



Ravinsky Wealth Management Group

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Global Insight Weekly

Central banks are off to the races

While the Fed's meeting didn't deliver much that was new, it at least eased concerns that rate cuts could be delayed.



Bumpy recovery for Canada's housing market

Improving sentiment among buyers and sellers halted the series of monthly price declines since last summer.

Market Insights

Equity markets have continued to perform well as of late. However, what merits greater attention is the breadth of the market rally, with a variety of sectors, and not just technology, experiencing significant gains. As a result, markets outside the U.S. have also performed better, with Canada, for example, recently outperforming the U.S. We view this broadening as a healthy sign as it suggests growing confidence in the investment outlook and portfolio performance that may be less reliant on a narrow part of the market. Below, we turn our attention to the anticipation of interest rate cuts in North America, despite the diverging paths of the Canadian and U.S. economies.

Canada has thus far avoided a recession. Its most recent real gross domestic product (GDP) figure was around 1% in the last quarter of 2023. But this modest growth masks some underlying economic weakness. Canadian real GDP per-capita, which accounts for the country's strong population growth, has been in decline for over a year now. Weak consumer spending, business investment, and lower job growth have slowed the economy, partially offset by strong exports. Recent U.S. economic data has painted a different story, generally exceeding projections. In February, U.S. real GDP grew at an annual rate of 3.2%, with the per capita rate showing similar strength. At the same time, the U.S. labour market has remained relatively tight, which continues to support consumer spending. Though manufacturing sector activity had been on a downtrend from pandemic era peaks, it has picked up in recent months.

The economic divergence in Canada relative to the U.S. has also been on display in recent inflation readings. Canada's consumer price index (CPI) report for February, released over the past week, revealed lower than expected inflation for the second month in a row. There was a broad easing in price pressures, with the exception being shelter related costs including rents, mortgage interest, and the expenses tied to owning a home. In contrast, the U.S. has witnessed a modest reacceleration in inflation over the last two months, slightly exceeding expectations.

Despite these differences, both the Bank of Canada and the U.S. Federal Reserve have telegraphed the potential for rate cuts in 2024. Policymakers at the Bank of Canada recently indicated that cuts could be appropriate this year if the economy evolves in-line with current forecasts. The case for lower interest rates in Canada has become more convincing as recent economic data point towards moderating inflation. On the other hand, the argument for rate cuts seems less compelling in the U.S., given the economic strength that has been maintained amid higher rates. Nevertheless, Federal Reserve Chairman Jerome Powell reiterated this past week that the Fed believes it may be appropriate to cut interest rates at some point this year. In response to questions on



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the recent reacceleration in inflation, Powell noted that inflation continues to trend lower despite the recent “bumps in the road”. Markets are currently expecting three cuts this year in both Canada and the U.S., with the first one occurring as early as June.

The key takeaway is that rate cuts are a real possibility in both Canada and the U.S., even if the rationale and extent of these policy moves might be debated based on the current state of the two economies. Historically speaking, an environment characterized by declining interest rates tends to be supportive for investment returns. The strong equity market performance in recent months may reflect some of this optimism, though we would not be surprised to see markets continue to push higher, at least until some future developments prompt a reassessment of the outlook for inflation, growth, and interest rates.



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David Ravinsky

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Alex Tsapekis

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,



Jo-Anne MacKenzie

The Ravinsky Wealth Management Group

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