Portfolio Advisor

Wealth Management
Dominion Securities

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Market commentary

Following a strong rebound at the beginning of the year, equity markets have shifted attention to slowing growth in the big three economies of the U.S., Europe and China, and the related downdraft in interest rates that was accompanied by an inversion of the Treasury yield curve – a cautionary signal. Markets are also contending with earnings growth and trade/tariff uncertainties.

Global economic weakness is driving the move to "easy street."

These risks are balanced out by dovish central bank policies and signs U.S. economic growth should hold, while trends in Europe and China should stabilize/improve later this year. In our view, equity market valuations remain reasonable, with most trading near or slightly below their long-term averages. Consensus earnings estimates are also realistic. While we would maintain overall equity exposure at the "market weight" (benchmark) level in portfolios, vigilance is warranted.

Fixed income

The U.S. Federal Reserve's (the Fed's) significant policy shift in March to no fed fund rate hikes (from two) in 2019 set a new path for global central banks. Global economic weakness is driving the broad move to "easy street" and concerns are mounting as benchmark yield curves invert. The Fed projects one rate hike in 2020, but implied probabilities indicate an 80% likelihood of a rate cut by January, and market expectations predict one rate cut per year from 2019-2021.

There is the distinct possibility that rates could move lower, and we believe this makes "reinvestment risk" a potential issue for investors attracted by short-term rates equal to or exceeding long-term rates. As such, we maintain our "market weight" in fixed income, and recommend investors add duration with a focus on high-quality assets.

To learn more, please ask us for the latest issue of Global Insight.

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