Wealth Management
Dominion Securities

Ravinsky Wealth Management Group

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Recent Posts

How are supply chain issues impacting equity markets?

Supply chain problems are a source of concern and underpin inflation pressures. We examine root causes, and discuss the impact on the equity market.

Are energy prices more important than the U.S. debt ceiling?

While the U.S. debt ceiling gets headlines, we examine the key issues for investors in global energy markets and central banks' inflation policies.

Global equity markets continue to digest a number of issues that have put a break on the markets' upward momentum, at least for now. The supply chain bottlenecks that are afflicting multiple industries are top of mind these days as they are exacerbating inflationary pressures. The third quarter earnings season may provide some clues as to how companies are navigating this environment. Below, we discuss the energy industry, and oil in particular, which is experiencing a resurgence.

The live conference call that we hosted with our Technical Strategist has been uploaded to our website. On the call, we took a look at the market from a technical perspective and discussed how we integrate technical analysis into our decision making process. To access the replay, click here.

Market Update

Crude oil prices have more than doubled over the past year, rising from below $40 per barrel to more than $80. Not surprisingly, there has been a recovery in demand as the world's economies have been reopening to varying degrees and levels of mobility and activity are returning closer to normal.

A stronger demand backdrop is partly responsible for some of the oil price gains. But, the bigger driver has been supply. There has been notable under-investment over the past decade. One could argue that oil is simply following a typical path of a commodity cycle: high prices encourage growth in exploration, development, and production. This eventually leads to oversupply, weaker prices, and cutbacks to capital expenditures. Years later, the underinvestment leads to a lack of supply that eventually drives prices higher yet again, and so on. This classic cycle may indeed be playing itself out yet again.

There are some attributes that make every cycle unique. Most noteworthy this time around has been the focus on climate and sustainability in the public and private sectors that has made access to capital harder to come by across the fossil fuel industry. This hurdle, along with demands from various stakeholders, has forced oil producers to focus on efficient capital allocation and the prioritization of shareholder friendly initiatives, as opposed to their previous strategy of maximizing oil production.

The evolution to a more sustainable future that involves more sources of renewable energy is very much underway. But, it will take years to unfold. In the meantime, the world's economy still depends on oil, and the lack of supply combined with recovering demand suggests an upcycle may already be underway. The oil industry should continue to see some better days ahead even if the longer-term challenges posed by the global energy transition remain.

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Sincerely,

The Ravinsky Wealth Management Group

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