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Ravinsky Wealth Management Group

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Market Insights

Global equity markets have recently retraced some of their year-to-date gains, while government bond yields have fallen. This market action can be attributed to a mixed earnings season, where results from several highly valued mega-cap tech companies underwhelmed relative to elevated expectations, and conflicting economic signals from the U.S. amidst persistently high borrowing costs. Below, we address what has driven this latest round of market unease.

Several factors have contributed to the recent weakness in equity markets. In the U.S., the S&P 500 Index began its retreat in mid-July as earnings reports from the tech giants were less well received than usual. More specifically, management teams' commentary left investors wanting more clarity on when the companies' substantial spending on artificial intelligence would yield returns. Then, following the U.S. Federal Reserve's decision to hold its policy rate unchanged on July 31st, disappointing jobs and manufacturing data renewed concerns regarding the U.S. economy's ability to achieve a soft landing – where inflation returns to target without a significant economic downturn, especially in terms of job losses.

However, these weak reports were balanced with other better-than-expected data releases on the services sector, which makes up roughly three-quarters of the U.S. economy. Meanwhile, U.S. GDP grew at a solid 2.8% annualized pace in the second quarter, consumer spending remained robust, and productivity growth exceeded expectations at a 2.3% annualized rate. While we will monitor upcoming labour market data for deteriorating trends, we continue to see a resilient U.S. economy.

Adding to market volatility, two popular trades this year, particularly among hedge funds, have included buying large-cap tech stocks and positioning for declines in the Japanese yen. These were profitable trades until mid-July when relative performance trends began to favour non-tech segments of the equity market. Around the same time, the yen started to appreciate as markets priced in rate hikes from the Bank of Japan, which materialized at the end of July. As market conditions changed abruptly, the unwinding of these trades by hedge funds and other investors, some of which were funded with borrowed money, amplified volatility, and contributed to the speed and magnitude of price movements across financial markets in recent weeks.

Despite the recent turbulence, the U.S. large-cap stock market remains up roughly 12% year-to-date on a total return basis, while the Canadian stock market is up around 8%. While valuations have adjusted downwards following the price correction in recent weeks, they remain somewhat elevated relative to historical averages. This suggests

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corporate earnings will take on added importance to support equity markets over the next few quarters.

Following particularly subdued levels of volatility in the first half of the year, we believe it is reasonable to expect somewhat higher volatility through the balance of the year as markets respond to evolving interest rate expectations, new economic data, and the forthcoming U.S. election. There may be some optimism around the U.S. central bank beginning to cut rates, as it is widely expected to do so in September, but we also caution that rate reductions take time to work their way through the economy. That does not mean we should remain passive as investors. Instead, market turbulence can present opportunities to review holdings, ensure portfolios are well-diversified, and to initiate/add to positions where valuations have improved. As always, we remain focused on ensuring our clients' investments are on track to meet their long-term objectives, recognizing that maintaining discipline during periods of market instability is an essential part of successful investing.

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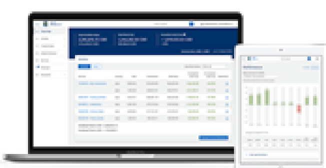

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David Ravinsky

Alex Tsapekis

Jo-Anne MacKenzie

Your partners in wealth management

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 to us.

Sincerely,

The Ravinsky Wealth Management Group

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