
GLOBEINVEST
CAPITAL MANAGEMENT INC.

# MARKET REVIEW

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WATCH EPISODE

## MARKET COMMENTARY

The U.S. economy has remained resilient, but cracks in the economy are starting to appear. Excess savings built up during the pandemic have dampened the impact of tight monetary policy, but the household sector has now whittled down its stockpile of excess savings. Consumers have also reduced their savings rate to finance spending. The household savings rate of 3.5% of disposal income in July is near a historical low. In addition, households have also relied increasingly on credit to make purchases with credit card debt steadily rising. Delinquency rates have edged up and have normalized to pre-pandemic levels. Moderating wage growth, high debt servicing costs, and the resumption of student debt payments will soften consumer spending in the coming months.

Recent economic data in Canada has not been encouraging. GDP in the second quarter contracted at an annualized rate of 0.2%, coming in below consensus expectations. More worrisome is the 2% decline in real GDP per capita over a year, a measure that has historically occurred in recessions. The Bank of Canada will need to maintain a close watch on household credit performance given our country’s elevated debt-to-income ratio of 180.5% as higher interest rates continue to weigh on households.

Economic growth is expected to slow as the lagged impact of higher interest rates is fully absorbed. Inflation continues to recede, although there is still some way to go before the Fed’s 2% inflation target comes into view. Ironically, the resilience of the economy suggests there is no urgency for rate cuts, but rather a higher for longer policy path. Long-term inflation expectations remain well-anchored. Future policy decisions by central banks will be data dependent.

We adhere to the adage that time in the market through investing in a diversified portfolio of quality companies is the key to generating long-term wealth.

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