



MONTHLY COMMENTARY

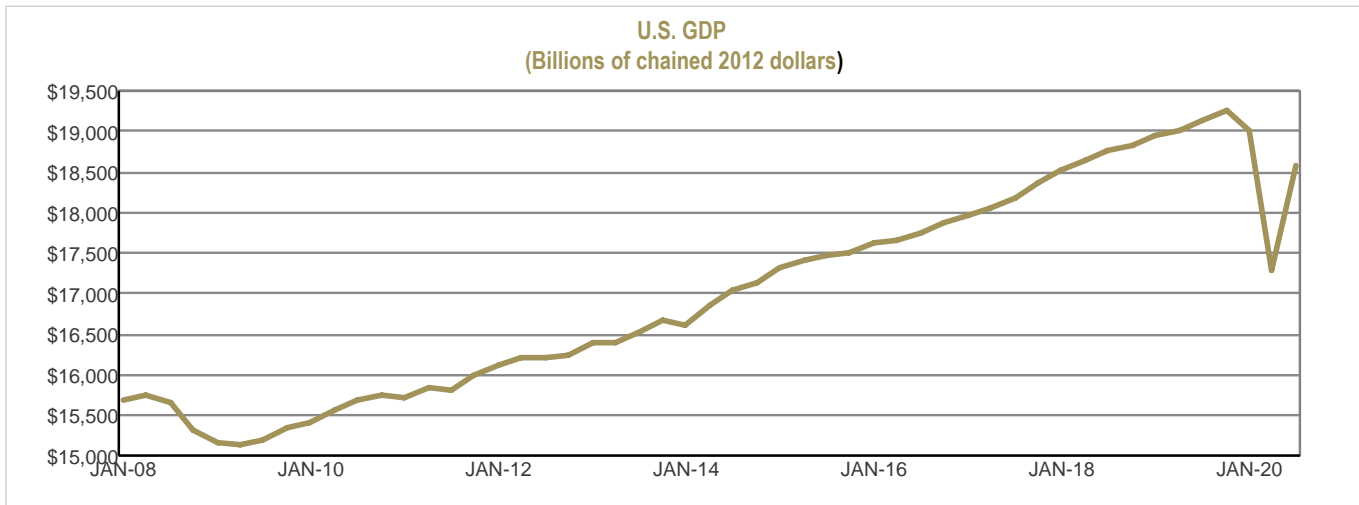
November 2020

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U.S. ECONOMY NARROWS THE GAP



*Source: U.S. Bureau of Economic Analysis

MARKET FOCUS

U.S. GDP rebounds but uncertainty remains

The U.S. Bureau of Economic Analysis announced that real gross domestic product (GDP) grew 33.1% (quarter-over-quarter, annualized) in the third quarter of 2020. This is now the largest quarterly advance on record dating back to 1947 and was led by a 40.7% (on the same basis) surge in consumer spending. Regardless of the dramatic rebound in output, it comes on the heels of the second quarter’s 31.4% contraction, which was the worst quarterly performance over the same period. The third quarter estimates show total economic output US\$670

billion, or 3.5% below the cyclical peak recorded in the fourth quarter of 2019. Closing that gap will likely be no simple matter. The September employment report showed that the labour market was still down 10.7 million jobs from the pre-pandemic peak. Additionally, daily coronavirus case counts that have moved to the 85,000 level in recent weeks have raised the possibility of a return to wider restrictions on the broader economy. Adding to the mix, significant uncertainty remains with respect to the scope and scale of any additional, near-term, federal stimulus package.



Bank of Canada contemplates near-zero rates until 2023

Following its October 28 policy deliberations, the Bank of Canada announced that it was holding interest rates steady, with its target for overnight borrowing unchanged at 0.25%. The bank last adjusted interest rates at the outset of the pandemic in March, when it lowered administered rates by a cumulative 1.50% in three separate moves. The bank refers to its current target rate as the “effective lower bound,” and it appears likely that this target will be maintained for quite some time. Published simultaneously, the bank’s October 2020 Monetary Policy Report (MRP) states that “ongoing slack in the economy is expected to continue to hold inflation down into 2023.” Even though the federal government has yet to table a budget, assumptions built into the MRP explicitly include “additional fiscal support relative to the July Report.” Looking further out, the bank’s inflation control target (currently 2%) is set to be renewed in 2021. Given the scope of government borrowing anticipated over the near term, investors will be watching closely for any indication of a material shift in the Bank of Canada’s mandate ahead of the renewal.

Euro area recovery likely to be short lived

The euro area economy expanded at a record pace in the third quarter of 2020. However, a return to lockdown in France and Germany, raises the spectre of a double-dip recession. Figures released by Eurostat, showed that the GDP of the 19-nation economy surged by 12.7% in the three months to September, eclipsing the prior record set

in the second quarter of 1997 (1.2%) and allowing a partial recovery from the record 11.8% contraction in the previous quarter. Of the region’s major member nations, France (18.2%), Spain (16.7%) and Italy (16.1%) each logged double-digit increases in economic activity. Total output in Germany jumped by a record 8.2%. Despite the outside growth, total output in the euro area is still 4.3% below the peak seen in the fourth quarter of 2019. Further, the reintroduction of lockdown measures is expected to dampen activity in the fourth quarter. In response, the European Central Bank acknowledged the downside risks, signalling it will ramp up stimulus again in December.

LONGER VIEW

Markets are searching for any certainty around the potential fallout from the spread of COVID-19. With economic activity shut down around the globe, central banks and governments are doing “whatever it takes” to keep the economic system functioning. Central banks have responded by cutting interest rates, creating programs to keep credit flowing and increasing the size of their asset purchasing programs, which effectively means printing money to buy assets. On the fiscal side, governments are expected to provide “helicopter money” to individuals who have been forced out of work. While we are not sure of the exact timeline, we are confident that this period of stress will eventually pass and investors with long-term horizons have an excellent opportunity to purchase stocks at bargain prices.



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