RESEARCH CAPITAL CORPORATION

ANDRAS GROUP
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We hope this update finds you well and enjoying the fall colours.

The moderation of inflation and subsequent interest rate cuts were the main factors **driving markets in the third quarter**. We are at the beginning of this cycle and as inflation stabilizes, we should see consumer confidence increase and the economy gain momentum.

In Canada, inflation continues to decline. This, combined with mixed economic signals, allowed the Bank of Canada to drop interest rates from 5% to 4.25% in the quarter. It is anticipated that further cuts will be implemented, and we have just seen a more aggressive 50 basis point cut. **The Canadian economy** appears to be relatively stable with employment rates improving. However, the job participation rate continues to decline, indicating that job growth may not be keeping pace with population growth. With our economy weaker than the U.S. economy, the Bank of Canada may ease interest rates more aggressively by comparison, as they attempt to kick start the economy. This points to the potential for a decline in the value of the Canadian Dollar.

In the U.S., inflation is trending lower as well. Economic signals show job growth above expectations. The Fed cut interest rates 0.50% to a range of 4.75%-5.0% from a range of 5.25%-5.50%. It is anticipated the Fed will moderate future cuts to

0.25% going forward because economic growth is solid. There are some analysts who believe that rate cuts may be put on hold if the economic numbers continue to strengthen. The markets appear to be pricing in gradual incremental cuts and if they are put on hold, it could put some downward pressure on equities.

Lower interest rates and the anticipation that rates will continue to fall make longer term bonds and dividend paying bank and utility equities attractive. As a result, the **valuations have risen** as investors rotate out of short-term interest rate vehicles to lock in yield. Lower rates will be a relief to consumers and homeowners carrying mortgages. The housing market could benefit longer term. However, purchasers currently appear to be holding back in anticipation of lower future mortgage rates.

In China, we have seen an attempt to bolster economic growth with stimulus measures. Initially **global markets** moved higher as materials, energy and industrials benefitted from potential demand. More recently this has cooled down as the reality of the economic slowdown in China has become increasingly apparent. If there are further stimulus measures, this bodes well for commodities.

As we approach **the U.S. election**, volatility will likely increase as does uncertainty. As of now, the election is too close to call and there may be delays in the outcome. The best-case scenario appears to be a divided House of Representatives and Senate where the powers of the President are limited and sober second thought is placed on any major decisions.

We are facing the tragedies out of the Middle East, volatile weather patterns, the war in Ukraine, and stagnant growth in China. Despite all the negativity, markets appear to be climbing the wall of worry. If interest rates continue to fall and economies continue to be stable, **the trend toward higher markets appears intact**. Bond yields have been rising recently Stateside, likely due to stronger economic numbers and the view that rate cuts in the United States may slow. It is also important that central banks focus on the rising spending and increasing debt levels, or inflation may become a problem again in the future.

Global markets have been strong and will likely continue to move higher after the U.S. election results are known. In the meantime, there may be some pressure on the bond and stock markets. This is likely an opportunity to look for stocks in strong companies that pay solid dividends on price corrections. With interest rates declining, inflation dropping, and growth stabilizing, the equity markets should continue to perform. We have recently seen the market breadth widen to include many of the sectors that have lagged over the past few years. Financials, industrials, and utilities with high yields are becoming favourable, and funds that are in cash and equivalents should move towards these sectors as rates decline. **The Magnificent 7** will likely continue to grow, however, with other sectors participating the equity markets should consolidate and become more attractive to more conservative investors if recessionary factors remain in check.

Equity valuations seem fairly priced at these levels, and future growth will likely be dependent on earnings increasing and meeting or beating expectations. This earnings season has been decent thus far. **We remain cautiously optimistic**

despite all the uncertainty surrounding the near term. Declining interest rates, improving earnings and corporate cash flow ultimately drive markets over time, and these trends remain intact.

As always, if you have any questions or just want to catch up, we’re just a phone call or e-mail away.

We’re here to help.

The Andras Group