

CHARTBOOK

Market Comment

Prepared by Ocean Front Wealth Management

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Market Comment

Recent comments by Bank of Canada governor Tiff Macklem signaled a more “hawkish” stance by the central bank which could see the bank begin to curtail its stimulus measures. The bank is reducing its bond buying and markets now expect the bank to begin raising interest rates in the latter half of 2022, rather than in 2023 as many originally anticipated. Central Banks typically raise rates to prevent the economy from overheating and to contain inflation, which may be what the bank is seeking to do based on its expectations of 6.5% GDP growth in 2021. The bank also said that it expects inflation to approach the top of its target range of 1-3% in the coming months.

Another important implication of this outlook from the bank is for the Canadian Dollar. Higher domestic interest rates are positive for the Canadian Dollar, so if the Bank of Canada raises rates before rates are raised in the US, we could see a higher CAD/USD exchange rate.

Canadian Dollar



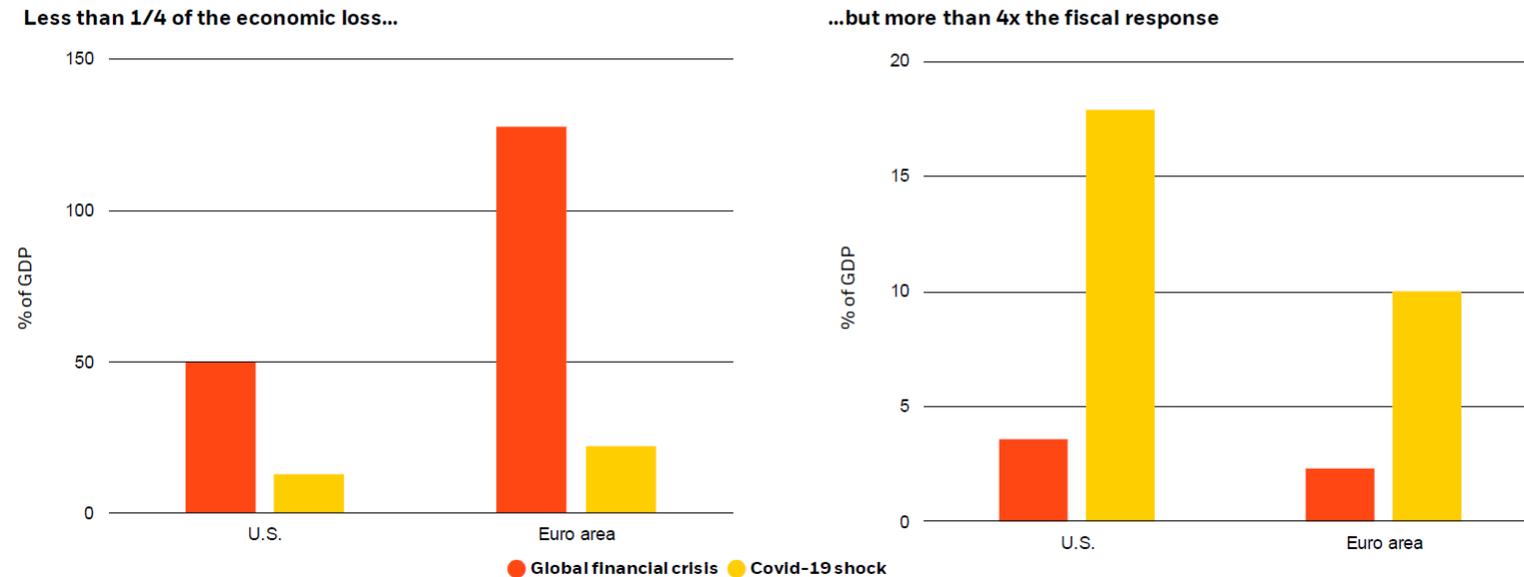
The Canadian Dollar has risen dramatically compared to the US Dollar over the past year. This has been a significant drag on any unhedged US assets held by Canadian investors. If the Bank of Canada begins to raise interest rates before the US Federal Reserve does, as is currently expected, this trend is likely to continue.

Stimulus Response: COVID vs. GFC

Huge fiscal support: 1/4 the shock, 4x times the fiscal impulse

This is a huge fiscal impulse relative to the size and the nature of the Covid-19 shock. And it is not about stimulating activity – a large share of activity will restart on its own as vaccines are rolled out.

