

## Market Review

April 16, 2018

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### Market Outlook

The global economic recovery is under threat from growing trade protectionism. Heightened speculation about a trade war along with geopolitical tensions has increased market volatility and price swings.

Reported economic data, indicators, manufacturing & services survey data and sentiment measures suggest economic growth is sustainable, with no signs of a recession on the horizon. Historically, an inverted yield curve precedes the onset of a recession. The U.S. Treasury yield curve is flattening but still positive. As well, stocks have never peaked before the yield curve inverted.

The upcoming earnings season should provide significant fundamental support for equities. Q1/18 earnings per share (EPS) for the S&P 500 companies is expected to be up 17% year-over-year, and after factoring the typical pace of beats, EPS growth may surpass 20%. Growth is broad-based with all sectors expected to report both positive revenue and earnings growth.

With the recent pullback, valuations are now looking more reasonable, with the price to earnings (P/E) multiple for the broad market indices closer to historical averages. For the TSX, the forward P/E is 15.1x compared to 18.2x at year-end and the long term median of 15.0x. Similarly, for the S&P500, the forward P/E is 16.8x versus 18.6x at the end of 2017 and the long term median of 15.5x.

While the trade dispute is nothing more than a war of words for now, it does add a new risk to global economic growth. As witnessed by the U.S. tariffs on steel and aluminum imports, policy was substantially less severe than initial rhetoric. The apparent progress in NAFTA negotiations and President Trump's consideration in re-joining TPP provide optimism that U.S./China trade differences can be resolved with minimal economic disruption.