

I am happy to report that February was another positive month. This has been the fourth consecutive month of increases. And even though such a nice positive streak instinctively makes me cautious, there have been many longer streaks in the past.

Should investors now become more cautious than usual? I don't think so, but I am and continue to be a strong believer in the ongoing, continuous re-balancing of the asset mix of a portfolio back to the originally agreed-upon target asset mix.

In practical terms and as an example, this means that for a balanced portfolio, if stocks do extremely well while bonds go down, then the stock exposure should be reduced and money should be added to bonds.

With all the information currently available, it is hard to be negative/pessimistic about the markets.

- Artificial Intelligence is benefiting the companies that are working on it, and will improve the productivity of the companies that use it.
- The markets are becoming more convinced about a possible soft landing for the economy, i.e. inflation goes down but we do not fall into a recession.
- The stocks of profitable small-and-mid-sized companies are starting to do better. This means the bull market is broadening out from the small list of large cap tech stocks that work on A.I. (i.e. the Magnificent Seven) to many other sectors (e.g. U.S. banks).

Positive sentiment aside, a negative 'exogenous / black swan' event could always occur (e.g. how many could have predicted COVID?). Some bad news might pop up that has not been factored in by the markets. Some call this the 'unknown unknowns', which are things you didn't even know you needed to find out, i.e. unidentified things.

The big 'market' guessing game these days has to do with when will the U.S. and Canadian central banks reduce their rates, and by how much. But in reality, as far as the markets are concerned, it might not make much of a difference. Small rate cuts that appear just later in the year might simply signify that the central banks see the economy as being strong - which is not a negative. The current consensus by the way is that the Bank of Canada will cut its rate before the U.S., and that June might be the month the U.S. cuts its central bank rate.

My prediction is that in one year from now, we will back to a normal yield curve. This is a fancy of saying that short-term rates will be lower than long-term rates. Presently, we have an inverted yield curving, meaning short-term rates are higher than long-term rates.