



PERSPECTIVES

For the 12-month period beginning October 1, 2019

“At first glance, it may be tempting to conclude there is not much that fiscal policy can do. Government debt loads are already elevated across the developed world. However, as we learned in the last decade, it’s important not to underestimate the ingenuity and creativity of policy-makers. When conditions required it, they did not hesitate and took action.”

Cushioning the downturn

As the trade war intensifies and economic growth disappoints, global interest rates continue to move lower—there are 19 bond markets with a 10-year government bond yield below 1%. With very little policy leeway left, monetary authorities now have to rely on fiscal policy-makers, who need to take on a bigger role to support global growth.

Asset class highlights

Equity: Although Canada doesn’t face the trade war and political uncertainty that other markets do, the global slowdown will limit the upside for cyclical Canadian equities.

Fixed Income: While bond yields in developed markets may have already seen a bottom, they are unlikely to march meaningfully higher in the short term.

Currencies: For other currencies to move decisively higher against the U.S. dollar, monetary authorities in the rest of the developed world have to take a more hawkish turn. This is not likely to happen anytime soon.

Commodities: The quick return to lower oil prices after the drone attack on Saudi oilfields highlights a situation where market supply will outstrip demand as we move into 2020.

Multi-asset outlook

| Asset class | Current September 30, 2019 | Most likely minimum of range for next 12 months | Most likely maximum of range for next 12 months |
|--|-------------------------------|--|--|
| Canada 3-month T-Bills rate | 1.75% | 1.15% | 1.80% |
| Canada 2-year government bond yield | 1.58% | 1.00% | 1.65% |
| Canada 10-year government bond yield | 1.36% | 1.15% | 1.95% |
| U.S. 10-year government bond yield | 1.67% | 1.35% | 2.10% |
| Germany 10-year government bond yield | -0.57% | -0.75% | 0.00% |
| Japan 10-year government bond yield | -0.22% | -0.25% | 0.30% |
| Canada 10-year real-return government bond yield | 0.26% | 0.05% | 0.45% |
| Canada investment grade corporate spreads | 1.14% | 0.95% | 1.55% |
| U.S. high yield corporate spreads | 3.99% | 3.80% | 4.80% |
| Emerging market sovereign (USD dominated) bond spreads | 338 | 290 | 500 |
| S&P/TSX price index | 16,659 | 15,900 | 17,300 |
| S&P 500 price index | 2,977 | 2,750 | 3,025 |
| Euro Stoxx 50 price index | 3,569 | 3,250 | 3,590 |
| Japan Topix price index | 1,588 | 1,460 | 1,600 |
| MSCI Emerging Markets | 56,357 | 54,700 | 59,800 |
| U.S. Dollar/Canadian Dollar | 1.3240 | 1.29 | 1.36 |
| Euro/U.S. Dollar | 1.0902 | 1.07 | 1.18 |
| U.S. Dollar/Japanese Yen | 108.08 | 100.0 | 112.0 |
| U.S. Dollar/Offshore Chinese Yuan | 7.14 | 6.80 | 7.35 |
| Gold | 1,474 | 1,370 | 1,600 |
| Oil price, WTI (West Texas Intermediate) | 54.07 | 50 | 60 |

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