Wealth Management

Ravinsky Wealth Management Group

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Recent Posts

The 2023 investment story: Elements of surprise

In a plot twist for equity markets, the expected pain in 2023 became gain. We explore five catalysts that turned the U.S. investment environment on its head.

Canadian labour markets ended 2023 with a whimper

The RBC Economics Research team review some key factors in the Canadian labour markets in 2023, which have a direct effect on the BoC interest rate decisions this year.

Market Insights

Financial markets have been relatively subdued in the first initial weeks of the new year, contrasting with the robust gains witnessed towards the end of last year. This moderation can be attributed to stronger global economic data, prompting investors to reassess their expectations for interest rate cuts. We expect the timing and degree of rate cuts to be one of the biggest debates this year. We discuss this in detail below.

The Federal Reserve decided to hold interest rates steady at its most recent meeting in December. Chairman Jerome Powell suggested that the Fed has been faced with three questions over the past few years: how fast to raise rates, how high to raise them, and the timing and size of cuts. While the first two questions were its predominant focus until recently, the question of rate cuts is now coming into view. The Fed's December meeting revealed that, on average, policy makers expect to cut interest rates by nearly 0.75% in 2024 and expect the pace of inflation to slow to 2.4% from over 3.0% today, and the unemployment rate to rise modestly, to 4.1% from 3.7%.

Unlike the Fed, the Bank of Canada does not provide explicit future rate projections. But investors expect Canada's central bank to similarly pivot towards interest rate cuts this year. The market is pricing in close to 1.4% in rate cuts by both the Bank of Canada and the Federal Reserve this year, with the latter expected to cut as early as March and the former as early as April. Despite the market's expectations, there are reasons to believe that the Bank of Canada may act sooner and more swiftly than its U.S. counterpart, given its earlier start to rate hikes and Canada's heightened sensitivity to interest rates due to higher household debt and shorter mortgage terms. Moreover, the Canadian economy has shown early signs of strain from the impact of higher rates with more sluggish GDP growth, weaker consumer spending, and dwindling job gains.

The two factors that should ultimately determine the timing and degree of interest rate cuts are inflation and employment trends. Last year saw a steady decline in the pace of inflation in both Canada and the United States, but some pressures remain. One example is the cost of shelter, which makes up the largest weight within the Consumer Price Index in both countries. It includes categories such as rent and mortgage interest costs, both of which have shown few signs of decreasing, particularly in Canada. Furthermore, the downward trajectory of inflation has started to flatten after a relatively sharp decline through the first half of the past year. December's U.S. inflation data, released in the second week of January, even showed a modest uptick. We believe that policymakers at the Bank of Canada and the U.S. Federal Reserve will aim to get inflation sustainably under 3.0% before considering any rate cuts.

Global Insight Monthly

Perspectives from the Global Portfolio Advisory Committee

The Federal Reserve is also focused on employment as part of its dual mandate. While there has been a moderation in job growth, it is hard to argue that the employment backdrop in the U.S. requires any support from the central bank. In our view, a more meaningful deterioration in the U.S. job market may be required before the Fed considers any move to reduce rates.

We expect investors will remain focused on inflation and employment trends, as they try to gage when central banks may cut interest rates. We foresee this fueling swings in the markets in both directions as investors recalibrate their expectations. Nevertheless, this year should mark a notable shift in the environment as central banks transition to a more accommodative policy. That has historically proven to be a more constructive backdrop for investors. We plan to shift our attention to the earnings season and the escalating conflict in the Middle East over the weeks to come.

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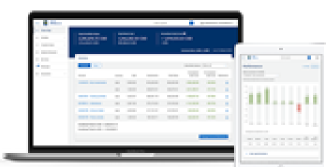

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David Ravinsky

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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

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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