One year later*

The world has endured (and is continuing to endure) a period that will be studied for years to come across academic disciplines; and like any historically significant era before it, there are many key dates that will be long remembered, for example:

- December 1, 2019 — the first confirmed case of novel coronavirus disease 2019 (COVID-19) was recorded in Wuhan, Hubei province, China;
- January 13, 2020 — first recorded case of COVID-19 outside of China (Thailand);
- January 20, 2020 — first recorded case of COVID-19 in North America (US);
- January 24, 2020 — first recorded case of COVID-19 in Europe (France);
- January 30, 2020 — the World Health Organization (WHO) declared the outbreak of novel coronavirus a "public health emergency of international concern;"
- February 19, 2020 — global equities turned in what would be their bull market peak.

The one date, however, that arguably stands out as a dividing line between the "normal" world pre- and post-COVID-19 is March 11, 2020 — one year ago today.

It was on this day, just after noon Eastern Time (EST), the WHO officially declared the coronavirus a global pandemic, as hopes of containing the spread of the virus faded and the focus shifted to trying to mitigate the outbreak so as to not overwhelm healthcare systems and create an increased proportion of worst-case outcomes.

That evening, it became not just evident that the situation was serious, but that things were quickly spiralling out of control and a new era was quickly being established.

At 9:00 p.m. EST, the President of the United States addressed the country from the Oval Office and proclaimed a ban on all travel from Europe (but not the UK, though it was added on March 15).

Almost immediately following the President's 10-minute statement, beloved actor Tom Hanks announced that he and his wife had tested positive for COVID-19 while in Australia. Less than 20 minutes after that, the National Basketball Association suspended its season after abruptly cancelling a game in Oklahoma City between the Utah Jazz and the hometown Thunder after a couple of Jazz players tested positive for the coronavirus as well.

The next day (Thursday, March 12), global equity markets plunged 10% and officially brought an end to a bull market that had just celebrated its 11th birthday earlier in the week. Even more cancellations were then announced: the annual US college basketball "March Madness" tournament was shelved; the National Hockey League season was suspended and Major League Baseball's spring training (and the start of its regular season) were put on hold until further notice.

On Friday, March 13, the US declared a national state of emergency as COVID-19 statistics abroad showed contagion increasing rapidly; the day after, play in the English Premier League was suspended.

The following days and weeks saw schools, public spaces, festivals, non-essential businesses and borders close, stopping large swaths of the global economy with previously strong momentum dead in their tracks.

Little did anyone know at the time, but that Friday one year ago represented what was effectively the last "normal" business day — and many people worldwide have not stepped back into their offices since.

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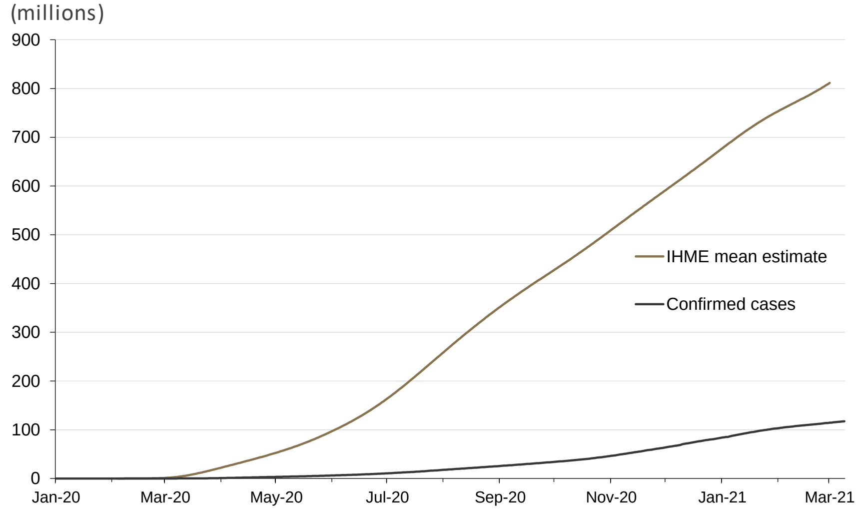
You can count on it

There have now been 115 million confirmed cases of COVID-19 worldwide, with estimates of the “true” infection rates coming in at more than 800 million (or equivalent to more than 10% of the world’s population assessed to have contracted the virus).

