Wealth Management

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Ravinsky Wealth Management Group

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Recent Posts

AI: Three reasons why there’s so much hype

Like all new technologies, there comes with it some speculation. Before hitting the panic button, it’s useful to understand what’s going on and what AI means in simple terms.

Recharging the energy transition?

As the energy security imperative rejuvenates the green energy shift, we explore the challenges ahead and illuminate the opportunities that may emerge.

Market Insights

Recent signs of a cooling Canadian economy led the Bank of Canada to hold interest rates steady this month, as anticipated. Canada's GDP for the second quarter fell short of forecasts, though factors such as the port strike and wildfires were partly to blame. Nevertheless, some softening in the labour market and slowing consumer spending were also meaningful drivers. Below, we discuss some takeaways from the recently reported third quarter results of the Canadian banks, with a particular focus on their implications for the Canadian economy.

The bank results for this past quarter, ending in July, largely underwhelmed, reflecting a challenging operating and macroeconomic environment. Not surprisingly, most of the banks expect the backdrop to remain difficult, with projections pointing to weak economic growth and a modest uptick in unemployment this year. However, the banks are forecasting a positive growth outlook in home prices over the next twelve months.

The narrowing profit margins reported by most banks can be attributed to two key forces. First, net interest margin – the difference between interest revenue and interest expense – is showing signs of strain, suggesting that banks’ lending activities are less profitable. Coupled with this, higher interest rates have tempered the demand for loans, creating a general drag on bank revenues. Operational costs, notably those tied to staffing and technology investments, continue to present a challenge.

Nearly all banks continue to prudently add to their provisions for credit losses, which is considered an expense on the company’s financial statements. This is a sign that they’re preparing for more of their customers to have difficulty repaying their loans. These provisions also impacted the underwhelming results as they get deducted from earnings. However, the provisions do not suggest that there has been a meaningful acceleration in credit losses. Delinquencies remain well below pre-pandemic levels; the uptick to date reflects more of a return to normalcy rather than a major shift in trend. In other words, the banks are preparing for loan losses to accumulate, but have yet to see a major upturn.

A big headwind facing Canadian households is on the mortgage front. With the prospect of a prolonged period of elevated interest rates, households may have to grapple with rising mortgage-related payments in the months to come. Data from the Bank of Canada reveals that since the onset of rate hikes in early 2022, only about a third of mortgage holders have seen their monthly payments increase – a number that will continue to rise. By the end of 2026, nearly all mortgage holders will have refinanced at potentially higher rates. This, in turn, has implications for consumer

Global Insight Monthly

Perspectives from the Global Portfolio Advisory Committee

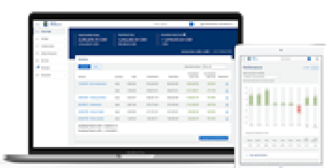
spending. First, homeowners with higher payments have less disposable income to support other areas of the economy. Second, those who stretched to buy a home at peak prices could run into broader credit issues, given limited flexibility in leveraging existing equity or extending amortization periods.

In summary, both the Canadian economy and its banks may be starting to show some of the lagged effects of tightening monetary policy. We expect weaker loan demand to continue and for credit losses to eventually build as more households and firms struggle with paying off their debts. This may take time to play out rather than occur in one fell swoop. Even though this poses a risk for banks, we believe it is a manageable one given the banks' mounting reserves that continue to build for such a scenario. As a result, we see these pressures as posing a bigger hindrance to the overall economy than for the banks themselves. We continue to manage portfolios with this expectation in mind.

First Home Savings Account

First Home Savings Account (FHSA)

RBC Dominion Securities will now 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 or contact us to learn more.



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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

Refer your friends & family!

A simple way to connect us with your loved ones who are working toward their financial goals.

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