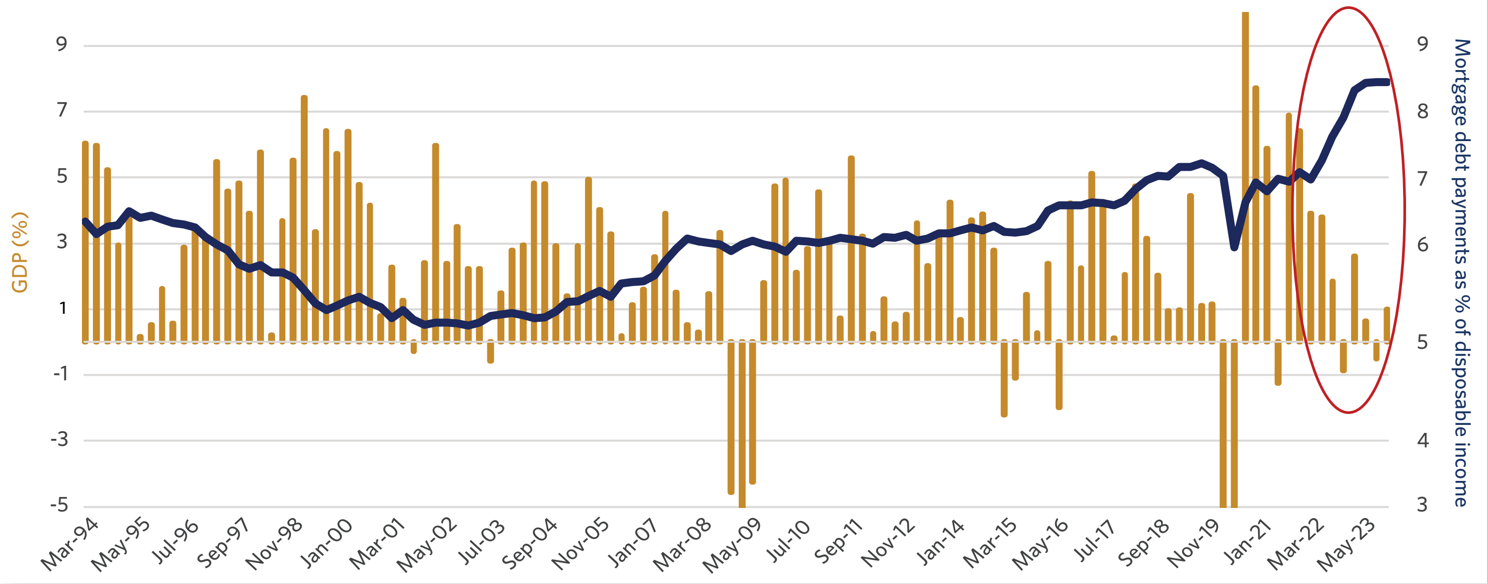
Domestic GDP growth has weakened recently



Source: FactSet, Statistics Canada.
Past performance is not a guarantee of future results.

Economic outlook

Imminent recession risks have faded, though the economy has lost some momentum recently. We think the expansion can continue, but consumers face some fatigue amid still-high interest rates and some softness in the labour market. Sustained moderation in inflation will be a necessary condition that should allow central banks to dial back rates in the second half of the year, helping support GDP growth.

The inflation fight isn't over – Domestic and U.S. inflation has receded, though there's still plenty of work to be done to reach the Bank of Canada's and U.S. Fed's desired targets. While recent housing and goods production trends tell us inflation's decline should continue, we wouldn't rule out a few hiccups along the way. With both GDP and inflation cooling more notably in Canada to start 2024, we think the Bank of Canada will look to cut rates in the second half of the year.

Labour market slack emerges – Despite a recent uptick in the unemployment rate and choppy monthly job creation, the labour market remains a positive for the economy. We don't see job growth completely drying up or a significant spike in unemployment, but slowing wage growth will temper the pace of household spending, which has already been facing the headwind of higher mortgage costs. Lower rates later this year should offer some relief, and while we expect employment conditions to soften ahead, we're starting from an extremely healthy position, which we think will limit the damage to household consumption and thus the overall economy. Meanwhile, in the U.S., growth has been stronger with a particularly encouraging sharp jump in labour force productivity, which can support GDP growth even as payroll gains and wages moderate. Recent improvement in U.S. business investment suggests that productivity gains could continue in the near term, while artificial intelligence could introduce a longer-term productivity boom, something last seen in the strong economic expansion of the 1990s.

▶ Action for investors

We think U.S. economic growth will outpace that of Canada and global developed economies, supporting earnings growth and an overweight allocation to U.S. large-cap equity. Future central bank rate cuts and potentially lower yields favour extending duration within bond allocations.

