

# COVID-19: The Biden Presidency and What Lies Ahead Transcript

Speaker 1:

Welcome to BMO COVID-19 insights. Visit [bmocm.com/covid-19](https://bmocm.com/covid-19) for more up to the minute insights.

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Brian Belski:

Everyone. This is Brian Belski, Chief Investment Strategist at BMO Capital Markets. On behalf of all of us at BMO Financial Group, thank you so much for joining us in our latest installment of our COVID-19 calls for BMO: the Biden presidency and what lies ahead. We have lot of great information to share with you today. Three subject matter experts from BMO Financial Group, and of course, Dr. John Whyte. And also joining us today, is Dr. Howard Ovens.

Brian Belski:

Before we start the call, though, just a reminder to point you toward our BMO disclosures, via the web link enclosed at the bottom of the invitation that you should have received. And if you need help with that, it's [www.bmocm.com](https://www.bmocm.com). And of course, given that we're talking about very sensitive medical information, just a reminder that if you need medical advice, please go directly to your physician and consult them, and or a healthcare professional.

Brian Belski:

So, here's all the call's going to work. As always, we're going to have Dr. John Whyte kick us off. We'll hand the ball off to Dr. Howard Ovens. We're going to ask the two doctors to interchange some of their comments back and forth, on what they learned from each other during the call. And then we'll transition to our subject matter experts from BMO.

Brian Belski:

As a reminder, Dr. John Whyte is the Chief Medical Officer at WebMD. He has been BMO Financial Group's primary COVID-19, coronavirus pandemic expert, and we're blessed and fortunate to have him with us, during this long journey of the past year or so. Dr. Whyte leads efforts to develop and expand strategic partnerships, that create meaningful change around important and timely public information with respect to health issues. Prior to WebMD, Dr. Whyte served as the Director of Professional Affairs and Stakeholder Engagements for the Food and Drug Administration. Also, he worked with healthcare professionals, patients and patient advocates through his years. He's a frontline worker with respect to the virus, he currently still sees patients in the Washington DC area. And with that, I'm going to hand the ball off to Dr. John Whyte. Thank you so much for joining us, once again.

Dr. John Whyte:

Well, thank you Brian and good morning everyone. I'm going to talk primarily about what's happening in the United States, and my colleague, Dr. Ovens is going to talk about what's happening in Canada. So, where are we today and where are we likely going? So keep this in mind, we have about 25 million cases in the United States. Most experts believe that number is probably closer to 50 million, 70 million people that actually have had COVID, but never went to get a test, never went to see the doctor, so we

don't know for sure. We know it's an underestimate, but at least 25 million cases, and the number of deaths is around 420,000. The majority of those have occurred in the last few months. If you think about, this has been a year since we first heard about it.

Dr. John Whyte:

But some encouraging news is that the rates of hospitalizations, the rate of death, the rate of new cases is decreasing. And we think that's most likely because we have got beyond the Christmas and holiday surge that we were seeing all around the country. The key will be that we'll want to look at, is where does it plateau? We don't want it to plateau at a high number of daily cases and hospitalizations. So, we're going to need to wait a few more weeks to see where we're going to plateau, and that'll have a big play in our return to normal.

Dr. John Whyte:

The big issue right now that's on everyone's minds, are these variants. And just to remind you what a variant is, it's really this mutated string. And all viruses mutate. The concern is, does this variant, and the one we're often talking about is called B117, is it more transmissible? And there's some early data that suggests it may be more deadly, and that's the reason why we really have to step up our vaccination plan. We've had great development of vaccines, but where we've been lagging is the distribution. And we do see through some research that's going on right now in testing, that the current vaccines, Moderna and Pfizer's, do protect against this variant. Because what's happening is, the antibodies that are developed against the spike protein, it's against many aspects of the spike protein, so not just one or two. So if it mutates, that doesn't mean that the vaccine is not going to be effective.

Dr. John Whyte:

Now, Moderna did announce today, the vaccine seems to be less effective, but still protective against the South African variant. And they are developing a booster in case we need it. So, this is what everyone really is talking about around the world, this variant and how it's going to impact vaccination. The preliminary good news is that the vaccines do protect against these different variants, even if it's less antibody protection, it's still enough to provide protection. But that's something that we're going to need to watch.

Dr. John Whyte:

So, where are we with vaccines in the United States? So, 41 million vaccines have been distributed across the United States, 41 million. But only 22 million have been given. Think about this in another way: about 5.6% of the population has been given one shot, 5.6%. Less than 1% have gotten two shots. I'm getting my second shot tomorrow of Moderna. So remember, we don't get full protection until about a week after the second dose, so we still have a way to go. And I know people are listening from around the country, so in case you want to compare, there's a great comparator chart on the CDC's website. I'll tell you who has the highest vaccination of their population, almost 10%. You might be surprised, it's Alaska, it's West Virginia and it's New Mexico. And those that are doing, I should say that have the lowest vaccination of their residents, is Missouri and Idaho with, only 2% of their population vaccinated.

