

Market Review

April 12, 2017

Market Outlook

The strength and resilience of equity markets are being supported by Trump's pro-growth policies and stronger global economic conditions. Within all developed countries, manufacturing activity has strengthened and is expanding compared to a year ago when some countries were in a contraction phase. China's economy is also gaining momentum, with its PMI in March rising to 51.8 versus 50.2 a year ago. The soft economic data that are based on surveys of consumers, purchasing managers, and small business owners in the U.S. are remarkably strong and have yet to fully flow through to the hard data, specifically auto sales and commercial loan volume. Job growth and labour compensation gains, however, are hard data points that substantiate a strengthening economy.

Stronger economies imply rising demand for goods and services, resulting in higher corporate profits. For the S&P 500 companies, Q1/17 consensus earnings per share (EPS) estimates are expected to be up 9.2%, led by a recovery in Energy. Management commentary will be an important input to gauge the pace of economic and profit growth for the balance of the year. Consensus estimates forecast 2017 EPS to be up 10.9% (excludes any positive impact from tax reform), the first year of double-digit growth since 2011.

With stock market indices valuations above historical averages, events that may potentially dampen sentiment and growth expectations are catalysts for a pullback. Timing a correction is always difficult. The longer term view for equities remains constructive. Inevitable pullbacks represent investment opportunities.