Market Review

June 8, 2018

Market Outlook

The current U.S. economic expansion is the third longest in U.S. history (dating back to 1854), now in its 108th month. Only the expansions in the 1990s and 1960s were longer. The unusually severe recession in 2008/2009 and the sluggish pace of the recovery are reasons cited for its lengthy duration. The tax reform package passed last year may also be a catalyst for the extending this recovery, in the form of lower corporate taxes and accelerated depreciation. The latter should encourage capital spending and drive economic activity.

The employment situation is robust in the U.S., with the unemployment rate at 3.8% in May, near cyclical lows. The U.S. consumer feels good, as measured by consumer confidence and sentiment indices, which are remaining at historically high levels. Personal consumption represents about 70% of U.S. GDP and is the key driver of the American economy. In Canada, the unemployment rate was 5.8% in May, the lowest level since 1976 for the fourth consecutive month.

With wage inflation remaining inexplicitly relatively contained, the path to higher interest rates should be measured and gradual. Notwithstanding a less accommodative stance by central banks globally, policy decisions will remain somewhat data dependent.

While we are attuned to the potentially negative influence of trade protectionism and geopolitical instability on the global economy, the base case of ongoing economic growth driving corporate profit growth prevails for now. Equities remain our preferred asset class.