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Ravinsky Wealth Management Group

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Global markets have been under notable pressure in recent days. The trigger was a recent inflation report that has investors believing central banks will have to tighten financial conditions more than planned, thereby increasing the odds of a future recession. We share our perspectives below.

The most recent U.S. inflation reading for the month of May came in at 8.6%, representing the highest inflation rate in over 40 years. It indicates pricing pressures are not only elevated, but still rising. That stands in contrast to what some investors were hoping for: signs that inflation may have already peaked and was on the verge of easing. Core inflation, which excludes food and energy, did show some moderation, but still higher than expected. Moreover, the inflationary pressures that began well over a year ago in areas like vehicles and household goods have broadened to other categories such as public transportation and rent. Some of these areas have historically proven to be more persistent and slow to normalize, suggesting pricing pressures are at risk of being uncomfortably high even after inflation peaks and begins to moderate, which remains a possibility for the second half of the year.

Following the inflation release, bond yields rose meaningfully and markets now believe the U.S. Federal Reserve's "Federal Funds Rate" will reach 3.4% at year-end, versus the 2.4% it was expecting just a few months ago. It's not necessarily that much different in Canada. In other words, markets expect central banks to raise rates even more forcefully than what they have telegraphed thus far.

The predominant concern is higher rates will lead to tight financial conditions. This is often characterized by a material change in the availability and access to credit that causes consumers and businesses to re-evaluate their spending, hiring, and capital expenditure plans. Historically, these kinds of conditions have resulted in recessions. Not surprisingly, recessions, or even the anticipation of them, have driven some of the weaker periods of stock market performance. On the other hand, some of the strongest periods of market performance have traditionally begun amidst periods of economic hardship, as markets begin to anticipate the potential for an economic and earnings recovery well ahead of one actually occurring.

The odds of a recession over the next few years have undoubtedly risen, and may continue to increase through the second half of the year given the tightening of financial conditions. There are early signs of a slowing in some of the more interest rate sensitive sectors of the North American economy, such as housing for example. In some ways, this comes as a relief to many who have been concerned, particularly in Canada, about the seemingly endless rise of house prices and the significant decline in affordability. A slowing in the domestic housing market, should it occur, may ironically be a positive development and a sign that policy makers are effectively reining in pricing pressures in some parts of the economy. Elsewhere, some of the indicators in

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our U.S. recession scorecard framework are also moving in a direction that suggest the odds of a recession are rising, but not necessarily imminent.

Our team has been preparing our portfolios for a wide range of economic outcomes by undertaking regular portfolio reviews, re-evaluating positions, and rebalancing our holdings to the targets in our investment plans. Moreover, episodes of volatility can typically be characterized by an indiscriminate amount of selling across all assets, regardless of quality. This can present potential opportunities to add to existing holdings or build new ones. These are some of the actions we continue to explore in our portfolios as we move forward.

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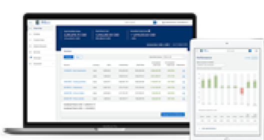

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Your partners in wealth management

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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