

# Economic Commentary

Third Quarter 2020

## Economic Data Rebounds

Economic activity has rebounded sharply following the low point in April. Labour markets continue to improve, with significant job gains each month. However, only 52% of the jobs lost at the start of the pandemic in the U.S. have been recouped. A major concern going forward is that many of these job losses will be structural in nature. Manufacturing indices continue to reflect an expanding economy and the consumer sector is holding strong. The one area that has surprised many is the overwhelming strength in the housing sector, in both Canada and the U.S. Many sectors of the economy continue to struggle, particularly the hospitality and travel sectors, adding merit to the view that the recovery will be more K-shaped than V-shaped.

## Second Wave Worries

A major concern throughout the summer was the potential for a resurgence in the number of new COVID-19 cases. Reported cases are now back to the near-pandemic levels that were seen in the spring. A major second wave would negatively affect economic activity and curtail some of the positive developments that have occurred since April. Although any future roll-back of business re-openings would be detrimental to the economy, attempts will be made to target specific businesses and locations rather than mandating a more widespread closure of economic activity.

## Further Support Still Required

To date, unprecedented levels of monetary policy support and fiscal stimulus packages have been provided by central banks and governments. It will be imperative that these areas of support continue in order to prevent the economy from potentially slipping back into recession. Interest

rates are expected to remain low for a prolonged period and quantitative easing programs will continue. Further, a change to the U.S. Federal Reserve policy on inflation indicates that the Fed is content to keep rates lower for longer and that they would be prepared to have inflation run higher than 2% for a period of time in the future. On the fiscal side, the Canadian government outlined in its Throne Speech that it would do whatever it takes to support the economy. Developments in the U.S. are not progressing as quickly, as an agreement has not been reached on the appropriate level of additional support that is required.

## U.S. Election Clouds Market Outlook

Market volatility may increase leading up to and following the U.S. presidential election. Polls are indicting a potential change in power in both the White House and the Senate, but a great deal of uncertainty remains. There is a strong likelihood that the results could be delayed given the impact that COVID-19 will have on the voting process. In addition to the election, other political factors will come into play as we enter the fourth quarter. These include the Supreme Court appointment as well as the debate surrounding the next stage of the government fiscal stimulus program.

## Equities Grind Higher, Bonds Range Bound

The rebound in equity markets continued into the third quarter, albeit at a slower pace. U.S. markets have recouped all of the massive losses that resulted from COVID-19, while the Canadian market is still languishing slightly below pre-COVID levels. Bond yields remain at fairly low levels, despite the renewed confidence in economic conditions.

## Key Metrics

Indicator	Value	Chg Q3	Chg 1Y
S&P/TSX Composite	16,121.38	4.7%	0.0%
S&P 500 (USD)	3,363.00	8.9%	15.1%
MSCI EAFE (USD)	1,855.32	4.9%	1.0%
USD/CAD	\$ 0.75	1.9%	-0.6%
WTI Crude (\$/bl)	\$ 40.22	2.4%	-25.6%
GoC 10Y Bond	0.56%	3 bps	-80 bps
GoC Deposit Rate	0.25%	0 bps	-150 bps
Cdn CPI YoY	0.1%	-0.6%	-1.8%
US 10Y Treasury	0.69%	3 bps	-98 bps
Fed Funds Rate	0.25%	0 bps	-175 bps
USD CPI YoY	1.3%	0.7%	-0.4%

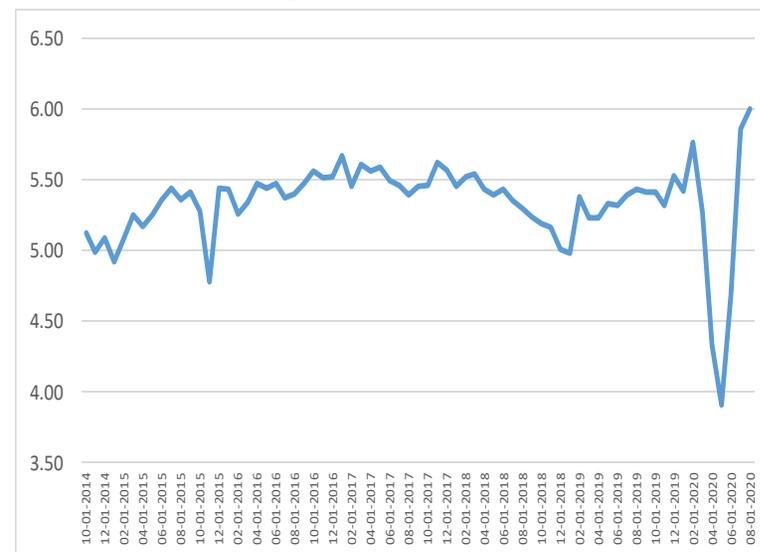
## Top Themes

Economic data rebounds sharply

More stimulus needed as COVID-19 cases see resurgence worldwide

Great deal of uncertainty in advance of U.S. election day

## Top Chart: U.S. Existing Home Sales (millions)



Source: Bloomberg, Lincluden