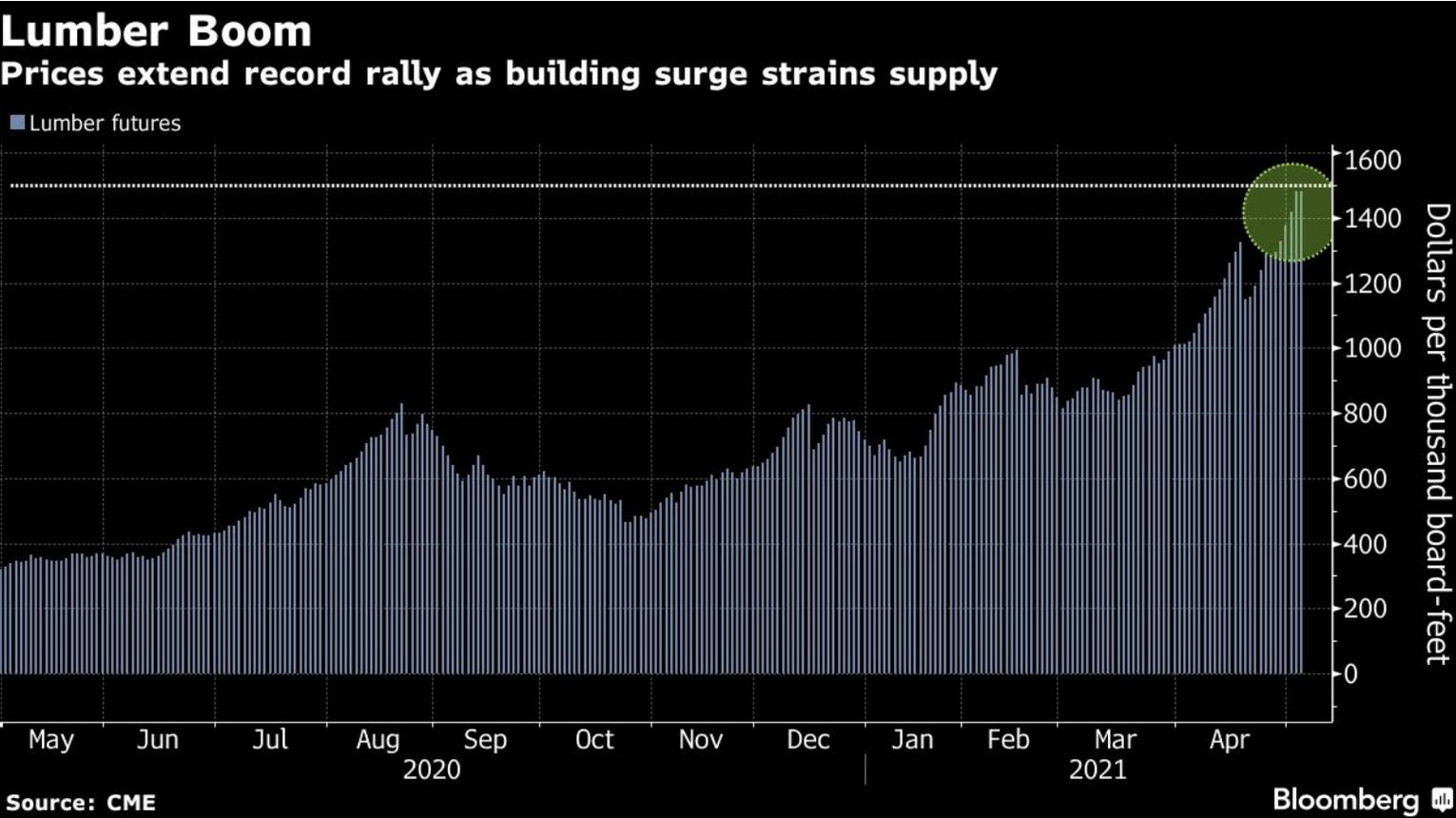
Estimate of Covid-19 shock and discretionary fiscal support compared vs the GFC, Feb 2021



Sources: BlackRock Investment Institute, with data from Haver Analytics, February 2021. Notes: The charts show our estimate of the cumulative GDP loss from the GFC (2008-2009) and our expectation for the Covid-19 (2020-2021) and the discretionary fiscal support for the US and euro area during each period.

Compared to the Global Financial Crisis (GFC), the stimulus and support response for the Covid-19 crisis has been enormous. The loss of GDP due to the Covid-19 recession shown on the left is about a quarter of the size of the GFC GDP loss in the US, but the fiscal support response as shown on the right chart is about four times larger this time around. This is likely one of the reasons why markets rebounded more quickly and didn't fall as far as they did in 2008/2009.