Dr. John Whyte:

So, we have a way to go if we want to get that 70 to 80% herd immunity, which really lets us get to that new normal. So, it's always great in economics and finance, and in medicine too, it's all about numbers. So if you keep in mind that for approximately adults, 16 years of age and older, so remember that's the Pfizer vaccine, 16 and above, in Moderna it's 18 and above. That's about 230 million people. Right now,

we only have vaccines that are two shots, so that's 460 million doses that we need to do here in the United States. So, even if you think it's 75% of that population, we're still going to need about 345 million shots.

Dr. John Whyte:

So with that, if we're averaging about 1.1 million a day, that's not going to be enough. And I know that the president has a goal of a hundred million in a hundred days, that's a million a day, we're slightly above that right now. And there's actually been a couple of days, where it's about two million and even three million doses, but that could be a year. So, we really need to develop a strategy to rev it up. We really need honestly, to be getting it about 2 million a day, if we want to accomplish this by summer.

Dr. John Whyte:

Now, the other good news is that Johnson and Johnson will likely submit their EUA requests, for emergency use authorization, in a couple of weeks in February. And everyone's saying that's one shot, they're also testing two shots, just so you know. And we don't have the data yet, their's is an adenovirus, similar to AstraZeneca. And the AstraZeneca vaccine, there's some questions about some other data, but it's about 70% effective. So, if we have one shot, we'll have to see what J and J is, if that's 70% and two shots are 94%, is one shot good enough? It doesn't require the super cold temperatures. So, we're going to have to see where we are in terms of the data. We don't go by press releases, we don't go by pre-pubs, we really are going to need to see the data on that.

Dr. John Whyte:

But remember, even with that, if it's one shot, we're still talking an enormous number of vaccinations that we need to be getting done. And the issue has been somewhat supply, but it's also been distribution. And the president has announced that he is going to have FEMA set up sites, the National Guard set up sites. And I'm going to tell you, I think that's a good strategy. They're good at logistics, they are good at planning, and the health system isn't always that good at that. And we're asking the health system and public health departments to take on this responsibility. They're trying the best that they can, but they don't always have the resources. So, it really is time to call in National Guard and FEMA, and the president has announced that.

Dr. John Whyte:

In terms of supply, that's been in the news about some reduced supply, some issues. So, Pfizer and Moderna combined, have announced that there will be 200 million additional doses by the end of March, 200 million. Another 200 million at the end of June. I'm going to be honest, those are best case scenarios. As you know, there can always be issues in the supply chain. And then Johnson and Johnson is currently working on it now, they'll have a hundred million by April. So, that is really pretty good in terms of volume of vaccine. Again, the issue is going to be how do we get it into people's arms?

Dr. John Whyte:

And different states have different policies, there's been lack of a central process. I think we're going to see that change in the next few weeks. And many people ask me, "How do you know when it's your turn?" What I've been telling people, you want to look at your pharmacy loyalty programs, often CVS and Walmart and Walgreens all have those, so you might want to check those out. There's actually a website called [vaccinefinder.org](http://vaccinefinder.org). It's not operational yet for COVID, so that's something that you'll want to sign up for as well eventually. Don't expect people to find you when it's your turn. And then you want to sign up at your public health department sites as well, to find out information there.

Dr. John Whyte:

The other point I want to remind folks, is that vaccination really is a way to help crush the pandemic, but it's not just vaccination. It's still going to be improved testing, and we're seeing that. A lot more over the counter testing, a lot of at home testing, that has enormous value. We're continuing to see progress in therapeutics, especially the role of monoclonal antibodies, something that has been underutilized, especially early on in the disease process.

Dr. John Whyte:

So, we do have a lot of encouraging news when we talk about the supply of vaccine, another 200 million at the end of March, another 200 million at the end of June, another hundred million of J and J in April, we're up to more than 1.1 million. I do think in some ways, there could be an approach don't set goals too high in the new administration, so a hundred million over a hundred days, that has to be the base. That has to be the floor. Our goal should be much higher than that. And I do think we'll get there, especially with this additional resources, so FEMA and the National Guard here in the United States.

Dr. John Whyte:

So, there are some promising trends that we're seeing, even in terms as we think about decrease the rate, the number of cases and hospitalizations. So, I'm optimistic about where things are going, I'm optimistic that we're going to see protection against the variant. And the good news is, we're continuing to collect this data, and I think we really are focused on developing a plan in the next few months to address this. And with that, I'm going to turn it back to Brian.

Brian Belski:

Thank you so much, Dr. Whyte, as usual. Now it's on to Dr. Howard Ovens. Dr. Ovens is an emergency physician and Chief Medical Strategy Officer of Sinai Health at the University of Toronto, or as we like to say, U of T. He holds the rank of full professor at the Department of Family and Community Medicine, and is a senior fellow in the Institute of Health Policy Management and Evaluation. He is the Ontario expert lead for emergency medicine. In that capacity, he chairs the Emergency Services Advisory Committee, and as part of the pandemic response, sits on the Ontario Health R5 Response Table, representing emergency medicine. Obviously, Dr. Ovens is here to bring us up to date on what's going on with Canada, and we'd love to hear what you have to say. And on to you, Dr. Ovens.

