GLOBEINVEST
CAPITAL MANAGEMENT INC.

MARKET REVIEW

THURSDAY, MARCH 21, 2024

WATCH EPISODE

MARKET COMMENTARY

Inflation is moderating; however, recent reports indicate it is receding at a slower pace than many had anticipated at the start of the year. Nonetheless, financial markets remain sanguine that interest rate cuts will commence later this year.

The lagged impact of the interest rate hiking cycle is becoming more fully entrenched as evidenced by Canadian business insolvencies in January surging to their highest level in 19 years. Job creation is not keeping up with population growth and the Canadian unemployment rate continues to edge higher. While the Bank of Canda acknowledges economic growth is weak and below potential, it is still concerned about inflation risks, particularly the persistence in underlying inflation and recently reiterated “it’s still too early to consider lowering the policy interest rate”.

In contrast, hiring activity in the U.S. continues to be robust and the unemployment rate remains below 4.0%, marking 25 consecutive months of sub-4.0% readings. Economic growth has surprised to the upside and recession risks are abating. Americans, however, are saving less and spending more. The personal savings rate was 3.8% in January, below 5.2% a year ago and the historical average of about 6.2%. Other worrisome signs include rising credit card debt with delinquency rates returning to pre-pandemic levels and higher debt servicing costs. The health of the U.S. job market is increasingly crucial to keep the American economy on solid footing.

The U.S. Federal Reserve increased its policy rate 11 times since March 2022 and has been on hold since July 2023. The tightening cycle is over and the transition from restrictive to accommodative monetary policy by central banks globally should commence later this year. Albeit central banks will err on the side of caution in their quest to bring inflation under control and engineer the much-anticipated soft landing. Given the strength in equity markets so far this year, any unanticipated delay in monetary easing could be unsettling for investors.

Christine Poole, MBA, CFA