Positive momentum in stock prices continues in the U.S and internationally, though volatility should still be expected. The Dow's historic move above 2000 in January and then briefly above 2100 in March were much-heralded milestones for the index. Breaking through these round-number, phycological barriers is often hard to do and can boost confidence that a rally will continue. That said, serious investors are less likely to pay attention to them and stocks undeniably appear expensive. While it's true that market valuations can remain high for extended periods of time, but investors shouldn't ignore this factor in their decision making.

▶ Animal spirits vs. conflicts of interest

The current market buoyancy began with the unleashing of Corporate America's "animal spirits," which resulted from then-candidate Donald Trump's victory in the U.S. presidential election. Since the inauguration, investors and the media have been focused on the new administration's efforts to implement its proposed pro-business legislative agenda. The enactment of a "big, beautiful" infrastructure spending bill, for example, could send the market soaring to even greater heights.

For this reason, investors have also been acutely aware of the relentless negative headlines surrounding the White House. The emergence of fire from behind the smoke associated with any number of ongoing controversies—particularly one of Trump's alleged business conflicts or his alleged relationship with Russia—could lead to a constitutional crisis. This would create market uncertainty and, potentially, a sell-off in stocks.

▶ Global rally and return to synchronization

But it's important to keep in mind that the "Trump effect" is not the only compelling factor driving the market. The U.S. economy had been strengthening steadily since well before President Trump was elected. Furthermore, after several years of sluggish growth, the global economy is on the upswing. This is evidenced by, among other signs, China's reflation of its domestic economy, which is supporting recovery in other emerging markets, and the improvement in oil prices.

For investors, it's significant that the U.S. and global cycles are converging after years of being out of sync, with both economies moving in a positive direction. Why? Because it means the markets may be less vulnerable to negative developments in the U.S.—whether they emanate from the White House or elsewhere.

In general, the tailwind generated by a growing global economy can help equity markets absorb local shocks. At long last, the market could be getting onto a more solid footing, which it needs for continued growth.

▶ U.S. Interest rates

On March 15, the US Federal Reserve, led by chair Janet Yellen, sought to head off increasing inflation with a third rise in interest rates since the 2008 financial crash and the second in three months, pushing the base rate from 0.75% to 1%.

In the past, Trump has criticized Yellen's view that the economy is running hot enough to warrant interest-rate increases, which have a cooling effect on financial-related activity. On the campaign trail, he contended the exact opposite—that the economy was weak and needed more stimulation. For now, it appears that the Yellen perspective is dominating. Indeed, Fed policymakers voted nine to one to raise rates.

Considering these developments, it seems likely that the so-called normalization of rates in the U.S. is under way, meaning the extended period of ultra-low borrowing costs could be coming to an end.

▶ Canadian outlook

According to TD's Quarterly Economic Forecast, published March 16, 2017, Canada's economy is forecast to grow by 2.3% in 2017. That's up a substantial 0.5 of a percentage point from the bank's previous forecast. TD also predicts that global growth will rise to 3.3% through 2018, consistent with its trend rate and broadly unchanged from the bank's previous forecast.

A rebound in oil and gas production is expected to be the leading driver of growth in the Canadian economy this year, with Toronto's red-hot real estate market providing a solid assist.

As far as trade is concerned, the events to watch are the upcoming NAFTA renegotiations and the upcoming deliberations around U.S. tax reform. Despite the background of recent U.S. interest rate hikes, these political uncertainties along with the absence of inflationary pressures, give the Bank of Canada room to hold off raising rates in the foreseeable future.

▶ Summary

The return of synchronization between the U.S. and global economics, with both on the upswing, is a compelling story and could be meaningful for investors. The recent bounce in equities owes much to the Trump effect: markets are rallying on a surge in investor optimism. But at the same time, indexes are strengthening across the globe, and the financial markets are increasingly reflecting this improvement in economic momentum.

Getting Advice

Are you looking for additional perspective on the financial markets and how they might affect your portfolio?

We encourage you to talk to us. Speak to your Financial Advisor or contact investor services at 1 800 608 7707.