Jeff Lucyk
Hello everybody. I'm Jeff Lucyk. I'm the head of the retail sales team at Horizons ETFs. I want to welcome everyone to Generation ETFs, where we're exploring everything you need to know about ETF investing. So today we'll be discussing the global macro environment given the recent sell off in the equity markets and the recent rate cuts.

Jeff Lucyk
So after a stellar 2019, where the global equity markets have now experienced one of the most rapid and worst sell offs since the global financial crisis, which happened in 2008. So it seems that much of this sell off has been driven by fears about this global spread of the COVID-19 virus, and its potential to grind the global economy to a hault.

Jeff Lucyk
To give us an update today we have Candice Bangsund, vice president and portfolio manager of the global asset allocation group at Fiera Capital. She will be providing us a global macro update and provide a few key reasons that despite the markets looking dire, long-term, the global economic expansion will likely continue if and when fears about the COVID-19 virus subside.

Jeff Lucyk
So welcome Candice. Thanks for joining us.

Candice Bangsund
Thanks for having me.

Jeff Lucyk
So let's start with with the Corona virus. How much have containment measures already slowed the global economy and what should we expect over the coming months from global economic growth?

Candice Bangsund
Yeah, well not surprisingly, the most visible effects so far have been in China. We just got the purchasing manager indices here last weekend and that's where you really see the impact, both on the supply side, but as well as the demand side. So on the supply side, obviously we've had a number of factory closures in China. Business is starting to resume now, but nonetheless, production has been crippled, supply chain disruptions. We've seen this in the manufacturing, PMI dropping to a record level. Similarly on the demand side, travel restrictions, curbs on tourism, just general mobility restrictions in general as authorities work to mitigate the impacts of the virus have affected the demand side as well. So the consumer side services sectors as well.

Candice Bangsund
So most visible so far in China. But of course we are guaranteed to see spillover effects globally as well, particularly in countries that have the supply chain linkages to the Chinese factories. So notably you think about export-oriented regions like Germany, Japan as well, likely to see some weakness there. Haven't seen anything notable yet, but of course that is likely to come to fruition here in the near term. And that's problematic because these are the economies that are already fragile in that they were just coming out of the 2019 trade-related slowdown. So a little bit vulnerable there as well.

Candice Bangsund
But nonetheless, China being such a large part of the global pie, we are going to absolutely see spillover effects globally in the developed world as well as the emerging markets. The good news, however, is that policy makers have very forcefully stepped up and pledged their support. We've seen a number of fiscal and monetary moves, particularly in China. This is obviously, like I said, where we've seen the most visible growth deterioration. So of course policy makers in China have made it their priority to revive the economy and even to meet their state of growth targets. And of course we are seeing similar pledges from central banks, governments in the developed world as well. G7 financial chiefs met earlier this week and again have pledged to support the economy. So our expectation is that while we do see the short term impacts, we do have some notable policy support to help to cushion the blow from the virus related downturn.

Jeff Lucyk
Okay. And we've seen that this week with the surprise fed rate cut of 50 basis points. And then today the Bank of Canada followed with another 50 basis points, with 50 basis points here in Canada. Were you surprised by those rate cuts or do you think that's just following along with what you mentioned on the government's trying to provide as much support as possible? And should we expect other central banks to sort of follow suit?

Candice Bangsund
Yeah, so I wasn't necessarily surprised at the magnitude of the rate cut from the federal reserve. I was more surprised about the timing. And the fact that it was in between meetings, largely an emergency measure. Because of course historically this is typically coincided with recession, and I think that's why the market panicked in the aftermath of that move. And it really, I think, unnerved investors into thinking that, "Well, wait a minute, is there something that the federal reserve is seeing that we're not seeing?"

Candice Bangsund
But that being said, the rhetoric and the communication from the G7 conference call, I guess, the other morning, was that they are largely

pledging to support the economy. So right then and there we knew that stimulus was on its way. And I think in that case, the federal reserve being in a position that they have the room to make the move, they took the lead on that following the somewhat murky statement from the G7, where there wasn't really anything tangible in the ... There wasn't anything that was announced immediately. So I think the market again was disappointed, and this likely pushed the fed to step up, lead the global charge in this stimulus campaign.

