recovery fund, the mix of grants and loans, and the conditions that should be attached to the relief.

Details of the deal

There had been bitter rows over some of the terms of the deal during the last few days. The agreement came just hours after Michel had presented a new proposal to political leaders on Monday.

The European Commission's original proposal was to distribute €500 billion (\$573 billion) via grants, while €250 billion (\$286 billion) would have been offered as loans. But the volume of grants had been vehemently contested during the summit. The so-called "Frugal Four" countries — Netherlands, Denmark, Austria and Sweden — were worried it would burden their countries with debt to fund the spending of other governments.

Using grants would have required net contributors to the EU budget, including the "Frugal Four," to pay in more. Relying on loans, meanwhile, would mean saddling highly-indebted countries such as Italy with even more liabilities.

The new agreement means the European Union will become a major borrower in global financial markets for the first time. It plans to repay the money by 2058.

To help do that, it will look for fresh ways to raise funds. The Commission said in the text of the deal that it would propose a "digital levy" for tech companies, and consider a new tax on financial transactions.

It also said it would consider updating an existing emissions trading program, which caps the amount of greenhouse gases companies are allowed to emit without facing fines. It could extend the restrictions to the aviation and maritime industries, according to the Commission.

How it came to pass

The meeting of the EU top brass was the first major in-person gathering of world leaders since the pandemic started — and the negotiations ran for four days and nights.

It was "more than 90 hours, but it was worth it," European Commission President Ursula von der Leyen told reporters Tuesday.

Failure to reach an agreement would have risked a "two-speed" economic recovery, with wealthier northern European states bouncing back faster than struggling Italy and Spain. That in turn would have placed further enormous strain on the ties that keep the EU together.

French President Emmanuel Macron hailed the signing of the deal as a "historic day for Europe."

"Think of the distance that we have covered. Ever since February, we have not been able to come to some type of agreement," he said. "Now we have the [budget], we have the recovery fund and this amounts to almost 2% of the EU GDP."

Macron hailed the leaders' efforts as helping "to almost double the EU budget for the next years to come," while German Chancellor Angela Merkel declared that "we have laid out the financial foundations for the European Union for the next seven years."

Holger Schmieding, chief economist at Berenberg, called the deal "a big step forward for Europe."

"With the biggest ever effort of cross border solidarity, the EU is sending a strong signal of internal cohesion," he wrote in a note Tuesday. "Near term, the confidence effect can matter even more than the money itself."

7. Bank of Canada reducing pace of short-term purchases to pre-pandemic levels

[July 21, 2020] Citing improving market conditions, the Bank of Canada is scaling back some of its efforts at shoring up short-term liquidity introduced in response to the market turmoil caused by Covid-19.

In a statement, the Bank said "[c]onditions in short-term funding markets have improved" and that its efforts at ensuring short-term liquidity are working as planned.

In particular, strains in both the government Treasury Bill market and the short-term provincial borrowing market "have diminished significantly," it said.

As a result, the bank is reducing its acquisition of these securities.

Specifically, it will reduce the amount it purchases in T-Bill auctions from 40% to 20% of tendered amounts, “which is in line with average levels prior to the onset of the Covid-19 pandemic.”

It will also cut its share of each accepted offering of directly issued provincial money market securities from 40% to 20% of the offering.

The bank said that it may adjust these percentages if market conditions warrant.

“The Bank of Canada continues to closely monitor global and domestic market developments and remains committed to providing liquidity as required to support the functioning of the Canadian financial system,” it said.

8. ‘Covid-19 has changed everything,’ StatsCan says in housing market study

[July 21, 2020] Housing prices in Montreal and Ottawa are poised to fare best in the months ahead, while the outlook for other major markets, such as Toronto and Vancouver, are less positive, Statistics Canada says.

A StatsCan study examined Canada’s key housing markets heading into the Covid-19 outbreak and in the months since the pandemic took hold.

“Demand outpaced supply in most key housing markets until mid-March 2020, spurred by economic growth, a low unemployment rate and population increase largely from immigration,” it said.

“Covid-19 changed everything.”

In March, the economy plunged, unemployment surged and immigration ground to a halt. As a result, housing sales dropped by an average 70% through April in Canada’s big housing markets, StatsCan said.

Looking ahead it sees a range of outcomes for the key housing markets.

Ottawa, which boasted the hottest housing market heading into the pandemic, is expected to continue outperforming.

It has been less hard hit economically than other regions, given the high proportion of government workers, tech sector employees and other professionals who have held on to their jobs.

“Given the economic stability of Ottawa, and that it has one of the highest population growth rates in the country, house prices will likely continue to rise for the foreseeable future,” StatsCan said.

Montreal enjoyed strong price growth prior to the pandemic, and underlying supply and demand fundamentals continue to support rising prices.

“Given that Montreal is a major immigration hub, it is seen as having enough housing demand to sustain positive price movements for the foreseeable future,” StatsCan said.

In particular, the study said the single home market is expected to perform well, whereas the condo market may be hurt by declining rental prospects, pushing down prices.

The pandemic has transformed the rental market in several major cities, with physical distancing measures and travel restrictions undermining demand.

“There is already evidence of this happening in Toronto, where average rental prices have begun decreasing as new landlords try to attract clients from a diminished pool of potential renters,” the study said.

