

Economic Commentary

First Quarter 2021

Vaccines vs. Variants

When President Joe Biden took office in January he promised that 100 million Americans would be vaccinated within his first 100 days in office. That roll-out plan has since been accelerated to include 200 million people. Unfortunately the vaccine roll-out has not been as expeditious on a global basis with many countries, particularly Canada, lagging the pace of the leading countries. Tempering this optimistic outlook is the reality that there are new variants of the COVID virus now circulating, causing lockdowns and economic setbacks in many countries around the world. As a result, there continues to be a constant push and pull between the prospects for a quicker economic recovery and the reality of the current situation.

President Biden Launches Stimulus Plan

President Biden outlined two new aggressive fiscal stimulus programs. The initial package, the American Rescue Plan, is a US\$1.9 trillion COVID relief bill will provide the economy a further boost over the near-term. The second program, the American Jobs Plan, provides US\$2.25 trillion towards improving the country's infrastructure. This package will be more long-term in nature and will help support economic and job growth over the next eight years. This latest package will be funded, in part, by increased taxes, particularly in the form of higher corporate taxes.

Central banks have re-confirmed that short-term administered rates will remain low for an extended period of time. The U.S. Federal Reserve had previously stated that they would allow inflation to run higher than the long-term 2% target for a period of time until the economy is on firmer ground and the road to recovery is

firmly established. This has contributed, however, to a higher interest rate environment for longer-dated maturities. The Bank of Canada announced that they will be ending the various market support programs, when they expire in May. The Bank also indicated that they could gradually taper their quantitative easing program, as early as April.

Economic Data Shows Choppy Start to 2021

U.S. economic growth started the year fairly strong as consumers put their stimulus cheques to work. Poor weather, including severe ice storms in Texas, negatively impacted economic activity in many parts of the U.S. in February. Stronger data in both the manufacturing and service sectors were evident in March as economic conditions showed signs of improvement. The Canadian housing market continues to be very robust. However, this does raise the concern of a potential bubble given the sharp increase in the price of homes over the past few years. Labour markets continue to improve, with further declines in the unemployment rate. Despite this growth, the U.S. has only recouped 62% of the jobs lost during the pandemic.

Equity Markets Rally as Bond Yields Surge

Equity markets continued to rally in the first quarter after capping off a dramatic rebound from the pandemic lows of last year. Optimism surrounding the vaccine roll-out has buoyed equity markets as expectations for economic growth move higher. Bond yields surged dramatically to start the year, continuing the trend established in the latter part of last year. Inflationary concerns were the prime catalyst for the dramatic move higher in interest rates.

Key Metrics

Indicator	Value	Chg Q1	Chg 1Y
S&P/TSX Composite	18,700.67	8.1%	44.3%
S&P 500 (USD)	3,972.89	6.2%	56.3%
iShares MSCI EAFE ETF (USD)	75.87	4.0%	45.3%
USD/CAD	\$ 0.80	1.4%	12.0%
WTI Crude (\$/bl)	\$ 59.16	21.9%	188.9%
GoC 10Y Bond	1.56%	88 bps	86 bps
GoC Deposit Rate	0.25%	0	0
Cdn CPI YoY	1.1%	0.4%	0.2%
US 10Y Treasury	1.74%	83 bps	107 bps
Fed Funds Rate	0.25%	0	0
USD CPI YoY	1.7%	0.3%	0.2%

Top Themes

The race in on to distribute Covid-19 vaccinations

President Biden goes big with stimulus plans

Bond yields surge as equities continue their rally

Top Chart: U.S. ISM Manufacturing PMI



Source: Bloomberg, Lincluden