Cumulative COVID-19 cases, World

(millions)



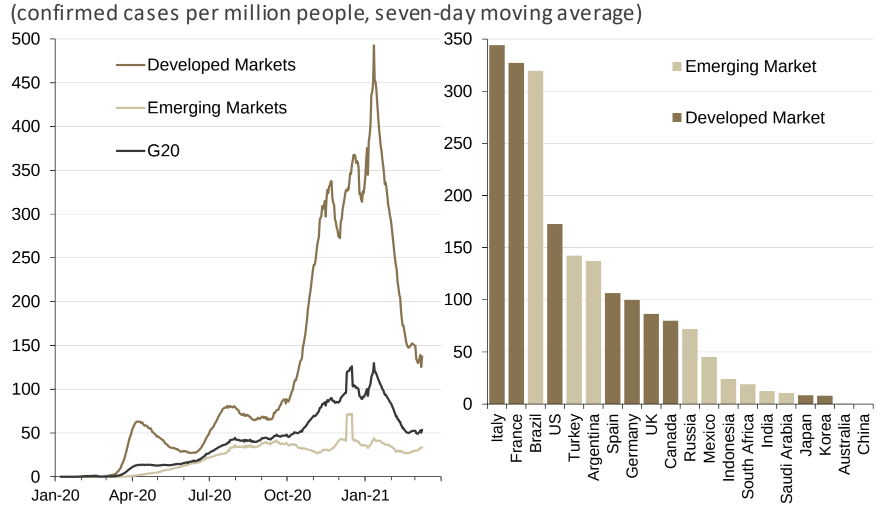
**mean estimate from the Institute for Health Metrics and Evaluation (IHME) model of “true” infections; data to March 2, 2021*

Source: Bloomberg, Johns Hopkins University, IHME, Our World in Data, Guardian Capital

The case counts ebbed and flowed over the last year, with each successive wave to this point larger than the one before it. Thankfully for Developed and Emerging Market (DM and EM, respectively) economies alike, it appears that the rate of new confirmed cases is continuing to ebb from the peaks established at the onset of this year.

Confirmed COVID-19 cases, G20

(confirmed cases per million people, seven-day moving average)



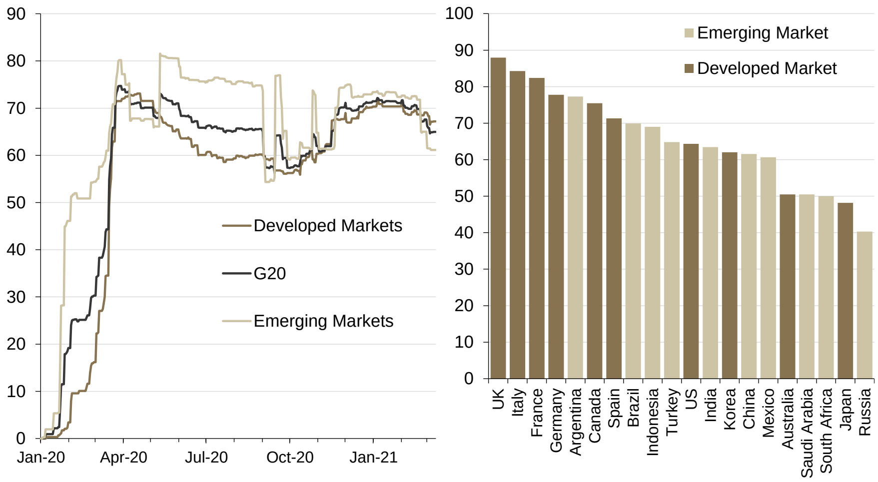
(L) Data to March 10, 2021; (R) Data as at March 10, 2021

Source: Bloomberg, Johns Hopkins University, Our World in Data, Guardian Capital

The positive developments with respect to the spread of COVID-19 are no doubt in part tied to lockdowns. As case totals started to surge in the fall after subsiding last summer, governments again tightened restrictions on activity and reversed the previous easing of stringency measures — and these have started to once again be scaled back in recent weeks, with further reductions anticipated in the ones ahead.

