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# Macro Market Insights

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## Summer Shift

Central bank policy decisions and the direction for interest rates have once again captured the focus of economists and financial market analyst's midway through 2019. The ongoing trade dispute between the United States and China, which has entangled Canada through the extradition hearings of a CFO of a major Chinese technology firm, has continued to increase business uncertainty and has the potential to further weigh on economic growth.

The result has been scaled back GDP forecasts for the Canadian and US economies, and an expectation for a return to accommodative policy from the US Federal Reserve with the Bank of Canada destined to follow their approach. The challenge with the heightened level of anticipation of seeing interest rate cuts from the two central banks is the great level of unpredictability around the destined outcome for US-China trade terms. With that said, the US Fed has softened their stance through 2019.

The question is, why?

US Federal Reserve Chair Jerome Powell may have had one of his career-defining moments in early June when he stated the Fed will act "appropriately to sustain the expansion." Half a year earlier there was overwhelming evidence of friction between the way this apolitical official conducted his job and the president that appointed him, but the feds stubbornness to a path of steady and higher interest rates seems to be coming to an end. Whether this was a result of political pressures from the oval office or foreseeing lingering economic uncertainty from an unresolved trade dispute is unknown.

What will be difficult to foresee, however, will be whether the Fed is proactive or reactive in its policy approach to a global slowdown or recession that many seem to be predicting. Different US economic indicators in recent months have shown signs of manufacturing slowing, or the labour market stalling in the US (despite being near full employment) but forecasting the duration of this trade war between the worlds top 2 superpowers is a 'known-unknown.'

Signs of a prolonged dispute have investors fully pricing in odds of the US Fed cutting interest rates in July. Any negative impact felt by the US economy will be reverberated north of the border, and that will especially be the case should tariffs continue to increase and policies become much more punitive and protectionist. The Bank of Canada's reaction to a rate cut from the Fed may not be immediate, but it will be highly likely for them to follow.