GLOBEINVEST CAPITAL MANAGEMENT INC.

MARKET REVIEW

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WATCH EPISODE

MARKET COMMENTARY

Financial conditions have tightened considerably following the U.S. banking crisis in early March. The aftershocks have yet to be fully felt and this adds to the anxiety permeating through financial markets, with investors trying to anticipate the path of U.S. Federal Reserve rate movements.

The tightening cycle for central banks is nearing the end. The Bank of Canada is on hold and the Fed has softened its stance from “ongoing rate increases” to “some additional policy firming”, albeit the Fed does not project rate cuts this year. The Fed, however, does acknowledge the events in the banking system are likely to result in tighter credit conditions for households and businesses, which would in turn affect economic outcomes. The Fed’s policy decisions will increasingly be more dependent on incoming economic data.

The leading indicators we track continue to signal a recession on the horizon. We are loathe to say, “this time it is different”, nonetheless, we note that many events over the past few years have been atypical, making accurate macroeconomic forecasting even more difficult.

Financial markets have been concerned about a pending recession for some time. It has yet to materialize. The recent decline in short-term and long-term bond yields following the banking crisis signals both slower inflation and economic growth is ahead. Annual inflation continues to ease, led by goods price inflation, and further deceleration is expected due to elevated base year comparisons, improved supply chains and the effects of restrictive monetary policy on interest sensitive sectors.

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