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Ravinsky Wealth Management Group

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Recent Posts

As the U.S. hits the debt ceiling, what's next for financial markets?

While we see a debt-ceiling-induced U.S. default as exceedingly unlikely, we believe it would be a mistake for investors to conclude that the process is therefore costless.

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Happy new year! Despite a long list of potential headwinds facing the economy and corporate profitability, equity markets began 2023 with a rally. Inflation, interest rates, and recession risks are still very much at the front and center of the market narrative. Nevertheless, there have been some developments over the past month that are worth discussing as they have potential implications for investors in the year ahead.

Overseas, Europe has had a relatively mild start to the winter and it has resulted in reduced demand for heating. Consequently, natural gas prices in the region have fallen significantly, and now sit at levels last seen before Russia invaded Ukraine. That has lowered the odds, for now, of a rather extreme scenario in which Europe would consider the rationing of energy usage, something that investors were quite concerned about just a few months ago. Should trends continue over the months to come, the lower energy prices could provide some disinflationary tailwinds in the region.

Meanwhile, in China, there has been a stark reversal of the country's "zero-Covid" policy, with a complete abandonment of the measures the country had been taking for the past few years. Rather than enforcing strict lockdowns, the country is now in the process of reopening despite the reported increase in infections and strain on its healthcare system. This may result in some temporary disruption from worker absenteeism and supply chain challenges, similar to what was witnessed in North America upon its reopening. Nevertheless, it should prove temporary, and markets are understandably more focused on the prospects for a recovery in Chinese economic growth that could be on the horizon in the not too distant future.

Closer to home, Canada's economy added 104,000 jobs in December, more than expected, and its unemployment rate fell to 5.0%. Meanwhile, in the U.S., the employment report showed 223,000 jobs were added in the month, also higher than expected, with the unemployment rate falling to 3.5%. Despite some pockets of weakness and an overall slowing in employment trends relative to a year ago, the rate of job creation remains relatively healthy and normal. Offsetting this positive news was the weakness seen in some leading economic indicators that tend to foreshadow future economic activity. More specifically, readings for the manufacturing and services sides of the U.S. economy declined in December, with the latter being a particular surprise as it had been holding up well through most of the fall. In recent days, the U.S. inflation reading for December was released and suggested an ongoing moderation in pricing pressures. Overall, the data suggests the Canadian and American economies are losing momentum but also demonstrating resilience in the face of tightening financial conditions.

We view recent developments as being incrementally positive as there are some new potential tailwinds relating to global growth and inflation that could provide a lift to investor sentiment, which remains relatively subdued. Nevertheless, the overall outlook for the year ahead hasn't materially changed. Simply put, tighter financial conditions should eventually weigh on global activity. It may simply take time for this to come to fruition. We expect to pivot our focus to what companies are having to say about the operating environment given the fourth quarter earnings season has now begun.

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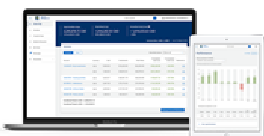

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We appreciate the opportunity to serve you and look forward to continuing to help you accomplish your long-term financial goals.

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

Sincerely,

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