Dr. Howard Ovens:

Well, thank you so much for the kind introduction, Brian, and for your comments, John, and thanks to BMO for the opportunity to be with you here today. And it is an interesting day for us to be talking, because January 25th, 2020 was the day that we confirmed our first case of what would eventually be called COVID-19, here in Toronto, the first case in Ontario in a returned traveler from Wuhan. And we really didn't know what we were in for at that point.

Dr. Howard Ovens:

Just to compare how the last year has gone in Canada, with some of the numbers that John shared for the United States, we're about one 10th the population of the US, and we've had 750,000 cases so far total, about 19,000 deaths. So we have done a little better than the United States on an international comparison, like Canada. We are sort of middling performance, much worse than the best performers like Australia and New Zealand, Taiwan, but much better than the UK, some parts of Europe, and the US. And of course, Brazil and Russia have suffered a lot as well.

Dr. Howard Ovens:

At this stage, we are at a place that I would describe as frustrating for me and many of my colleagues, because the-

Dr. Howard Ovens:

... And many of my colleagues, because the international experience has been that you can with severe public health restrictions prevent big waves of COVID-19. And that, that does not have to hurt the economy. The WHO just commented on that last week. And yet, we seem to keep having to learn the same lesson over and over again in Canada, that you can't really take a balanced approach. No jurisdiction has successfully treaded water at a sort of moderate level of transmission. Either you get it knocked down really low, or eventually it rises to the point where the government finally surrenders and brings in a lockdown. And so, we've had four provinces in Canada, our Maritime provinces that have done as well as almost any country internationally, they've kept their travel restrictions in place, and economically, they've done very well as a result also. Whereas the other six more populous provinces had large second waves, and those curves again are starting to go down now, because after the Christmas social season and when most governments finally brought in lockdowns, we're now starting to see the impact of that.

Dr. Howard Ovens:

This is all, again, very frustrating because not only do we know how to prevent transmission of COVID at this stage, but with that knowledge and with the knowledge that the vaccines are being rolled out, everyone who's dying or getting seriously ill right now is a really a preventable tragedy. And, I like to use the [inaudible 00:18:04] metaphor, that it's like being the last soldiers killed before an armistice. It really seems very wasteful.

Dr. Howard Ovens:

So, the other part of this is that we are talking a lot about vaccines in Canada. We're arguing about them, who's getting in line first, second, third? Can we go faster? We've had about 1.1 million vaccination doses distributed to the provinces so far. We've administered just over 800,000 of those, about 75%. But to some extent, I would say that with the exception of vaccinating our frail, elderly in long-term care, where this could be a big lifesaver, it is a bit of a distraction because we can't vaccinate our way out of this second wave. The supply of vaccine, the time it takes to distribute it, the time it takes for the host to have a positive antibody response that's protective, all suggests that we can't wait for the community or herd immunity to get us out of this second wave. We really need to keep our lockdowns in place until we have gotten to an acceptable level of transmission.

Dr. Howard Ovens:

And of course, as John mentioned, we're all facing a new challenge with the new variants. Up till now, we've been only doing about 5% of our positive samples, have we've been running a full genomic sequence in Canada, and that takes two to three weeks to produce results. And so, we know that the variants are here, especially the UK variant, and the UK variant is responsible for a very severe outbreak in a long-term care facility in a smaller city north of Toronto Barrie. But, that approach will not be sufficient for surveillance for us to try and limit the spread of the new variants. To do that, we need a new approach and there is an opportunity to leverage some new technology developed here at Sinai Health's Research Institute, the Lunenfeld-Tanenbaum Research Institute, where they have developed under the direction of one of our scientists, Jeff Wrana, a bulk, a very rapid analyzer that can do genomic sequencing of what's called slices of the full genome, and identify mutations and variants very, very quickly.

Dr. Howard Ovens:

But, that will be useless, unless we can take that information just like we need to from all of our testing, and turn it nimbly and quickly into contact tracing and effective isolation. There is a building consensus among the expert community that starting to have an impact on politicians here on whether we should bulk up as well, our travel restrictions because of the new variants, both domestically and internationally, with talk of really defining essential travel more carefully, preventing non-essential travel and putting greater restrictions on returning travelers, not just to produce a negative test, but perhaps to have a supervised period of quarantine on their return.

Dr. Howard Ovens:

So, if I were to summarize that, I'd say the major question facing us in Canada today is, do we have the social consensus and the political courage needed to stay the course on our public health restrictions until we can get the numbers of new cases down low like we did last spring and summer, well below a hundred new cases a day? If we don't, if we give up too soon, thinking that the vaccine will save us or that we can once again, try to tread water, then what will happen, I'm afraid is between COVID fatigue in the public, and the presence of the new variants, is that we will have a very quick and severe third wave.