Candice Bangsund
The fed likely didn't want to disappoint either. Market expectations were largely pricing this 50 basis point move and in the effort to keep financial conditions accommodative, the fed validated these expectations. And like I said, I think it was just more so the timing. But again, I think the fed is likely representing what we're going to be seeing here more going forward from other major central banks and policymakers. And like you said, Bank of Canada followed suit here this morning, cutting by 50 basis points. We're likely to see similar, maybe not in magnitude in the 50 basis point region, but likely more stimulus coming from the likes of the Bank of England, the European Central Bank, we've seen moves from the Reserve Bank of Australia, Malaysia. So there's a lot of stimulus and more to come. And again, that goes back to helping to revive the global economy and even maybe amplifying the V shaped recovery when the outbreak is contained.

Jeff Lucyk
Okay. And it looked like you said the markets were pricing that in, the timing may have been a surprise. But now yields continue to go lower. It looks like the market is pricing even further cuts. Do you anticipate further cuts coming down the road from either the fed or the Bank of Canada?

Candice Bangsund
Well you're right, it's become a bit self fulfilling in that these stimulus moves have essentially rattled the market into thinking that recession is indeed upon us. And our view is that this is likely an over exaggeration, but nonetheless, there's still plenty of uncertainty out there regarding the extent and the magnitude of the outbreak, particularly in the developed world. So there's going to be a lot of wait and see data dependence in future moves, in our view. Particularly from the fed and the Bank of Canada. I know the markets are now pricing another two, two and a half rate cuts by year end from the fed, which given our expectation for a revitalization and growth later this year, seems overly aggressive. But of course this will largely depend on if and when the outbreak is contained, and of course the impact on global growth.

Jeff Lucyk
Okay, so the bond market seems to be pricing this in that it's going to ... It might get worse and yields are going to go lower. So we've now seen some monetary easing, and continue to see maybe that from other countries and even the fed and the Bank of Canada, and then there could be a potential fiscal stimulus. Do you foresee this having an effect on the global equity market?

Candice Bangsund
Absolutely. The stimulus pledges from central banks and governments has helped to restore confidence in the equity markets and in policymakers ability to help to stem the damage from the Corona virus. Also, when you think about where interest rates are now at rock bottom record levels, this is a natural stimulus for risky assets and equity prices in general, because it inevitably increases what investors are willing to pay for equities, and resulting in multiple expansion.

Candice Bangsund
At the same time, the stimulus measures, as I mentioned before, have helped to keep financial conditions accommodative, and we think this will inevitably help to place a floor under the equity market longer term and help to again revitalize the global economic outlook later this year. Because it's of course stimulus added onto an already abundant liquidity backdrop. We were already seeing very accommodative monetary policies, particularly out of China, but now this is spread more globally. We've got developed central banks participating, lowering rates. If anything, this should accentuate the global recovery later this year.

Candice Bangsund
Again, once the viral outbreak is contained in the developed world, but of course plenty of uncertainty remains. I think in the near term we're likely going to see some more volatility, some range bound trading on the equity front. But positioning for short-term pain for long-term gain at this point.

Jeff Lucyk
Okay, so the economies were doing well. The virus fear has put in the fear of the global economy slowing down in recession, but if and when the virus is contained or perceived to be contained, you're seeing sort of a pretty quick recovery at that point.

Candice Bangsund
Yeah, so our base case is that the reflationary environment of improving global growth and accommodative monetary policy has been ... It's been delayed, but it hasn't been derailed and that the combination of all of the stimulus in the system in addition to the hope for the receding spread of the virus and some sort of containment on that front should help to alleviate the pressure on the global economy later this year. It goes without saying that in the first and likely second quarter we are going to see some profound weakness in the global economy. That being said, we expect a sharp recovery later this year. There's going to be a lot of pent up demand and of course all that stimulus in place likely to revitalize growth in the back half of 2020.

Jeff Lucyk
Okay. Yeah, and we do see that from your latest monthly asset allocation report that you still remain relatively overweight equities in comparison to bonds. So has anything occurred in the last few weeks to change this outlook? It seems like you still believe risk assets are well positioned for the remainder of 2020 and going forward.

Candice Bangsund
Yeah, so we've maintained our preference for stocks over bonds despite the volatility and the uncertainty pertaining to the Corona virus. We've largely resisted the temptation to sell into this weakness, and have instead adopted a patient wait and see approach as well, where we are going to be monitoring the status of the outbreak, but also the size and the magnitude of the central bank and government support that we're going to be getting. Because inevitably our base case does remain that this does prove transitory similar to previous epidemics, and that longer term fundamentals should return to the fore and drive risk assets higher.

Jeff Lucyk
Well, thank you Candice.That's a great summary in these uncertain times. Ideally, everyone's rewarded for that patient outlook and the economy does recover, and the markets do recover from this transitory epidemic as you mentioned. Thanks for your time.

Candice Bangsund
Thanks.

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