MATCO FINANCIAL

# Q2 2019

## QUARTERLY MACRO OVERVIEW

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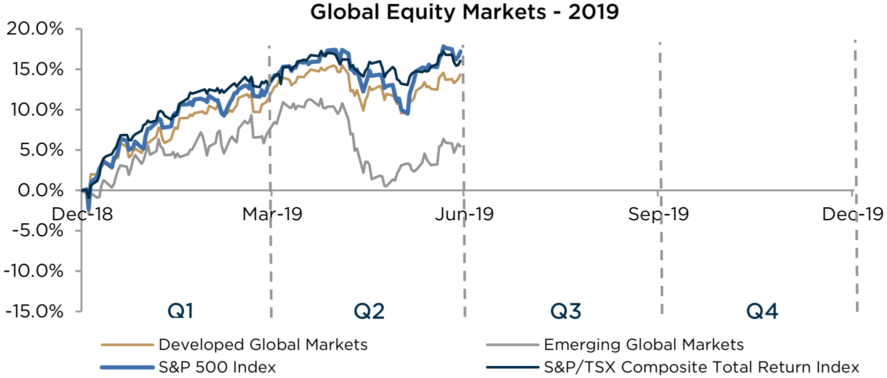
# Q2 2019 QUARTERLY MACRO OVERVIEW

The first half of 2019 has been positive from a capital markets perspective, especially when considering the broader political and economic context. The global economy continues to grapple with several geo-political and trade related challenges, while the U.S. economy progresses closer to the end of a secular expansionary cycle. Heightened volatility has been a prevalent theme, fueled by President Donald Trump's erratic policy measures. In fact, looking back to the beginning of 2018 the path of global equity markets resembles that of a roller-coaster, with President Trump seemingly in control of the pace, turns and loops of the ride.

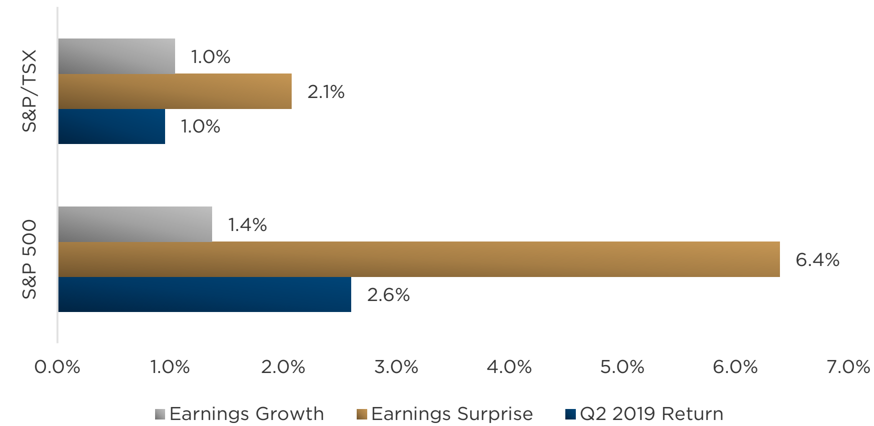
Focusing in on North America, the shift in central bank monetary policy tone was the predominant theme through the first quarter of the year. This theme has continued through to the second quarter, with market participants now anticipating a rate cut from the Federal Reserve at some point in 2019. This is a distant cry from the two Federal Funds Rate increases for 2019 that were being forecasted late last year. The lack of progress with respect to trade negotiations between the U.S. and China has exacerbated the notion that the Federal Reserve will consider more accommodative monetary policy to support the economy and, some would argue, the equity markets. This has caused interest rates to move significantly lower in the first half of the year, allowing North American bond markets to post healthy returns. Shifting from politics to fundamentals, the Canadian and U.S. economies remain resilient in the face of political headwinds. The Canadian labor market has been powering ahead with net monthly job growth over the last year averaging 37,000 jobs; a stronger than average pace. In the same breath, the U.S. unemployment rate is at its lowest level since 1969. Although broad economic growth has moderated, U.S. and Canadian corporate earnings surprised on the upside in the previous earnings session, posting positive year over year growth of 1.4% and 1.0% respectively. The pace of growth is considerably lower than previous years, but the upside surprise was encouraging for equity markets.

**Global Equity Markets - 2019**




*Source: Bloomberg*

**Earnings Surprise on the Upside**




*Source: Bloomberg*

While the U.S. has been dragging itself and others through the political mud, Europe and the U.K. have been creating their own turmoil. Providing a quarterly update without the need to mention Brexit would be desirable; however, the recent resignation of Prime Minister Theresa May certainly makes that difficult. Boris Johnson has now been appointed as Prime Minister. With a similar pro-Brexit platform, his level of success in formulating an agreed upon deal seems questionable. Markets are beginning to wonder if the extended Brexit deadline will receive a further extension. Suffice it to say, the can that European politicians have been kicking down the road is in rough shape at this point. China and other emerging equity markets were also off to a strong start this year but have since pulled back. The U.S.-China trade war is partly to blame but the pace of economic growth in China has been slowing as well. The Chinese government has responded by increasing their domestic credit impulse to help offset some of the slowing, but the challenge of stimulating growth is only more complex given the ongoing trade dispute. Distilling the current political and economic landscape is a challenging task. Economic fundamentals remain strong but suggest that we are approaching the end of the secular economic cycle. Meanwhile, trade tensions around the world are influencing global central banks to shift more in the direction of easing financial conditions. This in turn has the ability to extend the trajectory of the economy and risk assets, but to what extent is the continued debate. We remain focused on economic and investment fundamentals, which both currently suggest a level of prudence within the context of long-term risk management, a core principle within our investment philosophy.