Dr. Howard Ovens:

I'm hoping that we can avoid that clearly by doing the right thing and maintaining our masking, our social distancing, and our other public health restrictions while simultaneously beefing up our genomic surveillance, and our vaccine rollout. So, that's a very quick tour of where I see things right now. Canada has been slow to get its vaccine supply, but there is a lot of it under contract that will come in the second and third quarter of 2020. I'm guardedly optimistic that we'll get it rolled out quickly, and that we'll be in a very different place come this fall, but we do have a lot of challenges still ahead of us. And, I think I'll leave it there, and of course, happy to take any questions. Thank you so much.

Brian Belski:

Thank you so much, Dr. Ovens. We now have the very unique opportunity for the two doctors to interact with each other as Dr. Whyte's going to kick it off, and ask one question to Dr. Ovens, and then we're going to ask Dr. Ovens to ask one question to Dr. Whyte. So, Dr. Whyte, you have the floor.

Dr. John Whyte:

[inaudible 00:23:39] I did want to ask Dr. Ovens in full disclosure, he and I talked this weekend as well, but I wanted to understand, early on particularly, Canada did much better in terms of the number of cases per population. And, do you think it's a cultural issue in terms of folks may be more receptive to public health messaging by government officials, and there was more consistent messaging? Or some people have argued, it really was about testing, and more wide-scale testing. We're forgetting to talk about testing nowadays, but that's also another strategy. So, what was it? Was it testing? Was it that people were doing the mask, and that physical distancing much sooner and much more frequently in terms of reducing the number of cases compared to the United States?

Dr. Howard Ovens:

So, we have a number of... Thanks, John. We do have a number of inherited vantages in Canada in dealing with a pandemic like this one compared to the U.S. The public health system, publicly funded healthcare that we have in Canada is a help. It's not a problem for people to seek care. We're a little bit less densely populated country, which is an advantage with this virus. Our motto is peace order and good government, which Canadians are generally more likely to go along with consensus. And early on,

we had a very strong social consensus to follow public health guidelines. And, we did get our testing, again, because of our publicly funded system. I think we were able to get our testing act together early, much better than the U.S. was able to, you had some real hiccups with the CDC in your early testing. And of course, we had different political leadership. The pandemic was not politicized in Canada, at least not early on. And, we had very good consensus across opposition, as well as leadership parties, provincial parties that were led by different parties than our federal government. So, all that helped us initially.

Dr. Howard Ovens:

We have seen a little bit of American media and political influence reflected here in Canada. We have a much stronger COVID denial process going on today. More people against masking, more people against lockdowns, putting a lot of political pressure on our leaders to try those so-called balanced approach, which has failed over and over again. But, I think those were the major advantages we had early on. And actually, that's going to lead me to ask the question I want to ask of you, which is, given the impact leadership can have, and the dramatic change in attitude we've seen this week between the former Trump administration and the new Biden administration on the way they're going to approach the pandemic, how important a factor is it in the U.S. with the way public health restrictions are managed both municipally and at the state level, how much difference do you think the Biden administration can have in getting your second wave under control?

Dr. John Whyte:

Yeah, and I already do think that the wave is getting under better control right now. The issue is, as I mentioned, where does it plateau? I think public health messaging is critical, and that's been one of the challenges. So, do people need to wear masks? Is six feet far enough? We haven't had that consistent messaging from public health experts. We don't necessarily need politicians of whatever party giving people advice that relates to science. So, I think we're starting to see a much more consistent message around what we need to do to return to normal, or return to the next normal. So, I do think it makes a big difference and we're seeing that over time. I also think we'll have much more of a centralized process going forward in terms of more specific recommendations, to stay in counties, more coordination by the federal government, and that's going to have an impact where we are.

Dr. Howard Ovens:

Thank you. [crosstalk]

Dr. John Whyte:

And, I did not know that about the motto of Canada. So, I learned a bit today, so thank you. And with that, I think we'll turn it back to Brian.

Brian Belski:

Thank you, doctors. That was wonderful. We're going to transition now and speak with our subject matter experts at BMO Financial Group. We're joined right now by Mr. Michael Gregory, who is deputy chief economist at all of BMO Financial Group, followed by Margaret Kerins, who is the head of fixed income, commodities, and currency strategy, then ourselves we'll follow up with respect to investment strategy. But, the floor is yours. Mr. Gregory, please go ahead.

