

Economic Commentary

Second Quarter 2021

Vaccine Rollout Offsetting Risk of New Variants

Canada's vaccination rate increased dramatically during the second quarter. While still lagging in the administration of the second dose, prospects have improved dramatically to have every Canadian adult double-vaccinated by the fall of this year. The administration rate in the U.S. has plateaued recently as some Americans are choosing not to get vaccinated. The on-going push and pull between the prospects for a quicker economic recovery vs. the increased number of COVID cases that has characterized the global economy for the past year appears to have shifted, with increased optimism for a quicker path to economic recovery becoming more evident.

FED's Reaction to Inflation Fears in Focus

Last August the U.S. Federal Reserve altered its inflationary stance, shifting away from a target of 2%, to having inflation average 2% over time. Fed officials stressed that inflationary fears were transitory and not of immediate concern. At the June FOMC meeting, Fed officials turned less dovish as the majority of committee members moved forward the date of the first potential interest rate hike from 2024 into 2023. This move resulted in a partial reversal of the reflation trade that had characterized the market since last summer. The Fed is also contemplating the potential to begin tapering its bond purchases later this year. The Bank of Canada began tapering its bond purchases at its meeting in April. It is the first major central bank to scale back its quantitative easing program.

Canadian Dollar Benefits from Oil Price Bounce

The Canadian dollar has performed well against the U.S. dollar since March of last year during the

peak of the COVID pandemic. Stronger commodity prices, in particular the price of oil, have been the main drivers of performance. The Canadian dollar did retreat heading into quarter-end, however, a stronger global economic recovery during the second half of the year should prove beneficial to the Canadian dollar going forward.

Robust Housing Market Powering N.A. Economy

Housing markets in both Canada and the U.S. have led the way in terms of economic growth over the past year. The shift to a work-from-home environment as well as a migration from urban to suburban living, has contributed to remarkable strength in the market. While lower-than-expected economic growth in the second quarter is expected, signs are picking up that consumer spending will accelerate, contributing to a stronger economic recovery during the second half of the year. Improved conditions in North American labour markets will be critical in order to support a sustained economic recovery.

Equities March Higher, Bond Yields Stable

Optimism surrounding the vaccine roll-out is helping offset the recent negative impact of increased lockdowns and restrictions. Government fiscal stimulus packages will continue to support economic growth going forward. Bond yields stabilized during the quarter, as interest rates declined modestly. The yield on the benchmark 10 year U.S. Treasury bond moved lower, finishing the quarter at 1.47%, down 27 b.p. on the quarter but remains 55 b.p. higher on a year-to-date basis. A more hawkish stance by the Fed was the major reason for the decline in rates during the quarter as inflationary fears eased.

Key Metrics

Indicator	Value	Chg Q2	Chg 1Y
S&P/TSX Composite	20,165.58	8.6%	33.9%
S&P 500 (USD)	4,297.50	8.5%	40.8%
MSCI EAFE (USD)	2,304.92	5.4%	33.0%
USD/CAD	\$ 0.81	1.3%	9.5%
WTI Crude (\$/bl)	\$ 73.47	24.2%	87.1%
GoC 10Y Bond	1.39%	-17 bps	86 bps
GoC Deposit Rate	0.25%	0	0
Cdn CPI YoY	3.6%	1.4%	2.9%
US 10Y Treasury	1.47%	-27 bps	81 bps
Fed Funds Rate	0.25%	0	0
USD CPI YoY	5.0%	2.4%	4.4%

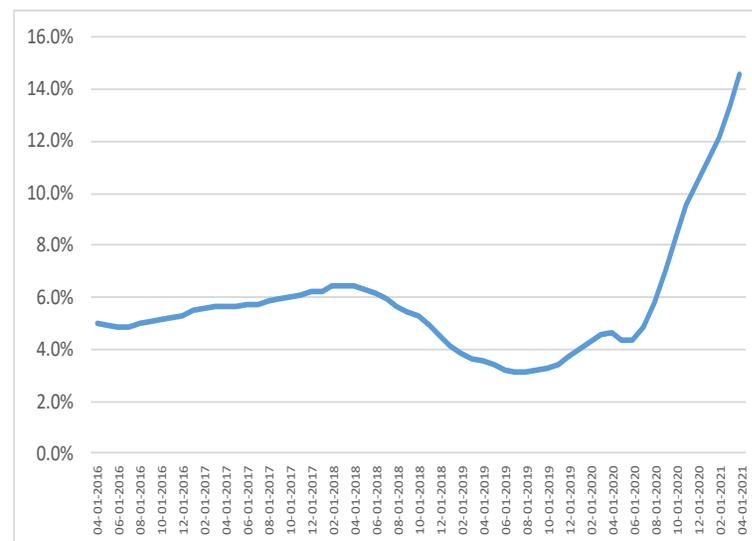
Top Themes

Battle continues between vaccine rollout and Variants of Concern

Fed's more hawkish stance eases markets inflation concerns

Housing markets providing support to N.A. economies

Top Chart: S&P/Case-Shiller U.S. National Home Price Index Y/Y



Source: Bloomberg, Lincluden