Commentary

Second quarter 2020

Market overview

Financial markets came back to life in the second quarter amid growing signs that the worst of the coronavirus pandemic may be over. Positive developments in the search for a vaccine, the decline in the rate of growth of the virus in all but a handful of regions, and the slow reopening of certain economic sectors all contributed to improved investor sentiment. However, markets remain volatile amid concerns about a potential second spike in virus cases as economies reopen, such as has been seen in a number of U.S. states.

Importantly, central banks and fiscal authorities continued to provide supportive measures to keep their respective economies afloat. Canada's federal government extended its emergency relief payments to taxpayers who were unable to work due to the economic restrictions.

The S&P 500, representing U.S. stocks, ended the quarter (as of June 30, 2020) 15.3% higher in Canadian dollar (CAD) terms, and almost 20.5% in USD terms. The Russell 2000 Index, representing small-cap U.S. stocks, gained 21% in CAD over the second quarter. The MSCI EAFE Index, which represents European, Australasia and Far East equities, added 9.9% in CAD while the MSCI Emerging Markets Index advanced 13% in CAD in the period.

Canada's key equity benchmark, the S&P/TSX Composite Index, recovered 17.0%. Canadian bonds – represented by the Bloomberg Barclays Canadian Aggregate Index – gained 5.7% in the quarter. The Canadian dollar strengthened slightly against the US dollar as oil prices stabilized on reduced inventory and expectations of an economic recovery in the second half of the year.

Some economic activity returns

Several of the regions that had been among the first to shutter their economies started the process of reopening during the quarter, as the spread of the virus declined, Governments began to slowly ease restrictions on business and industry, allowing certain economic sectors to restart activities under specific guidelines. While some areas had to impose restrictions for a second time when the virus resurfaced, the general success of the re-openings raised hopes for similar results in other countries over time.

Outlook brightens

The slow return to semi-normalcy also helped boost the economic outlook for the second half of the year. Some observers now believe the global economy will revive within a year. This outlook was supported by better-than-expected U.S. economic data, among other statistics.

In Canada, the economy shrank in both March and April, but not as badly as projected. Additionally, preliminary numbers hint that the economy had already started to stabilize in May and could begin to bounce back in the following months.

Meanwhile, China's economy has begun to recover, suggesting the worst of the devastation is past.

Indeed, a Reuters report noted there were broad improvements in manufacturing in June across Europe and Asia.[1] Still, the global economy remains in a precarious state and vulnerable to a potential resurgence in the coronavirus spread.

Fiscal and monetary support ongoing

The world's central banks and financial authorities continued to provide support to individuals and businesses grappling with the impact of the coronavirus. The Bank of Canada maintained its benchmark interest rate at a record low 0.25% in the second quarter, while the U.S. Federal Reserve kept its short-term borrowing rate in a range of 0-0.25% and noted it would maintain a highly accommodative policy until the economy returns to normal. The European Central Bank also kept rates at their existing record lows.

Meanwhile, many governments expanded or extended the relief packages created to help taxpayers who lost their jobs or businesses that were forced to close.

Important information

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[1] https://ca.news.yahoo.com/global-economy-manufacturing-slump-eases-091548238.html