Michael Gregory:

Well, thanks, Brian. Well obviously, we've had this situation where both the U.S. and the Canadian economies have taken a literal turn for the worst. Through the turn of the year, we saw the surge in

infections we had on both sides of the border led states, provinces, and other local jurisdictions to increase restrictions and lockdowns. And, while this is now having a demonstrable impact on sort of flattening the curve, and so more work has to be done as Dr. Whyte has indicated, it's also flattening the economic curve too, and it's creating a lot of economic pain still. And, we saw that just recently with the latest job numbers for December. We were down 53,000 in household employment in Canada. Payroll employment was down 140,000 in the U.S. in the month. And, even retail sales in December in the U.S. were negative, suggesting that the real personal consumption expenditures figure for the month was also negative. And, that'll be the second negative month in a row for real PCE.

Michael Gregory:

It seems that uncertainty about whether or not some of the fiscal support programs, government support programs for the economy that were scheduled to expire at year end, uncertainty around that may have weighed a bit on consumer confidence and the consumer's willingness to spend a lot. So, we have that kind of weakness in the economy now. And, we do think that for the first quarter as a whole in the U.S. will likely still manage to eke out slightly positive growth, 1% annualized, that compares to about a 5% pace that we're expecting in the fourth quarter in Canada was slightly more stringent restrictions, more onerous lockdowns that we do think that we will get about a 3% annualized contraction in the first quarter. And, that compares to about a 6% annualized advance in the first quarter.

Michael Gregory:

Now, despite these weak numbers, the impact of the restrictions and the lockdowns are not going to be as devastating as they were back last spring. Where for the most part, we're targeting things a little bit differently, and more significantly businesses have gotten accustomed to dealing under COVID protocols very quickly, when restrictions get...

Michael Gregory:

... dealing under COVID protocols, very quickly when no restrictions get put in or lockdowns get instituted, it's very easy to switch to other means of conducting business online, curbside, whatever the case may be, whereas it took a little while longer last time around to sort of figure things out. It's also helpful that certain sectors of the economy continue to provide support. The huge demand for goods that has been generated in our economy continues to ripple over into support for the manufacturing sector. Housing on both sides of the border also doing well. So we suspect as we, in the next few weeks and few months ahead, we'll start to see some relaxation of those restrictions, of those lockdowns, particularly once we get those curves flattened further, when more Americans and Canadians have been vaccinated, and of course the weather warms up much more and we can take some of that activity sort of outdoors.

Michael Gregory:

And we're looking for a pretty decent rebound through the spring and the summer months, kind of similar to what we saw around the middle of last year and into the third quarter. We're looking for very healthy growth, around 9% annualized on average to Q2 and Q3 in Canada, about 7.5% in the US and, and also providing support for both economies as we kind of get past this second wave of the pandemic and its impact on the economy is this fiscal support that we've been getting. Now, we already saw earlier that the federal government in Canada had extended some of its programs, the expanded UI through to September, the wage subsidy through June, and in the latest fiscal update that we had at the end of November, we have some \$70 to \$100 billion of spending yet to be determined that will be used to help stimulate the recovery phase of this coming out of the pandemic recession.

Michael Gregory:

Now, in the US we saw on December 27th, we finally got that budget bill, which included some roughly \$900 billion of additional support for the economy. A lot of the measures that were going to expire were extended through to March and April, and that included an additional rebate for individuals across the United States and a little bit of a top-up as well for some of the unemployment insurance recipients. Now, we saw in the wake of the election of Joe Biden and the Biden administration has proposed yet another stimulus bill. They're proposing some \$1.9 trillion of support for the economy. Rather large amount. It's unclear how much of this will actually get passed. We're already beginning to see the GOP are digging in their heels a little bit here as to the magnitude of that fiscal response, and let's face it, even some conservative Democrats may have a problem with some of these measures.

Michael Gregory:

So we are assuming though that we do get additional fiscal support. We're penciling in something around half of what the initial proposal will be. Seems that's a good place to compromise between zero and 1.9, somewhere in half. So basically in the US, we've got sort of back to back fiscal stimulus programs that are going to, again, provide that support for the economy through the spring and the summer months and get the kind of results that we've seen. And there's another aspect of the economy, too, I do think which we have to be a little more optimistic about as well is that because of this support for households through the various unemployment insurance and tax rebates and things like that on both sides of the border, we've seen that we've amassed a lot of additional saving.

Michael Gregory:

That saving roughly has, compared to what we were saving before the pandemic, it roughly has amounted to about \$150 billion of additional potential spending power in the US. In the US, a magnitude of about \$1.4 trillion. Both of those come in about 6% of GDP or slightly more than 6%, and that's a powerful, powerful, backstop for the economy, and we do think that will help provide a little bit more support for the recovery. And if anything, there's a little bit of concern in the market now that a little bit of consumer spending, a little bit of limitations on the availability of goods and services. Are we going to get a little bit of an inflation problem? Kind of early to be talking a bit about that, but nevertheless, I do think we're in a period now, once we get past this winter hump and COVID, I do think that that the spring and the summer months look much stronger for both the Canadian and US economies. And with that, I'll turn things over to my colleague, Margaret Kerins.

