MONTHLY COMMENTARY

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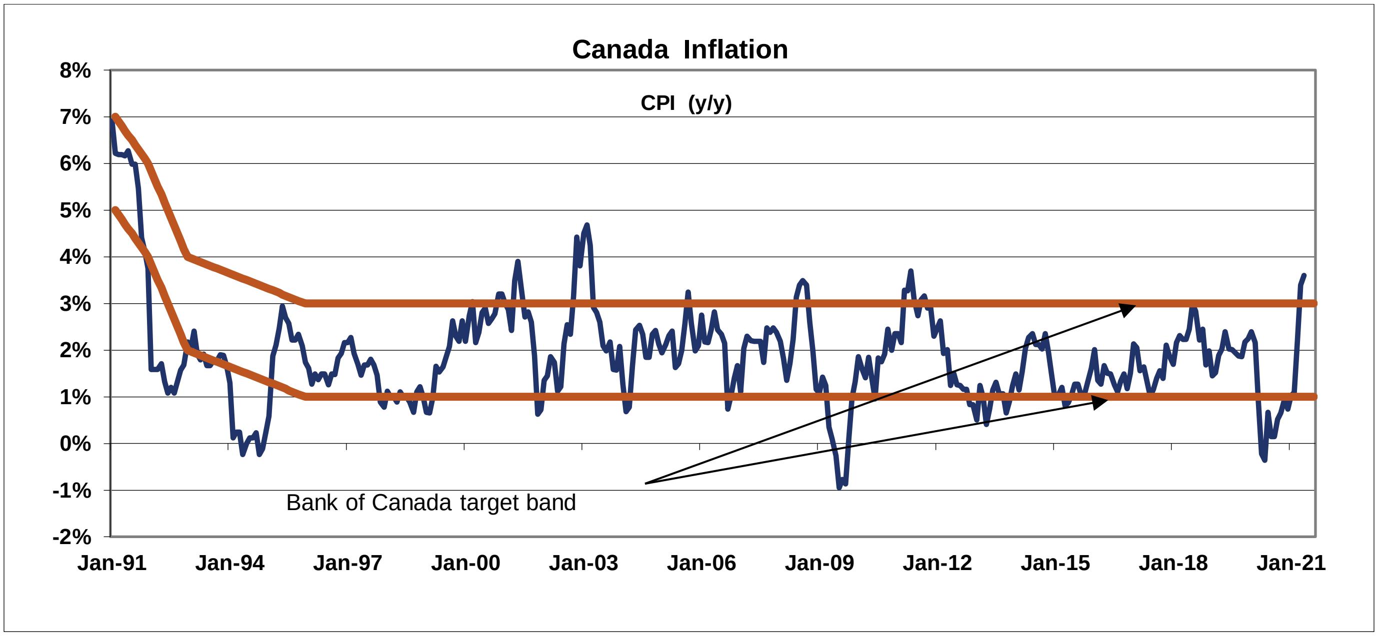
Bank of Canada inflation target; 2021 renewal pending.



Source: Bank of Canada; Statistics Canada.

MARKET FOCUS

Bank of Canada's target is less clear

At its latest monetary policy announcement, the Bank of Canada (BoC) stated that it was holding interest rates steady, with its target for overnight borrowing unchanged at 0.25%. In another anticipated move, the BoC lowered its targeted weekly purchases of Government of Canada bonds to $2 billion. This is the third time since the end of 2020 that the bank has "tapered," reducing the scale of its bond purchases. At the subsequent press conference, Governor Tiff Macklem stated that there was "some way to go to a complete recovery." The bank's updated forecast revealed expectations for GDP growth of 6.0% in 2021, 4.6% in 2022 and 3.3% in 2023, respectively. If achieved, Canada's economic output would eclipse the

pre-pandemic peak some time before the end of 2021. However, troubling for investors, the BoC also acknowledged that “inflation is likely to remain above three per cent through the second half of this year and ease back toward two per cent in 2022.” Despite this commentary, the bank’s own forecast revealed that CPI growth is expected to fall to 2.4% in 2022 and edge down only to 2.2% in 2023. Since its introduction in 1991, the bank’s inflation-control target has been the focal point of monetary policy in Canada. In line with the extraordinary expansion in fiscal policy, it now appears that the BoC may also be willing to err on the side of greater economic growth rather than inflation containment. The most recent renewal of the inflation target is set to expire on December 31, 2021. It remains to be seen what political winds will be blowing as 2021 winds down.

U.S. employment advances again

At the midway point of 2021, the U.S. labour market continues to reclaim lost jobs. The U.S. Bureau of Labour Statistics reported that non-farm payroll employment rose by 850,000 during the month of June. This was accompanied by further growth in the labour force and average hourly earnings. The June job gain was the sixth consecutive monthly advance, which has averaged 543,000 over the course of 2021. These figures indicate that another 6,764,000 jobs (4.6% from current levels) are needed for the broader U.S. economy to have reclaimed the pre-pandemic payrolls high of 152,523,000, which was recorded in February 2019. Domestically, Statistics Canada reported a 230,700 June gain in employment, which points to an even more modest 1.8% gain still required to reach the February 2019 highs. However, it is important to note that the U.S. unemployment rate stood at 3.5% (a 50-year low) in February 2020. According to Statistics Canada, our unemployment rate at that time was 4.6%, using the U.S. calculation methodology.

ECB leaves key policies unchanged, tweaks guidance

At its latest policy window, the European Central Bank (ECB) signalled that it would continue to backstop the euro area economy by keeping interest rates lower for longer as a surge in COVID-19 cases has drawn new restrictions and weighed on the economic recovery. The ECB also maintained its commitment to buy bonds at a faster rate under its pandemic emergency purchase program (a monthly pace of €20 billion). The decision followed an 18-month policy strategy review in which the ECB raised its inflation target to 2% from “below but close to 2%.” The bank noted that it will not increase its key deposit rate, currently sitting a -0.5%, until inflation moves significantly closer to its 2% target. The ECB also stated that this “may also imply a transitory period in which inflation is moderately above target.” The new policy framework, unveiled on July 8, aims to give the central bank broader powers to stimulate the economy when inflation is too low.

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