Economic Commentary

First Quarter 2020

COVID19 Wreaks Havoc

The COVID19 virus quickly became a global pandemic and had a devastating impact on financial markets during the first quarter. As the number of infections escalated, governments around the world began implementing economic shut-down measures to varying degrees. Although Q1 economic growth will no doubt slow, the brunt of the impact will not be felt until Q2, when GDP is expected to show the largest decline on record. The key point going forward will be when the reported number of cases plateaus. Until that point is reached, the overall impact on the global economy cannot be determined with any degree of accuracy.

Extraordinary Measures for Extraordinary Times

The U.S. Federal Reserve led major central banks by cutting interest rates by 50 b.p. in early March. They followed that up with another 100 b.p. cut shortly thereafter, taking the lower band of its target rate to 0%. Canada matched the 150 b.p. cut in rates, with three moves of 50 b.p. each. Administered rates are now back to the lows seen during the 2008 financial crisis. Both the Bank of Canada and the Federal Reserve have said that they do not contemplate moving to a negative interest rate environment as seen in Europe.

The rate cuts provided much needed support to the financial system, however, the world is dealing with a health crisis, not a financial crisis. In order to help stabilize and revive the economy, there was a strong need for extraordinary fiscal stimulus packages. The U.S. announced a $2.2 trillion stimulus package and the Canadian government announced an initial package of $82 billion. These unprecedented totals will no doubt increase in the future. The Bank of Canada has also embarked on a quantitative easing program for the first time, announcing plans to buy $5 billion of Government of Canada bonds on a weekly basis. Similar stimulative measures were put in place in other countries around the world.

Oil Markets Face Price War

Global markets got hit by another blow in early March as the price of oil collapsed as Saudi Arabia launched a price war. The price of oil dropped 30% when Saudi Arabia stated that they would increase production despite the fact that global demand for oil has declined significantly. The actions taken by Saudi Arabia followed attempts to secure a trade deal with OPEC and Russia to reduce the production of oil. Russia declined to reduce output as it looks to put pressure on the US shale market.

Equities Plummet as Government Yields Rally

The swiftness and magnitude of the sell-off in global equity markets during the first quarter was unprecedented. In less than one month, equity indices had fallen approximately 35%, wiping out over four years worth of gains in many stock markets around the world. Equities did rebound during the last week of the quarter, however, they were still down in the range of 25% from their recent highs. There was a corresponding flight-to-quality in the bond market, with yields on federal government bonds dropping massively in early March . The yield on the benchmark 10 year U.S. Treasury bond declined by 125 b.p. on the quarter, hitting an historic low of 0.31% before ending the quarter at 0.67%.

Key Metrics

Indicator	Value	Chg Q4	Chg 1Y
S&P/TSX Composite	13,378.75	-20.9%	-14.2&
S&P 500 (USD)	2,584.59	-19.6%	-7.0%
MSCI EAFE (USD)	1,559.59	-22.8%	-13.9%
USD/CAD	$ 0.71	-7.7%	-5.1%
WTI Crude ($/bl))	$ 20.48	-66.5%	-65.9%
GoC 10Y Bond	0.70%	-101 bps	-92 bps
GoC Deposit Rate	0.25%	-150 bps	-150 bps
Cdn CPI YoY	2.2%	0.0%	0.3%
US 10Y Treasury	0.67%	-125 bps	-174 bps
Fed Funds Rate	0.25%	-150 bps	-225 bps
USD CPI YoY	2.3%	0.0%	0.4%

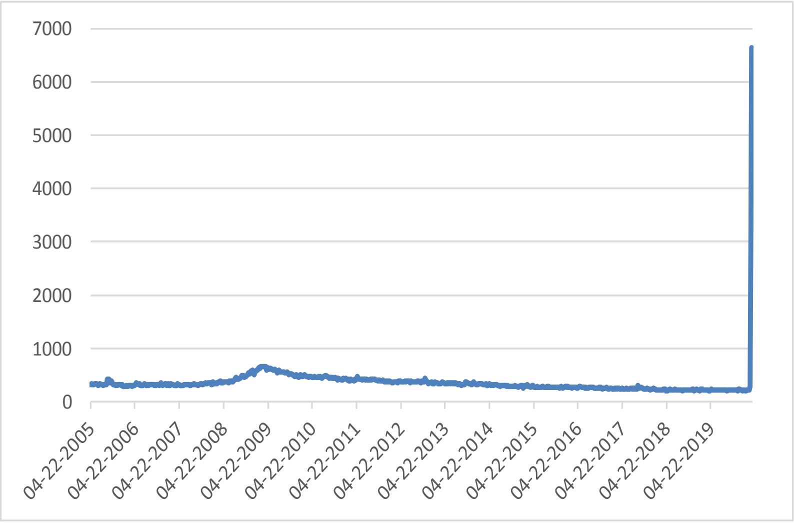
Top Themes

Covid19 crushes global economies and financial markets

Central banks and governments implement emergency policies

Price war adds extra pressure to global oil markets

Top Chart: U.S. Initial Jobless Claims (thousands)



Source: Bloomberg, Lincluden