Global Markets Commentary
Groundhog Day Revisited

BMO Nesbitt Burns | February 2021

"It's the same thing your whole life: 'Clean up your room. Stand up straight. Pick up your feet. Take it like a man. Be nice to your sister. Don't mix beer and wine, ever.' Oh yeah: 'Don't drive on the railroad tracks.'"
Phil Connors, *Groundhog Day*

At times in 2020, and now in 2021, we've all felt that we're stuck in a time warp – nothing changes. COVID-19 propels us into lockdown, followed by economic slowdowns.

On February 2, Groundhog Day, Pennsylvania's Punxsutawney Phil emerged from his burrow, saw his shadow and predicted six more weeks of winter. In 1993's comedy classic movie *Groundhog Day*, marmot Phil is the star – and nemesis of TV weather reporter Phil Connors (Bill Murray), who is doomed to relive Groundhog Day until he learns to change his attitude.

A real-life member of Punxsutawney Phil's inner circle spoke to a reporter about the unique nature of 2020. "It has felt like at times we're all living the same day over and over again. Groundhog Day also shows us that the monotony ends. The cycle will be broken."

The many new vaccines in the delivery pipeline will hopefully free us from this continuous loop.

Until January's final week, equity markets were willing to look past weaker economic data, but ended the first month of 2021 modestly negative, with the MSCI World down 0.70% in CAD terms. The U.S. Federal Reserve again warned about near-term economic challenges. Earnings results, while solid, have not been spectacular. If the economy rebounds more quickly than expected while fiscal and monetary stimulus taps are still open, we can potentially expect some inflation.

Canada – Seeing the light

Tragically, Canada has reported more than 20,000 deaths linked to COVID-19. This country's vaccine rollout has been plagued by delivery delays and disruptions, with just 2.5% of the population inoculated. On the upside, new daily cases are starting to drop after strict lockdowns in many provinces.

President Joe Biden chose Prime Minister Justin Trudeau for his first official foreign telephone call, indicating a desire to warm up relations between the two countries. The new president's science-based approach to tackling the pandemic is closely aligned with Canada's policies, which also pleased markets.

This good news was tempered by Mr. Biden's swift cancellation of the Keystone XL pipeline project that would carry crude oil from Alberta to U.S. states. His decision was not surprising, given his campaign position. We don't expect this to affect existing Canadian crude exports to the U.S. Another troubling development was Mr. Biden's "Buy American" executive order, leaving it unclear how this edict would affect Canadian interests.

The S&P/TSX started 2021 with cannabis stocks performing well and climbed to near pre-COVID levels before peeling back amid concerns about surging infections. In the last few trading days of January, volatility picked up and erased most of January's gains. At month-end, the S&P/TSX was up 12.1% since its November recovery and was off -0.32% for January.

Canadian market optimism was fuelled by the healthcare, energy and (to a lesser extent) technology sectors. Cannabis stocks such as Canopy and Aphria gave healthcare a boost (investors are hopeful that the Biden administration will be more open to legalizing cannabis). Within the technology sector, BlackBerry's stock price soared thanks to Reddit chatroom hype – even though Blackberry issued a news release saying nothing was happening to justify a rise. Lagging sectors included materials and mining. Materials slumped when gold prices took a hit against a strong Canadian dollar and fertilizer companies turned in a weak performance.

The Bank of Canada ("BoC") kept interest rates unchanged at a record low 25 basis points, expecting that a resurging coronavirus and extended restrictions will continue to hold back our economy. On a brighter note, the overall outlook is more positive compared to October projections since the BoC now sees vaccines as a remedy for a locked-down economy. Consumption growth is expected to rebound in Q2, boosted by money from the government stimulus package. Current inflation of 0.7% could climb closer to target.

Housing continued to be a key contributor to Canada's economic recovery. A new work-from-home dynamic sidelined the factor of long commutes, making suburban homes more attractive than urban condos. Historically low mortgage rates have helped drive up out-of-town home prices.

The loonie continued to strengthen against the greenback.

United States – Politics cast a shadow

The new year began with a mob assaulting Capitol Hill, hoping to block confirmation of Joe Biden's Electoral College victory. Despite violence and death during the January 6 riot, members of Congress returned later that night to vote and declare Mr. Biden the 46th president of the United States.

Just hours after his January 20 inauguration, the new president began signing a flurry of executive orders to undo many of his predecessor's policies. Mr. Biden announced that the U.S. was rejoining the Paris Climate Accord and the World Health Organization, and revoked the ban on Muslim immigration.

He also followed through on a campaign promise to cancel the Keystone XL pipeline project and embrace renewable and clean-burning energy. Alberta Premier Jason Kenney and Prime Minister Justin Trudeau were immediately critical of the move. While Mr. Trudeau has high hopes for the U.S.-Canada relationship under the Biden administration, things have gotten off to a rocky start. Mr. Biden was quick to impose stringent "made-in-America" guidelines for government spending, which should aid American manufacturers – at the expense of Canadian exporters.

