

MONTHLY COMMENTARY

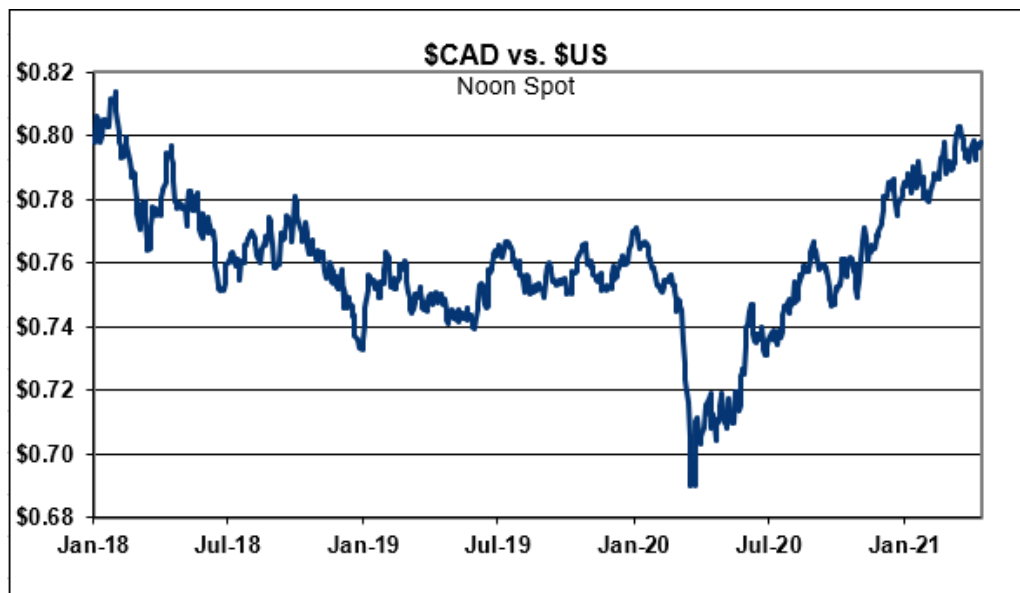
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Canadian-dollar rebounds



Source: Bank of Canada

MARKET FOCUS

Canadian dollar recovers, but uncertainty remains

Not surprisingly, the initial reaction to the COVID-19 pandemic from investors was a traditional “flight to quality,” as even mildly risky securities were sold off. Similarly, the Canadian dollar was caught up in a broad currency shift, with international investors favouring the “safe-haven” status of the U.S. dollar. As outlined in the graph above, prior to the pandemic, the Canadian dollar

peaked at US\$0.7718 on January 2, 2020. However, as uncertainty over the health and economic implications of COVID-19 began to spread, the currency saw heavy selling pressure. By March 19, 2020, the Canadian dollar had lost nine cents (11.7%), reaching US\$0.6818, its weakest level since April 9, 2003. Despite the evolution of the Canadian economy, natural resources are still closely linked to the value of the Canadian dollar. Mirroring significant

THE PLAYBOOK



improvements in traditional energy prices, the Canadian dollar broke back above US\$0.80 on March 12, 2021 for the first time since February 5, 2018. However, with uneven vaccine rollouts across different countries, the global economic recovery can be expected to be *uneven* as well. In addition, the recently tabled federal budget revealed a debt-to-gross domestic product (GDP) figure of 51.2% for 2021/2022, forecasting only a slight improvement to 49.2% by 2025/2026. It remains to be seen how this stacks up when compared to other nations, and whether it will be good enough for bond and currency investors.

U.S. consumers step on the gas

Early success with vaccine rollouts coupled with fresh stimulus cheques allowed consumer spending to surge in March. The U.S. Census Bureau announced that retail and food services sales soared 9.8% (seasonally adjusted) during the month. This advance pushed year-over-year sales growth to a record 27.7% (with records dating back to 1992). For the first quarter, retail spending increased at an annualized pace of 34.7%. Interestingly, a recent report from the New York Federal Reserve suggested that stimulus recipients intended to spend a relatively modest 24.7% of the amounts they were to receive. This represents a decline from the 29.2% spent from the first round of stimulus cheques in the spring of 2020. In either case, consumer spending has and will continue to fuel overall economic growth. In addition, recent advances in consumer prices can be expected to continue as further re-opening occurs. It is unclear where the consumer price index will be when the U.S. economy is fully opened and how this will impact the Federal Reserve's monetary policy.

Chinese economy reports record pace; expected to slow

China kicked off 2021 with a historic expansion that topped even the manufacturing and export boom of the 1990s. The National Bureau of Statistics revealed that China's economy surged 18.3% in the first quarter of 2021 from a year earlier, a record rate of growth that reflected the rebound from the pandemic-induced trough in the first quarter of 2020. However, more frequent data shows that China's explosive recovery has started to decelerate. Compared to the fourth quarter of 2020, real GDP grew only by 0.6%, down from a previously reported 2.6%. According to monthly figures released simultaneously, retail sales soared 34.2% in March 2021 compared to a year earlier. However, industrial production advanced 14.1% in March, easing from a record pace of growth in February at 35.1%. Accordingly, the year-over-year GDP growth rate is expected to trend lower in subsequent quarters as the Chinese economy, unlike most of the world's other major economies, began its recovery in the second quarter of 2020.

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.

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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