Margaret Kerins:

Thank you very much, Michael. As anyone who watches the fixed income markets from a day-to-day basis already knows, the market continues to oscillate between the good news on the vaccine front, the good news when we have good news on fiscal stimulus, versus the slower than expected a rollout and the surge in cases of the pandemic that continue to sweep through the globe. So we did have a bear market run a few weeks ago, and that's kind of consistent with, I think, what are the three main themes in the market currently. First, it is the reflation theme that Michael alluded to. It's not really today's story in our opinion, but 10-year yields did get pushed up to just over 118, a few weeks ago, which was a whopping 28 basis point move in 10s only to rally back down. We currently sit in the middle of the year to date range, which I know we're not that far into the range.

Margaret Kerins:

In terms of 10-year yields, we think that the next move is likely to breach 1% on the downside and not move to the 125 mark. We do see that later in the year, as we expect a bear steepening. Bear steepening in the market right now is the consensus trade, and the way that we at BMO Capital markets

differ than the rest of the market is that we do think that fed action caps how much 10s and 30s can back up. And what I mean by that, it ties right into the other, I think, two themes that are dominating our market, and so the first was the reinflation trade.

Margaret Kerins:

The second is there are concerns about financial asset price appreciation, the bubble risk, and those two things are related in that if we get a market pricing on either the reflation trade or the letting out of the bubble or bursting of the bubble, it basically means that the Fed must come back in a stronger than they already are in terms of monetary policy accommodation, and that will cap or should cap how far 10s and 30s can go over the course of this year. And when I say go, I mean on the upside to higher rates. We do think the front end remains anchored, and that is very consistent with Fed messaging that they will keep rates near the zero bound for the next few years.

Margaret Kerins:

So if we think about one theme that we are thinking about at BMO and really looking through the data is the amount of treasury issuance relative to what the Fed has purchased during this pandemic period, and we did use the numbers that Michael came up with, kind of the middle of the road. Let's take that 1.9 and cut it in half to come up with some estimates for treasury issuance this year, and if we hold coupon issuance, so we've got treasury bills, which are very, very short, and then we've got coupons that go all the way out to 30 years. If we hold coupon issuance steady at the current auction size amounts, we expect \$1.7 trillion of coupons to be issued into the market next year, this current year in 2021. And this is the amount after the Fed already purchases the expected \$960 billion.

Margaret Kerins:

So to put it in a little bit of perspective in March and April of this year, the Fed came in and purchased a large amount of US treasuries, slowed purchases down after the initial few months, but the year of 2020 ended with net negative issuance coupons into the market, so everybody else that buys treasuries except for the Fed, they actually had negative about \$500 billion in supply, and the effect of this was really to ... The first order effect, of course, was to stabilize the financial markets that were seizing up in the early days of the pandemic, but the second order effect was to push investors out the risk curve into corporate debt and into equities.

Margaret Kerins:

And so one of the things that we're looking at, one of the themes that we're looking at this year is the evolution of treasury supply and demand in the marketplace, because treasury supply has to clear the market. People will buy it, and it really becomes a matter of how do they make room for the supply? Do they sell some of those risk assets that they have purchased in 2020, or do they continue to move out the risk curve in sort of the "you can't fight the Fed" trade? So that's one theme that we are watching.

Margaret Kerins:

Overall, I agree with what Dr. Whyte and Dr. Ovens stated about the recovery, that it is going to take time for the vaccinations to reach the population in the United States and in Canada, and for us, this means that the reopening will continue to be slow. And we remain concerned about the state of long-term employment and getting the 10 million lost jobs that remain lost back, those people back to work. And for us, it's really a long economic process. Agree with Michael that we will have a pop in a lot of pent up demand and savings in the second half of the year, but we still think that we've got a long slog uphill throughout this entire pandemic. And on that note, I will pass it back to Brian Belski.

Brian Belski:

Thank you so much, Margaret and Michael. We'll be back to you for some potential questions after we go to the doctors. And so before we talk about investment strategy with respect to what we're thinking, both in terms of the Canadian stock market and US stock market, I'd like to thank all of you for joining us. We have a tremendous audience right now, and we have received a lot of questions prior to this event, and so please know that we will have all of this available with respect to a recording of this event up on our [bmocm.com](http://bmocm.com) site, and I myself will be publishing a podcast later tomorrow that is a quick review of the doctors' comments, and as well as some of the macro things that you are hearing. Obviously, thank you so much for all the questions that you submitted. During part of my comments, I'm going to cheat and ask myself one of the couple of questions, I'm sorry, that you all asked.

Brian Belski:

But in the meantime, I thought I'd give you a quick overview with respect to what we're thinking in terms of our conclusions, with respect to both the US and Canadian stock markets. To start with Canada, we think Canada will close at \$19,500 and \$1,100 of earnings with respect to the TSX. We do continue to believe that as a "value position" with respect to the US, and we do continue to favor sectors like financials, materials, consumer discretionary and industrials in Canada. With respect to the US, still think the US is in the midst of a 20-year bull market. The second half of the bull market was reset on March 23rd of 2020, and these next 10 years are going to look very different than the previous 10 years. More bottoms up stock picking, more fundamental. We believe that brings us to an S&P 500 target of \$4,200 on earnings of \$175.

