Wealth Management

Ravinsky Wealth Management Group

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Recent Posts

A U.S. government shutdown looms large, and it may not end quickly

It's back to basics for the U.S. House of Representatives. Averting a shutdown may be hard and we highlight the ripple effects to financial markets.

Will higher oil prices hinder central banks' inflation progress?

We explore the reasons for the price surge and how to position portfolios.

Market Insights

All eyes have been focused on the Middle East over the past couple of weeks as the region has seen a sharp escalation in tensions following the Hamas terrorist attacks on Israel. Below, we discuss the investment implications of this conflict, while recognizing that the human toll is much more significant.

The global market reaction has been relatively subdued thus far, though volatility has picked up. Equity markets in Canada, the U.S., and internationally have had their ups and downs, but currently sit relatively unchanged since the initial attacks. There has been a noticeable rise in government bond yields but that can be attributed to domestic factors more than anything else. Meanwhile, oil prices have moved predictably higher.

Investors can understandably become concerned when a geopolitical crisis emerges. But, looking through some of the military interventions since World War II, North American equity markets have generally shown resilience, with the average market decline limited in both size and duration. One of the historical comparisons that comes to mind is the 1973 Yom Kippur War involving Israel, Egypt, and Syria, which led to a coalition of Arab nations to impose an oil embargo on allies of Israel such as Canada and the United States. At the time, the U.S. was heavily reliant on oil imported from the Middle East. The embargo led to meaningful supply shortages, a significant increase in oil prices, and strain on the U.S. economy. Combined with some other factors, it also led to a more extended period of stock market weakness.

The investment implications this time around are again likely to center around oil. More specifically, there is risk this conflict broadens to include other militant groups and countries. The biggest concern is whether Iran ultimately gets involved, given its strategic influence in the region and its proximity to the Strait of Hormuz – a relatively narrow channel that connects the Persian Gulf with the Arabian Sea in the northern Indian Ocean. According to the U.S. Energy Information Administration, the Strait of Hormuz is the world's most important sea route as a significant amount of the world's oil supply, from countries such as Iraq, Iran, Saudi Arabia, Kuwait, and the United Arab Emirates, flow through the channel on containerships. Should Iran become involved in a broader conflict, there is also the possibility that the U.S. would re-enforce sanctions, further limiting supplies and adding more upside pressure to oil prices.

The difference between the environment today and that of 1973 is the U.S. progress toward energy independence. The U.S. has become the world's largest oil producer and is nearing self-sufficiency. As a result, the U.S. is probably less vulnerable to supply

Global Insight Monthly

Perspectives from the Global Portfolio Advisory Committee

issues stemming from the Middle East. Nevertheless, the price of oil continues to be determined by global demand and supply. While the U.S. may not have to worry about its ability to import enough oil to meet its needs, it may have to deal with higher prices just like other countries.

We believe the risk of an intensifying conflict in the region adds yet another challenge to the supply side of the oil story. The other issues include higher interest rates and a less favourable political backdrop that have raised the bar and potentially the breakeven price for any new oil-related project. Furthermore, public companies have demonstrated less willingness to expand oil production at any cost as they have become more disciplined around their use of capital in response to shareholder demands. All of this suggests a higher floor for oil prices for the foreseeable future.

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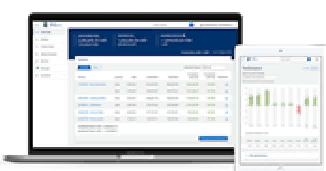

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Your partners in wealth management

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Our portfolio management team is committed to keeping you informed about the progress you are making towards your financial goals. We are always available to answer any of your questions, provide advice, or review your investment 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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