Ravinsky Wealth Management Group

Recent Posts

Summer events shaping the outlook for the UK and Europe

We look at the UK leadership contest, EU energy woes, and Italian government turmoil, with an eye to implications for equity investors.

Global Insight Monthly: As earnings go, so goes the market

Fresh off a market bounce that was partly sparked by better-thanfeared Q2 earnings reports, investors should consider where U.S. corporate profits could be headed next year.

Global markets have experienced a rather unusual sense of tranquility in recent weeks, which stands in contrast with much of the rest of the year. More specifically, broad levels of volatility have declined, bond yields have been stable, and equity markets have pared some of their losses. While there are a host of factors that may be responsible for the renewed stability, the overarching driver may be signs that inflation has peaked, for now. We explore this a bit more below.

The Canadian Consumer Price Index for the month of July was released mid-August. It came in at 7.6% on a year-over-year basis, below the 8.1% level that we saw in June. Meanwhile, the U.S. CPI reading for July was released a few weeks ago and it showed a similar decline, moving from 9.1% to 8.5%. Frankly, these figures are still very high in absolute terms, suggesting households and businesses continue to grapple with elevated pricing pressures. Nevertheless, it marks a subtle but important shift in trend that may continue, at least within North America, as we move through the rest of the year and tighter financial conditions work their way through the economy.

Part of the more optimistic tone that has emerged over the past month stems from an expectation that central banks, like the Bank of Canada and the U.S. Federal Reserve, will be able to moderate the pace at which they have been raising interest rates in the not too distant future. While both are expected to raise rates meaningfully once again in September, there is a growing view that any increases beyond that will be tame in comparison. More surprisingly, the fixed income markets are reflecting increasing probabilities that both central banks will begin lowering interest rates by the second half of next year in response to growing recession risks.

Our firm's economists are forecasting an ongoing moderation in inflation as we move through the rest of the year. More specifically, they estimate that inflation will finish the year above 5% in both Canada and the U.S. While that marks a decline from the levels we saw earlier in the year, it is still well above the low single digits we've been accustomed to over the past decade and the range that is being targeted by central banks. As a result, inflation may remain the primary focus of central banks as we move into 2023. And, just as central banks were patient when inflationary pressures were beginning their ascent last year, it seems probable they may wait for signs of a durable and sustainable decline in pricing pressures before shifting their focus away from inflation. In other words, we believe policymakers may continue to prioritize inflation over growth, and err on the side of avoiding any premature easing of policy.

It appears that we are in the process of transitioning from a period of high and accelerating inflation to a backdrop where pricing pressures are elevated but decelerating. Historically, the latter environment has proven to be a more welcome backdrop for investors. That has us feeling more comfortable with respect to the short-term market outlook. Nevertheless, we are mindful that inflation could remain uncomfortably high for longer than some may expect. Moreover, we see vulnerabilities to the earnings outlook as we begin to focus on 2023. For these reasons, we continue to tread somewhat cautiously to ensure we manage our client portfolios with a range of potential outcomes in mind.

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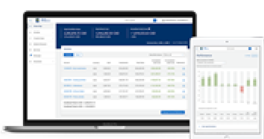

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Your partners in wealth management

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

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