Government response stringency index*, G20

(index)



**The Stringency Index is a composite measure calculated as the simple additive score of seven indicators measured on an ordinal scale, rescaled to vary from 0 to 100; the indicators are school closings, workplace closings, public event cancellations, public transport closures, public info campaigns, restrictions on internal movement, and international travel controls; (L) data presented are GDP-weighted averages of underlying country indices to March 10, 2021; (R) data as at March 10, 2021*

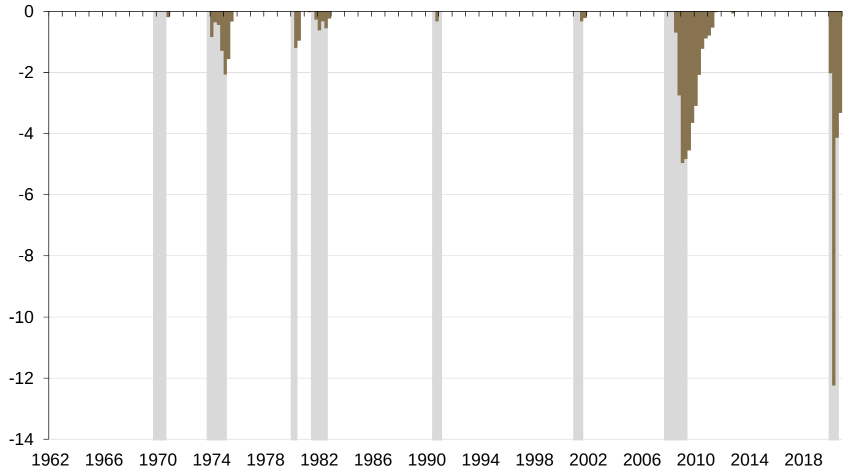
Source: Hale, Thomas and Samuel Webster (2020), Oxford COVID-19 Government Response Tracker, Guardian Capital

The public health benefits of these lockdowns are clearly not without cost. By restricting activity and forcing businesses to shutter operations, government stringency over the past year has had a pronounced effect on the global economy.

For example, the initial wave of lockdowns that began in earnest one year ago had the impact of slashing output across the G7 economies (Canada, France, Germany, Italy, Japan, the United Kingdom and the United States, which cumulatively account for roughly one-third of global output) by 12% in the first half of 2020, more than doubling the peak-to-trough drop recorded in the aftermath of the financial crisis of 2008/09.

Real gross domestic product drawdown from peak, G7

(percent)



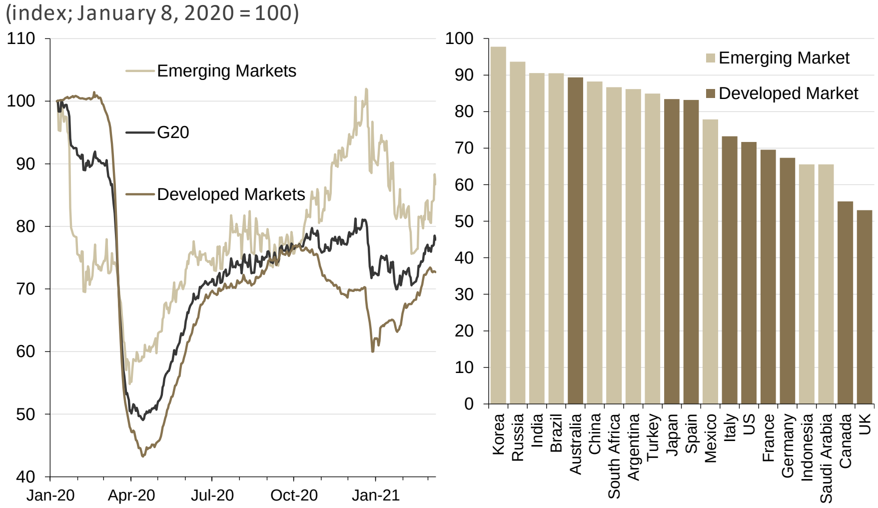
Shaded regions represent periods of US recession; data to Q4 2020

Source: Organisation for Economic Co-operation and Development, International Monetary Fund, Bloomberg, Guardian Capital

The last round of lockdowns, however, appear to be having a comparably modest effect on activity as economies are proving to be more resilient this time around. Indicators compiled using alternative high frequency data such as mobility, energy consumption and public transportation usage show that while there undoubtedly was a hit, it has been more benign and more economies have largely already returned to pre-fall lockdown levels of activity. Of course, all G20 economies continue to operate below their pre-crisis levels, with those markets with the highest confirmed case counts and the tightest measures still in place (generally across DM) lagging the most.