As a result, StatsCan said the supply of condos in Toronto is expected to increase, as short-term rentals have lost their main sources of income and increased rental construction is boosting competition.

Investors who previously bought condos to serve as short-term rentals may now look to dump those properties amid declining demand.

Additionally, the decline in immigration will likely drive down condo prices in the medium to long term, StatsCan said

At the same time, prices for higher-end housing in Toronto are expected to stagnate, or decline, given the economic downturn, it added.

With a rise in remote working, more buyers may look for larger houses in the suburbs that can accommodate home offices, StatsCan said.

The study sees similar dynamics to Toronto in Vancouver’s housing market, which remains among the most expensive markets in the world.

The high cost of housing, coupled with increased remote working, may push more people to move to outlying areas in Vancouver, StatsCan said.

It also sees the potential for short-term rentals to flood the market in Vancouver, driving down condo prices in the short to medium term.

The market outlook is weakest for Calgary, which was already seeing housing prices decline prior to the pandemic.

“Home prices in Calgary have been falling since the oil price crash in 2014 and with the recent uncertainty surrounding the energy sector,” it said.

This has continued in the wake of the pandemic, as housing inventory continues to accumulate.

“Calgary does not have the economic diversification that Toronto or Montreal have and will continue to suffer from bleak economic prospects for the foreseeable future. This will definitely contribute to the negative pressure on real estate prices,” the study said.

9. This billionaire says the US stock market is overlooking the rapidly growing national debt

[July 20, 2020] As the US stock market has made a dramatic recovery from March lows, it has felt at times as if the market and the economy are no longer on speaking terms.

While the stock market has been volatile in recent months, it has trended strongly upward and the Nasdaq has hit record highs. Meanwhile, the United States continues to experience surging coronavirus cases, bankruptcies and store closures, elevated unemployment figures and other signals of an economy in trouble.

Hedge fund billionaire Leon Cooperman said he thinks the market is overvalued, and that it is overlooking "a number of things."

Chiefly, he said, the market "is not recognizing the risks that we face: the China relationship deteriorating, the tremendous increase in debt in the system, certainly from the election, the virus issues," Cooperman told CNN's Christine Romans in an interview that aired on "Early Start" Monday.

Risks for the market

The nation's rapidly growing national debt is among Cooperman's biggest concerns.

Instead of whittling down the federal deficit when the economy was strong, Trump directed the federal government pile on even more debt to pay for massive tax cuts and spending surged, which meant the country entered the coronavirus crisis in rough financial shape. Now, the national debt is exploding as Washington scrambles to rescue the US economy from the shock of the pandemic.

"I am focused on something the market is not focusing on at the present time and that is: Who pays for the party when the party is over?" Cooperman said. The deficit is growing at a rate "well in excess of the growth rate of the economy," he added. "To me, that means more of our nation's income will have to be devoted to debt service, which will retard economic growth in the long term."

On top of questions about what the pandemic will mean for the economy and markets as America struggles to reopen, uncertainty surrounding the presidential election in November could also rattle investors. Some signals suggest the market no longer cares whether Trump is reelected — defying the conventional wisdom on Wall Street that the market prefers having a Republican in power.

Cooperman — who last year quarreled with then-Presidential candidate Elizabeth Warren over her wealth tax proposal — said he worries about a "Democratic sweep" in November.

"If Democrats control Congress and the White House, I think that there's going to be a big increase in taxation which will not be a positive for the market," he said.

Still, Cooperman said Trump is "worse than I feared in many respects."

"Better in some respects, but worse than I feared overall," he said.

He added: "In my opinion, if President Trump is not prepared to change his dialogue and the way he treats people, he should not run again and take a victory lap... In January, before the virus hit, the economy was at a record high. Unemployment amongst minorities was at a record low. Overall, unemployment was at a record low. He opened up a necessary dialogue on trade. Opened up a necessary dialogue on immigration. So he did some good things. But his behavior is very offensive."

The latest CNN polling data shows Joe Biden leading with 55% of the national vote.

Cooperman also said the reaction to the United States' fluctuating relationship with China demonstrates how "fickle" the market is.

"Six months ago, the market was totally fixated on a deal with China," Cooperman said. "If there was good news in China, the market would rally, and if there was bad news in China, the market went down. Now, the news on China has gotten very negative and the market is totally ignoring it."

What that means for economic recovery

There has been much talk of what "shape" the economy's recovery from the coronavirus crisis will take. Economists have discussed U-shaped, V-shaped and even Nike-swoosh-shaped recovery patterns.

Cooperman said he thinks recovery will look like the square root symbol.

"If you go back to your school days — you have a sharp movement down, you have a bounceback, but... the growth rate in the economy going forward will be less than people think," Cooperman said.

He said the stock market's current success reflects the "free money that the (Federal Reserve) has created" as it seeks to stem the effects of the coronavirus crisis, but managing all that debt will mean slower economic growth going forward.

"On the big picture, I think the market is ahead of the fundamentals," Cooperman said. "And I believe in the economic recovery, and I believe we'll get ahead of the virus problem, but I think the valuations are just too high relative to the uncertainty."

Have a nice and fruitful week!

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