Market Review

September 15, 2020

Market Commentary

The direction of equity markets will be influenced by the pace at which economies reopen, the continuation of government assistance programs and the U.S. federal election.

After a sharp snapback in economic activity following the lifting of the global lockdown, recent indicators suggest growth is moderating. The inability of businesses in leisure, hospitality and travel industries to operate at capacity means many workers in these sectors remain unemployed with future hiring intentions largely dependent on the development of an effective vaccine and the inoculation of the general population.

The pandemic has widened the income gap between lower-paid service workers and higher-paid professionals who are generally able to work from home and continue to do so. The latter cohort has accrued more forced savings due to limited spending opportunities. The elevated savings rate represents a source of liquidity to fund pent-up demand when the health crisis is behind us.

Many countries have extended government income support programs, including Canada, to soften the impact when debt forbearance expires. The inability in the U.S. to reach a mutually agreed upon fiscal stimulus package to replace the CARES Act is concerning.

The adoption of average inflation targeting framework by the U.S. central bank reinforces an accommodative policy path and near zero interest rates for years to come. Similarly, in Canada, the Bank of Canada recently affirmed commitment to extraordinary monetary policy support.

Investors should be prepared for elevated volatility in the coming months as the likelihood for the U.S. election day evolves into election week(s) given the high level of absentee ballots expected to be cast. A contested election may further delay fiscal stimulus measures to support the economy.