Recent Posts

Why should bond investors look to the long term?

There is more than one path to investing; we explain why the long-term plan may be the best option regarding bonds.

Spheres of influence: The bigger reason geopolitical risks are affecting markets

We discuss how the crux of the current tensions goes beyond Russia and Ukraine, and examine equity market vulnerabilities in past geopolitical hostilities.

Many of the world's financial markets continue to grapple with elevated inflation and a regime shift towards higher interest rates. Investors have also been on edge due to the Russia and Ukraine crisis, which seems to go from better to worse and back again by the day. The latter presents an ongoing risk to broader sentiment, but we believe it may have longer lasting implications for the geopolitical landscape rather than the investment outlook.

On the inflation and interest rate front, investors will have to continue to be patient. Some potential clarity may emerge by the middle of March when major central banks deliver their next policy updates. More likely, it's going to take until the spring, if not longer, for investors to get a sense of whether inflation is peaking and has the potential to moderate, or whether it will remain stubbornly high due to more sustainable forces. Until then, markets may continue to consolidate. One area that has been vulnerable of late has been fixed income.

The bond market has been particularly noteworthy this year given its struggles. For perspective, the Canadian bond universe is down nearly 5% year-to-date, representing one of its worst starts to a year. That compares to the Canadian equity market which is nearly flat. It has been an abnormally weak start for an asset class that typically offers less volatility and downside risk than equities.

There have been two factors at play. Bonds have sold off (and yields have moved aggressively higher) due to aforementioned concerns over inflation and expectations of higher interest rates. Moreover, there has been a sharp move in credit spreads, which represents the extra compensation that investors demand to own corporate bonds. While spreads remain low relative to their long-term average, they have moved higher since the start of the year, reflecting some growing concern that investors have over the ability of companies to repay their debts in the future. The combination of higher bond yields and credit spreads has led to the broad selloff we have seen to date across much of the bond market.

Rather than dwell on the recent past, it is more important to focus on the future prospects and how to position accordingly. And, while the longer-term return prospects for fixed income remain challenging and yields are still unremarkable, there are some pockets within the bond universe that may arguably be more attractive than they have been in recent history. For example, short and longer-term government bond yields have not been this high since before the pandemic. The yields are still far from being outright attractive, but have undoubtedly become more interesting because of the sell-off. Moreover, one could argue the pendulum of expectations around rate hikes may have swung too far in one direction with markets now expecting close to six interest rate increases in Canada and the U.S. this year.

Virtual Event

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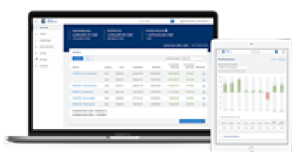

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On the equity side, the technology sector has been a poor performer to start the year. Much of the weakness can be attributed to the dynamic explained above: the potential for higher interest rates is putting pressure on a sector with elevated valuations. On the whole, the technology sector still possesses some enviable growth prospects and exposure to powerful secular trends that are not going away any time soon. But, the sector may remain vulnerable until the broader market can get comfortable with the degree of monetary policy tightening that may take place. Ultimately, central banks will need more time to assess inflationary pressures and recalibrate policy, leaving investors to ponder the pace and extent to which central banks may raise rates.

With this in mind, our investment approach will remain patient with high conviction holdings and nimble should new opportunities arise, while also ensuring portfolios are adequately diversified in the face of a new interest rate cycle that is getting underway.

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

Sincerely,

The Ravinsky Wealth Management Group

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