American manufacturing remains resilient while the pandemic continues to rage, but the services sector has begun to display weakness once again. In December, the U.S. economy shed jobs for the first time since April when lockdown orders temporarily disrupted the recovery. A decline in nonfarm payrolls came mainly in the leisure and hospitality sector, which lost nearly half a million jobs. The downturn is expected to be temporary and it's unlikely that the economy will slip back into recession. In late December, Congress passed approximately US$900 billion in additional stimulus. With Democrats now controlling both House and Senate, prospects for additional relief have risen. In late January, U.S. Federal Reserve Chair Jerome Powell reaffirmed his commitment to keeping interest rates low until economic recovery is well underway and said bond-buying will continue.

Although the rate of new COVID-19 infections peaked in early January, stay-at-home orders seem to be working. Month-end saw a return to an infection rate last seen in November. The Biden administration has begun to implement a massive federal response to the pandemic. As vaccinations continue to roll out, it appears that the worst is over for the U.S.

While January started strong, late-month volatility reversed earlier gains; the S&P 500 dropped 1.02% during the month.

Meanwhile, election drama continues. The Capitol siege resulted in a second impeachment of Donald Trump, whose Senate trial for "incitement of insurrection" begins on February 9. Unless Democrats can win over enough Republicans to secure a two-thirds vote for conviction, acquittal is likely.

Europe and the U.K. – Winter prevails

On New Year's Eve at midnight in Brussels, Brexit came into full force, halting free movement of people, goods and services between the U.K. and the European Union. The U.K. can now negotiate trade policies and deals with individual countries, inside and outside the EU trading bloc. Many questions about the relationship remain unanswered, however.

A deadlier and faster-spreading coronavirus variant was discovered in Britain, prompting British Prime Minister Boris Johnson to impose a new national lockdown. A spat over vaccine exports from Britain's AstraZeneca cast a shadow on the newly minted U.K. – EU relationship.

The European Central Bank purchased approximately 1.85 trillion euros (US$2.25 trillion) in bonds to keep borrowing costs low and support member economies. GDP growth estimates came in at 3.9% for 2021, but reaching that mark will depend heavily on getting jabs in arms as Europe remains crippled by COVID-19.

Political uncertainly lurks ahead. German Chancellor Angela Merkel will step down in September when Germany's new national parliament takes over. Italian Prime Minister Giuseppe Conte resigned, extending the country's political chaos.

Markets struggled to find certainty, which left the FTSE 100 (U.K. equity) and STOXX 50 (EU equity) essentially flat in January.

China – Light out of darkness

China was the only major economy to register positive growth for 2020. While most of the world is focused on supporting businesses and coping with second and third waves of coronavirus cases, China is taking steps to avoid overheating its economy. Beijing has moved to rein in mortgage lending and tamp down runaway growth in the real estate market.

The country is set to spend 10.6 trillion yuan (US$1.6 trillion) through 2025 to develop next-gen infrastructure such as 5G connectivity and electric-vehicle charging stations. This is part of China's grand plan to elevate itself from an export-oriented manufacturer to a technology powerhouse.

Under the Biden administration, the U.S.–Sino relationship will morph, but it is too early to assess the full impact of this leadership change.

In January, the Shanghai Composite saw a moderate increase of 0.29%.

Japan – Back into hibernation

Tokyo and its surrounding areas saw a surge in coronavirus cases, forcing a second state-of-emergency declaration. Although the government committed to supporting the economy with its recently passed budget, local private business reduced capital investments by 3%, the largest decline since the 1990s. The "Go To Travel" campaign, an initiative designed to revive popular tourism and restaurant industries, was put on hold to discourage social gatherings.

On a positive note, Japan's economy benefitted from the recovery in China, its largest export destination. December's exports rose for the first time in two years, providing a glimmer of recovery hope. The Nikkei was essentially flat, posting a gain of 0.8% for January

The last word

"You know, some guys would look at this glass and they would say, you know, 'that glass is half empty.' Other guys'd say 'that glass is half full.'"
Groundhog Day

Yes, concerns persist. Vaccination rollouts have been slow and new variants could pose a challenge. Political uncertainly is ongoing. There is a massive amount of liquidity driven by stimulus and low interest rates.

Although we are still mired in a seemingly endless COVID-19 cycle, there is hope. More jabs are going into more arms. Economic data has been better than expected and growth prospects have improved slightly – the IMF recently raised its forecast for 2021 global growth to 5.5% (from 5.2%) and 4.2% for next year.

This year, Punxsutawney Phil predicted six more weeks of winter, but Canada's celebrity groundhog, Wiarton Willie, forecast an early spring. Why do we pay so much attention to these rodent prognostications? According to folklore, the Groundhog Day ritual may be tied to astronomy. February 2 comes midway between our hemisphere's winter solstice and spring equinox. Days are getting longer and light is slowly overtaking darkness.

Please contact your BMO financial professional if you have any questions or would like to discuss your investments.