

## MONTHLY COMMENTARY

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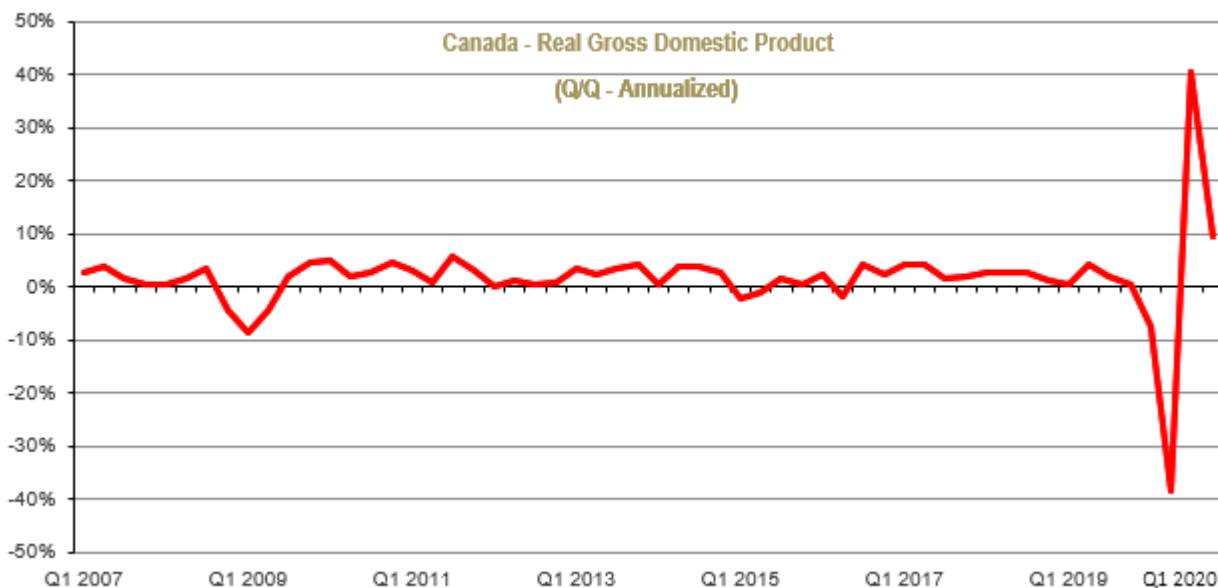
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### Canadian GDP on the rise



Source: Statistics Canada.

### MARKET FOCUS

#### Canadian economic recovery continues

Statistics Canada announced that real gross domestic product (GDP) expanded 9.6% (on an annualized basis) in the final quarter of 2020, after advancing 40.6% during the

third quarter. Benchmark revisions revealed a first-quarter contraction of 7.5%, followed by a record decline of 38.5% in the second quarter. For 2020 as a whole, GDP contracted 5.4% — the worst calendar-year performance on records dating back to 1961. As is apparent in the chart

above, the economic fluctuations seen throughout the year dwarf the movements that took place during the 2008-2009 financial crisis. Gains in government spending and business investment in inventories were the greatest contributors to the overall advance in GDP during the fourth quarter. Despite the back-to-back gains, overall output remains 3.2% below the cyclical peak reported in the final quarter of 2020. Statistics Canada provided forward guidance, stating that “advanced information indicates an approximate 0.5% increase in real GDP for January 2021.” Nevertheless, the timing around a full recovery remains uncertain. Record deficit and debt levels are likely to be reported when a 2020-2021 federal budget is eventually tabled. Regardless of any plans for additional debt financing, stimulus expenditures will eventually slow, and any tax or spending measures taken to reduce the deficit will dampen economic activity.

## **U.S. Fed sees higher inflation, but no rate hikes**

The U.S. Federal Reserve (the “Fed”) held interest rates steady following its latest two-day monetary policy meeting, maintaining the federal funds rate in a target range of 0.00% to 0.25%. It continues to sit at the lowest level since December 16, 2008. The Fed last cut interest rates by a cumulative 1.50% in March of 2020. In addition, the Fed released its updated forecast, which revealed improved expectations for GDP growth in 2021 (to 6.5% from 4.2% in the December forecast) and in 2022 (to 3.3% from 3.2%). At the same time, the forecast for the unemployment rate was lowered to 4.5% for 2021 (from 5.0%) and to 3.9% (from 4.2%) for 2022. Perhaps more importantly for the markets, the Fed raised its forecast for core inflation in 2021 (to 2.2% from 1.8%) and in 2022 (to 2.0% from 1.9%). Despite these changes to the official outlook, no change in administered interest rates is anticipated through 2023. In any case, investors will look to yields on long U.S. Treasury issues to judge any market-based inflationary fears.

## **Bank of Japan tweaks policy, and stock purchase program**

At its March policy meeting, The Bank of Japan (BOJ) held its key short-term interest rate steady at -0.1% and maintained the target for the 10-year Japanese government bond (JGB) yield at around 0%. However, while leaving its policy rate unchanged, the bank widened its fluctuation range for 10-year JGB yields to +/-0.25% from the target level (compared to the prior +/-0.2%). The bank also unexpectedly tweaked its stock-buying program to only purchase exchange-traded funds (ETFs) from the Tokyo Stock Price Index (TOPIX), severing a decade-long program in which the bank had purchased ETFs tracking the Nikkei 225. Japan’s benchmark stock average closed 1.4% lower on March 19 — the trading day following the bank’s announcement — while the TOPIX rose 0.2% to close at its highest level since April 18, 1991. At the same time, the BOJ noted that it will consider lowering its short-term interest rate by 10 basis points to -0.2%, addressing the lingering deflationary worries after consumer prices in Japan fell for the fifth straight month in February, on a year-over-year basis.

## **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.

# THE PLAYBOOK



For more information, we encourage you to speak to your advisor or visit us at [assante.com](https://www.assante.com)

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