Market Review

March 12, 2019

Market Commentary

Stock markets have largely recovered from the sharp sell-off in December. Any sustainable upward move from here will be contingent on continued corporate profit growth. Our focus remains on monitoring the underlying economic fundamentals which do not indicate an imminent U.S. recession.

Reasons behind the disappointing and markedly subdued payroll gains in the U.S. February jobs reports include impressive gains in January, the government shutdown and harsh cold winter weather. Nonetheless, job growth appears to be moderating which optimists attribute to a constrained supply of skilled labour. The U.S. unemployment rate remains near cyclical lows at 3.8%.

While still in expansionary mode, manufacturing activity in the U.S. is slowing. In contrast, the services sectors has rebounded after the government shutdown. Encouragingly, consumer confidence has snapped back up in February after three consecutive months of declines.

Notwithstanding a weak Q4/18 GDP report, Canada’s labour market appears to be relatively healthy, with February’s report coming in well above consensus expectations, led by strong job gains in the private sector. Wage gains rose 2.3% year-over-year, the highest in five months. The unemployment rate remained unchanged at 5.8%.

Global economic growth is decelerating, as evidenced by the recent OECD report which revised its global GDP growth rate to 3.3% in 2019 (from 3.5%) and 3.4% in 2020 (from 3.5%) compared to 3.6% in 2018, with significant weakness in the euro area. Policy uncertainty and persistent trade tensions are contributing to the slowdown.

In response, central banks are taking a pause in monetary policy normalization and in some cases announcing stimulus measures. A negotiated trade settlement between China and U.S. would help to alleviate global growth concerns.

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