



March Market Update: U.S. Stocks Round Out Best Quarter Since Great Recession as Attention Shifts to China, Brexit

Wall Street and global stocks extended their rally in March, capping off a stellar first quarter that had all the signs of 'fear of missing out' mentality. The market's first-quarter performance will be hard to sustain in April, as attention shifts to U.S.-China trade talks and volatile corporate earnings.

U.S. Stocks Surge; TSX Follows

Wall Street's benchmark indexes just posted their best quarter in nearly a decade,¹ with gains ranging from 11.1% to 16.5%. For the S&P 500 Index, it was the best start to a year since 1998.² The volatile information technology sector was the top performer, gaining 19.4% during the quarter.

Stocks quickly stabilized at the start of the year following a devastating fourth quarter that saw the S&P 500 and Nasdaq enter bear market territory for the first time since the financial crisis. The relief rally, which began shortly after Christmas, has catapulted the major indexes back near record highs.

Canadian stocks traded in lockstep with the U.S. market, with the S&P/TSX Composite Index booking gains of 12.4% in the first three months of the year. This included multiple record highs for the Canadian benchmark.

Federal Reserve Reaffirms Dovish Tone

The Federal Reserve kept monetary policy unchanged last month and signaled that interest rates won't rise again this year, highlighting officials' concerns about slowing economic growth and renewed volatility in the stock market.

Eleven of 17 Fed officials said additional rate hikes this year won't be necessary, up from just two in December. Investors took this to mean that the Fed may have reached the end of its tightening cycle. This was further confirmed by downward revisions to GDP growth and consumer inflation.³ Central bankers now expect the U.S. economy to grow just 2.1% this year, down from the 2.3% estimate in December. Inflation is likely to average 1.8% in 2019, down from a previous estimate of 1.9%.

Yield Curve Inversion

Stocks came under pressure in the latter half of March after a closely-watched yield curve inverted for the first time in over a decade, an ominous sign that the U.S. economy was headed toward recession.

For the first time since 2007, the yield on the benchmark 10-year Treasury note fell below the yield on the three-month T-bill. Yields drop as bond prices increase.⁴

Although the U.S. economy is performing better than its advanced industrialized peers, a synchronized slowdown in global growth could upend the Trump-inspired recovery. The latest batches of economic data suggest the impact of a weakening global economy has already hit American shores. U.S. gross domestic product (GDP) expanded just 2.2% annually in the fourth quarter, revised data from the Commerce Department showed last month. The original estimate showed annual expansion of 2.6%.

Brexit Disarray

The United Kingdom's path out of the European Union (EU) was derailed last month after Prime Minister Theresa May failed to secure the backing of British Parliament on a new exit agreement. For the third time, May's Brexit deal was struck down by lawmakers, setting the stage for another tumultuous month in British politics.

The United Kingdom was originally scheduled to leave the EU March 29, but a political deadlock forced the prime minister to request a delay until at least April 12. The Sun newspaper has reported that 170 of 314 Conservative lawmakers have demanded that Brexit take place in the next few months regardless of whether a new exit deal has been agreed.⁵

The Month Ahead

Politics and economics will dominate the headlines in April. In addition to Brexit, the United States and China are set to resume trade negotiations. Investors are also keeping close tabs on economic data to confirm whether the Federal Reserve is justified in sidelining its plans for additional rate hikes.

Sincerely,

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¹ Kevin Kelleher (March 29, 2019). "U.S. Stocks, Led by Tech, Post Their Best Quarter in Nearly a Decade." Fortune.

² Sam Bourgi (March 29, 2019). "U.S. Stocks Round Out Best Quarter Since the Financial Crisis; S&P 500 Sees Best Start to a Year Since 1998." Hacked.com

³ Nick Timiraos (March 20, 2019). "Fed Keeps Interest Rates Unchanged; Signals No More Increases Likely This Year." The Wall Street Journal.

⁴ Sam Bourgi (March 25, 2018). "Dow Recovers After Brutal Plunge as Recession Fears Weigh on Stock Market." CCN.com.

⁵ Ktlie MacLellan and Guy Faulconbridge (March 31, 2019). "Brexit in meltdown: Theresa May under pressure to forge softer divorce deal." Reuters.