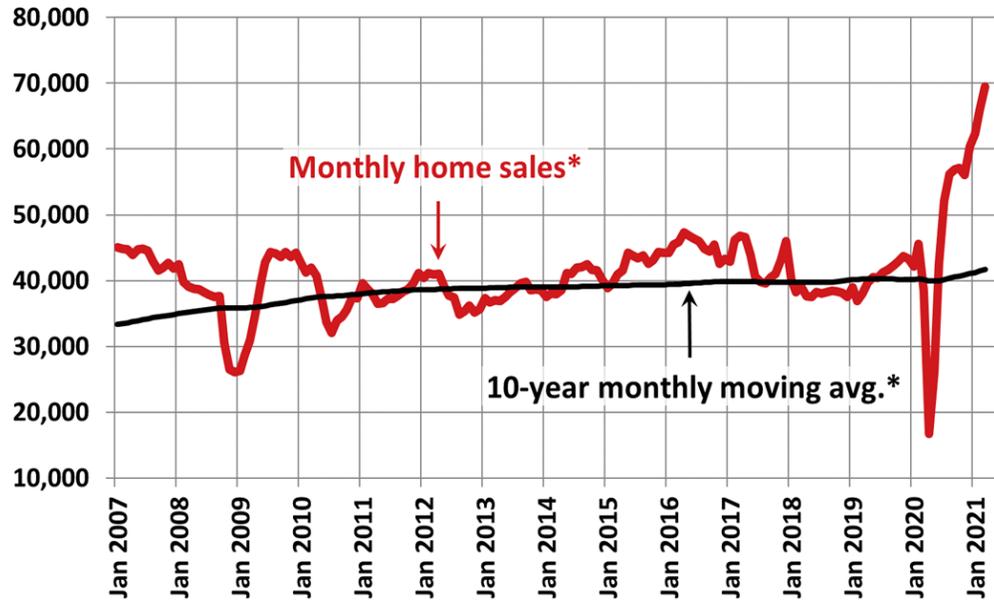
Bull Market in Lumber



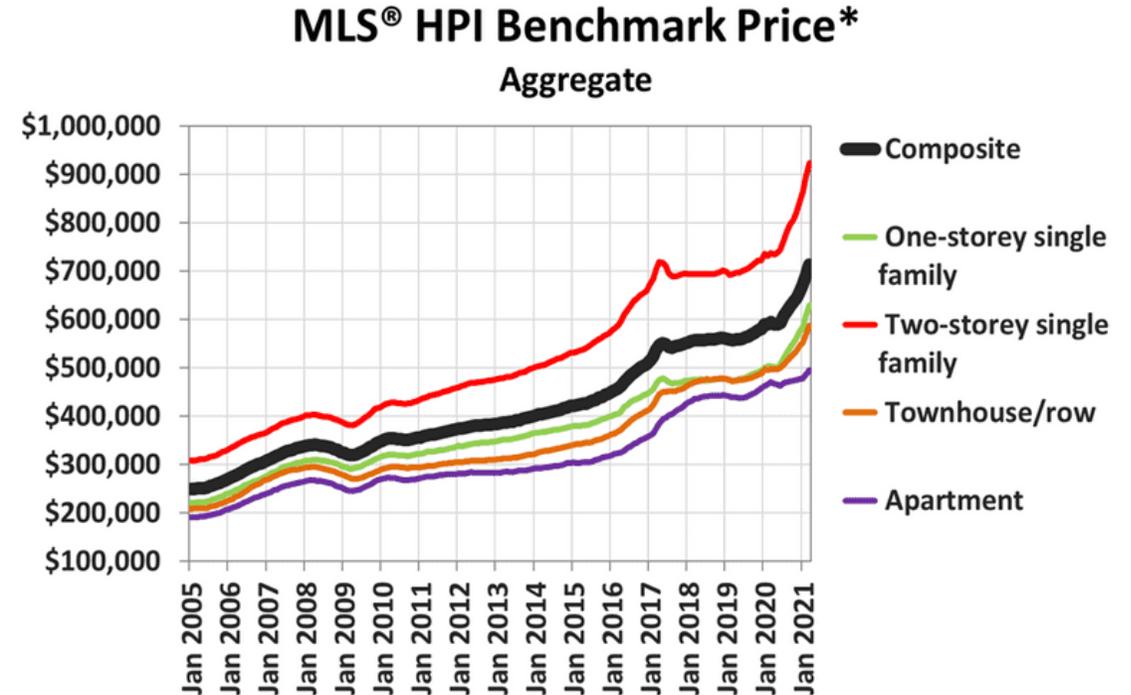
310% increase in only 12 months is a major cost increase for home construction

Lumber prices continue to make new highs and have quadrupled over the past year. According to analysis from the National Association of Homebuilders, this price increase has added US\$36,000 to the cost new homes in the US.

