Market Review
August 15, 2019

Market Commentary

The direction of equity markets continue to be dictated by central bank policy and developments surrounding the U.S./China trade relationship. Unfortunately, trade tensions appear to be escalating instead of abating. Peripherally, the ongoing Brexit saga remains an overhang for the Eurozone economies.

The slowdown in the global economy has prompted all central banks to adopt an accommodative monetary policy. In the U.S., the catalysts behind the recent rate cut was ongoing trade policy uncertainty making companies more cautious about their capital spending, declining manufacturing output and weakening global growth, particularly in the Euro area and China.

U.S. economic growth is largely being driven by domestic consumption, supported by rising income and high household confidence. The recent announcement of 10% tariffs (effective September 1) on an additional $300 billion worth of goods coming from China is worrisome as this new round impacts finished goods like toys, clothing and consumer electronics. The offset to potentially higher consumer goods prices is lower energy prices and interest rates, softening the impact to household wallets.

Encouragingly, U.S. corporate profit growth in the second quarter remains positive with the S&P500 companies reporting better than expected results, posting year-over-year growth of 4% in revenues and 2% in earnings per share. Corporate earnings growth will continue to be the primary driver for higher stock prices.

While trade worries persist, the current economic data signals a slowing of growth, not negative growth. Forecasting unpredictability is difficult so events are monitored as they unfold combined with a rational assessment of any implications on future economic growth.

Addendum:

Trump announced on August 13/19 a postponement of tariffs on about 60% of the targeted imported Chinese goods, or roughly $155 billion worth of goods, to December 15/19. This subset includes consumer products like telephones, video games and toys. The delay reduces the risk that trade tensions will take a meaningful toll on consumer confidence and household spending in the near term.

The (temporary) inversion of the yield curve between the 10 year and 2 year Treasury Bond is concerning but does not necessarily indicate a recession is imminent. Based on past history, an inversion leads an onset of a recession on average by 15 months and stock markets also tend to move higher following the yield curve inversion. As well, there is the brevity of the inversion to consider. A synchronized global easing cycle by the central banks should also be a tailwind for markets.

GLOBEINVEST
CAPITAL MANAGEMENT INC.

20 Queen St. West, #3308
Toronto, ON M5H 3R3
www.globe-invest.com

Tel. (416) 591-7100
Toll free. 1 (800) 387-0784
Fax: (416) 591-7133
info@globe-invest.com