**Portfolio Advisory Group Update July 16th**

Global equity markets remain near their highs for the year, fueled of late by technology and other growth areas of the market. The more interesting story in recent weeks has been the move lower in government bond yields. Below, we discuss this a bit more and also preview the second quarter earnings season which is now upon us and likely to garner investor attention over the course of the next few weeks.

Government bond yields represent the approximate income return an investor can expect to earn if they were to purchase a government bond at prevailing market prices. Yields have an inverse relationship with the price of a bond. In other words, strong investor demand for bonds can push prices higher, and yields lower, and vice versa. Investors watch these yields closely as they tend to be a real-time reflection of investor expectations and appetite for risk.

In recent weeks, yields have been falling, indicating that demand is rising or supply is falling, or both. The decline in yields could be an indication that investors are incrementally more concerned about the future. Some may believe strong U.S. economic momentum may fade to some extent as we move into the second half of the year. Others have grown concerned about growth overseas given rising Covid-19 cases that present some risk of renewed lockdowns and restrictions. Regardless, it seems investors are placing greater value today on the relative liquidity, stability, and perceived safety of government bonds than they did just a few months ago.

We remain less concerned about the growth outlook for the time being. While U.S. momentum may indeed fade from the lofty levels witnessed earlier this year, the economic environment should remain relatively favourable. Furthermore, vaccination campaigns have been slower in some parts of the world that are dealing with rising virus cases, though it is worth acknowledging that cases are once again trending higher in places like the U.S. Nevertheless, as vaccination rates improve, the likelihood of long lasting restrictions should diminish.

An alternative explanation for the recent fall in government bond yields could be that the sharp increase earlier this year – a near doubling in the case of some maturities in Canada and the U.S. – was simply overdone and the move lower in recent weeks is a reversion to more reasonable levels.

The other development we are watching closely is the unfolding of the second quarter (April through June) earnings season. Expectations are relatively high, with the consensus forecast calling for more than 60% earnings growth for U.S. companies in the widely followed S&P 500 index, relative to the year ago period. It’s worth remembering that last year’s second quarter was heavily impacted by the lockdowns in most parts of the world, which helps to explain the dramatic recovery expected this season. Earnings growth is expected to moderate through the rest of the year, but still expected to finish well above 30% for the full year.

The forecasted moderation in growth has garnered investor attention in recent weeks. And we suspect it will remain an intensely debated issue. But, we prefer to look at the bigger picture. Long-term earnings growth has historically been anchored near the 7% level. Thus, an environment characterized by double digit gains in profits is relatively attractive, at least from a historical perspective.

Should you have any questions, please feel free to reach out.