

## Market Review

May 8, 2018

---

### Market Outlook

Uncertainty regarding the duration of the economic and profit cycle, fears of trade wars and higher interest rates have overridden strong first quarter corporate profits. Companies have surpassed expectations on both revenues and earnings, leading to upward revisions to consensus forecasts for this year and next. With Q1/18 earnings per share (EPS) for the S&P 500 companies expected to be up close to 25% year-over-year, the rate of earnings growth may have arguably peaked. However, 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.

Historically, the U.S. Treasury inverted yield curve has been a good predictor of economic recessions. In each of the last seven U.S. recessions, the yield curve inverted prior to the onset, with an average lead time of 15 months. As well, in each of these periods, the S&P500 did not peak before the yield curve inverted. The current spread between the U.S. 10 and 2 year Treasury bond remains positive, at around 50 basis points.

Trade issues are a destabilizing influence on markets. So far, with U.S. policy being significantly less punitive than rhetoric, we are optimistic negotiated outcomes will not derail global economic growth.