GLOBEINVEST CAPITAL MANAGEMENT INC.

MARKET REVIEW

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WATCH EPISODE

MARKET COMMENTARY

The number of central banks moving to cut interest rates is growing in response to a steady slowdown in inflation as well as slowing economic growth and a weakening labour market. The U.S. Federal Reserve's dual mandate to achieve maximum employment and price stability reinforces the likelihood the Fed will make its initial cut in September. Against a weaker economic backdrop, the Bank of Canada having already cut rates twice albeit at a gradual pace, is expected to remain on its easing path.

The recent acceleration in the U.S. unemployment rate to 4.3% gained attention, triggering the so-called Sahm rule (a 0.5% percentage point increase in the three-month average from its low of the last 12 months) that historically only happens during U.S. recessions. Numerous reasons have been cited why it is different this time, however, it was a wake-up call to financial markets exacerbated by broader concerns of high AI-themed stock valuations and leveraged positions, resulting in a sharp retracement in equity markets and bond yields. Markets have since calmed as evidenced by the CBOE Volatility Index (VIX), returning to pre-selloff levels, but the sharp price movements highlighted their elevated sensitivity to data that may impact policy decisions.

Corporate profits are the primary driver of equity prices and encouragingly, profit growth for the S&P 500 companies is expected to remain positive, growing 10% this year and accelerating to 15% next year. With valuations above historical averages, profit expectations will have to be met or exceeded to support future price appreciation.

Macroeconomic forecasting is difficult and often inaccurate. Whilst always aware of the cycle, our investment philosophy focuses on investing in financially sound companies at reasonable prices to build wealth for our clients over the long term.

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