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Recent Posts

How will Fed tapering affect market dynamics?

The long-anticipated taper announcement came. But there are a lot of moving parts to the Fed's outlook and we address three burning questions.

Putting a price on carbon emissions

More countries are making the pricing of carbon emissions mandatory, via cap-and-trade rules or a tax. How should investors view this new expense?

Third quarter earnings season has propelled many global equity markets to new highs in recent weeks. The breadth of the market move has been healthy with many stocks across a range of sectors participating in the advance. The other notable development was confirmation from the U.S. Federal Reserve that it will begin to reduce its asset purchase program, which was one of several measures put in place at the onset of the pandemic.

It's become common practice for monetary authorities to make major shifts in policy, winding down some of the monetary stimulus put in place over a year ago. Central banks in the emerging markets have taken their approach a step further and have begun raising interest rates in recent months. Those actions may also be on the horizon in the developed markets. The Bank of England recently indicated it may raise rates given confidence in its economic recovery. And in North America, investors are coming to the realization that interest rate hikes may be less than a year away. In fact, current market expectations are for close to four interest rate increases in Canada over the next year, beginning as early as spring. Meanwhile, in the U.S., investors are looking for rate increases to begin in the summer. While those forecasts may prove to be a tad aggressive, it's clear that interest rates may be higher a year from now.

Historically, most major equity market declines have corresponded with economic recessions in the U.S. And most U.S. recessions have been preceded by periods of tight credit conditions characterized by consumers and businesses that are less inclined to borrow because of high interest rates. However, that is undoubtedly not the environment we are in today. It's hard to imagine those conditions forming next year given that interest rates will still be quite low, particularly relative to economic growth which should remain well above average given the ongoing reopening. In other words, it may take much more time and numerous interest rate hikes to create a more restrictive credit environment.

Investors don't seem that bothered by the prospects of higher rates. And history would suggest they shouldn't be. Since 1958, there have been eighteen interest rate hiking cycles in the United States. In the months leading up to the first rate hike, equity returns in Canada and the U.S. have generally been positive, and in some cases quite strong. This is reasonable as many of these periods were characterized by robust economic growth and healthy corporate earnings trends.

The interest rate regime is set to change in 2023, but rates will still be relatively low, and credit conditions should continue to be favourable for borrowers. At some point in the future, the cost of financing will become more prohibitive, and consumers and businesses will push off their spending plans, while banks will become more particular about lending. We believe we're still a ways away from that happening, and that is one of the factors that keeps us constructive on the outlook ahead.

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We're committed to keeping you informed about the progress you are making towards your financial goals. Our team is always available to answer your questions, provide advice or review your portfolio.

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Sincerely,

The Ravinsky Wealth Management Group

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