Economic Commentary

First Quarter 2019

Economic Growth Slowing Around the Globe

Forecasts for economic growth continue to be downgraded on fears of a slowdown in the global economy. Eurozone data releases have been poor to start the year, with sentiment becoming more negative. Italy is now in a recession, based on two negative quarters of GDP growth to end 2018. Germany has suffered as well, with a recent purchasing managers' report confirming a contracting economy.

In Canada, the economy did bounce back nicely following two negative months to end 2018. January GDP surprised on the upside, with a reading of 0.3%. This occurred despite oil production cuts that kicked in during January. Labour markets also remained strong to start the year. Inflation remains at relatively low levels in most developed countries which is also helping to keep interest rates low.

Central Banks Press Pause

Expectations for future interest rate hikes by both the Bank of Canada and the U.S. Federal Reserve have been tempered as the global economic outlook wanes. Earlier expectations were for the Fed to hike rates two times during 2019. These hikes are now off the table, with the markets beginning to price in the possibility of a rate cut at some point this year. Given that the Fed has been fairly systematic in hiking rates over the past three years, along with the fact that they have not yet reached their neutral rate of between 2.5% - 3.5%, a cut in rates is an unlikely occurrence. However, the Fed could remain on the sidelines through 2019 and into 2020.

In Canada, markets are also beginning to price in the potential for a rate cut this year. Bank of Canada Governor Stephan Poloz stated that there is increased uncertainty about the timing of future rate hikes due to the risk of elevated levels of household debt, uncertainty on trade issues, the impact of production cuts on the oil market as well as a slowing global economy.

Deal or No Deal?

Talks continue between the U.S. and China in an attempt to reach a potential deal. This debate has gone on for months now and the prospect of reaching a deal has provided a boost to equity markets at various times during the first quarter. In the meantime, stiff tariffs remain in place between the two countries.

In the U.K., Brexit talks are in disarray as the plans for Britain to leave the European Union have failed for the third time. This has resulted in a cloud of uncertainty going forward, including the possibility of having an election or potentially a second referendum. These developments have begun to negatively impact the British economy.

Equity and Bond Markets Diverge

Equity markets rebounded sharply during the first quarter, reversing the significant declines from Q4. There is a disconnect occurring right now between movements in the equity market and the bond market. The government bond yield curve is forecasting a slowdown in economic activity as there is an inversion between interest rates at the front end of the curve compared to the middle part of the curve. This dynamic has historically been a pre-cursor to a recession.

Key Metrics

Indicator	Value	Chg Q1	Chg 1Y
S&P/TSX Composite	16,102.09	13.3%	8.1%
S&P 500 (USD)	2,834.40	13.6%	9.5%
MSCI EAFE (USD)	1,875.43	10.2%	-3.2%
USD/CAD	$ 0.75	2.2%	-3.5%
WTI Crude ($/bl))	$ 60.14	32.4%	-7.4%
GoC 10Y Bond	1.62%	-35 bps	-47.4 bps
GoC Deposit Rate	1.75%	0 bps	50 bps
Cdn CPI YoY	1.5%	-0.5%	-0.8%
US 10Y Treasury	2.41%	-27.9 bps	-33.4 bps
Fed Funds Rate	2.50%	0 bps	75 bps
USD CPI YoY	1.5%	-0.4%	-0.9%

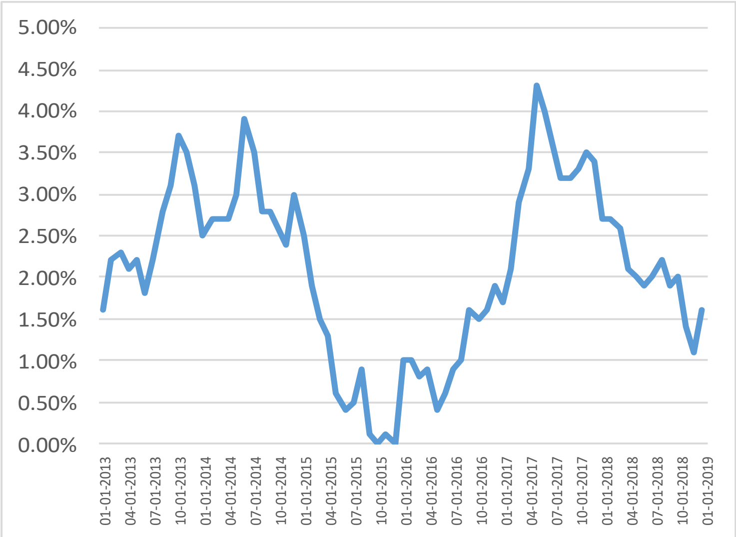
Top Themes

Global economic growth exhibits signs of slowdown

Central bank retreat from tighter monetary policy

U.S./China trade discussions continue without any resolution

Top Chart: Canadian GDP YoY%



Source: Bloomberg, Lincluden