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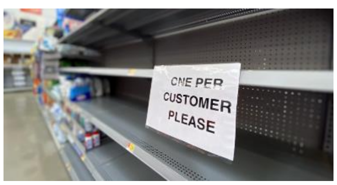

Equity markets are facing a perfect storm of challenges

This unique period's headwinds are flummoxing investors. Ironically, when sentiment decidedly sours, that's usually not the time to give up on the market.

Canadian inflation elevated but may be close to peak

We expect higher interest rates, both in Canada and abroad, will ultimately begin to cool demand and price pressures as the year progresses.

Volatility has picked up noticeably in recent weeks. Global equities remain under pressure and bond prices have also moved significantly lower, suggesting that they have not offered the kind of diversification benefits investors have come to expect. Below, we offer some perspective on the recent market turbulence and address the issue of inflation expectations.

Global equity markets have had a poor year thus far. But, periods of market weakness are not uncommon. In fact, the U.S. equity market, which is the most widely followed, has averaged at least one sizeable decline (i.e., 10% or more) every year since 1975, with the average fall being nearly 20%. Yet, the U.S. equity market still managed to generate a positive annual return in 35 of the past 46 years. In other words, dealing with market volatility is part of the investing experience.

A question investors may be asking is whether the declines year-to-date signify the start of something potentially more serious that would cause a durable impact to the future trajectory of the global economy and the path of corporate earnings. After all, these two factors, which themselves are intertwined, tend to be the predominant drivers of longer-term equity returns.

There is certainly no shortage of concerns: the war in Ukraine and the knock-on effects via commodities, and China's various lockdowns that threaten its growth outlook and exacerbate the problems facing global supply chains. But, the primary culprit behind the weakness seen in markets is inflation, which has been elevated and rising. The bigger risk is that it becomes embedded in the expectations of consumers and businesses and becomes self-fulfilling. A longer lasting period of elevated inflation could present a meaningful headwind to economic growth and corporate earnings.

Inflation expectations have indeed been creeping higher. This explains the relatively aggressive actions undertaken by central banks who have been raising interest rates rather forcefully. Yet, there may be some relief on the horizon. Recent inflation readings in the U.S. have hinted that growth in core prices, excluding food and energy, may be on the verge of starting to slow. In other words, inflation may remain elevated but close to peaking, marking an important change in trend as we move into the second half of the year.

Periods of market turbulence, such as the current one we are experiencing, can understandably cause some angst. Yet, it's a relatively normal phenomenon that occurs from one year to the next. The key risk remains whether inflation becomes entrenched in the expectations of businesses and consumers. We'll be watching this closely, in addition to the odds of a U.S. recession, which remain low for the time being. In the meantime, we are reviewing our portfolio holdings to ensure they are positioned for a range of future potential outcomes. And, we remain watchful and prepared to take advantage of the kind of opportunities that tend to emerge across asset classes during periods of broad market volatility.

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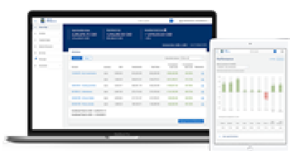

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David Ravinsky


Alex Tsapekis


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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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