March 2020

Special Edition Canada Outlook:

Coordinated action from central bankers, governments, and regulators to support global markets

Key takeaways

- The US Federal Reserve cut interest rates near 0% and restarted its quantitative easing program.
- The Bank of Canada and five other central banks announced coordinated moves to support global liquidity.
- The Bank of Canada cut the key overnight lending rate by 50 basis points to 0.75%.
- The Government of Canada announced an additional $10 billion in economic stimulus.
- Canada's banking regulator loosened capital rules for the country's largest banks.
- Past market shocks have shown that investors who remain invested and focused on long-term goals do better overall.

"At the end of the day, good investments weather storms. We are comfortable with the companies we own."

Federal government and Bank of Canada send strong directional signals to calm markets

The Government of Canada announced a plan to significantly restrict entry of non-residents to Canada on March 16. On the same day, the Bank of Canada (BoC) broadened the securities it will accept as collateral from banks, including corporate bonds, in its overnight lending facility. The BoC also stated it stands ready to purchase Canada Mortgage Bonds to calm markets.

The US Federal Reserve cut the overnight rate by 100 basis points to near zero basis points and restarted the quantitative easing (QE) program by $700 billion on March 15. The BoC, the Bank of England, the Bank of Japan, the European Central Bank, the Federal Reserve, and the Swiss National Bank all announced they will support the supply of credit to households and businesses through measures such as lower interest rates.

Additional measures to stimulate the Canadian economy were announced on March 13 by Bill Morneau, Minister of Finance, Stephen Poloz, Governor of the BoC, and Jeremy Rudin from the Office of the Superintendent of Financial Institutions (OSFI), Canada's banking regulator.

The BoC cut the key overnight lending rate by 50 basis points to 0.75%. In a statement, the BoC said it "stands ready" to act again. This was the second time the BoC cut interest rates in just over a week. Morneau announced that $10 billion will be available to support businesses and workers. Further fiscal measures are expected to be announced the week of March 16. Meanwhile, OSFI lowered capital requirements for large Canadian banks to boost the flow of credit into the economy.

History shows market crises followed by sustained growth

"As expected, policymakers have acted to support markets just as the scenarios seem the most dire. Coordinated action from policymakers can lead to dramatic reversals in markets, especially after shocks such as COVID-19," says Jim Huggan, Chief Investment Officer of HSBC Global Asset Management (Canada) Limited. "Past market shocks have shown that investors who remain invested and focused on long-term goals do better overall."

How is HSBC managing its clients' investments in this volatile environment?

At the end of the day, good investments weather storms. We are comfortable with the companies we own, their business models, their sustainability, and their ability to generate cash flow. We continue to favour companies that have attractive dividend growth.

What is the best way to get through this crisis?

Diversification remains key. Our portfolios are diversified in bonds and currencies that are mitigating the impact of the correction. Every decade experiences crises and market corrections. A diversified portfolio has always proved to be the best defence in volatile markets.

HSBC Global Asset Management

Important Information:

The material contained in this document has been prepared by HSBC Global Asset Management (Canada) Limited ("AMCA"), and is based on sources believed to be reliable. However, we have not independently verified such information and make no guarantee, representation or warranty and accept no responsibility or liability as to its accuracy or completeness. Opinions expressed herein are subject to change without notice and this information is not intended to provide professional advice and should not be relied upon in that regard. You are advised to obtain appropriate professional advice where necessary and should consult your investment representative before considering a specific transaction. This document is not an offer to sell or the solicitation of an offer to purchase or subscribe for any investment.

Some of the statements contained in this document may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors. We do not undertake any obligation to update the forward looking statements contained herein, or to update the reasons why actual results could differ from those projected in the forward-looking statements.

AMCA is a wholly owned subsidiary of, but separate entity from, HSBC Bank Canada. AMCA provides its services as a dealer in all provinces of Canada except Prince Edward Island and also provides services in Northwest Territories. AMCA provides its services as an advisor in all provinces of Canada except Prince Edward Island.

Past performance is not an indication of future returns.

Expiry Date: 3 April 2020

DK2000141A