Market Review

February 13, 2019

The rebound in stocks year-to-date can be attributed to receding volatility, optimism for a US/China trade agreement and dovish commentary by central banks globally. As well, the announcement that U.S. lawmakers have reached a tentative deal to avert another government shutdown have buoyed investor sentiment.

Investors have also been reassured with Q4/18 earnings for the S&P500 companies coming in largely as expected, on track for earnings per share (EPS) growth of 15% year-over-year. EPS growth in 2019 is expected to slow to 5% as the beneficial impact of U.S. tax reform is removed.

My takeaways from U.S. earnings reports based on management commentaries are that the U.S. economy is stable, supported by a healthy employment situation, the Eurozone is weakening and the Chinese economy is slowing. The impact of tariffs and ongoing trade war with China is manageable (for now) with price increases being gradually implemented to offset higher input costs.

The cycle indicators we track do not suggest a recession is imminent. Global economic growth including the U.S. & Canadian economies is decelerating but the pace of growth is expected to remain positive.

Nonetheless, uncertainty surrounding trade wars and Brexit is dampening corporate and consumer sentiment and could eventually lead to decreased investment/spending, triggering a more pronounced slowdown. Positive resolution on these matters would be constructive for markets.

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