Market Dips With Bank of Canada Ending QE: What Should You Do?

Description

The Bank of Canada ending its quantitative easing (QE) program is a part of what is causing the market dip. Like other central banks, the Bank of Canada's QE program bought massive amounts of government bonds, since the beginning of the pandemic, to ultimately lower borrowing costs. This action was meant to stimulate economic activity.

Instead of buying more Government of Canada bonds, the central bank has entered a reinvestment phase, in which it will only buy government bonds to replace maturing ones. The decision came as the global economy progresses in its recovery from the COVID-19 pandemic. The statement from policy makers explained that the global demand for goods is strong, and pandemic-related disruptions are constraining growth. As a result, inflation rates have gone up in many countries, elevated by supply bottlenecks and higher energy prices.

The Bank of Canada expects the Consumer Price Index (CPI) to be elevated into next year but retreat to the targeted 2% rate by late 2022. The bank also projects that the Canadian economy will grow by 5% this year before progressively declining to 3.75% by 2023. For now, the bank is maintaining the overnight rate at 0.25%, but rate hikes could begin as soon as April. Pundits are predicting three to four rate hikes next year.

Ending QE triggered a market dip — or is it normal volatility?

The ending of QE will lead to higher borrowing costs. The market appears to have reacted with a dip. Looking closer, the Canadian stock market only dipped less than 1% yesterday, which could be seen as normal volatility. The stock market going up or down 1-3% a day is pretty normal. Perhaps there will be more selloff, as the market and investing community absorbs this news.

Companies that have larger debt levels might see a bigger selloff. To name a few, **Algonquin Power & Utilities** declined 4.3% on Wednesday, **Restaurant Brands International** fell 2.1%, **Enbridge** retreated 1.18%. However, **Fortis** declined only 0.4% and **BCE** only retreated 0.36%. It goes to show that market volatility is much more complicated than that. QE is but one factor that affects the volatility of individual stocks. I explained in more detail why Algonquin and Restaurant Brands might have dipped recently.

The Foolish investor takeaway

There's really no need to worry about what the implications of the QE ending are if your investments are focused on stocks, because it is only one of many factors that can affect stock volatility in the near to medium term.

From a stock investing perspective, simply focus on the quality of the business and the valuation you're paying. If you only buy when quality stocks are reasonably valued (or at bargains), you should generate good to outstanding total returns in the long run.

The QE news would probably have a bigger impact on Canadian government bonds. Changes to interest rates will also be another factor that moves bond or bond exchange-traded fund prices. If you have a big portion of your investment portfolio in bonds or bond ETFs, you can discuss with a financial advisor on the best course of action.

CATEGORY

1. Dividend Stocks
2. Investing

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. kayng
2. kduncombe

Category

1. Dividend Stocks
2. Investing

Date
2025/07/26
Date Created
2021/10/28
Author
kayng