Bloomberg alternative high frequency activity indicators*, G20

(index; January 8, 2020 = 100)



**indicators integrate data such as mobility, energy consumption and public transportation usage; data presented are GDP-weighted averages of underlying country indices; (L) data presented are GDP-weighted averages of underlying country indices to March 9, 2021; (R) data as at March 9, 2021*

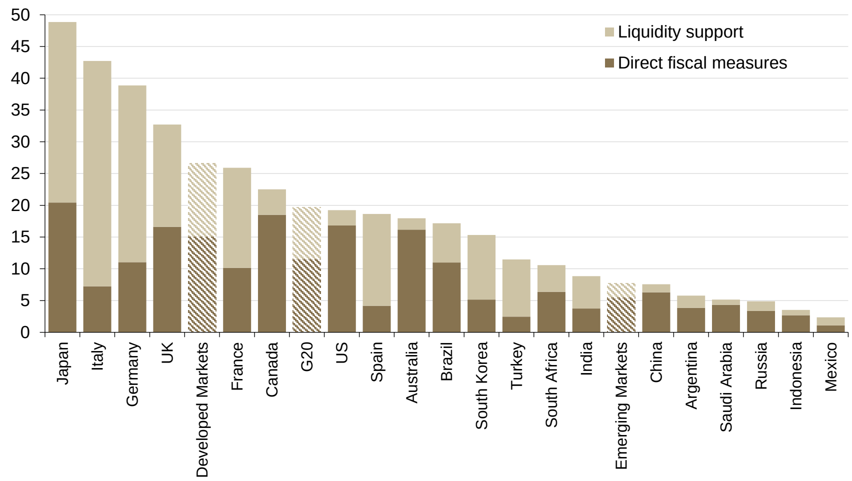
Source: Bloomberg, Guardian Capital

A likely significant factor in this surprising strength has been that governments worldwide have unleashed a torrent of fiscal aid to help keep households and businesses afloat through these crises.

The International Monetary Fund (IMF) estimated in January that the G20 had committed more than US$13 trillion (equivalent to one-fifth of the group's aggregated gross domestic product) to COVID-19-related relief measures and other initiatives (such as private loan payment deferral programs). That tally has since increased with the US$1.9 trillion relief package just passed this week by the US Congress.

G20 COVID-19 fiscal response

(percent of gross domestic product)



Data as per the International Monetary Fund's January 2021 Fiscal Monitor
Source: International Monetary Fund, Bloomberg, Guardian Capital

While this unprecedented degree of fiscal stimulus has been necessary amid this crisis to help mitigate the adverse economic impact, it is not sustainable for governments to take a substantial share of their economies onto their balance sheet forever. Such a situation would result in the creation of even more enormous public debt burdens, funded by high levels of bond issuance that could not necessarily be readily absorbed by the market. This is especially the case now, with numerous governments already fiscally stretched, after running pro-cyclical policies over much of the last decade as they attempted to push economic growth into a higher gear.

Ultimately, governments have little choice but to reopen their economies. Of course, as recent history has shown, moving to reopen too quickly amid a pandemic can end up doing more harm than good, forcing the return to lockdown conditions down the road.

With that said, there is significant reason to anticipate that the next phase forward will in fact be different than what has been experienced already.

The end is nigh

Though there are many dates from this period that will mark dour anniversaries going forward, there are also some positive dates as well.

