

MONTHLY COMMENTARY

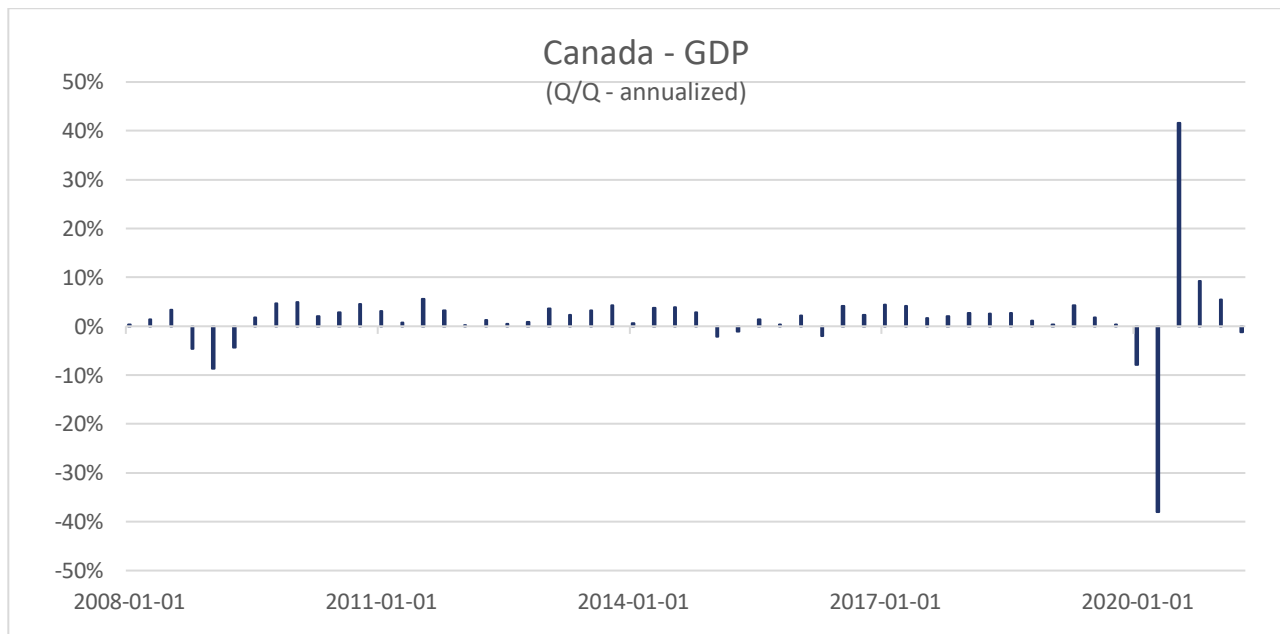
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Canadian Economy



Source: Statistics Canada.

MARKET FOCUS

Canadian economy falters

Statistics Canada reported that real gross domestic product (GDP) contracted by 1.1% (on an annualized basis) in the second quarter of 2021, after rising 5.5% in the first quarter of 2021. The data reflected the combined influence of the shift to work from home and the dramatic reduction in Canadians' ability to travel. Since the third quarter of 2020, housing

investment has emerged as the predominant contributor to economic activities and to capital stock—with residential capital stock surpassing non-residential capital stock. Further, the average housing investment for the previous four quarters was 17% higher than the average over the last five years. Still, the strength in housing investment was not sufficient to keep growth from falling into negative territory for the quarter.

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Forward guidance for July pointed to a further 0.4% decline in GDP for the month. The increase in COVID-19 Delta variant cases suggest that this softening may extend through to September. As a result, the data suggest that the Bank of Canada's 6.0% forecast for GDP growth in 2021 is virtually unattainable as economic output would have to increase 9.7% over both the third and fourth quarters.

U.S. Federal Reserve becomes more hawkish

Even though the U.S. Federal Reserve Board's Open Market Committee (FOMC) surprised no one with its decision to hold administered interest rates steady at their latest policy meeting, they did shift further into 'hawkish' territory. The press release that accompanied the policy announcement stated "the Committee judges that a moderation in the pace of asset purchases may soon be warranted," signaling that a shift to "tapering" could be announced as soon as November. The FOMC's updated economic forecast was also "hawkish." GDP growth is now projected to be 3.8% in 2022 (up from 3.3% in the June forecast). Similarly, the median interest rate projection for 2022 increased to 0.3% (0.1%), while the forecast for 2023 rose to 1.0% (0.6%), and the initial projection for 2024 shows rates rising to 1.8%. Back in June, 7 of 18 officials expected a 2022 rate hike, but now the FOMC is evenly split with half anticipating a 2022 policy move.

Chinese trade hits record levels

The General Administration of Customs reported that China's exports surged in August, offsetting concerns over both the impact of supply bottlenecks and port congestion heading into the year-end shopping season. The Administration reported that China's outbound shipments jumped 25.6% from a year earlier to a record US\$294.3 billion in August, more than US\$10 billion above the previous record set in July. Meanwhile, imports rose 33.1% to US\$236.0 billion, the highest level on record beginning in 1981. The combination pushed China's trade surplus to US\$58.34 billion in August, widening from the US\$56.59 billion figure recorded in the prior month. It was the largest surplus since January, when seasonal boosts and surging commodity prices heavily influenced the results. Despite the Delta variant's rekindling of COVID-19-disruptions, China's robust trade results reflected the resilience of China's export sector, which has been crucial in pulling the world's second-largest economy out of last year's pandemic-induced global downturn.

LONGER VIEW

We anticipate monetary policies to be accommodating for the foreseeable future. As a result, stocks will be favoured by investors as there are lack of alternatives for inflation protection. Stock valuations will be higher than normal; consider we are not in normal periods with high earnings growth, very low interest rates and growing money supply, investors need to accept or miss out.

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