Brian Belski:

We do believe that the themes for 2021 are going to be about unprecedented earnings growth, especially in the second half, which dovetails very nicely with respect to Margaret's views on fixed income and Michael's views in terms of the strong earnings recovery we're going to see in the economy. I mean, nonetheless, we have been talking for quite some time that this "return to normal trade" or the hope in a prayer for normalcy in 2021 may be a bit premature, because obviously you've heard from both Dr. Ovens and Dr. Whyte that it's going to take some time with respect to both therapeutics and vaccines. That's just a common sense approach to say, "We're not going to be quite as normal as we would all hope to be in our normal lives and our business lives in 2021." That being said, we think the effect on the stock market is all about the US and Canada having the best equity assets in the world, period. That's what the stimulus is purchasing. That's why people are investing in North America, and we think that trend continue.

Brian Belski:

So a couple of quick questions that we received prior to the event would be, number one: "Brian, we saw you on BNN, and you said that you expected a stronger market in the first half of the year and a softer last two quarters. So what does that mean, because we've already heard that the economy is most likely going to be stronger than the second half, and we're going to see some with respect to yields in the bond market in the second half." Well, unlike others, we like to be kind of less consensus. Others meaning what you're hearing on the television and some of our other compatriots with respect to other firms, and I think it's common wisdom that the stock market is going to be stronger in the second half.

Brian Belski:

We would take the other side of that trade and think that the market is going to be stronger the first half of the year. Especially considering you heard a lot about stimulus coming, we actually think there's going to be even stronger stimulus, and the market's going to be anticipating that. And as such, we think

that we are and should be positioned for very strong markets to open the the year and think about it kind of counter-intuitively. Once everything starts to really look better and earnings start to come in and valuations start to come in, that's probably where you want to be even more diversified and more consistent and analytical with respect to how you're managing your portfolio.

Brian Belski:

Second question that we received and can talk about right now is with respect to sectors and where to be invested. I already talked about the areas in Canada that we liked, but with respect to the US, we've become a little bit more cyclical recently and upgraded materials to an overweight. I think it should be diversified across that sector in terms of ...

Brian Belski:

... materials to an overweight. I Think it should be diversified across that sector in terms of chemicals and papers and metals, especially. But our favorite sectors heading into the 2021 continue to be financials, consumer discretionary, and industrials. We think those are areas that the majority of our institutional clients around the world are massively underweight, especially the financial side of thing. And we want you to play theme. So scale is our favorite theme in financials, more of the money center, banks, brokers, and asset managers. We want you to be diversified and industrials have a mixture of both domestic and international growers, especially given the fact that the Biden Administration is going to be more friendly with respect to supply chains and the like. And consumer discretionary, we're good at a couple things in the United States and Canada.

Brian Belski:

One of them is spending money, and we still think that the Amazons, the Lulu's, and the lifestyle stocks are going to continue to be quite strong. Those are our formal comments. And remember, too, that you can please always access [BMOCM.com](http://BMOCM.com) for all of our comments, with respect to the subject matter experts, or reach out to your relationship manager and try to get on distribution lists or see several of our published reports that obviously that we have been publishing. We're going to segue back into the doctors one more time here as we kind of go into the Q&A section of this broadcast. And I think we're going to start off with a question for Dr. Whyte, and then a question for Dr. Ovens. So Dr. Whyte, today we heard the news that Merck is pulling out of the vaccine business and moving more toward therapeutics. On these calls, you've done a wonderful job talking about the importance of therapeutics during this entire process of the last year or so. What do you think is going on with Merck and what's the strategic advantage for Merck or others per se, to really focus on the therapeutics at this time?

Dr. John Whyte:

And I think part of it is when they announced their decision, they talked about what their vaccine studies were looking like. Moderna and Pfizer have set a very high bar at 94%, 95%. So if you're not going to come close to that, you're at a huge disadvantage. So I'm not surprised by that, because it's going to be very competitive. In terms of therapeutics, we still have a way to go in terms of are you going to be at early on in disease, such as monoclonal antibodies, or are you going to be later in terms of Remdesivir, or strictly hospitalization? So there's going to be a shift I think, as we realize, as Dr. Ovens pointed out, we can't vaccinate our way out of the current surges. We also have to use these other strategies. So it makes sense, even though as you all know, Merck has a long history in vaccines, that therapeutics is going to be a category that's going to persist for some time.

Brian Belski:

Great. Thank you so much, Dr. Whyte. And on to you, Dr. Ovens. There's been a lot of news in the press with respect to Canadians coming down to the United States for the vaccine. What is your take on that? And what is the government's official response to that?

