

After an exceptional five month period for the markets, it is not entirely surprising that April had a negative return.

Market interest rates had actually started to increase since the beginning of the calendar year. Once the yield on the US Treasury Note reached 4.50% in early April, the stock market definitely began to feel the impact of higher market rates. Taken by themselves, and without looking at other factors, increasing rates typically have a negative impact on equities. Higher rates can affect the borrowing rates of corporations and hurt profits. Higher rates can also offer an interesting alternative to riskier assets (e.g. stocks/ real estate/bitcoin).

On the positive side,

- (1) The stock market has held up quite well in the face of higher market interest rates, especially compared to the more severe downturn the stock market experienced from August to October 2023.
- (2) Market interest rates might have already reached their peak in 2024...we shall see!
- (3) Central bank rates in Canada and in the U.S. have not yet started to decrease. I view this as a positive in that the first decrease in the central bank rate will be welcome news for many investors.

Observation: the recent increase in market interest rates might now be making 'risk-adjusted future expected returns' on fixed income more interesting than three years ago.

What is currently keeping me up at night? Two things:

- (1) The possibility of some major escalation in the geo-political tensions we are seeing across the globe (e.g. Russia/Ukraine/NATO; North Korea; China/Taiwan/USA).
- (2) Some sort of Black Swan event, i.e. something very negative and difficult to predict.

I continue to advocate diversification. For most investors, this means having exposure to equities, fixed income, and some cash. The actual percentage exposure to each asset class should reflect what is appropriate for each investor, while recognizing that an 'aggressive growth' investor will have a very low exposure to fixed income. Within the equity component of an investment portfolio, investors should have geographic and industry diversification.