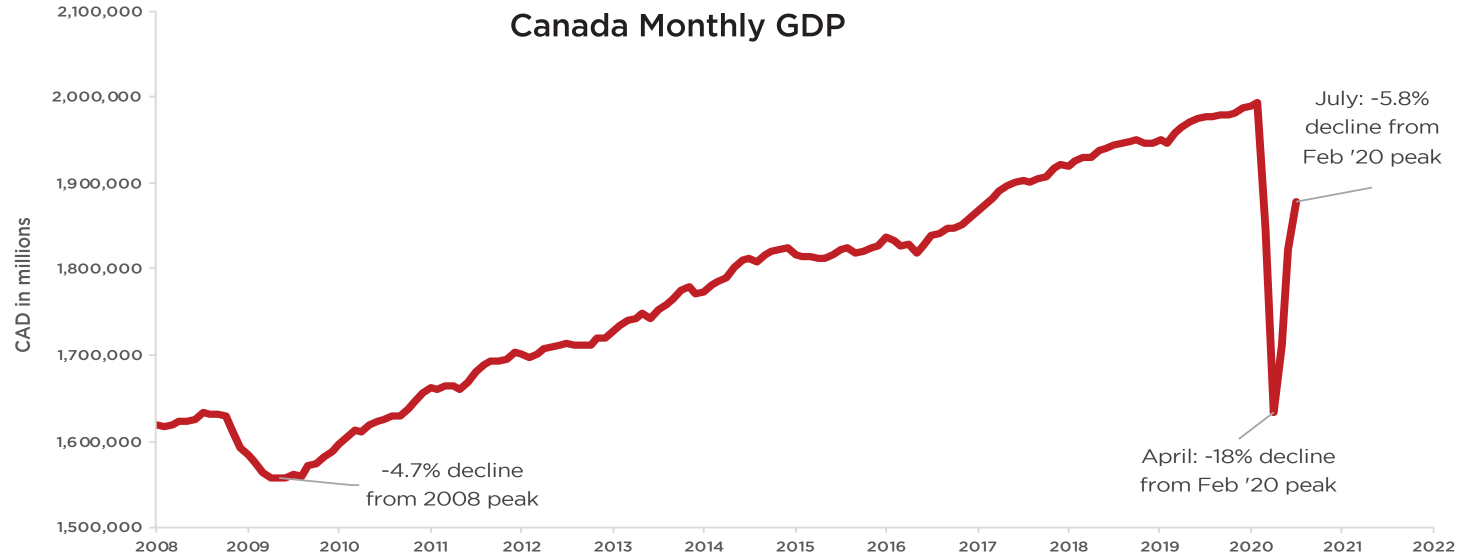
A strong rebound but still a lot of ground to cover



Source: FactSet, Statistics Canada, 9/30/20

Economic Outlook

We believe the economy has formed a durable bottom, but the pace of growth will slow and the return to pre-pandemic levels will take time. A gradual improvement in the labour market, along with low interest rates and fiscal stimulus, should help sustain the economic recovery into 2021.

- **Recovery likely entering a slower phase** – Following a record GDP decline in April, the economy experienced an initial V-shaped recovery. We believe this strong rebound will give way to slower but sustained growth as fiscal relief is gradually phased out and the initial reopening boost fades. The most recent monthly GDP reading in Canada and timely U.S. economic activity indicators such as tax collection data, employment and electricity consumption suggest that as of Q3, both economies have recovered almost two-thirds of their pandemic-induced losses. That's a good first step, but there is still a lot of ground to cover, and the next leg of the rebound will likely take longer.

- **Labour market holds the key** – Provided that medical solutions for the virus continue to progress, we think a gradual improvement in the labour market will drive a durable and self-sustaining recovery heading into 2021. Unemployment remains high, and further employment gains are needed to support the handoff from stimulus to growth and help drive consumer spending, which makes up the lion's share of the economy. Personal savings in Canada reached an all-time high in Q2 as consumption fell and government aid programs helped bolster incomes. However, household debt levels remain elevated which could slow the recovery. In the U.S., consumers are in better shape compared to past recessions, with personal savings elevated and debt ratios low.

- **A two-track economy until a vaccine arrives** – Major industries in Canada and the U.S. remain capacity-constrained or experience weak demand, which is preventing the economies from reaching their full potential. This uneven recovery is evident in the shifting demand patterns from services to goods. For example, as of August, U.S. consumer spending in goods was 5% above the February peak, but spending on the far bigger category of services (e.g. restaurants, hotels) remained 7% below peak.

Action for Investors

We expect gradually improving economic fundamentals and low rates to support rising equities. While the range of economic outcomes remains wide, in our view it's narrower than in the early stages of the pandemic. This is why we believe an allocation in the middle of the equity/fixed-income range is generally appropriate.

Rebalancing and diversification do not ensure a profit or protect against loss.

Edward Jones