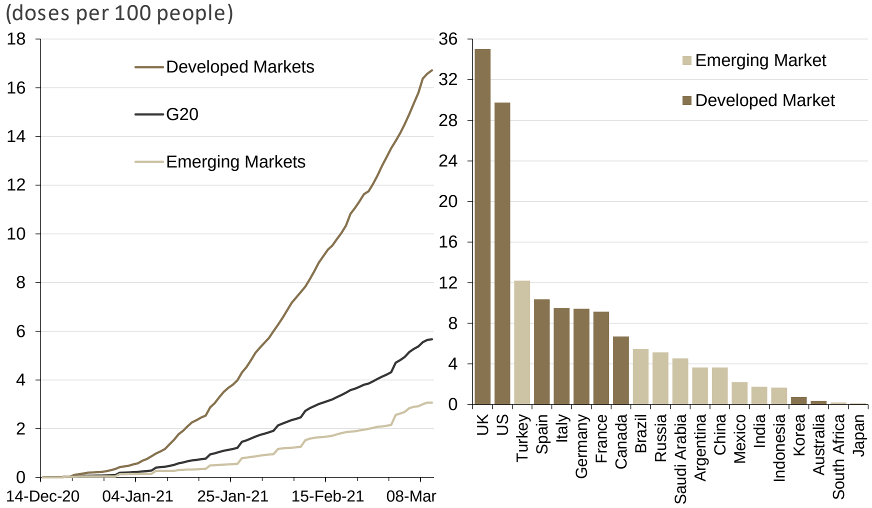
On January 10 2020, the first novel coronavirus genome sequence was made publicly available by researchers in Wuhan. This effectively served as the starting gun for the race for a cure, with researchers worldwide immediately getting to work to understand the virus and figure out how to combat it.

The efforts on this front turned in shockingly fast and successful results, with the first large-scale, full-phase trial results announced on November 9, leading to the US Food and Drug Administration (FDA) issuing its first emergency use authorization for a vaccine on December 11, with the first jabs administered just three days later.

More vaccines have since followed suit and while it has understandably taken some time to get the supply, distribution and administration of the vaccines up and running, inoculation programs are gathering momentum.

Cumulative COVID-19 vaccinations administered

(doses per 100 people)



(L) data to March 10, 2021; (R) data as at March 10, 2021

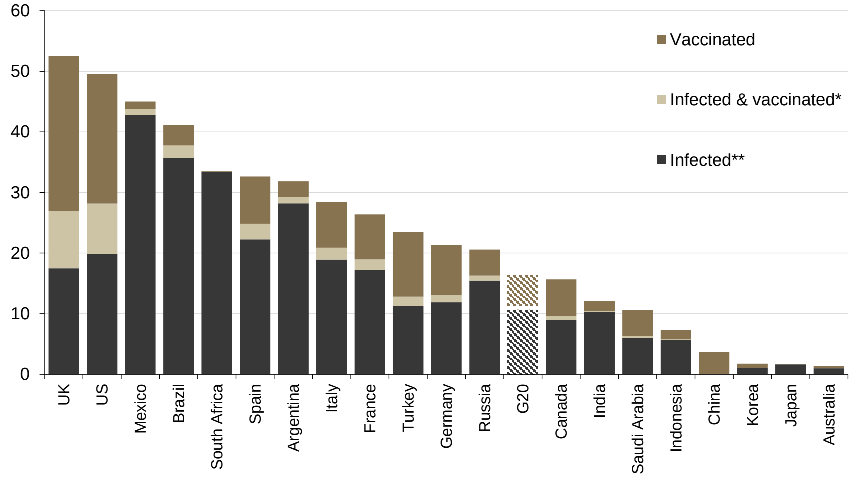
Source: Bloomberg, Our World in Data, *Guardian Capital*

Clearly, the ability to immunize the population to COVID-19 is the key to putting the pandemic in the rearview mirror and enabling economies to reopen in earnest. Projections now suggest that more than half of the world's population will be able to receive a jab fairly soon (the expectation is around mid-year for most DM economies, with EM countries anticipated to be closer to the end of the 2021).

That said, vaccines are not the sole path to establishing herd immunity. While it would be preferable to avoid infection, a silver lining of having contracted the disease is that people having prior infections of COVID-19 are considered to have developed natural immunity to the virus. If these people (using the average of mean estimates for "true" infections from the IHSE model and that of Imperial College London) are added to those that have received their jabs, and allowing for some overlap between the two groups (based on the simple assumption that prior infection does not impact vaccination demand so that a country's vaccination rate is applied to the "infected" cohort), the estimated share of the population that can be considered immune roughly triples to 15% of the G20.

