

## Passing the Baton

*Alfred Lam, CFA, Senior Vice-President and Chief Investment Officer, CI Multi-Asset Management*  
*Marchello Holditch, CFA, Vice-President, CI Multi-Asset Management*

World stock markets have posted strong returns this year as central banks adopted further easing measures, geopolitical risks lessened and the global manufacturing slowdown appeared to level off. With major central banks all printing money simultaneously for the first time since the financial crisis, monetary policy will likely remain a tailwind next year. However, it is difficult to imagine central banks cutting interest rates much further, particularly as rates are already below zero in many parts of the world. On the policy front, the baton has been passed from central bank governors to government leaders, and we are starting to see a global shift toward supportive fiscal policies.

### **Cuts, or lack thereof, in Canada and the U.S.**

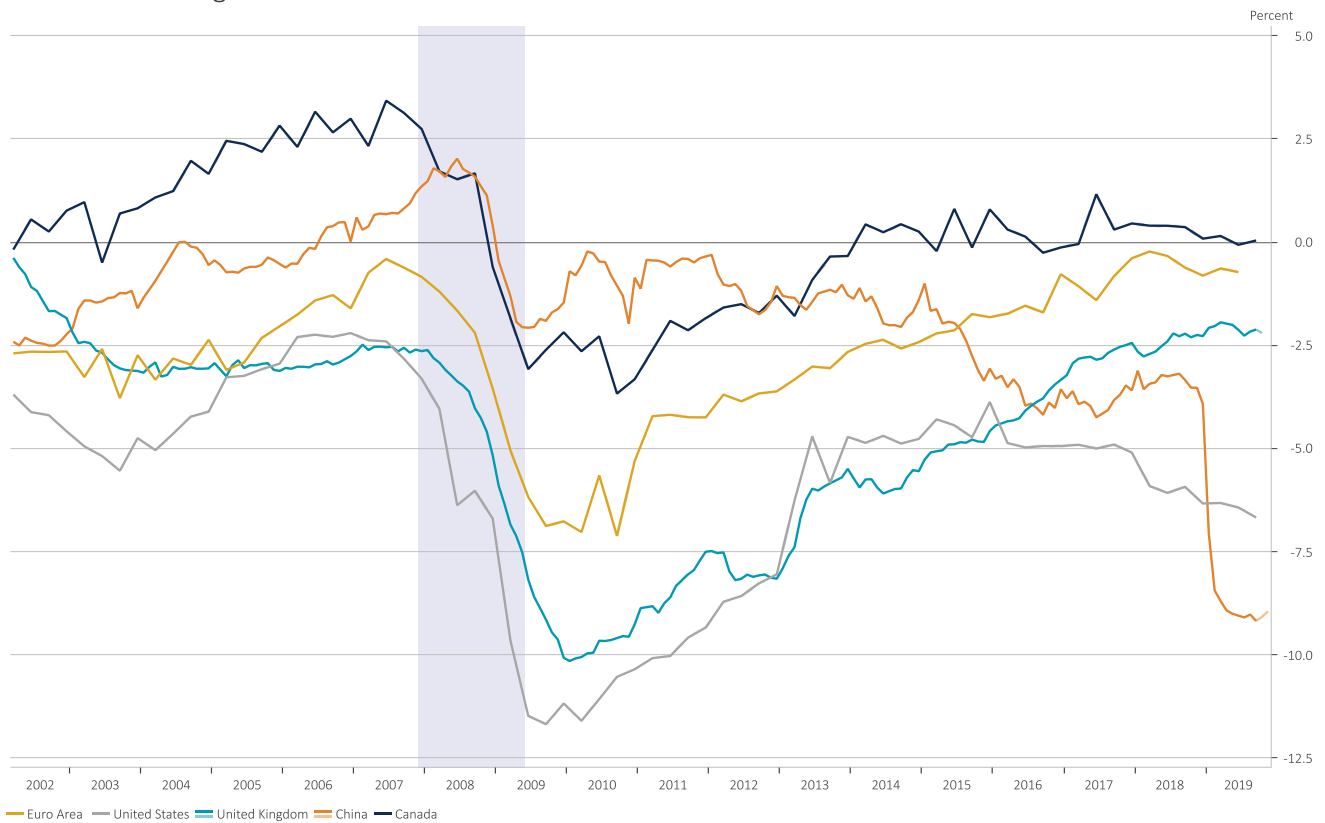
The 2018 tax cuts were a key reason the U.S. was able to generate GDP above its highest long-term potential. The U.S. continues to run large deficits and irrespective of who wins the 2020 election, fiscal restraint is not on the agenda. In Canada, the newly re-elected Liberals' platform carried some new spending measures in addition to a phased-in increase of the basic personal amount tax credit. If the federal government is unable to offer much on the fiscal front, the Bank of Canada now presides over the highest interest rates in the developed world, leaving room for cuts.

