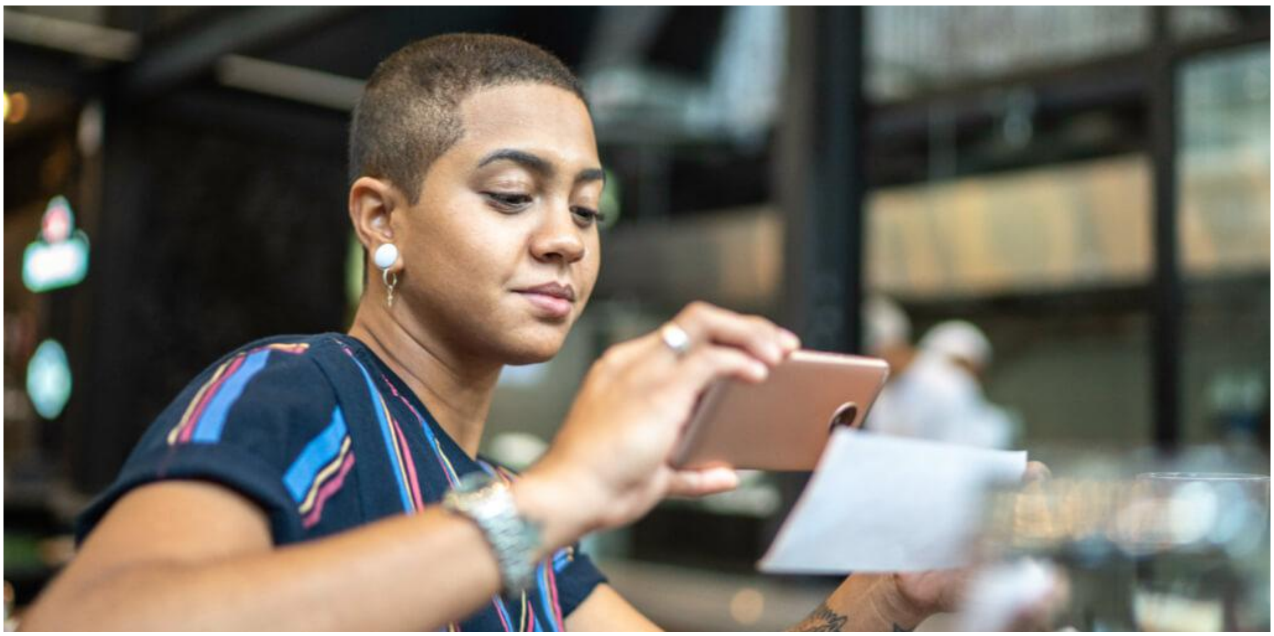
March 2021 market update

U.S. approves massive new stimulus bill and Europe begins to recover.

April 8, 2021



Introduction

Ongoing distribution of COVID-19 vaccines and easing lockdown restrictions supported increased economic activity in March. The American Rescue Plan Act of 2021 was signed into law, raising expectations for the recovery of the world's largest economy, with the positive impact potentially reverberating throughout the global economy.

Global equity markets were relatively volatile in March, but still ended the month in positive territory. The support package signed by the U.S. government, as well as improving economic conditions, boosted investor sentiment. That was partially offset, however, by concern over rising inflation and elevated equity valuations, particularly as long-term government bond yields moved higher. Valuation concerns weighed on technology stocks, which lagged the group as investors rotated into cyclical stocks that are widely expected to perform well during the recovery. In Canada, the S&P/TSX Composite Index reached a record high, as did the S&P 500 Index and Dow Jones Industrial Average in the U.S. Oil prices finished the monthly slightly lower, as did the price of gold.

Muted concern about inflation

At its March meeting, the U.S. Federal Reserve Board ("Fed") held the target range for its federal funds rate steady at 0.00% to 0.25% and maintained its bond purchases at US$120 billion per month. While the Fed raised its outlook for the economy, the U.S. central bank noted that there is still substantial weakness in some sectors of the economy. The Fed also highlighted rising inflation figures, which could surge even higher and negatively impact the economic recovery. The Fed, however, believes elevated inflation could be temporary. While the inflation rate may move higher in 2021, its pace could slow again in 2022. Year-over-year consumer prices are being compared to their ultra-low levels in 2020, when price growth slowed considerably as a result of the pandemic. In response, the Fed has predicted that its key interest rate will remain near zero until 2023. The Fed also reiterated its commitment to adjust its policy to support the economy as required.

