MONTHLY COMMENTARY

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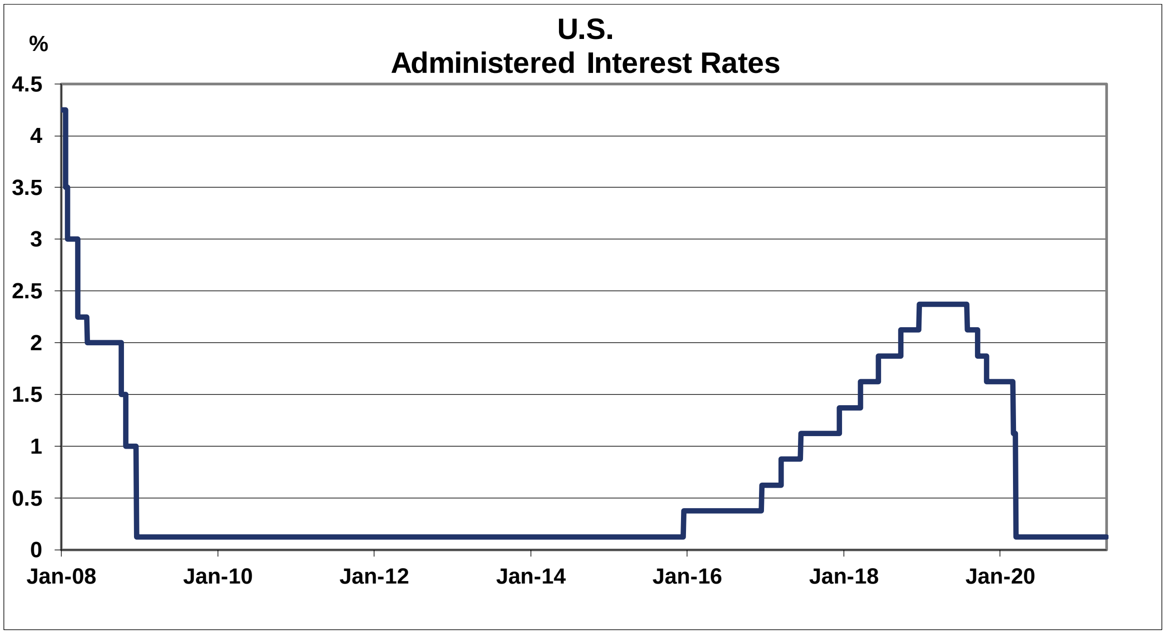
Interest rates back in focus



Source: U.S. Federal Reserve Board.

MARKET FOCUS

Fed changes its tune

The U.S. Federal Reserve Board's Open Market Committee (FOMC) 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 be at its lowest level since December 16, 2008. The accompanying press release further underscored the Fed's desire to have inflation "moderately exceed two per cent for some time." However, the FOMC adopted a more hawkish stance with respect to the future of monetary action. Critically for market participants, in its updated projections, the FOMC now anticipates two interest rate

hikes of 25 basis points (a basis point is 1/100th of one per cent) before the end of 2023. The quarterly projections from the meeting showed that 13 of the 18 officials favoured at least one rate hike by the end of 2023. Eleven officials argued for two hikes within the same time frame and seven saw a move as early as 2022. In what became known, colloquially, as the "taper tantrum," markets reacted very poorly to the first hints of the Fed removing stimulus in 2013. At the time, the heightened market volatility preoccupied policy makers for months, delaying their original plans. As outlined in the accompanying chart, the first interest rate hike did not come until December 16, 2015. This time around investors seem to have reacted with relative calm to the news that monetary policy may soon change. It remains to be seen if markets will remain complacent when interest rates actually do rise.

Canadian employment falls again

Statistics Canada announced that another 68,000 jobs were lost during the month of May, following job losses totalling 207,100 in April. Total employment in Canada now stands largely where it was back in November 2020. Meanwhile, the unemployment rate rose to 8.2% from 8.1%, matching the February 2021 figure. With the May job losses, employment levels are now 571,100 (3.0%) below the pre-pandemic peak recorded in February 2020. In addition, the participation rate (the percentage of the working age population that was either working or looking for work) dropped from 64.9% to 64.6% in May. This is back to the level last seen in August 2020 and suggests that employers may soon encounter difficulties in hiring. With fewer workers engaged in the labour market, shortages for some positions may appear if demand returns quickly. Still, with increased vaccinations, some greater stability in the jobs market can be expected as the summer unwinds.

Bank of Japan brings climate change to monetary policy

At its latest policy window, the Bank of Japan (BOJ) announced that it would leave interest rates unchanged at -0.1% and extend its support to pandemic-hit firms. However, the bank surprised the market by revealing that it will join some other central banks with a measure intended to tackle climate change in a post-pandemic world. The BOJ's new scheme comes on the heels of Prime Minister Yoshihide Suga's announcement in October of 2020 that Japan will aim to reach net-zero emissions by 2050. The initiative will look to drive private-sector efforts to counter global warming by providing funds for bank lending to climate-conscious companies. At a press conference following the announcement, BOJ Governor Haruhiko Kuroda stated that the "new measures reflect a new approach, in that we avoid as much as possible getting involved at the micro-level of resource allocation, while supporting climate change responses through monetary policy." The bank plans to publicize the preliminary outline of the program at its July 15-16 meeting and expects to "launch the new measure likely within 2021."

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