BORDER GOLD
CORP.
DEALER IN PRECIOUS METALS

Macro Market Insights

May 8th, 2019

Robert Levy
MA (Economics)
Director
rlevy@bordergold.com
(604) 535-3287
www.bordergold.com

Global Growth and Stock Market Melt Up?

There were similar patterns over the past few weeks in the first quarter GDP prints from China, the United States, and the European Union. Economic growth fared better than expected. This is notable given the two countries and one region account for over half the world's output. Unfortunately, it's not necessarily the case for Canada. The prospects for "better than expected" reports may not be as great and the most recent GDP data for February released last week aligned with the Bank of Canada's very conservative forecasts.

For reference, China Q1 GDP grew ahead of expectations at 6.4% vs 6.3% forecast. First estimates for US GDP advanced by 3.2% vs 2.5%, and Eurozone annualized growth grew at 1.5% while the unemployment rate dropped to a 10-year-low.

Both the IMF and World Bank amongst other predominant voices have issued concerns over global growth in the beginning of this year. These warnings have been consistent with the reverse shift from Western Central Bankers including Federal Reserve Chair Jerome Powell who spoke of inconsistencies in US growth prospects this week, and Bank of Canada Governor Stephen Poloz whose concerns also echoed the threat of a global slowdown's impact on the Canadian economy.

It certainly raises a question and is worth reconsidering why policy makers appear so cautious and dovish. Fed Chair Powell created a bit of a stir this week when he used the word "transitory" to refer to inflation. What was gleaned was the Fed sees the inflation slowdown in the US as temporary and for some analysts this raised the prospects of higher US interest rates in the latter half of the year. That said, Friday's US job numbers saw the jobless rate fall to a 49-year-low at 3.6%, but as wage growth again failed to accelerate the suggestion was there is further room for this US labour market to accelerate.

To contrast the US and Canada though, it's also worth noting the difference between Powell and Poloz. Whereas Powell almost sounded hopeful on trade relations last Wednesday, Poloz in an interview with Global News this past week stated trade as the biggest risk to the Canadian economy (the last policy statement from the BoC highlighted oil markets, household spending, and global trade as the three biggest risks, which re-aligns their ranking).

Earlier in the year, it was the notion that the waning impact of the Trump tax cuts, US stocks in a bear market, the trade disputes between the US and China, in addition to steal and aluminum tariffs, and potential for frictions between the US and Europe would all be added impediments to global growth. Certainly, the Canadian economy, stunted by a beleaguered resource sector, seems one step back, but prospects in the US and Europe, buoyed by a strengthening Chinese economy seem a little more optimistic. As the US Fed pointed out, some of the bearish data points could be a result of transitory factors.

Morgan Stanley and Bank of America recently issued a call to investors worried about under exposure to equity markets. They suggested using the options market to capture a sudden move higher in a momentum trade in equities. At the beginning of 2019, it might have seemed eleven years past the Great Recession, we were finally losing some steam, but the question is whether we're amidst something to the contrary.