

Economic Commentary

Fourth Quarter 2020

Vaccine Rollout vs. COVID Cases Increasing

The number of new COVID cases escalated to record levels over the quarter resulting in new lockdown measures being implemented in many parts of the world. On the flipside, however, several drug companies began to roll out COVID vaccines before the end of the year. This provided a boost to markets, giving investors hope that economic activity and social interaction might begin to return to a somewhat normal pace. Although the roll-out will be staggered on a priority basis and will take months for everyone to be immunized, it does provide a welcome dose of optimism as we enter 2021.

U.S. Elects Joe Biden as President

In one of the most controversial and contested U.S. presidential elections ever, Joe Biden was finally declared President-elect four days after election night. As expected, Donald Trump has not gone quietly, questioning the election results with bold claims of voter fraud, without any supporting evidence. His lack of cooperation for an orderly transition of government, has added a further element of uncertainty to global financial markets as we enter the New Year.

The U.S. Congress finally agreed to a new fiscal stimulus package just prior to the end of the year. The US\$900 billion pandemic relief bill includes enhanced unemployment benefits and direct cash payments. President Trump, however, initially balked at signing the new agreement, despite the fact that the bill had been approved by the White House prior to being voted on by Congress. Trump wanted to increase the direct stimulus payments to individuals from US\$600 to US\$2,000, angering many of his republican supporters.

Economic Data Retreats During Q4

Economic growth did moderate during the quarter as a result of new COVID-19 restrictions. The global economy continues to reflect varying degrees of recovery. Housing data in both Canada and the U.S. have exceeded expectations and the consumer sector has been a big contributor to economic growth before receding during the fourth quarter. The travel and hospitality sectors are still struggling and will continue to do so as travel and dining restrictions have escalated again. Both the U.S. Federal Reserve and the Bank of Canada have stated that they expect to keep interest rates low and will continue with their quantitative easing programs. No rate hikes by either central bank are expected until 2024. With the recent increase in risk sentiment the U.S. dollar has dramatically underperformed major global currencies. Although the Canadian dollar has performed well, moving from a low of 1.45 in March to 1.27 at year-end, it has lagged its international counterparts.

Strong Finish for Equity Markets

Equity markets continued to move higher into year-end, capping off an incredible rebound from the devastating losses that occurred back in March. Volatility in global equity markets during 2020 was unprecedented, both in terms of the swiftness and magnitude of the market moves. The massive stimulus packages provided by central banks and governments continue to provide support to global financial markets. Bond yields moved higher on the quarter with the yield on the benchmark 10 year U.S. Treasury bond finishing the quarter up 23 b.p. with a yield of 0.92%.

Key Metrics

Indicator	Value	Chg Q4	Chg 1Y
S&P/TSX Composite	17,433.36	9.0%	5.6%
S&P 500 (USD)	3,756.07	12.1%	18.4%
MSCI EAFE (USD)	2,147.53	16.1%	8.4%
USD/CAD	\$ 0.79	4.6%	2.0%
WTI Crude (\$/bl)	\$ 48.52	20.6%	-20.5%
GoC 10Y Bond	0.68%	12 bps	-103 bps
GoC Deposit Rate	0.25%	0 bps	-150 bps
Cdn CPI YoY	1.0%	0.5%	-1.2%
US 10Y Treasury	0.92%	23 bps	-100 bps
Fed Funds Rate	0.25%	0 bps	-150 bps
USD CPI YoY	1.2%	-0.2%	-1.1%

Top Themes

Importance of vaccine rollout increases as COVID-19 cases climb

Joe Biden elected as next President of the United States

Equity markets continue their climb into year end capping volatile year

Top Chart: U.S. Retail Sales Total Monthly % Change



Source: Bloomberg, Lincluden