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We hope this email finds you well and looking forward to the spring.

Equity markets were broadly higher in the first quarter as corporate earnings continued to improve. Inflation continued to moderate, although still well above the 2% target mandated by central banks and at a slower pace than anticipated.

Global and domestic economies are expanding, and labour markets remain tight. As a result, inflation is sticky at these levels. Interest rates may have to remain higher for longer to eventually bring inflation down to target.

Rate cuts are still likely, but not necessary, which is ultimately positive for equity markets. Central Banks can wait on data. The initial predictions of six rate cuts have been pared down to two or three and perhaps none until 2025 in the United States.

The first cut or cuts would likely come in the summer/fall before election season begins in the United States so the U.S. Federal Reserve can be seen as apolitical. The second cut is likely after the election if it occurs. In Canada, cuts may come sooner as our economy lags the United States.

Markets on both sides of the border appear to anticipate a soft or no landing scenario where a recession will be avoided. Inflation should continue to moderate and interest rates should decline, allowing for future gains in both equities and bonds. While this is still the base projection, there are several potential inflationary pressures that could change the consensus:

- Deficits on both sides of the border continue to grow. High interest rates make the cost of servicing debt an increasingly large portion of government budgets. Governments have a very strong incentive to create an environment where inflation and interest rates are lowered. However, facing elections, no government wants to trigger an economic decline which is typically required to get rates lower.
- Immigration, especially in Canada, has been seen as necessary to replace an aging workforce. The influx of refugees, immigrants and temporary residents may have lowered labour costs, but welcoming 1.2 million people into Canada last year worsened a housing crisis. Funds that could be used for investment and consumer purchases are instead being funneled into basic shelter costs. Younger people represent a restive voter base, and the Canadian the Federal government appears

to be belatedly taking action to reduce their housing costs. Paying for major new housing programs will inevitably either raise taxes or deficits. This was apparent in the recent Federal budget.

- The potential of an expanding conflict in the Mid-east could drive oil prices higher stoking inflation and keeping interest rates high. Re-militarization in response to Russian and Chinese expansionary ambitions diverts funding and resources from productive activity to building arsenals. Military spending drains funding from domestic programs (infrastructure, healthcare, education, housing), increases deficits, uses raw materials and is seen as inflationary.
- We will also be seeing an extraordinary election season in the United States. A Trump Presidency could be disruptive to global trade patterns, geopolitics, global economies.

Even with the risks the markets appear poised for a constructive period as global economies continue to advance.

We are due for some consolidation as markets are over-bought. Recent weakness appears to have been triggered by geo-politics and rates rising, as signaled by the United States 10-year treasury yield rising above 4.5%.

Re-militarization and the trend toward green energy, infrastructure projects and emerging AI should create an increased demand for metals, especially copper. The shutdown of the Cobre Panama mine only tightens supply.

Energy security requirements due to geo-political concerns should boost domestic producers and pipelines. The completion of the Trans Mountain expansion and the Costal Gas pipelines should help unlock value in the Canadian oil and gas sector.

The future is green; however, it will take time to get there and domestic production can have controlled emissions as we look to meet required targets.

It is important to note that delays in interest rate relief have been the result of economic growth persisting above expectations. This has led to unemployment levels remaining low and inflation remaining above target. Corporate earnings have remained elevated boosting equity valuations, which are the key to markets remaining buoyant even with rate cuts delayed.

As long as the next move by the Central Banks is lowering interest rates and not rate increases, the trend of higher markets should remain intact. There is also the risk that Central Banks become re-active and cut rates too late causing the economy to decline.

There are enough warning signs that will become apparent that this is unlikely. The labour market and consumer spending numbers will reveal weakness and if inflation doesn't rise well above consensus, we should be able to maintain growth. Markets have been over-bought, and we are due for a corrective phase.

Over the mid to long term we remain constructive. In this economic climate, energy, materials, financials, industrials, large cap technology and private equity companies should perform well. This bodes well for the TSX because of the Canadian resource base, well-regulated financials and solid dividend yields provided by our equity markets.

As always if you have any questions or just want to touch base, we're just a phone call or e-mail away.

Have a great Spring!

The Andras Group.

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Research Capital is a national investment firm with offices in Vancouver, Calgary, Regina, Toronto and Montreal.