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Review

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Reality bites

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Major equity markets outside the U.S. have fared better than expected given the aggressive tariff policies of the new administration. But anticipation of those tariffs has already taken a sizable bite out of first quarter U.S. GDP. Worries that this could be signalling a downshift into slow growth mode for the world's largest economy are weighing on markets. A selective, cautious approach to equities is called for.

Over the past couple of months, the so-called "Magnificent 7" (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla) have been falling in price, led by Tesla, down more than 50 percent from its peak. That's been enough to bring all the U.S. large-cap indexes down by somewhere in the high single digits. Measured from U.S. election day, the S&P 500 is the only major broad-based large cap index that is lower, down by 2.5%. By contrast Canada's TSX is ahead by almost 1% over the same period, Japan by 3%, the UK by almost 6% and Europe by 8%.

It's all the more remarkable, in our view, because Canada, Europe, Asia, and the UK are about to feel the painful bite of U.S. tariffs. So too will some important segments of U.S. manufacturing—mostly autos—even before retaliatory tariffs are factored in.

Tariff uncertainty

This apparent buoyancy in the equity indexes of threatened economies is being read by some as indicating that tariffs will prove to be much more moderate and short-lived than headlines suggest. To us, this seems a risky premise on which to base an investment stance.

To quote RBC Global Asset Management Chief Economist Eric Lascelles, "Tariff damage is set to be considerable for Canada and Mexico…Whether that broadens into a deep recession will depend on how long the tariffs last."

Slower U.S. GDP growth

Equity markets are driven in some large part by expectations for the economy—particularly the U.S. economy. Lori Calvasina, Head of U.S. Equity Strategy at RBC Capital Markets, makes an important distinction between 'moderate' U.S. GDP growth of 2.1%–3% per annum and 'slow' growth of 1%–2%. The former allows for solid corporate revenue and profit growth, enough to stimulate capital spending and innovation. Growth at that moderate pace tends to be non-inflationary, requiring no action from the Federal Reserve. Periods of moderate GDP growth have tended to be good for equities.

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However, GDP growth rates below 2% dampen sales and earnings. Equity performance typically falters during periods of slow growth.

The ‘Goldilocks’ zone, between 2.1% and 3% per annum, is where U.S. GDP growth has been running for some time. Over the past three calendar years it ran at 2.5%, 2.9%, and 2.8%. That was also a very good stretch for corporate revenues, earnings, and share prices.

Now some early data has put a continuation of the 2%-plus streak for 2025 into question. January foreign trade and consumer spending results were much weaker than the market expected or than quarterly consensus estimates had factored in. Now some are raising the prospect that first-quarter U.S. GDP growth could be negative: somewhere between minus 1% and minus 2% rather than the plus 2.3% previously pencilled in.

A closer look at special factors

Special factors are largely at the root of potentially lower first-quarter GDP growth. Many U.S. businesses have been pre-buying foreign-sourced supplies to get ahead of tariffs, which has temporarily worsened the trade deficit. Meanwhile, the California wildfires and cold weather produced an outright consumer spending decline in January, which only partly recovered in February. These shortfalls are all expected by most forecasters to reverse themselves in the coming months.

This may be the case—but, all of the special factors noted above were visible for some time and presumably reflected in first-quarter estimates, making investors leery of accepting assurances that all this undershooting will be recouped quickly. Uncertainty around this likely won’t go away until the first estimates of second-quarter growth are released in midsummer, if it even goes away then.

Uncertainty ahead

Confidence in a sufficiently robust growth path for U.S. GDP in 2025 and 2026 has become more elusive in a world where policy uncertainty has soared, which has translated into business and consumer uncertainty. CEOs reporting good, often better-than-expected, results for Q4 have been reluctant to give guidance for 2025.

Now full-year U.S. GDP estimates are being lowered, with RBC Economics bringing its 2025 forecast down to 1.6%. Estimates by others are also mostly falling into the sub-2%, low-growth zone.

Rich price-to-earnings multiples need to have the underlying positive fundamental assumptions constantly and unequivocally reaffirmed. Even after a 10% decline from its high, the S&P 500 is trading at a very full 21-times this year’s estimated earnings of $271 per share – which is likely to decline further in response to weaker-than-expected GDP growth. By contrast, Canada’s TSX is trading at a much less demanding 15x forward earnings, as is Europe with the UK at 11x.

Even lower GDP growth could feature sticky, perhaps even higher inflation. U.S. manufacturers protected by tariffs are likely to raise prices because they have the ability to do so. Meanwhile, businesses that are hit by rising input costs from tariffs on imported goods have said in surveys they will try to pass on these costs to consumers. Faced with this dynamic, the U.S. Federal Reserve and other central banks may well stay “on pause” regarding further rate cuts.

A path forward

All that said, there are also plausible scenarios that could reignite the uptrend in North American equities while building on the recent upsurge in the European and UK stock markets. One would be a peace treaty, ceasefire, or any other agreed gearing down of the Russia-Ukraine conflict. Another would be some meaningful scaling back of trade issues.

