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Macro Market Insights

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

Cautious Optimism

Last Friday, Bank of Montreal likened the events to take place on the economic calendar this week to essentially every major world sports event taking place within a 24-hour time period. From GDP prints in the United States and Canada to Brexit deadlines to central bank meetings, there was the potential for some market moving events. However, as expectations seemed to be fairly matched to prior telegraphed policy guidance, there were no major market gyrations.

The US Fed, as per usual, took center stage this week as they culminated what is expected to be their third and final interest rate cut in their 'mid cycle policy adjustment'. As Fed Chair Jerome Powell made clear, it will be international disturbances that could prompt them to act again. But their return to neutrality was certainly reinforced by the economic data out this week. US GDP prints for the third quarter were stable and slightly above expectations. Job market growth reported Friday was again better than expected with revisions to the upside for the prior two months. It remains that the US economy is benefiting from the unfaltering of the American consumer.

In Canada, in aggregate it wasn't that different a story. The Bank of Canada has held pat as the Western World's central banks have shifted policy rates to a more accommodative level. The minor move lower in the Canadian dollar was in reaction to perhaps a dovish undertone that eventually the Canadian central bank will have to act, but likely not until the new year. Noticeably, in the last quarter has been the strength in the Canadian dollar as the strongest performing currency in the G10. The major factor had been interest rate differentials between the US and Canada, but as we've seen in the past, this can only go so far until strength in the loonie comes at the cost of Canadian exports and productivity weighing on growth.

Perhaps the missed headline in the past week has been the strength of the US equity markets as Brexit uncertainty and trade tensions have subdued. The story, however, goes a little deeper. As investor focus has been squared on when the next recession may occur, the US corporate sector reinforced the notion of some underlying strength in the US economy.

Data from Factset showed that of 342 companies in the S&P500 companies to report earnings thus far, about three quarters have beaten their estimates for earnings growth, reinforcing the idea that the market consensus may have gotten a little too bearish. In addition, big names like Johnson and Johnson and Intel have all raised their outlooks for the year ahead. As Apple in the past had been a general bellwether for equity markets, they too had strong earnings carrying their stock to new record highs.

The message seems very clear. Over the past couple of months there have been warnings from the IMF and World Bank and caution exhibited by policy makers and central bankers over the vulnerability to economic growth and financial markets. Former Bank of England Governor Mervyn King proclaimed, "economists and policymakers are sleepwalking towards the next crisis." Still as the markets trade on record highs, we can think back as recently as the beginning of August when the S&P declined 6% in as many days. For now, protection is imperative, especially as the trend for US stocks is higher.