Wealth Management
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# Ravinsky Wealth Management Group

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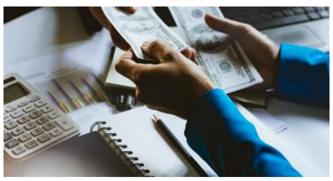
## Recent Posts



**Is the U.S. dollar losing its global appeal?**

We look at the concerns regarding the dollar's status and determine if a change in the currency hierarchy is imminent.

**Federal Budget 2022: Key measures that may have a direct impact on you**

We analyze the latest proposed federal budget measures, and the effect they may have on you.

There are a host of issues that investors are grappling with right now: the war in Ukraine, lockdowns in China, volatility in the commodity markets, inflation at multi-decade highs, rising bond yields, the path of earnings, and higher interest rates. We will provide our thoughts on most of these topics over the months to come. But for the purpose of this month's commentary, we take a break from the global picture and focus instead on issues at home.

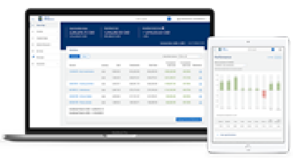
The Canadian equity market has stood out amongst its peers. It is one of the few global equity markets in positive territory year-to-date. Commodity sectors have led the market higher. On the fixed income front, most parts of the Canadian bond universe are lower, though the opportunity set looks arguably better as a result. Meanwhile, domestic economic trends have been strong through the first quarter of the year despite the fact activity across some industries like hospitality and travel still remain below pre-pandemic levels. The unemployment rate sits at the lowest level since 1976.

Canada is dealing with capacity and pricing pressures like the rest of the world. Recent business surveys suggest many Canadian businesses continue to face challenges with labour shortages and limited capacity to meet orders. The most recent inflation reading stood at 5.7%, or 3.9% if food and energy are excluded. The latter figure is well above the Bank of Canada's long-term target of 2%. As a result, Canada's central bank has been telegraphing the need to raise rates to more neutral levels: the range where policy neither stimulates nor restricts the economy. It appears to be on its way as it raised rates by 0.5% this month, which was widely expected. Moreover, the bank confirmed that its balance sheet, which it has used since the start of the pandemic to stimulate the economy, will begin to shrink later this month, and more hikes are likely as the year progresses.

One of the key concerns on the minds of most investors is whether the Bank of Canada may become too aggressive in its approach to restraining inflation, with levels of interest rates that eventually restrict economic activity and lead to a meaningful slowdown, or worse, a recession.

The Canadian economy may arguably be more sensitive to rising interest rates than other economies. In contrast to the U.S., which has largely been deleveraging since the financial crisis over a decade ago, household debt levels in Canada have risen meaningfully over the past fifteen years. The housing market has been a beneficiary of this long standing trend. But, mortgage rates have nearly doubled over the past year to levels last seen in 2019, and may still rise further should inflationary pressures fail to recede over time. At some point, consumers and households will have to think carefully about taking on more debt given higher servicing costs. This would not be unusual. Rather, it is part of a normal economic cycle, with demand for credit that rises and falls with interest rates. In some ways, lower demand for credit may be welcomed by policymakers who have been concerned for some time about the amount of household and consumer leverage and overall housing affordability.

The investment outlook for Canadian equities has become more complicated. So too has the outlook for the Canadian dollar. There remain some clear positives: an economy that is starting from a position of strength, tailwinds for the commodity complex, less vulnerability from the geopolitical conflict overseas, and an overall equity market whose valuation is more reasonable than others. But, inflation and an aggressive rate hiking cycle pose risks to the outlook for consumers and households, whose debt levels have never been higher. For this reason, we are prioritizing diversification in our Canadian portfolios to ensure they are as prepared as they can be for a potentially wider range of future outcomes.



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**We're here to help!**

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.

We appreciate the opportunity to serve you and look forward to continuing to help you accomplish your long-term financial goals.

Should you have any questions, please feel free to reach out.

Sincerely,

The Ravinsky Wealth Management Group

David Ravinsky

Alex Tsapekis

Jo-Anne MacKenzie

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