Dr. Howard Ovens:

Yeah, thanks for that question, Brian. So I've actually been asked by some people whether they should go to Florida or not to get the vaccine, mainly people who do have properties in Florida, and were staying home this winter. And at an individual level, the analysis has to include the risk of contracting COVID on your way to, or while you're on the ground in Florida, your ability to stay safe while you're there, as well as your ability to legally access the vaccine, which is the purpose of your trip.

Dr. Howard Ovens:

At a more macro level, I think that it's not really... Again, I think the original intention of the Florida state government was to treat their seasonal residents the same as their year round residents, people who own property there, spend a good part of the year there, pay taxes there, spend a lot of money there, and are at risk because of their age.

Dr. Howard Ovens:

And that was I think a smart, political, economic, and friendly gesture. And for people to fly there specially to get the vaccine at a much sort of 30,000 foot level, if you will, I don't think that's a good neighborly thing to do. It's greatly annoyed with good reason Florida residents who are still waiting to get vaccinated. It does add additional risk to Canada, for people to be traveling when they don't have to be. They could stay safe here while waiting for their turn to get vaccinated here. And I think it does contribute somewhat to the feeling that people with privilege are being treated differently or having a different experience during the pandemic and is probably contributing towards the discussion we're having in Canada now about more stringent restrictions against people traveling for non-essential reasons.

Brian Belski:

Thank you so much, Dr. Ovens. Well, in the last few minutes we have remaining, we have a very strong thing that we do all the time on these calls, and we want to end with a positive note. And so, we're going to ask each one of our panelists. We're going to start with Margaret, then Michael, then Dr. Ovens, and then close out with Dr. Whyte in terms of our tradition to close with a positive thing. So Margaret, can you please lead us off in terms of the most positive thing that you can see that's going on in your markets and then hand it off to Michael?

Margaret Kerins:

Sure. Thank you, Brian. I think the most positive thing is that the fed and the fiscal government will stand ready to support the markets if need be. And that this is giving a sense of calm to the markets. The fed portfolio has increased by \$3 trillion, putting an enormous wall of cash into the financial markets. And when it comes time for them to begin to step back, which will not be today's story or next year story, most likely, I think they're going to have to do it very delicately just because of the amount that they have put into the market. So yeah, positive note is that the fed and the fiscal government will do what it takes to keep our markets functioning. And there will be plenty of issuance for people to buy.

Michael Gregory:

Well, I think probably the most positive thing, and I'll dovetail a bit with Margaret, is that on both sides of the border, the fiscal authorities, the monetary authorities are standing ready to do what is needed to make sure that the economy's little dip that we're having right now is minimized. And we do have that strong foundation for a robust recovery when the restrictions and the lockdowns start being lifted. And again, I think that the fact that we're like... Even in Washington now, we've got a little bit more better leadership and trying to make sure we're just following the basic protocols in terms of mask wearing and distancing and things like that. I think it can further add to this trying to get these case rates under control when we can then... that first criteria we need to get those restrictions started being lifted. And households, broadly speaking, are in good shape, that could help contribute to that recovery, unleashing a bit of pent up demand. So again, I don't think this downturn will be as bad as it was a year ago. And I do think that we will get a pretty decent economy by this summer.

Dr. Howard Ovens:

Well, I'm very optimistic for a couple of reasons. First of all, science has really been one of the consistent features of this pandemic response, really fantastic developments in testing, genomic sequencing, vaccination, therapeutics. And I'm excited at this point because I still think, although science has answered the call, the sociopolitical response has been spottier. And I think the US rejoining the World Health Organization, joining the Kovacs group to try and support third world countries, developing countries who need help getting their vaccination. I think those are very important developments that are going to help us get all this back under control and help bring us out of this pandemic.

Dr. John Whyte:

Brian, this is titled the Biden presidency. And what I'm optimistic about is we're hearing from the president talk about there is no more important problem than addressing the COVID pandemic. And you can see that there is a singular laser focus on how to address this from a public health strategy, from a financial strategy. You hear the Defense Secretary Lloyd Austin says addressing COVID is the number one problem for him. That's his commitment. So I think we're seeing this all across the federal government in a way that we have never seen. And I think that's going to go a long way in addressing this from a scientific perspective or from a financial perspective and a public health perspective. And that's really what we need, because we're not safe until we're all safe. And everything else can't return to normal until we really adequately address the pandemic. And that's what I think we're doing. So that's what I'm very optimistic about.

Brian Belski:

Well, thank you, Dr. Whyte. And on behalf of BMO Financial Group, thank you all for joining us. I'd like to thank our BMO capital markets subject matter experts, both Margaret Kerens and Michael Gregory. Thank you so much for joining us again. Dr. Ovens, you were a great addition. And of course, Dr. Whyte, thank you for sticking with us here at BMO for all these several months. Just a reminder, please reach out to your relationship manager to see our published reports or receive a copy of this recording here today. And you can do that also from [BMOCM.com](https://www.bmo.com/COVID-19). Everyone, please stay safe and stay well. Thank you so much for joining us and we will see you real soon.

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