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Global Pacific Financial Services Ltd.

Market Alert

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A Healthy Correction or Something More?

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Market Alert - A Healthy Correction or Something More?

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something more? To answer, let?s look at recent market history.

Since the market last bottomed out in March 2009 in the aftermath of the financial crisis, global equity markets have rallied strongly, with Canadian (S&P/TSX Composite) and international (MSCI EAFE) equity markets each up over 110% on a cumulative basis, and U.S. equity markets (S&P 500) up over 200%. Past corrective actions in the last five years have seen fundamental catalysts, such as the Washington political gridlock and Eurozone crisis in 2011 and the Greek default crisis of 2010. Today?s risk factors include escalating conflict in the Middle East, Russia/Ukraine relations, slowing economies in Europe and China, the potential end of quantitative easing in the U.S., and concerns over an Ebola outbreak. All of these factors can have an impact on investor confidence and their willingness to embrace risk assets but this time around there appears to be no broad-based fundamental reason for market weakness.

Where Do We Go From Here?

We believe the U.S. remains in a mid-cycle economic phase and will be a steady driver of global growth. Despite the well telegraphed wind-down of the U.S. Federal Reserve?s asset purchase program, monetary policy under Janet Yellen remains supportive towards economic expansion. Corporate fundamentals remain strong, supported by robust balance sheets and solid profitability. Additionally, the U.S. dollar has seen recent strength against its major trading partners; a trend we expect will likely continue.

Commodities have not benefited from the mini stimulus in China, with excess capacity and dollar strength remaining powerful headwinds. This has resulted in weakness from stocks in Canada?s resource sectors, particularly small cap companies. However, we believe good investment opportunities are still available in the Canadian market with a bias towards high-quality, large cap stocks.

For bond investors, performance and yield volatility often occurs during periods of uncertainty over the direction of monetary policy. Recent strength has been driven by an attractive yield premium of Canadian and U.S. federal bonds over similar European sovereign bonds.

Revival attempts by the European Central Bank (ECB), such as setting negative interest rates and implementing a targeted loan program, have not instilled lasting confidence among investors. However, a program of outright asset purchases may be supportive of not only European equities but also North American stocks.

Finally, from a valuations perspective, we do not believe markets are overvalued.