

QUARTERLY COMMENTARY

INTERNATIONAL EQUITY

Global growth has stabilized in the U.S. and China while Europe is likely to move in an upward trajectory by the end of the year. While economic data has largely normalized it does not mean that there should be an expectation for significant growth over the remainder of the year. With global inflation remaining benign, there should be opportunities for central banks to stimulate their economies as needed. However, there are still meaningful downside risks thanks to political uncertainty and weakness in the global industrial sector.

Europe's long anticipated growth rebound remains just that; anticipated. European stocks did manage to rise despite signs of slower economic growth, escalating trade tensions and dampened investor sentiment. Political turmoil also weighed on markets with a new populist ruling coalition in Italy, political protests in France and increased uncertainty about Brexit. Meanwhile, Spain ousted its Prime Minister amid a political fundraising scandal, which has further heightened uncertainty. The European Central Bank announced it will begin winding down its massive bond-buying stimulus program and has made it clear that it would not consider raising interest rates until at least late 2019.

The Bank of England cut its forecast for the U.K. economy to zero as global trade tensions and growing fears of a no-deal Brexit are becoming omnipresent. Britain's economy is now on track to stagnate in the second quarter, due to the likely hangover from rapid stockpiling by companies earlier this year as they scrambled to prepare for the Brexit deadline. There is a mixed picture for inflation as wage pressures have leveled off despite the labour market remaining tight. If there isn't a smooth Brexit process in place the central bank fears a chaotic exit from the EU would hurt Britain's already weakened economy dramatically and probably mean interest rate cuts.

Japanese stocks finished in positive territory after a very turbulent quarter affected by the U.S. / China trade war and news of a decline in the country's growth rate. However, the falling Yen gave a boost to Japan's export-driven corporations. After an impressive run of nine consecutive positive quarters, this quarter's negative growth should allow the Bank of Japan to maintain an ultra-loose monetary policy, particularly since labour markets are tightening without prices rising.

Despite a host of supportive steps since last year, China's economy is still fighting to get back on firmer ground as investors fear a longer and costlier trade war with the U.S. China's industrial output growth unexpectedly slowed to its weakest level since early 2002 and investment cooled, which should trigger additional monetary easing in the coming months. China has weathered the latest downturn so far by injecting further stimulus including hundreds of billions of dollars in infrastructure spending on road, rail and port projects, as well as tax cuts for companies.

Globally, stocks advanced by 4.0% (in U.S. dollar terms), apparently unperturbed by the worldwide turmoil over trade. European stocks led the charge gaining 4.9%, propelled by Germany's 7.8% surge; while the U.K. essentially brought up the rear by eking out a 0.9% gain. Asian stock as a whole were up 1.3%; which was led by Australia's scintillating 7.4% climb but constrained by Japan's weak 1.1% uptick and Hong Kong's small 1.0% increase.

The further maturity of the global business cycle is likely to increase uncertainty. As the cycle matures, tighter labour conditions tend to put upward pressure on wages and generate headwinds for corporate profit margins. On the other hand, consumers seem healthy as strong job markets and rising wages have led to decent spending rates. Global growth will remain in expansion mode, but the outlook is deteriorating and may have passed its peak. Looking forward, the world will continue to muddle through especially if all major economies once again prioritize supportive monetary policies.