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MARKET REVIEW

THURSDAY, NOVEMBER 23, 2023

WATCH EPISODE

MARKET COMMENTARY

Inflation pressures are easing and keeping central banks at bay. The lagged impact of the rapid interest rate hiking cycle is being felt with business and consumer confidence softening resulting in a more cautious spending outlook.

In Canada, economic growth as measured by real GDP, contracted in the second quarter and conditions have not since improved. Slower hiring and steady labour growth has continued to put upward pressure on the unemployment rate. Price pressures should abate over time as sluggish growth conditions persist.

Economic growth in the U.S. has been more resilient, with real GDP accelerating to 4.9 per cent in the third quarter, lifted by robust consumer spending primarily in services. Going forward, growth is expected to slow as American consumers have nearly exhausted their excess savings accumulated during the pandemic and increased their credit card usage. The latter is not a sustainably source of funds, especially in a higher interest rate environment.

With inflation receding and economic growth slowing, policymakers should err on the side of patience as they seek a balance between stable prices and maximum sustainable employment. Having been caught off-guard when inflation initially spiked up, central banks are biased towards holding off on rate cuts for as long as reasonable.

Third quarter profits for the S&P500 companies were better than expected, with earnings per share (EPS) up 6.6 per cent from a year ago. While EPS growth for the fourth quarter has been revised down, it remains positive, and the growth rate is expected to accelerate into next year. For now, a profit recession is not in the cards.

Financial markets, especially equites, are highly unpredictable in the short term. Investors are encouraged to remain focused on the long term and adhere to a defined investment strategy to build wealth over time.

Christine Poole, MBA, CFA