GLOBEINVEST CAPITAL MANAGEMENT INC.

MARKET REVIEW

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WATCH EPISODE

MARKET COMMENTARY

Notwithstanding 525 basis points of Fed rate hikes since March 2022, the U.S. economy remains resilient, growing at an annualized rate of 2.4% in the second quarter of 2023. Based on economic data released so far following the quarter, The Federal Reserve Bank of Atlanta forecasts real GDP in the third quarter to further accelerate.

The rise in the 10-year US Treasury bond yield this month to its highest level since late 2007, appears to be driven by optimism about the economic outlook, which has caused investors to scale back expectations on future Federal Reserve rate cuts. The mantra of “higher for longer” is taking hold. Higher bond yields, however, weigh on stock valuations, particularly for growth stocks which have been the price leaders this year.

Inflation has steadily receded since its peak in June 2022, although it remains above the Fed’s target of 2%. The central bank remains concerned about the upside risk to inflation, in the face of low unemployment and rising wages. Should inflation reverse its downward path, the latter provides the Fed ammunition to continue raising interest rates.

In contrast to restrictive monetary policy, fiscal policy has been and remains expansionary. Since the pandemic, fiscal policies announced to support growth include three rounds of pandemic relief cheques to U.S. households, the Infrastructure Investment and Jobs Act, the CHIPS and Science Act, and the Inflation Reduction Act. These stimulus plans have supported consumer spending as well as new capital investment plans, counteracting the impact of rising interest rates on the economy.

The much-anticipated recession continues to be delayed, highlighting the difficulty in making accurate macroeconomic forecasts. We remain focused on investing in financially sound companies that can endure and thrive over the whole economic cycle.

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