Market Review

December 11, 2018

Higher corporate earnings are necessary to drive stocks higher. For now, consensus earnings per share (EPS) for the S&P 500 companies is expected to be up 8% in 2019.

The largest source of risk to higher earnings is the impact of tariffs through potentially higher input costs and profit margin compression. The confusion surrounding what was agreed upon at the G-20 summit as well as the eventually outcome of negotiations between the U.S. and China is having an extremely destabilizing effect on stock markets.

The inversion of the front end of the U.S. Treasury Yield Curve has fueled fears of a slowing U.S. economy and is somewhat worrisome. Inversion at the longer end of the curve, however, is a more relevant leading indicator of a pending recession and for now the spread between the 10 year and 2 year treasury bonds remains positive at 15 basis points.

While high yield credit spreads have widened recently, spreads remain relatively tight compared to levels in periods prior to the onset of a recession.

Q3/18 U.S. GDP growth was 3.5%, with Q4/18 expected to moderate to about 2.4%. ISM manufacturing and services surveys point to robust activity, supportive of continued economic growth into 2019.

Recent commentary from both the Bank of Canada and The U.S. Federal Reserve suggest a more dovish monetary policy going forward, adopting a more data dependent approach.

Trade wars and geopolitical conflicts are key impediments to ongoing corporate profit growth and higher equity markets. Any constructive developments in these areas will be a positive catalyst 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