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MARKET REVIEW

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WATCH EPISODE

MARKET COMMENTARY

The strong start in equity markets so far in 2023 reflects improvement in the global economic outlook and a slowdown in global inflation. The decline in energy prices, courtesy of a warm winter, will soften the downturn in the Eurozone and the United Kingdom. The earlier-than-expected and rapid reopening of China's economy is also providing a life to global growth. In North America, rising interest rates have yet to put a dent in a tight employment market, delaying the onset of a much anticipated recession.

Inflation and interest rates will continue to dictate the direction of financial markets. While inflation has been steadily receding since the peak last June, prices are still growing well above the Fed's 2% target. As well, a remarkably resilient U.S. labour market, as evidenced by a 53-year low unemployment rate of 3.4%, is inconsistent with the target range. As such, interest rates in the U.S. will continue to move higher and likely remain restrictive for longer to ensure that high inflation will be quelled for good.

This current tightening cycle is one of the fastest on record and its impact has yet to be fully felt. The Bank of Canada stated at its latest meeting it would be appropriate to pause any additional tightening to allow economic developments unfold, acknowledging the lagged effect of monetary policy. The FOMC, on the other hand, anticipates that ongoing federal fund rate increases will be appropriate. Nonetheless, both central banks have conveyed a more data-dependent process going forward.

The leading economic indicators signal a broadening economic slowdown, although the depth and duration remain to be seen. Volatility is an inherent characteristic of owning stocks and will create opportunities to invest in companies at attractive prices.

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