

The Dream Achiever



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*"It's best not to stare at the sun during an eclipse."
~ Jeff Goldblum*



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Totality

On April 8th we were blessed in Montreal to experience the once in a lifetime type experience by being in the path of a total solar eclipse. We can only describe the experience as breathtaking. In the darkness of when the moon fully covered the sun there stood the white ring of totality. As this moment you could hear everyone around gasping in amazement and cheering. Investors also had lots to gasp and cheer about in the first quarter of this year. Equities posted stellar returns as U.S. corporate earnings were strong, Artificial Intelligence (AI) continued to excite, and there was optimism that Fed rate cuts were getting closer.

U.S., Canadian, and global equities climbed steadily through January, February, and March to end the quarter with a fifth straight month of gains. U.S. and Japanese equities in particular posted record highs. Bond markets saw U.S. and Canadian yields rise through January and February on strong economic growth before moving lower at quarter-end after the Fed reaffirmed its commitment to rate cuts this year.

U.S. job creation also continued to be resilient, although hourly earnings came in lower than expected. This paints a picture of a still healthy labour market but showing some signs of slowing, which would be welcome by the Fed in its inflationary fight. Canada's job numbers showed a similar pattern, with headline job creation strong and unemployment slightly higher.

Fresh off a positive year for equity returns in 2023, global stock markets continued their march higher in the first quarter (Q1) of 2024. The S&P/TSX Composite Index ended the quarter up 6.62%, the S&P 500 Index up 10.5% (13.27% in CAD), the MSCI World Index up 11.68% and the MSCI EAFE Index up 8.52%.

Tech continued to be a standout performer driven by investor excitement over AI. The performance of the S&P 500 continues to be driven by a subset of the dominant Magnificent Seven (M7), comprising of Nvidia, Meta, Amazon, Microsoft, Alphabet, Apple, and Tesla. While share price weakness from Tesla (-29% YTD) and Apple (-11% YTD) were a drag on the group, the M7 collectively still appreciated 13% in Q1, double that of the other 493 stocks in the S&P 500, which rose 6%. Thankfully, performance is also broadening to other sectors boosted by a strong U.S. corporate earnings season.

After the holiday season rally in December, the forecast was for a performance hangover at the start of Q1, but it ended up being "steady as she goes" as equity markets rose through January into February. There was a slip mid-February when U.S. CPI came in higher than hoped, but stocks recovered and then went up another level in March, buoyed by the Fed's reassurances that rate cuts are still on its radar. U.S., Canadian, and global equities wrapped up the quarter confidently, with impressive gains. The S&P 500 Index logged its best start to a year since 2019 while the Dow Jones ended near 40,000 for the first time. The MSCI World Index as well as Japan's Nikkei 225 Index also closed at record highs.

North American bond markets were volatile during the first quarter. As the central bank narrative progressed from policy rate hikes to policy rate cuts, the market got ahead of itself and by year end 2023, had priced in six rate cuts (25bps each) by the U.S. Federal Reserve (Fed) and five cuts in total by the Bank of Canada (BoC) for the 2024 calendar year. Fast forward three months and a combination of resilient economic data and 'higher for longer' guidance from central banks led to the market revising its 2024 rate cut expectations down to just three. In response, the U.S. Treasury 10-year yield rose from 3.9% to 4.2% and the Canadian Government 10-year yield rose from 3.1% to 3.5% by the end of March. As higher bond yields lead to lower bond prices, U.S. and Canadian bond markets both posted a -1% return in the quarter. Corporate bonds outperformed government bonds in the quarter. The market's current confidence in the economy and corporate balance sheets help explain strong current demand for corporate debentures. Robust fund flows into fixed income have compressed credit premiums. This can be observed in the credit premium between BB rated (non-investment grade) bonds and BBB rated (investment grade) bonds, otherwise known as the crossover spread. It is a good indicator to show market optimism, and the very narrow spread suggests that investors are being thinly compensated for owning lower credit quality relative to higher credit quality at this juncture.

