



## Learn When Experts Think the Canadian Economy Will Recover

### Description

The economy is fine. Or is it?

If you look at the stock market, you'd think nothing was awry. The **S&P/TSX Composite Index**, for example, is valued at the same level as October of 2019. It's almost like nothing has changed in the interim.

Of course, job losses tell another story. Canada alone has shed millions from the workforce, with many more now underemployed. GDP will experience a sharp retraction in 2020.

If you're confused about this dynamic — record-high stock prices alongside a terrible economic background — you're not alone. Jeremy Grantham, head of GMO Asset Management, calls it “one of the most impressive mismatches in history.”

“Everything is uncertain, perhaps to a unique degree,” he concludes.

Standard & Poor's recently revealed a sweeping economic [report](#) that detailed exactly when the economy will [recover](#). Its conclusion: Canada's economy faces a patchy recovery.

### Read the details

Let's start with the highlights. Canada's economy is expected to shrink by 5.9% in 2020. That's no surprise. What's notable is that it's expected to *rebound* by 5.4% in 2021, one of the biggest single-year jumps this century. Just don't get too excited.

“Lingering scars in the form of coronavirus fear, bankruptcies, below break-even oil prices, and regulated social distancing will limit capacity utilization and growth for a quarter of the economy in the next year or so,” the report warns.

“House price correction is in the cards despite lower mortgage rates, and the central bank is expected to remain at an effective lower bound until close to the end of 2022.”

And that’s not all. As with other economic reports, Standard & Poor’s believes there will be permanent effects from the coronavirus pandemic.

“The nature of the shock means there will be permanent losses,” the report continues. “The economy will still be 2.5% smaller in 2023, compared with the pre-COVID anticipated size. With duration, there is also a building risk of scarring the labor force and capital formation, and the efficient allocation of the two in the long run, therefore eroding sustainable growth rates that maintain low and stable inflation.”

## Will the economy recover?

**Standard & Poor’s** isn’t alone. Last month, **Bank of Montreal** released its own report calling for caution. The biggest takeaway was that economic activity won’t return to pre-pandemic levels until 2022 at best.

BMO’s report also called for a sharp rebound next year, but warned of lingering effects that won’t bring us back to baseline quickly. Some industries will never recover.

What are you to make of all of this?

The biggest lesson is to tread carefully. We no longer live in a world where growth is a guarantee. Already, we’re seeing entire industries decouple from the overall stock market. Oil stocks remain close to multi-year lows. Meanwhile, tech stocks are approaching all-time highs.

The important thing is to maintain a long-term time horizon. Find stocks that can execute over the next few decades, not just the next few months. Many stocks are clear buys *right now*, regardless of where the underlying economy heads. It’s up to you to do the work to target those opportunities.

### CATEGORY

1. Coronavirus
2. Investing

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