Estimated current population immunity to COVID-19

(percent)



**Simple assumption that prior infection does not impact vaccination decision, so overall vaccination rate applied to infected tally*

***Infected is the average of the cumulative total infection mean estimates from ICL and IHSE "true" infection models less deaths attributed to COVID-19*

Data as at- March 2, 2021

Source: Bloomberg, Our World in Data, *Guardian Capital*

This is still a fair distance away from the roughly 60% lower threshold that is considered consistent with herd immunity in the population, but this perspective would suggest a shorter timeline to reaching that threshold than relying on vaccination alone. It also suggests that the pace of spread (and the rate of hospitalizations and death) could be reduced significantly in the coming months, even with the rolling back of lockdown measures (not to mention the fact that vaccinations so far have prioritized the higher-risk population).

Looking out for the outlook

The potential for case counts (and particularly severe cases) to continue to decline rapidly would not only give confidence to governments in easing restrictions to a greater degree sooner, but would also instill confidence among consumers and businesses to fully re-engage with the economy.

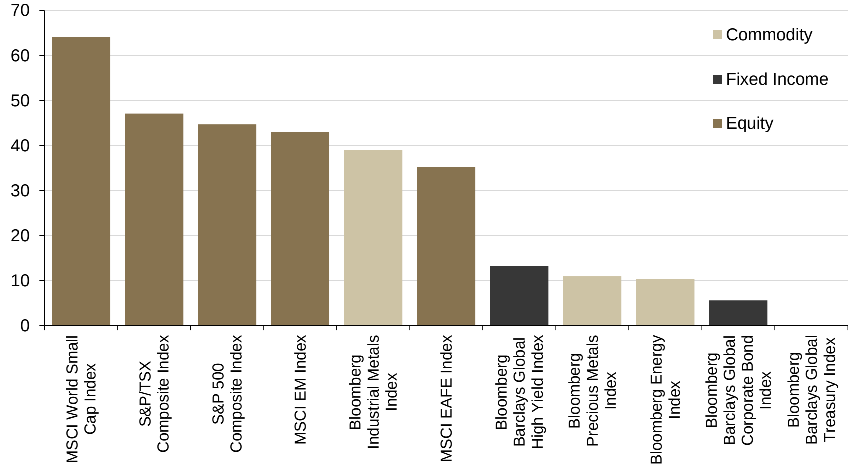
Add to that the fact that economic momentum is starting from a better-than-anticipated spot due to the surprising resilience to the last round of tightening economic restrictions, all while further fiscal stimulus is about to be unleashed, and the coming 12 months are looking as though they will be significantly better than the last 12.

Moreover, there remains scope for further material upgrades to the outlook as more clarity arises and the confidence bands narrow as the weight assigned to the negative "left tail risk" scenarios further diminish — though, these risks cannot be completely ignored given the persistent uncertainties around the variants of the coronavirus.

Should sanguine expectations be realized, however, this would warrant a re-think of the timing for governments and central banks to begin to step back from their crisis-era policy. This clearly matters for markets, since there is no doubt that the substantial degree of liquidity that central banks have pumped into the global financial system over the last year has supported strength in assets prices in spite of the recessionary conditions and persistent uncertainty.

Asset class performance since March 11, 2021

(percent; US dollar total return basis)



