GLOBEINVEST
CAPITAL MANAGEMENT INC.

MARKET REVIEW

WEDNESDAY, MAY 17, 2023

WATCH EPISODE

MARKET COMMENTARY

Courtesy of a resilient labour market and the staying power of the consumer, inflation has been slow to come down. Albeit prices have declined sharply from peak levels last summer, core inflation remains stubbornly high at 5.5% in the United States and well above the Fed’s target range.

Recent Fed commentary suggests a willingness to consider a pause on further rate hikes, in part because of expectations banking stresses, following the failures of three mid-size lenders, to further tighten financial conditions. Contrary to the Fed’s forecast, market consensus is for rate cuts in the back half of the year. While a pivot to accommodative monetary is ultimately supportive for economic growth, a precursor to rate cuts is a significant deterioration in economic activity.

Historically reliable leading indicators signal a pending recession. The difficulty lies in pinpointing its exact arrival. Arguably, certain parts of the economy are already contracting. Manufacturing activity has stalled due to the pullback in goods spending as consumers have gravitated to services over goods spending post the pandemic. The ISM manufacturing index has been in contraction territory for the past six consecutive months. Higher interest rates have already slowed activity in the housing market, albeit a structural undersupply combined with expectations of a peak in mortgage rates suggest a 2008 housing bubble collapse will not be repeated. The outlook for commercial real estate is clouded by the office sector which is feeling the double impact of both higher interest rates and rising occupancy rates as some form of remote work remains in place.

Economic forecasting is difficult. The only certainty is uncertainty, especially against a backdrop of geopolitical unrest, deglobalization, decarbonization and technological advancements. We continue to base our investment decisions on finding well-priced businesses that will perform over the long term and have the wherewithal to manage and adapt to short-term events.

Christine Poole, MBA, CFA