Wealth Management

Ravinsky Wealth Management Group

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Recent Posts

A recession is here – but not that kind

While investors have been debating about a recession, an earnings recession has already settled in. We assess how this may play out.

Audio commentary: investment outlook and implications for investors

The Global Portfolio Advisory Committee discuss economic and market developments and the outlook ahead.

Market Insights

Volatility remains relatively subdued as the concerns about the banking sector that arose in early March have subsided, for now. With that in mind, some of the fundamental issues that had been front and centre over the past year have understandably come back into focus. Chief among those is inflation. Below, we take a closer look at where it stands and what we expect going forward.

Inflation is a normal part of a well-functioning, and growing, economy. Inflation rates tend to vary over time despite the fact the Bank of Canada and U.S. Federal Reserve have goals of maintaining long-term inflation rates around 2%. For example, the annual change in the Consumer Price Index (CPI), in both countries, ranged from 1% to 3% over the past 25 years, except for a few occasions before and after recessions when inflation fell meaningfully only to bounce back along with a recovery in growth. All that changed with the reopening of the global economy after the pandemic-induced shutdowns. At their peak last year, inflation rates in North America surpassed 8%. These pricing pressures led to a revaluation of most asset prices. It also led to one of the more aggressive and synchronized interest rate tightening campaigns undertaken by central banks in history.

Fortunately, there has been notable progress with inflation receding over the past year. For example, the most recent reading of headline inflation in Canada and the U.S. was 5.2% and 5.0%, respectively. To be clear, those figures are still elevated by historical standards, and remain off the targets of both central banks. Nevertheless, it’s an improvement, and we have clearly transitioned from a “high and rising” period of inflation to one where inflation is “high and falling”. That subtle change has translated into more stable returns across asset classes of late.

As usual, there is some nuance that bears some consideration. The most recent U.S. inflation reading revealed that while broad pricing pressures are abating, some categories are either falling less or still rising. For example, core inflation, which excludes categories like food and energy, posted a modest increase (at 5.6%) from the prior month. Moreover, services inflation, which includes categories like rent, medical services, airfare, and car insurance for example, has yet to meaningfully fall and remains elevated (at just over 7%).

The pressures listed above explain why the U.S. Federal Reserve may raise rates yet again when it meets next month. Minutes from its March meeting revealed that it had intended to raise rates by 0.5% but grew more cautious in the wake of some signs of stress in the banking sector. Even the Bank of Canada struck a similar tone over the past

Global Insight Monthly

Perspectives from the Global Portfolio Advisory Committee

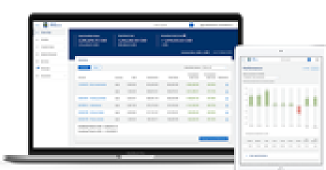
week despite keeping its policy rate on hold. It suggested that while progress has been made, the economy has been stronger than expected, and may require more time and potentially more action on its part to get inflation within the vicinity of its targets. Interestingly, markets continue to believe rate cuts may be on the table in the second half of the year.

The bottom-line is inflation trends have improved and may remain on the right trajectory as tighter financial conditions drive goods and services prices lower over time. That should remain a tailwind for stock and bond prices. However, another issue is likely to take hold at some point in the form of a recession and the risk it poses to growth, corporate earnings, and stock prices. Nevertheless, it is arguably a more manageable challenge for central banks and investors, and something we continue to prepare for in our portfolios.

Tax-free first home savings account

Introducing the new First Home Savings Account (FHSA)

As of April 3rd, RBC Dominion Securities will be offering the Tax-Free First Home Savings Account (FHSA), a registered account intended to help Canadians save for their first home. It combines the benefits of an RRSP and a TFSA into one account. As with an RRSP, contributions are tax-deductible, thereby reducing one's taxable income. Like a TFSA, withdrawals made to purchase a first home (including the investment income earned) will not be taxable. Click here to learn more.



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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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