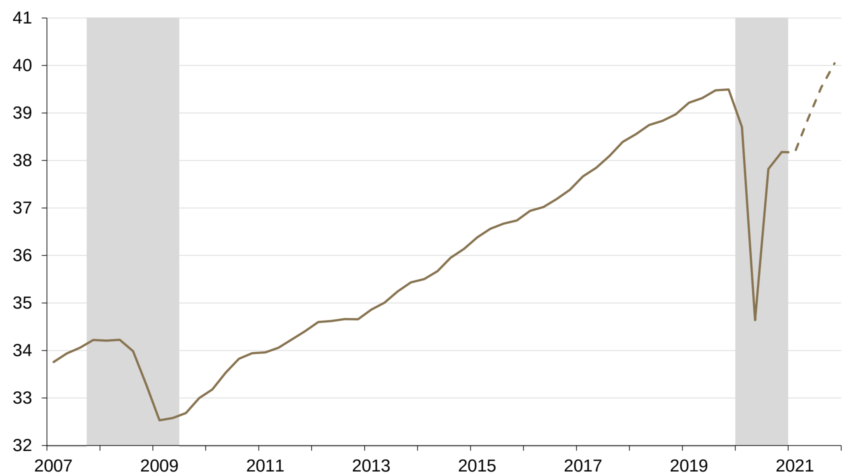
Data to March 10, 2021

Source: Bloomberg, Our World in Data, *Guardian Capital*

That said, it is important not to put the cart in front of the horse. While economic momentum looks to improve, there is still considerable lost ground to recover — the latest consensus forecasts, even with recent upgrades, still do not expect economic output within the G7 to retake its pre-crisis peaks until the end of 2021.

G7 real gross domestic product

(trillions of 2015 US dollars)



Dashed line represents forecast based on Bloomberg consensus for the G7 economies as at March 10, 2021

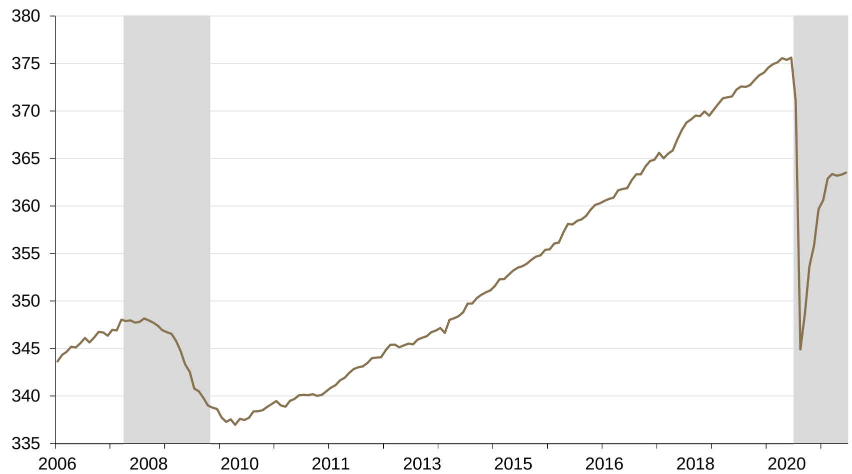
Shaded regions represent periods of US recession

Source: Organisation for Economic Co-operation and Development, International Monetary Fund, Bloomberg, Guardian Capital

Further to this, there remains substantial slack in labour markets, with overall employment across the G7 still lower than its year-ago peak by more than 12 million. Certainly, businesses being permitted to reopen will go some ways to helping close that gap (note that last month, more than 13 million Americans reported that they were unable to work "*because their employer closed or lost business due to the coronavirus pandemic*"), but it will still be a while before these would-be workers are not only fully re-absorbed into the economy, but the new entrants to job markets that have been sidelined over the past year are able to find gainful employment as well.

G7 employment

(millions)



Shaded regions represent periods of US recession; data to February 2021
Source: Bloomberg, Guardian Capital

This latter point is key, since major central banks have emphasized that they are placing more importance on reaching "full employment" than they are at fighting inflation — indeed, there is a general willingness to permit above-target inflation for a while in order to meet labour market goals.

With respect to inflation, yes, commodity prices have firmed and there are signs of nascent price pressures in the pipeline against tightening supplies of goods amid rising demand. Yet concerns that inflation is going to run excessively hot (and soon) appear to be misplaced, much like they were coming out of the recession in 2009. There are factors that will serve to mitigate pressures, be they cyclical (excess capacity), or structural (spread of technology-driven declines in the cost of production, the increased integration of supply chains driven by globalization, and improved methods of price discovery which constrain the ability to raise prices). The latter is also known as the "Amazon Effect," where online shopping makes it easier for consumers to compare prices for goods and services.

The bottom line here is that given the uncertainty and the fact that the global economy is still in the process of digging out of a historically deep hole, policymakers are likely to continue to err on the side of caution until this tumultuous period is well and truly spoken of in the past tense. For the first time in a year, there appears to be a clearly delineated path to that point; however, there is still a journey ahead.

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