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MARKET REVIEW

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WATCH EPISODE

MARKET COMMENTARY

Price pressures are moderating, and the monetary easing cycle has begun with several central banks in advanced economies announcing interest rate cuts. The Swiss National Bank led with a rate cut in March, followed shortly by Sweden’s Riksbank, and more recently the Bank of Canada and the European Central Bank. While central banks are starting to pivot, they have warned that future rate cuts would be gradual and data dependent. Notably, ongoing strength in the U.S. labour market has pushed back expectations of a rate cut by the U.S. Federal Reserve at least until fall.

In Canada, employment growth is lagging population growth, with job gains insufficient to keep the unemployment rate from rising to 6.2%. The lagged impact of higher interest rates is still not fully felt here due to variable mortgages with fixed monthly payments and fixed rate mortgages that come due for renewal over the next two years. Higher debt servicing costs combined with a weak employment situation will pressure household income. As evidenced by higher provisioning for credit losses by Canadian banks in their most recent quarterly reports, this is a headwind to economic growth, but year-over-year GDP growth is expected to remain positive, nonetheless.

Notwithstanding restrictive monetary policy, the U.S. economy is benefiting from an accommodative fiscal policy through providing incentives for onshoring of semiconductor plants and the Inflation Reduction Act. While cognizant that employment data is a coincident indicator, the U.S. employment situation is healthy with the unemployment rate hovering at 4.0%. The U.S. personal savings rate at 3.6% has retraced back below historical trend, signaling households are more sensitive to higher prices for goods and services as well as job gains, particularly in lower-income households.

Equity markets are discounting a soft landing- a combination of slower economic growth and lower interest rates. Consensus corporate profit growth for the broad equity indices is positive and supportive for future price appreciation. We continue to advocate investing in companies that have the financial capacity to withstand and grow through an economic cycle.

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