



Ravinsky Wealth Management Group

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Market Insights

The past few weeks have seen more meaningful activity across global equity, fixed income, commodity, and currency markets, marked by a notable increase in volatility. Two developments were particularly noteworthy. The first is a significant shift in U.S. interest rate expectations due to recent inflation data. The second concerns heightened geopolitical tensions, which has left investors pondering the potential impacts on financial markets. We briefly discuss both topics below.

Nearly a week ago, Iran launched an attack on Israel using hundreds of drones and missiles, reportedly in response to an Israeli strike in Syria earlier this month that killed several members of Iran’s armed forces. While Israel successfully defended itself against the attack, it represented a notable escalation in tensions as it was the first direct attack by Iran on Israeli soil. More recently, Israel has reportedly retaliated with an attempted strike that appears to be confined to military targets in Iran. Oil prices, which tend to reflect the region’s geopolitical risk most closely, have not surprisingly been volatile over the past few weeks as investors try to gage the severity of this escalation and the risk of further destabilization in the region.

From a market standpoint, the more influential developments have been on the inflation and interest rate fronts. The U.S. inflation data for March showed that, for a third month in a row, the pace of inflation in the U.S. was no longer easing as it had for the most of last year, and in some areas was reaccelerating. The stubbornness of inflation pressures presents a dilemma for the U.S. Federal Reserve, which had earlier expressed growing confidence that it would be able to cut rates at some point this year. But over the past week, the tone has changed, with a number of Fed officials acknowledging a need for patience before taking any action on rates. Consequently, market expectations have also changed dramatically from anticipating up to seven interest rate cuts in the U.S. just a few months ago, to now expecting as few as one to two. This recalibration has driven bond yields higher, while stock markets have also trended downward recently, as investors grapple with the prospect of prolonged higher rates potentially affecting growth and corporate earnings.

Meanwhile, the U.S. dollar has rallied against most other major currencies, including the Canadian dollar. There is a growing view that central banks in Canada and other regions may start cutting rates by the summer, while the U.S. may not act until later this year at the earliest. That would lead to a widening of the differences between interest rate levels across the regions, which has traditionally been a driver of currencies. This growing expectation for policy divergence between the Bank of Canada and the Fed is putting the Canadian dollar under pressure.



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David Ravinsky



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We haven't been terribly surprised by the shift in interest rate expectations described above. And we're not convinced it fundamentally alters the investment outlook. We believe equities face a range of outcomes over the next few years that is a bit wider than normal, stemming from the rapid series of interest rates hikes over the last few years. That said, it's clear that the U.S. economy has demonstrated significantly less sensitivity to interest rate increases than other regions thus far, supporting its equity market. Nevertheless, we are managing our asset allocation positioning more carefully than usual given the macroeconomic backdrop.

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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 to us.

Sincerely,

The Ravinsky Wealth Management Group

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