Covid19 Economic Impact Felt Early in Q2

April marked the low point in terms of the devastating impact that COVID19 had on the global economy. Economic activity ground to a halt and job losses skyrocketed, pushing the world economy into a swift and deep recession of unprecedented magnitude. Canadian GDP declined 7.5% in March and 11.6% in April, putting the year-over-year drop at 17.1%. Manufacturing indices in most countries around the world dropped below the important mid-point level of 50, signifying a dramatic contraction in economic activity.

Unprecedented Levels of Stimulus Unleashed

After cutting interest rates to near zero during the first quarter, central banks confirmed that rates will remain low for an extended period of time. However, both the Fed and the Bank of Canada have stated that they do not intend to adopt the negative interest rate policy that was utilized in Europe.

The U.S. Federal Reserve basically adopted an open-ended commitment to quantitative easing including corporate bonds after earlier indications that they would be buying US$500 billion worth of U.S. Treasury bonds and US$200 billion of mortgage-backed securities. The Bank of Canada implemented a $10 billion Corporate Bond Purchase Program (CBPP) and a $50 billion Provincial Bond Purchase Program (PBPP) in addition to an earlier-announced quantitative easing program of a minimum of $5 billion of government bond purchases per week. The European Central Bank announced a further 600 billion euros to its Pandemic Emergency Purchase Program (PEPP), bringing the total stimulus package to 1.35 trillion euros. These measures are in addition to the massive stimulus packages announced by governments across the world.

First Signs of a Recovery?

Following the massive hit to the economy in March and April, economic data were better than expected in many sectors in May, particularly the labour markets. U.S. payroll data rebounded from a loss of 21 million jobs in April to a gain of 2.7 million in May, followed by another gain of 4.8 million jobs in June. Despite the rebound, only one-third of the jobs lost due to the pandemic have been recovered. A key issue going forward will be the length of time it will take to recover all of the jobs lost or whether some of these losses will become structural changes to the labor force.

A major concern to near-term economic prospects is the sharp increase in reported new cases of the coronavirus as economies began loosening social restrictions.

Equities Plummet as Government Yields Rally

After equity indices had fallen approximately 35% following the impact of COVID19, markets moved aggressively higher from the last week of March. Year-to-date losses for North American stock indices are now in single digits. The massive stimulus packages have no doubt been the largest contributing factors to the dramatic move. Bond yields remain at fairly low levels despite the renewed confidence. The yield on the bench-mark 10 year U.S. Treasury bond traded in a fairly tight range and finished the quarter with a yield of 0.66%, down just 1 b.p. on the quarter.

Key Metrics

Indicator	Value	Chg Q2	Chg 1Y
S&P/TSX Composite	15,515.22	17.0%	-2.2%
S&P 500 (USD)	3,100.29	20.5%	7.5%
MSCI EAFE (USD)	1,780.58	15.1%	-4.6%
USD/CAD	$ 0.74	3.6%	-3.5%
WTI Crude ($/bl))	$ 39.27	91.7%	-32.8%
GoC 10Y Bond	0.53%	-17 bps	-94 bps
GoC Deposit Rate	0.25%	0	-150 bps
Cdn CPI YoY	-0.4%	-1.3%	-2.4%
US 10Y Treasury	0.66%	-1 bps	-135 bps
Fed Funds Rate	0.25%	0	-225 bps
USD CPI YoY	0.1%	-1.4%	-1.5%

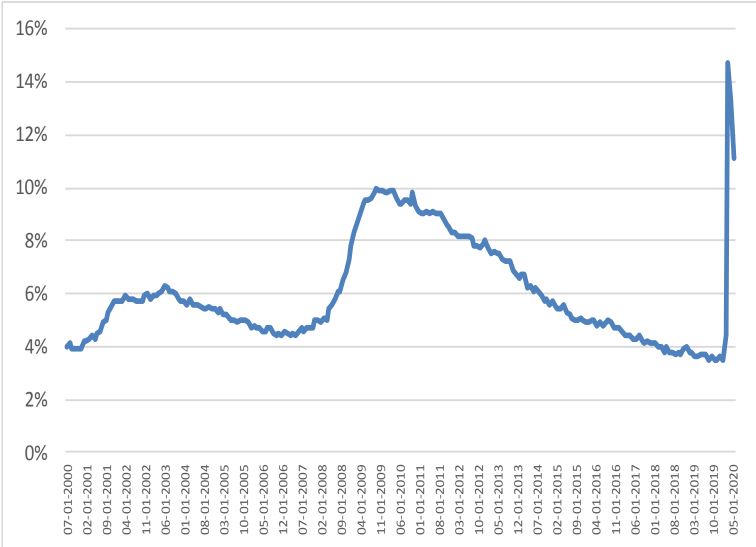
Top Themes

Global economies bear the brunt of COVID19 impact early in Q2

Central banks and governments unleash unprecedented levels of stimulus:

Equity Markets rebound at first signs of a recovery and re-opening

Top Chart: U.S. Unemployment Rate



Source: Bloomberg, Lincluden