

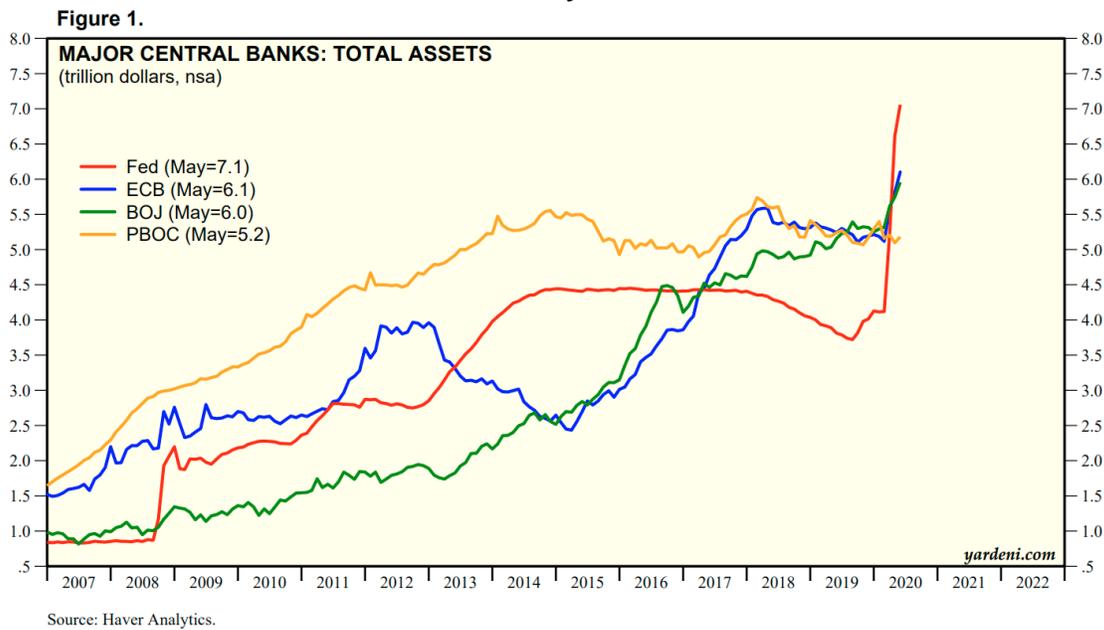


‘COMFORTABLY NUMB’

‘Hello? Hello? Hello? Is there anybody in there? Just nod if you can hear me. Is there anyone at home? Come on now. I hear you’re feeling down. Well I can ease your pain. Get you on your feet again.’

Pink Floyd’s classic song ‘Comfortably Numb’ sums up the current state of global markets and the economy. Central bankers (‘the doctors’) have successfully revived the global economy (‘the patient’) from the COVID crisis through massive injections of liquidity into credit markets through asset purchases (also known as quantitative easing - QE), which has caused investors to bid up all equity prices globally. The assets of the major central banks (US Federal Reserve, European Central Bank, Bank of Japan and the People’s Bank of China) are close to approaching \$25 trillion, and likely headed higher since the banks have committed to doing what it takes to get the global economy growing again. See Figure 1.

Total Assets of Major Central Banks

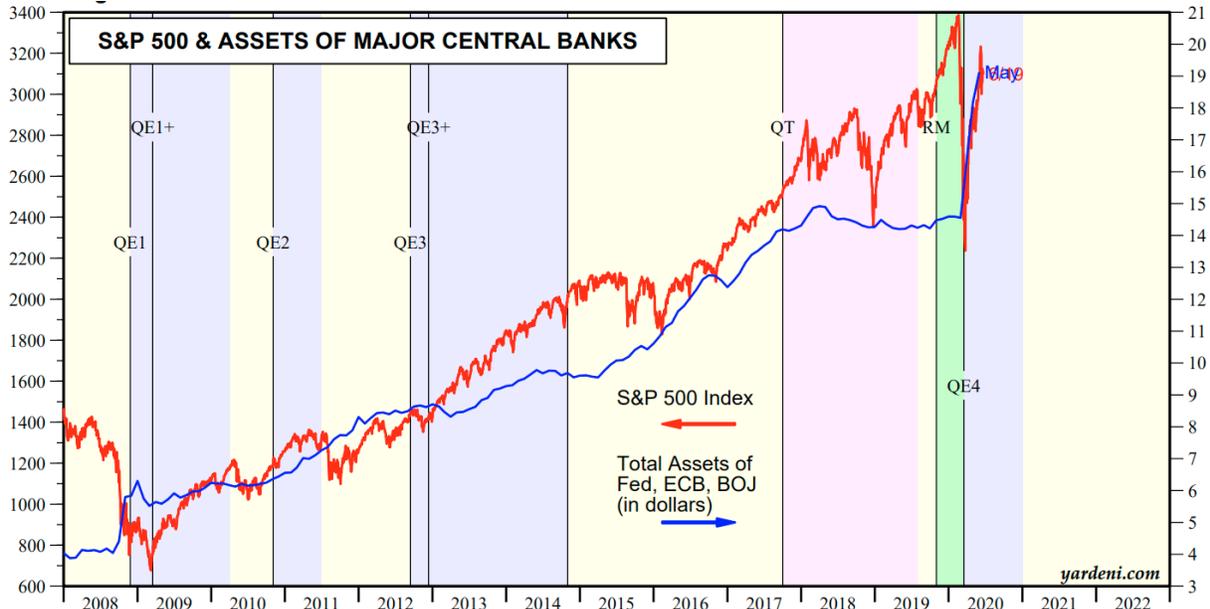


Source: <https://www.bespokepremium.com/think-big-blog/sp-500-yield-tops-the-thirty-year/>