Canadian Real Estate



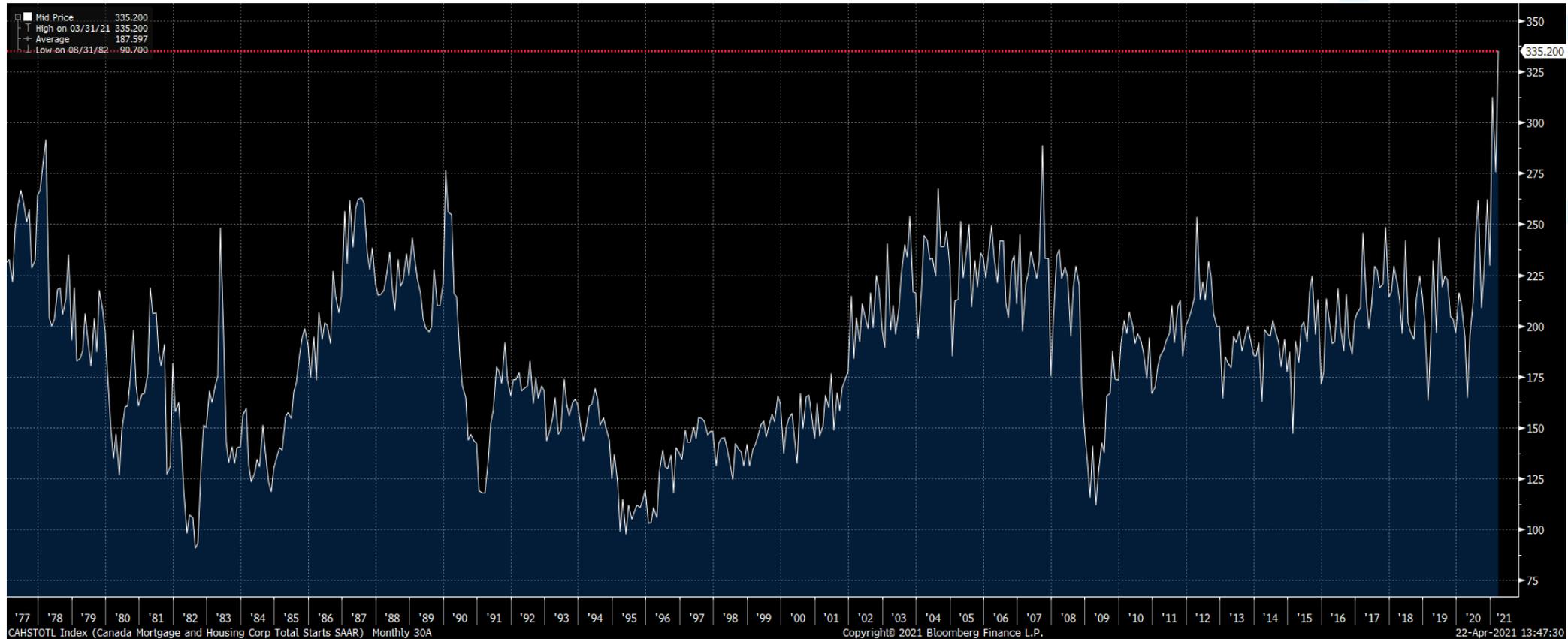
* Canada; seasonally adjusted



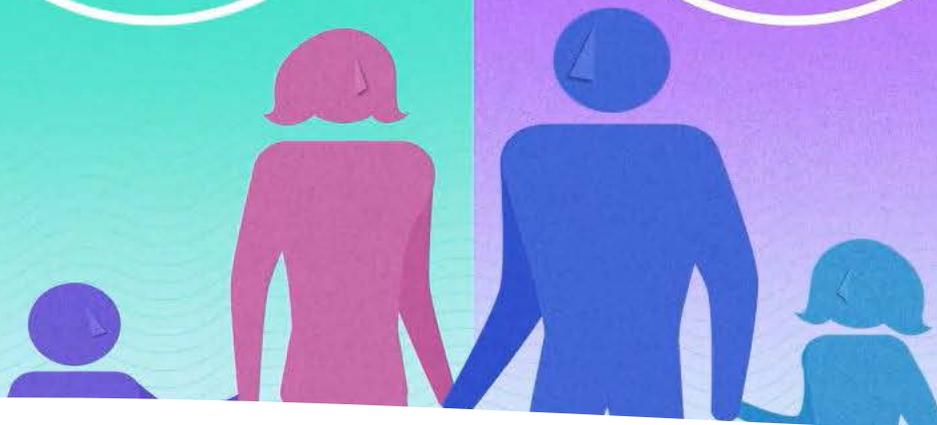
* Seasonally adjusted

Lumber costs are one factor pushing housing prices to new highs in Canada. According to data from CREA, monthly home sales have gone from 18,000/month at the pandemic low to nearly 70,000 last month, and the benchmark price for a 2-story single family home has increased by close to 25%. It will be interesting to see if the pandemic fueled demand for more living space continues through the re-opening.

New Housing Starts - Canada



High prices tend to attract new supply to markets, and monthly new housing starts in Canada recently reached the highest level since the 1970's. There is a lag time for construction, but this increased supply should put some downward pressure on housing prices eventually.



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