Market Review

March 8, 2018

After the stock market gyrations in February, investors are more attuned to a less accommodative U.S. Federal bank, rising bond yields and higher volatility. The pace of federal funds rate increases will be driven by the inflation rate, which remains subdued with the core personal consumption expenditures (PCE) index at 1.5% in January, below the Fed target of 2.0%. U.S. protectionism policies and possible retaliatory trade actions, however, could elevate inflationary pressures.

Corporate profits for the S&P 500 companies are being revised upwards following Q4/17 earnings season, which came in at up 16.5% year-over-year, surpassing expectations of up 11.1%. Revenue growth was up a solid 8.2%. Earnings per share (EPS) is expected to be up double-digit for each of the four quarters this year, resulting in an overall EPS growth rate of 19% in 2018. The pick-up in both revenues and profits reflects not only the beneficial impact of the Tax Cut and Jobs Act, but as well as strengthening global economic activity. In 2019, EPS growth is expected to moderate to 10%.

In Canada, EPS for the TSX Index is expected to be up 12.3% in 2018. With Energy and Materials representing close to 30% of the Index, the accuracy of the forecast will be somewhat sensitive to underlying commodity prices.

Based on sentiment surveys, leading economic indicators and manufacturing & services activity, the global economic recovery is ongoing and broad-based.

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