In currency markets, the loonie was down -2% versus the greenback due to a widening gap between U.S. and Canadian short-term interest rates, although the Canadian dollar remains within its 2023 range.

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Market Overview Continued

What can we expect now?

Equity markets are reaching new all-time highs, led by U.S. and Japanese stocks. Market performance has also broadened beyond tech into other sectors. In addition, U.S. firms are delivering strong earnings, reflecting a resilient economy. Although positive for investors, the pace of these rallies and the rising valuations are causing a bit of a concern and could lead to some near-term consolidation.

Regardless of where we are in the market cycle, it's important to take a disciplined approach to investing and stay focused on your long-term goals. This strategy helps you keep your emotions out of investing, and has you avoid a costly mistakes like staring at the sun during an eclipse! Ongoing monitoring and reviewing of your portfolio and financial plan ensures that you remain on track. Thank you for your continued trust in DD Humes for the opportunity to assist you in working toward your financial goals. We are with you every step of your investment journey. Should you have any questions regarding your portfolio, please do not hesitate to contact us.

Planning items

- **2023 Tax Return deadline for individuals:** April 30, 2024
- **RRSP Contribution Room for 2024:** Please provide us your room for the 2024 tax year when you receive your 2023 Federal Notice of Assessment. The maximum limit for 2024 is \$31,560. You may need to adjust your automatic savings plans for the coming year accordingly.
- **Registered Education Savings plan (RESP) contributions:** Quebec beneficiaries get the added 10% QESI grant from the provincial government increasing the overall grant to 30%! 2024 room now available.
- **Tax Free Savings Account (TFSA):** A new \$7000 of room available since January 1, 2024. Total room since 2009 is \$95,000.
- **Conversion to RRIF account:** Those of you who turn 71 years of age in 2024 (born in 1953) will need to convert their RRSPs into RRIF accounts before the end of the year. We will be in contact to assist you on how to get that done if you haven't done so already.
- **Your Annual Review:** It is important to inform us of any changes taking place in to see the effects on your plan.
- **\$2K pension deduction:** Those who turn age 65 in 2024 or older and not already receiving recognized pension income.
- **Estate planning:** A reminder that your **wills and mandates** should always be in order.

Planning corner – Federal Budget Highlights



Finance Minister Chrystia Freeland tabled the 2024 Federal Budget on April 16, 2024. There were no announced changes to the marginal tax rates (only capital gains inclusion rates).

Capital Gains Inclusion Rate: This was finally the budget in which the capital gains inclusion rate was increased. It proposes to increase the capital gains inclusion rate from $\frac{1}{2}$ to $\frac{2}{3}$ for corporations and trusts. For individuals, the inclusion rate will remain at $\frac{1}{2}$ on the first \$250,000 of capital gains realized and $\frac{2}{3}$ on the portion of capital gains realized in the year that exceed \$250,000 on or after June 25, 2024. These changes will especially come into play with estates and secondary real estate (eg. rental property & cottages).

Capital gains related to the sale of real estate in which the principal residence exemption is used won't be affected and will continue to be exempt from tax regardless of the dollar value of the capital gain.

Lifetime Capital Gains Exemption increase: an increase of the LCGE to apply up to \$1.25 million of eligible capital gains. This measure would apply to dispositions that occur on or after June 25, 2024. Indexation of the LCGE would resume in 2026.

Homebuyers: Increase of the Home Buyers' Plan (HBP) RRSP withdrawal limit from \$35,000 to \$60,000. This measure would apply to the 2024 and subsequent calendar years for withdrawals made after Budget Day. In addition, Canadians who make an HBP withdrawal between January 1, 2022, and December 31, 2025, will see their repayment grace period extended by 3 years. These first-time homebuyers will now have up to 5 years before they need to start repayments. The enhanced HBP will work in tandem with the Tax-Free First Home Savings Account (FHSA), which allows Canadians to contribute up to \$8,000 per year and up to a lifetime limit of \$40,000 toward their first down payment.

Feel free to reach out to us to discuss how the budget changes may affect your personal situation.

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