U.S. passes landmark stimulus package

After intense negotiations, the US$1.9 trillion stimulus plan was signed into law by U.S. President Joe Biden. Known as the American Rescue Plan Act of 2021, the plan includes direct payments of US$1,400 to eligible Americans, an extension of unemployment benefits, support for municipal and state governments, as well as support for small businesses. Similar to what occurred after the previous two pandemic support plans by providing direct payments, the U.S. economy is likely to experience a sharp boost in spending that will contribute to improved economic conditions.

A key element of the new plan is ongoing support for businesses that have been significantly impacted by the pandemic, particularly small businesses. By extending the employee retention tax credit and by paying wages for the sick and for family leaves, businesses may be able to maintain staffing levels, which should benefit the U.S. economy. Additionally, the rescue plan will provide US$15 billion for the Small Business Administration's Economic Injury Disaster Loan, as well as US$28.6 billion for the Restaurant Revitalization Fund. Small businesses are the backbone of any economy, and many of these businesses have struggled as a result of lockdowns and weaker economic conditions that have stemmed from the pandemic. This economic support could help these businesses survive and put them into a position to thrive once COVID-19-related restrictions are eased.

European business activity improves

Business activity in Europe improved in March, according to IHS Markit Eurozone Purchasing Managers Index, and expanded for the first time since October 2020. The most significant contributor to the increase in business activity came from the manufacturing sector, particularly in Germany, which expanded at the fastest pace ever recorded. Manufacturing activity was boosted by a sharp rise in new orders, both domestically and globally. Given the rise in orders and output, manufacturers increased their employment levels, which was another positive signal for the European economy. The services sector contracted in March, however, although at its slowest pace since August 2020. The services sector's performance may be somewhat uneven until COVID-19 vaccines are widely distributed and international travel restrictions loosen, but any improvements will be vital for the full recovery of the European economy. These overall positive manufacturing and services results potentially signal that economic conditions are poised for a breakout in Europe as global lockdown restrictions ease, which should benefit European businesses and the continent's overall economy.

Megadeal could reshape Canadian telecom network

The Canadian telecommunications industry drew a lot of attention in March after Rogers Communications Inc. announced it would be acquiring Shaw Communications Inc. for $26 billion. The deal is still pending approvals. Rogers' Board of Directors have approved the transaction, while Shaw's Board will recommend the deal to its shareholders. The deal will, however, come under intense scrutiny from the Canadian government and regulatory bodies, primarily in response to concern over reduced competition in the industry. However, if the deal does pass, Rogers has extensive plans to boost its presence in Western Canada. Post deal, Rogers has earmarked approximately $6.5 billion to invest in network infrastructure, featuring its 5G network, along with improving access for all, including individuals in remote and indigenous communities. Besides the benefits this deal could offer in terms of an increased number of people gaining better access to the internet, phone and cable, the massive investment in infrastructure could be good for the overall Canadian economy. To build a better network, Rogers will need to hire more people. This will have a multiplier effect for local economies, as more people working will lead to higher spending. This will ultimately lead to more business investment and, in response, better economic conditions. While concern mounts over a reduction in competition in this space, the level of investment back into the company by Rogers could be a net positive for the economy, while also acting as a springboard for strong economic growth in Canada's western and northern regions.

Market performance - as at March 31, 2021

Equity Markets	Level	Month to date	Year to date	One year
S&P/TSX Composite Index C$	18,700.67	3.55%	7.27%	39.78%
S&P 500 Index US$	3,972.89	4.24%	5.77%	53.71%
Dow Jones Industrial Average US$	32,981.55	6.62%	7.76%	50.48%
MSCI EAFE Index US$	2,208.32	1.82%	2.83%	45.46%
MSCI Emerging Markets Index US$	1,316.42	-1.70%	1.95%	59.13%

Fixed Income Markets	Level	Month to date	Year to date	One year
FTSE Canada Universe Bond Index C$	1,159.72	-1.46%	-5.00%	1.65%
FTSE World Investment Grade Bond Index US$	245.90	-1.90%	-4.69%	3.91%

Currencies	Level	Month to date	Year to date	One year
CAD/USD	0.7961	0.82%	0.72%	11.30%

Commodities	Level	Month to date	Year to date	One year
West Texas Intermediate (US$/bbl)	59.60	-3.53%	22.28%	189.70%
Gold (US$/oz)	1,707.71	-1.52%	-10.04%	8.28%