

After a hiccup in April, May was another positive month for the markets. In fact, the U.S. stock market - best represented by the U.S. S&P 500 index - recently reached its all-time high.

The main reason May was a positive month, in my opinion, was that market interest rates - best represented by the yield on the 10 year US Treasury Note which had been increasing since the beginning of the year - peaked around April 25th and began to decrease. Here in Canada, the Bank of Canada cut its central bank rate from 5% to 4.75% on June 5th, becoming the first G7 nation to loosen monetary policy.

It appears that the US might end up being the last major country to lower its central bank rate. This is because the US economy appears to be stronger and the US unemployment rate is still low by historical standards. On the positive side, the US stock market seems to have come to terms with the possibility that their interest rates might stay high for a longer period of time than anticipated earlier this year. Another positive is that there has been a broadening out of market strength among various industries. Phrased more simply, it is not only the large Artificial Intelligence technology stocks that are powering the upward move in the stock market. Other sectors such as industrials, raw commodities, gold, and financials have also done well so far this year.

As I mentioned back last month, 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.

I also advocate occasional re-balancing of portfolios. For example, if a balanced portfolio is reaching the upper limit of its target equity asset mix then it might be prudent to switch some of the equity to fixed income. Please note that occasional re-balancing might already be a feature of your existing portfolio management