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Market Update

Feb 2018 Market Update

On Friday we saw a large drop of 2.12% on the S&P 500, 1.61% on the TSX and 2.54% on the Dow Jones. This was a reaction due to stronger than expected employment numbers from the US job report, meaning that the unemployment rate in the US is lower and more importantly lower than expected, which is a great thing. But when there is any unexpected news the market reacts positively or negatively - in this case it was negative.

Since the US economy is so strong and improving rapidly, it's now very likely that the US Fed will increase interest rates and further pull back other government stimulus. The Fed could even increase interest rates faster than originally thought. This led to concerns over higher interest rates, and the cooling effect this could have on an economy which caused what we feel will be a short term drop. Consider the summer of 2017, after the Bank of Canada (BoC) increased rates unexpectedly the market (TSX) dropped, but we have had subsequent rate hikes in Canada that did not cause any shocks to the market and the Canadian market had a modest gain for 2017.

Yesterday we saw another drop on global markets, S&P 500 was down another 4.10%, Dow Jones was down 4.60% and the TSX was down 1.74%. This drop was driven by mid-day algorithms and trading bots that are programmed to execute a trade at a particular price; we must remember what these indices are made of, they are made of shares of companies and these share prices are determined as a valuation of company earnings. Nothing has changed to companies' profitability or earnings in the past week. We feel this is a "knee jerk" reaction by investors on Friday compounded by algorithms today. Interestingly enough over the past 12 months even after the past two days of sell offs, the S&P 500 is still up 17.60%, the Dow Jones is up 24.19% and the TSX is up 1.93% (poor Canada...)

We feel this is not the beginning of the end, or another 2008 style correction. This is a normal market reaction to an improving economy, improving faster than expected.
We felt that we could have seen this negative trend continue early on the trading day Monday and then bounce back when people realized the world isn't coming to an end. Less likely was the negative trend could continue for a day or two. However, important to note all the fundamentals of the US economy are still strong and we look at this short term correction as a buying opportunity for clients.

As always it important to remember your investment objective and time horizon, that we don't buy the market for the value today but for the future value and growth.

We hope this helps put things into perspective, or at least our perspective on Friday and Monday's market movement.

Want more information? Call us at 1.888.824.4351 today to schedule your one-on-one consultation.

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