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THE ELEPHANTS EAR

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Summer Market Update: AI Trade done?

Recent market volatility has left many investors wondering whether the AI-driven rally is beginning to lose momentum or simply taking a well-earned pause. According to Fidelity's economist Jurrien Timmer, the answer is less about the end of artificial intelligence as an investment theme and more about the market entering a healthier, more balanced phase. The market broadening means a healthier foundation for long term investors.

Inflation Isn't Gone Yet

June's U.S. inflation data provided welcome relief, but the battle against inflation is far from over. Rising geopolitical tensions in the Middle East have pushed oil prices back into the $80-per-barrel range, creating renewed inflationary pressure just as central banks appeared to be gaining control. While markets had hoped interest rate cuts were on the horizon, Inflation remains above central bank targets, long-term bond yields continue to climb, and investors should prepare for interest rates to remain elevated longer than many anticipated.

Earnings Season Will Be Critical

Upcoming earnings reports from the major hyperscalers—including companies making massive investments in AI infrastructure—will likely determine the market's next direction. Investors will be watching closely for two key indicators:

- Whether AI capital spending continues at its current pace.
- Management commentary on future investment plans.

If spending begins to moderate, semiconductor stocks could face additional pressure. However, slower capital spending could also improve shareholder returns by preserving more cash for dividends and share buybacks.

Financials May Be Emerging as Winners

Banks are generating solid earnings, trading at attractive valuations, and returning a significant portion of profits to shareholders through dividends and buybacks. In particular, European banks as offering compelling value due to their combination of low price-to-earnings multiples and high cash distributions. As market leadership broadens beyond AI, financials could become one of the primary beneficiaries.

Diversification Is Back!

Rather than relying on the traditional 60/40 portfolio (60 equity 40 bonds), investors need additional diversified allocation that includes:

- Global developed-market equities
- Short-duration fixed income and cash
- Select alternative assets with low correlation to traditional markets
- Opportunities in sectors such as financials and REITs

AI remains a powerful long-term investment theme, but leadership within the market is changing. A healthier rotation into financials, real estate, and other sectors could reduce concentration risk while creating new opportunities for investors.

At the same time, inflation, rising bond yields, geopolitical uncertainty, and energy prices remain meaningful risks that cannot be ignored.
For investors, the lesson is clear: this may be an ideal time to look beyond the market's biggest technology names and focus on diversification.

A broad market is a healthy market that means the bull market continues to run longer.

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What Summer Can Teach Us About Investing

Summer has a funny way of changing our priorities. Suddenly, calendars become less important than the weather forecast. The office is replaced by patios, cottages, golf courses, or beaches. We spend more time asking, "Should we barbecue tonight?" than "What's the market doing?"

And that's probably a good thing.

In many ways, successful investing has a lot in common with enjoying a Canadian summer. Every summer has its share of cloudy days. One rainy Saturday doesn't mean summer is ruined—it just means it's time to break out the board games or visit a local brewery.

Markets work the same way. A few volatile trading days—or even a rough month—don't define a long-term investment journey. History reminds us that patience often outperforms panic.

Your Garden Doesn't Grow Overnight

Anyone who's planted a garden knows you can't dig the plants up every morning to check if they're growing. Investments are similar.

The strongest portfolios aren't built by constantly tinkering with every market headline. They're built through consistent contributions, thoughtful planning, and giving time the chance to work its magic. Otherwise you get the timing wrong and miss the harvest.

Diversification Is Like Packing for Vacation

Heading to the Maritimes? Better pack a swimsuit... and a rain jacket.

A weekend in the Rockies? Sunscreen, hiking boots, and maybe ski's (Banff Sunshine had skiing on Canada Day).

No one packs for only one type of weather because experience tells us conditions change. Investment portfolios benefit from the same philosophy. Holding a mix of different asset classes helps prepare for whatever "weather" the markets decide to deliver.

The Best Returns Aren't Always Financial

Summer also reminds us that wealth isn't measured only in dollars.

An evening around the campfire, day out on the boat with the kids, a family barbecue, or watching a sunset over the lake won't show up on your investment statement—but those moments often provide the richest returns of all.

Financial planning isn't just about growing assets. It's about creating the freedom to enjoy experiences like these without worrying.

So, if you're lucky enough to spend a little extra time outside this summer, take it. The markets will still be there on Monday.

Your investment plan should be designed to work while you're busy making memories—not checking prices from the beach.

Relax. Be patient. And don't forget the sunscreen!

Lunch and Learn

Red Oak is hosting a lunch and learn at the Merchantman in Charlottetown Aug 28th at noon as part of a upcoming educational series on financial topics. Space is limited in the room and we only have a few spots left.

This is an open event, feel free to bring a friend.

Contact the office to book your seat.

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Let's Stay Connected

The way we communicate has changed dramatically over the years.

Not long ago, staying informed meant waiting for the evening news or reading this newsletter. Today, important updates, market insights, and educational resources are available with just a few taps on your phone.

That's why we're inviting you to connect with us on social media.

Our goal has always been to help you make informed financial decisions—not just during meetings, but throughout the year. Our social media channels allow us to share timely market commentary, financial planning tips, economic updates, community events, and occasional behind-the-scenes moments that give you a glimpse into life at our office.

It's also a great way to stay informed when markets are moving quickly. Rather than waiting for the next newsletter, you'll receive helpful insights and educational content as it happens.

Of course, it isn't all charts and market commentary. You'll also find photos from events, community initiatives, seasonal reminders, and the occasional light-hearted post.

Whether you're a long term client, just beginning your financial journey with us, or simply interested in learning more about finance, we hope you'll find something valuable.

Where to Find Us

Facebook – Community news, office updates, and financial education.

https://www.facebook.com/redoakfinancialcanada

LinkedIn – Market insights, economic commentary, and professional articles.

https://www.linkedin.com/company/7741759

https://www.linkedin.com/in/darryl-murphy-cpa-mba-42aa8a24/

We'd Love to Hear From You

If there's a financial topic you'd like us to cover, a question you've always wondered about, or an idea for future content, let us know. Your feedback helps us create information that's relevant, timely, and useful.

Thank you for being part of our community. We look forward to connecting with you—both online and in person.

Follow us today and stay connected with the latest news, insights, and resources from our team.

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