Note: The above chart data is as of May end. As a comparison the Bank of Canada’s total assets at May 2020 were \$470 billion up from \$119 billion at the end of January 2020.



Looking at the past three rounds of central bank asset purchases (QE), equity markets continued their upward trend despite some bumps along the way (see graph below). We believe that this fourth round of QE will continue to support equity markets despite the potential speed bumps of a second wave of COVID infections in the U.S., the heating up of the U.S. presidential election rhetoric, trade issues and continued weak economic data. With global central banks committed to near zero interest rates for the next 2-3 years to ensure that the global economy is on a solid footing, we believe equity investors should stay the course.



Note: QE1 (11/25/08-3/31/10) = \$1.24tn in mortgage securities; expanded (3/16/09-3/31/10) = \$300bn in Treasuries. QE2 (11/3/10-6/30/11) = \$600bn in Treasuries. QE3 (9/13/12-10/29/14) = \$40bn/month in mortgage securities (open ended); expanded (12/12/12-10/1/14) = \$45bn/month in Treasuries. QT (10/1/17-7/31/19) = balance sheet pared by \$675bn. RM (11/1/19-3/15/20) = reserve management, \$60bn/month in Treasury bills. QE4 (3/16/20-infinity). Source: Federal Reserve Board, Standard & Poor's and Haver Analytics.

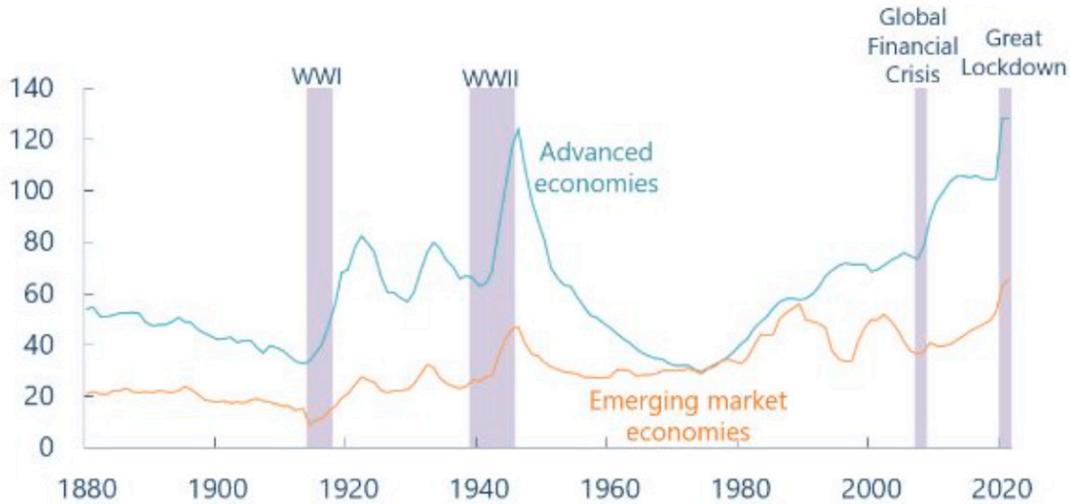
Source: <https://www.bespokepremium.com/think-big-blog/sp-500-yield-tops-the-thirty-year/>

A recent investor concern is the growing amount of government debt due to the fiscal stimulus programs announced to help revive the economies. According to the International Monetary Fund (IMF), global public debt to gross domestic product (GDP) is expected to exceed 140% (see graph below). Although this growing debt load is a concern, governments had no choice but to increase spending to offset the potential of a global depression due to COVID-19. We expect this debt will force governments to reduce wasteful spending, widen the tax base, close tax loopholes, crack down on tax avoidance, and increase tax rates for the highest income earners.

Record debt

Global public debt is expected to exceed the post-World War II peak.

(global public debt, percent of GDP)



Sources: Historical Public Debt Database; IMF, *World Economic Outlook*; Maddison Database Project; and IMF staff calculations.

Source: <https://blogs.imf.org/2020/06/24/reopening-from-the-great-lockdown-uneven-and-uncertain-recovery/>

The Bottom Line

Although the last four months have been surreal in terms of COVID impacts, most investors have now become ‘comfortably numb’ to further bad news. We continue to view market dips as potential buying opportunities as the economy shifts from its current recovery phase into an economic expansion in 2021. We believe stock markets will continue to climb the “wall of worry” as headlines start to become dominated by a second wave of COVID cases in the US, political sabre rattling heading into the U.S. presidential election and weak economic data.

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