

## Big Picture

### Markets Climb Over Hopes for Biden Administration, New Stimulus

It was a fairly quiet session for the TSX on Monday as U.S. markets were closed for the Martin Luther King Jr. holiday. While most TSX sectors were up, energy stocks closed down more than 1.5%. By Monday's close, however, the index finished with a mild 36-point gain.

It was a strong day for U.S. equities on Tuesday, as markets headed higher over incoming Treasury Secretary Janet Yellen's endorsement for aggressive coronavirus relief spending. By Tuesday's close, the Dow was up 116 points, while the S&P and Nasdaq added 31 and 199, respectively. In Canada, the TSX added just 12 points, despite a rallying energy sector.

Global equity benchmarks rose to new record highs, and oil prices climbed Wednesday as investors' risk appetite grew in anticipation of further U.S. stimulus under new President Joe Biden, who was sworn in without incident Wednesday afternoon. The tech sector registered major gains Wednesday, with the Nasdaq up more than 250 points, while the S&P added 53. The Dow also had a strong showing, climbing 258 points, as earnings results have been better than expected so far. The TSX added 58 points, thanks largely to the materials sector, which saw gold rise 1%.

Turning to interest rates, the Bank of Canada on Wednesday held its benchmark rate steady at 0.25%, pledging to keep rates low until the recovery is in full swing.

U.S. markets were mixed on Thursday as the U.S. labour market continues to struggle, reporting 900,000 new initial jobless claims last week. The Dow and S&P were flat, while the Nasdaq registered a modest gain of 74 points. In Canada, the TSX lost 98 points, weighed down by the energy and financials sectors.

Finally, in currency news, the loonie hit a near three-year high against the greenback on Thursday, despite President Biden's executive order Wednesday, which revoked the permit for the Keystone XL oil pipeline.

### Markets Close Higher Over Biden Optimism, Fiscal Relief

For the four trading days covered in this report, the Dow jumped 362 points to close at 31,176, the S&P 500 climbed 85 points to settle at 3,853, while the tech-heavy Nasdaq surged 533 points to close at 13,531. In Canada, the TSX added 7 points to end at 17,916.

## Strategy

### **The Bank of Canada (BoC) will need to monitor its asset purchase program to avoid distorting markets.**

The BoC remains committed to providing ample accommodation to the Canadian economy throughout the recovery. With respect to the Bank's asset purchase program, Governor Tiff Macklem acknowledged that market distortions could occur once the Bank's share of government bond holdings grows beyond 50% of the overall market, however current holdings are still below 35%. In our view, policymakers are likely to look through the transitory weakness observed in late 4Q20 and early 1Q21 and remain focused on longer-term goals of policy normalization. That said, we think the BoC will keep its policy rate low and will continue buying securities until the economic recovery has shown durability. While there is always some risk of a policy rate hike in advance of the currently communicated timeline, the Committee members are likely to take extreme caution not to arrest the recovery prematurely.

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