But banking on those scenarios saving the day in the short run looks to us like a risky stance. However, equity markets are known for the propensity to “climb a wall of worry,” and to that end, any movement in the right direction on trade or the situation in Ukraine, might be all the bulls need to get back in control.

And, of course, the distortions in the January/February trade and consumer spending data could be recouped more rapidly and fully than we expect, restoring credibility and confidence in full-year U.S. GDP growth estimates in the market-friendly 2.1%–3% zone.

For now, worries that the world’s largest economy could be downshifting into slow-growth mode are weighing on markets. A selective, cautious approach to equities has served us well for some time. In our view, it continues to be the right setting.

Travel fraud: How to protect yourself before you book a vacation

Understanding the common tactics fraudsters use to gain access to your personal and financial information can help you safeguard it.

With warm weather just around the corner, you might be thinking of booking that summer getaway that has been on your mind for months. Whether you're staying local and exploring the Canadian Rockies, heading for cobblestone streets in Italy, having an adventure of a lifetime in Costa Rica, or anywhere in between — being cyber aware will be a key piece of a safe and successful getaway.

While the convenience of online tools has simplified the process of planning and reserving the perfect holiday, such tools can also introduce the risk of potential cyberattacks.

To protect yourself from travel fraud, keep the following tips in mind before you book your vacation.

1. Protect your unused reward points

Regular travellers often possess digital assets criminals find valuable, such as frequent flyer miles and loyalty points. Post-pandemic estimates placed the value of unused U.S. airline rewards at US$27.5 billion (C$37.6 billion).[1] With more people—including elite-status members—flying in the past few years, that value has likely grown substantially.

This entices fraudsters, who search for ways to take over these reward program accounts and either sell the points or use them to buy an array of retail merchandise.

For instance, an Ottawa man was targeted by a cyberattack that resulted in the loss of 200,000 Aeroplan loyalty points, sufficient for two round-the-world flights.[2] What the hackers did with the points is unknown, but cybersecurity experts warn that any sizeable reward-program balance could be vulnerable.

Here are some ways to safeguard your points and reward miles:

- Keep your boarding pass private (it includes information about you and your frequent flyer account); do not post photos of it online, and be sure to discard it securely post-flight.
- Use a strong password for your reward program accounts.
- Set up alerts for fraudulent activity on your reward accounts, just as you would for your bank accounts and credit cards.
- Use services that monitor the dark web for your phone number, email address or Social Insurance Number.

2. Watch for fraudulent websites

The ease and convenience of booking all travel arrangements online, from accommodations to car rentals, has increased the chance that people may enter personal information on a fraudulent website.

Designed to mimic the website of a reputable hotel, airline or car rental company, these sites capture and copy any information entered, including payment details.

Even though it's tempting to speed through the process to secure the ideal flight time or the beachfront property rental with the best amenities, take a moment to confirm the following:

- The name of the online company is spelled correctly.
- It starts with "https" rather than "http."

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- A “tune” symbol—a circle and a dash on top of another circle and a dash in the opposite position—appears next to the website address. Click on it to access permission controls and additional security information.

Leading anti-virus software programs often detect illegitimate or fake websites, so consider investing in one. For those who already use one, ensure it’s up to date.

3. Book your trip through a trusted travel agent

Hiring a reputable travel agency can streamline planning, help you customize your trip and provide added peace of mind. Experienced travel agents know how to create the ideal holiday, work with well-known companies and provide secure payment methods.

Unfortunately, scammers have become adept at setting up fraudulent travel agencies, posing as agents to obtain your information and funds. To protect yourself, conduct thorough research before engaging with any agency. Ask for referrals from friends and check for online reviews and ratings from previous customers. Verify the agency’s contact information and check to make sure they have a physical office address.

4. Make your security a priority when using social media

Instagram, TikTok and Facebook make it easy to share news and experiences with family and friends, but your posts can also be a way for fraudsters to perform social engineering, a manipulative activity that encourages you to share confidential information.

For example, social engineers (fraudsters) can use photos you posted of a holiday a few years ago to design the perfect vacation package that appeals to you. They prey on your emotions and sentimentality to get you to enter your credit card information and book that trip.

To prevent your photos and other social posts from being used for social engineering, activate the privacy settings on your apps and social media platforms. This lets you control who can view your information and how much is accessible to others.

In addition, don’t post your travel plans on social media—doing so lets scammers know when you or your home may be vulnerable. Finally, ensure that everyone in your travel party agrees not to share any travel posts—including those incredible photos from the first day—until you return.

The bottom line

Researching websites and travel agencies, protecting your privacy and verifying all the details before booking your next vacation will help you enjoy safe travels.

Contact your Investment Advisor for more information.

Portions of this article originally appeared on rbcwealthmanagement.com and cnb.com.

[1] https://www.valuepenguin.com/travel

[2] https://www.ctvnews.ca/ottawa/article/ottawa-mans-200000-aeroplan-points-stolen-as-he-slept

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