

Market Review

August 8, 2018

Market Outlook

While there is a lot of rhetoric and noise in the news, our focus is on the underlying fundamentals: the global economy is growing and corporate profits are rising. As well, corporate stock repurchases and dividend increases are tailwinds for stocks.

The longevity of the current U.S. business cycle, now entering its 128th month can be attributed to the severity of the 2008 financial crisis and the sluggish recovery that followed. Economic cycle indicators are still supportive for growth over the foreseeable future.

The fundamental backdrop for corporations and consumers remains healthy. U.S. corporations are reporting improving earnings attributable to both tax reform and healthy top line revenue growth. Consumer confidence is high, reflecting a healthy labour market, rising wages and rising home prices.

So far, Q2/18 profit growth for the S&P500 companies are coming in better than the consensus expectations of revenues and earnings per share (EPS) growth of 8% and 20% year-over-year, respectively. EPS growth is expected to remain in the high teens for the balance of the year and 10% in 2019, providing fundamental support for stock prices. For the TSX, EPS is expected to be up 16% in 2018 and 12% in 2019.

The impact of tariffs and trade wars on the global economy will be closely monitored for signs of potentially derailing the recovery.