### **Europe, Japan and China look to spend**

In Europe, the leadership of the European Central Bank changed from Mario Draghi to Christine Lagarde. One of Lagarde's key qualifications is her ability to work with European governments. It is expected she will keep interest rates, and thus government funding costs, effectively at zero. We see a strong case for fiscal expansion, with some measures already underway outside Germany. Germany is well known for its constitutional requirement for a balanced budget. However, meaningful fiscal stimulus is not off the table. Opposition parties are starting to push for investment in infrastructure and environmental projects while public sentiment is moving slowly in favour of greater public spending. This could result in a series of political negotiations to change the balanced budget rule or a declaration of an "emergency" need to increase spending. Across the English Channel, the U.K.'s Conservative party won a significant majority, giving Prime Minister Boris Johnson considerable power domestically. Unlike past administrations with their fiscally conservative policies, Johnson is focused on increasing public spending.

Japan recently announced measures worth about 13 trillion yen (1.7% of GDP) to boost the economy. This comes at a time when a consumption tax hike is expected to offset some of this spending. These measures have given the central bank breathing room, as monetary policy is becoming increasingly ineffective. China is also participating in the global shift toward supportive fiscal policies. Although a grand stimulus is unlikely unless there is a collapse in growth like in 2014-2015, we still expect Beijing to take some steps. For example, China's Ministry of Finance recently approved a bond sale with the proceeds to be used for increased infrastructure investment.

General Gov Budget as % GDP



MACROBOND

Source: Macrobond, November 2019

### Globally coordinated fiscal policy

Since the aftermath of the financial crisis, fiscal policies have not given a coordinated boost to global GDP until now. As central banks continue to struggle to achieve their inflation targets, government

leaders will continue to be pressured to support the economy through fiscal policy. How much and how fast these policies will be implemented are up for debate, but we expect to see a lift from fiscal policy in the short to medium term. What this continued spending means for fiscal balances in the long term is a topic for another day.

Have a safe and happy holiday!

#### **IMPORTANT DISCLAIMERS**

*This document is provided as a general source of information and should not be considered personal, legal, accounting, tax or investment advice, or an offer or a solicitation to buy or sell securities. Every effort has been made to ensure that the material contained in this document is accurate at the time of publication. Market conditions may change which may impact the information contained in this document. All charts and illustrations in this document are for illustrative purposes only. They are not intended to predict or project investment results. Individuals should seek the advice of professionals, as appropriate, regarding any particular investment. Investors should consult their professional advisors prior to implementing any changes to their investment strategies.*

*The opinions expressed in the communication are solely those of the author and are not to be used or construed as investment advice or as an endorsement or recommendation of any entity or security discussed. Individuals should seek the advice of professionals, as appropriate, regarding any particular investment. Investors should consult their professional advisors prior to implementing any changes to their investment strategies.*

*Certain statements in this document are forward-looking. Forward-looking statements (“FLS”) are statements that are predictive in nature, depend upon or refer to future events or conditions, or that include words such as “may,” “will,” “should,” “could,” “expect,” “anticipate,” “intend,” “plan,” “believe,” or “estimate,” or other similar expressions. Statements that look forward in time or include anything other than historical information are subject to risks and uncertainties, and actual results, actions or events could differ materially from those set forth in the FLS. FLS are not guarantees of future performance and are by their nature based on numerous assumptions. Although the FLS contained herein are based upon what CI Investments Inc. and the portfolio manager believe to be reasonable assumptions, neither CI Investments Inc. nor the portfolio manager can assure that actual results will be consistent with these FLS. The reader is cautioned to consider the FLS carefully and not to place undue reliance on FLS. Unless required by applicable law, it is not undertaken, and specifically disclaimed that there is any intention or obligation to update or revise FLS, whether as a result of new information, future events or otherwise.*

*CI Multi-Asset Management is a division of CI Investments Inc. CI Multi-Asset Management logo and design are trademarks of CI Investments Inc. CI Investments® and the CI Investments design are registered trademarks of CI Investments Inc.*

*©CI Investments Inc. 2019. All rights reserved. “Trusted Partner in Wealth™” is a trademark of CI Investments Inc.*

*Published December 31, 2019.*