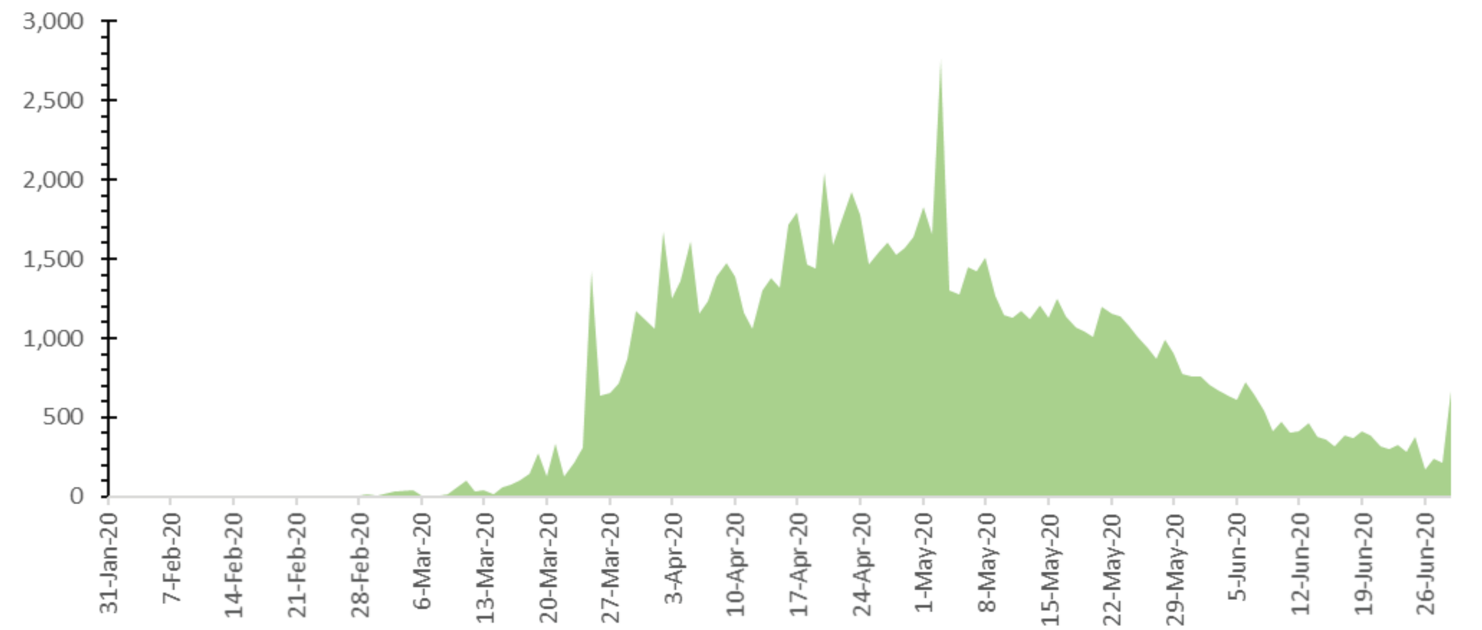
Daily Canadian Coronavirus Cases



Source: John Hopkins University Coronavirus Resource Center

Economic Outlook

Since the downturn was triggered by a biological crisis, we think the path of the coronavirus pandemic will shape the path of the economic recovery. An increase in infection rates could slow, though not derail, the economic rebound that we think will start later this year and continue into 2021.

- **The path of COVID-19 will shape the economic recovery -** Progress in containing the virus in North America has been uneven to date. Canada has made progress in containing the virus with overall daily counts trending lower and averaging below 1000 new cases for the month of June. In contrast, the U.S. reported 41,500 new coronavirus cases on June 30, topping the previously recorded daily high of 36,291 cases set on April 24th. While former viral epicentres, like New York and New Jersey, may have lowered infection rates, emerging hotspots states like Arizona and Texas have had to dial back the reopening of their economies due to a spike in new cases. As long as medical advances continue and new cases stay localized, we think it is unlikely that either country will reenact a national lockdown, but we expect the growth rebound to be constrained until there's a widely distributed vaccine or effective treatment of the virus.

- **The path from recession to recovery starts with a sharp bounce followed by a long haul -** The severity of the decline in Q2 in Canada and the U.S. is likely to be the worst since the Great Depression. We expect a quicker-than-average start to the rebound in Q3, compared to other recessions due to pent-up consumer demand that is likely to be released as the economy reopens. Low interest rates and monetary and fiscal stimulus should also help sustain the economic recovery later this year and into 2021. However, after this quick bounce, it will take much longer to return to pre-pandemic levels of economic growth due to labour market weakness and the inability for businesses to run at full capacity in the presence of a pandemic.

- **Consumer debt is a key vulnerability for Canada as it emerges from recession to recovery -** Household debt rose to 176.9% of disposable income from 175.6% a year ago, with lower-income households tending to have higher debt ratios (as well as more affected by labour market dislocations caused by the lockdown). The risk is the high debt levels constrain a rebound in consumer spending, the largest engine of growth for the economy. A counterbalance to high household debt, is the low level of fiscal debt heading into the crisis. In our view, this will help government continue to cushion the economic toll of the virus, while mitigating harmful side effects of fiscal debt loads like a spike in inflation or interest rates.

▶ *Action for Investors*

Market sentiment is likely to swing from optimism to anxiety as the economy continues down the path of recovery in the presence of an unpredictable pandemic. Use periodic market swings to fill in portfolio gaps and enhance diversification across asset class, sectors and geographies.

Diversification does not ensure a profit or protect against loss in a declining market.

