The Dream Achiever

DD HUMES

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INSIDE THIS ISSUE

1 **Market Overview**

2 **Planning items**

3 **Planning Corner - FHSA – Need to open to get room**

"It cuts like a knife, but it feels so right." ~ Bryan Adams

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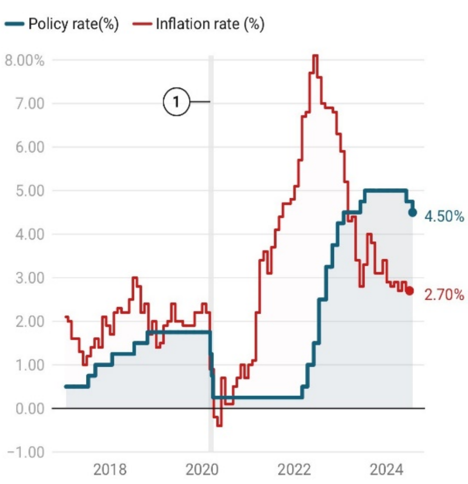
Bank of Canada's overnight interest rate vs. inflation rate (%)

June 2024 year-over-year inflation is at 2.9%. Current overnight rate is 4.5% as of July 24, 2024.



(1) Beginning of COVID-19 pandemic

Chart: CTVNews.ca • Source: Bank of Canada and Statistics Canada • Created with Datawrapper

iA Investia Financial Services Inc.

Cuts like a knife

It's been a long time (1983) since Canadian singer-songwriter Bryan Adams released his 3rd studio album titled "Cuts like a knife" but the markets have been letting us know that since they see that rates are being cut for the first time in a while, they are feeling so right.

Q2 started with equity markets dipping in early April but bounced back in May. Investors were hopeful for interest rate cuts to boost markets, supported by lower inflation and a positive economic outlook. In June, the Bank of Canada and the European Central Bank cut interest rates, starting a policy-easing cycle. However, the US held off due to a strong labor market and sticky inflation.

The S&P/TSX Composite Index ended the quarter down 0.5%, the S&P 500 Index up 4.3%, the Nasdaq Index up 8.3%, the MSCI World Index up 3.0% and the MSCI EAFE Index up 1.0%. Year to date U.S., Canadian and global stocks are all in positive territory.

Canadian employment slowed, leading to an increase in the unemployment rate to 6.2% (up 2% from a year ago) while wage growth decelerated to 4.7%, the slowest pace since June 2023. This data is consistent with an easing labour market which would be welcomed by the Bank of Canada in its inflation battle. Monthly Canadian GDP data for April along with the preliminary estimate for May were also released. April data revealed 0.3% growth month-over-month (MoM). However, the preliminary estimate for May indicated Canadian growth continues to moderate, showing a modest 0.1% MoM gain. In contrast, the U.S. job market remained robust with the unemployment rate steady at 3.8% while wage growth accelerated. However, U.S. retail sales and personal spending fell slightly, easing fears about a pick-up in activity and inflation. This highlights the diverging paths of the Canadian and US economies.

U.S. inflation fell for the first time this year, a welcome relief to investors and the Fed. CPI was 3.4%, down from 3.8% in Q1. While promising, core inflation, which includes food and energy, remains sticky and not low enough for the Fed to consider rate cuts. As expected, the Fed left rates unchanged in the 5.25-5.5% range. Fed chair Powell said while there had been progress toward the Fed's 2% inflation target, current policy would be needed for longer but would prove sufficiently restrictive over time. Consumption accounts for 2/3 of the US GDP. The US Housing affordability index is the lowest it has been in over 20 years, credit card delinquency rates continue to deteriorate, and consumer confidence is down. Retail businesses are saying that customers are increasingly trading down to lower-priced goods and avoiding large discretionary purchases. We feel that if uncertainty leads to a drop in spending of the US consumer, rate cuts will likely follow in the latter half of 2024.

Canadian CPI fell back within the Bank of Canada's 1-3% range and close to its 2% inflation target (see chart to the left). Falling prices for food, services and durable goods led the way, although rent prices remained high and there was a pick-up in travel costs. The progress in reigning in inflation was enough was for the Bank of Canada to cut its overnight policy rate by 0.25% to 4.75%, the first step towards lower interest rates. Since the BoC started raising rates in March 2022 inflation has dropped from a peak of 8.1% in June 2022 to 2.7% in June 2024. Governor Macklem hinted there would be further cuts if inflation continues to ease but reiterated the decision would be dependent on incoming data (inflation, employment, growth, consumer expectations). We believe that more cutting is on the way but the timing will depend on how the inflation numbers play out.

With Canada cutting rates and the US Fed still on the sidelines, this has put downward pressure on the CAD$. The CAD$/USD$ exchange fell about 1% over Q2 and continues to trend downwards.

Continued on Page 2

Market Overview Continued

What we can expect now?

Inflation and anticipated rate cuts continue to drive markets. Central banks are monitoring inflation and underlying economic indicators to assess the timing of rate cuts. 2024 market performance in the US has continued to be driven by the very concentrated trade of AI and mega cap tech stocks. As of June 30th, the "Magnificent 7" stocks represent 61% of the S&P 500 YTD return. Nvidia alone represented 44% of the S&P500 return in Q2! We choose to participate in markets with a level head. When the market returns are as concentrated as they are, it just reinforces the case for a diversification mindset to manage risk even more.

There will likely be additional volatility as the **U.S presidential election looms in November**, but there is little reason to expect a severe slowdown. Volatility and pullbacks are a normal part of investing and present strategic buying and rebalancing opportunities for asset managers.

Thank you as always for your continued trust in the DD Humes team 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 personal situation, please do not hesitate to contact the office. Have a great rest of the summer.

Planning items

- **RRSP Contribution Room for 2024:** Please provide us your room for the 2024 tax year as per 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. **You can make us a tax representative** and we'll be able to get this information from the CRA for you.
- **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.
- **Quebec Bill 56:** May 31, 2024 - New spousal regime for common-law partners with kids born after June 29, 2025

Planning corner – FHSA – Need to open to get room

The FHSA rules for accumulating contribution room and determining carry forward amounts differ from those governing RRSPs and TFSAs, causing confusion for those who are more familiar with these established plans. **Contribution room only begins accumulating in the year someone opens an FHSA**. Once opened, they access the first $8,000 of contribution room. This contrasts with TFSAs and RRSPs, where contribution room accumulates regardless of whether someone opened an account or plan. For the years following the year in which the FHSA is opened, an FHSA holder's contribution room for the year is $8,000 plus unused contribution room, or carry forward, from the prior year to a maximum of $8,000 and subject to the $40,000 lifetime limit.

For example, someone who didn't open an FHSA in 2023 only has $8000 of room if they start one in 2024. If they had opened an FHSA in 2023 but didn't contribute to the plan, they would have $16,000 in contribution room: $8,000 in room from 2024 and $8,000 in carry forward. **Unused contribution room is not cumulative.** In contrast to TFSAs and RRSPs, where contribution room can be carried forward indefinitely (or until age 71 for RRSPs), you can bring forward an unused $8,000 of FHSA contribution room, but no more (see table below). Those who don't understand the carry forward rules may end up putting themselves into an overcontribution position and be subject to the CRA's 1% per month penalty on excess amounts until it's removed or absorbed by new room. For those who plan to use a FHSA soon, they should open a FHSA account now to start accumulating their contribution room that they can use.

Year	Contribution room + carryforward from previous year (if applicable)	Example contribution (for illustration purposes only)	Carryforward to following year (max. $8,000)
2023	$8,000	$4,000	$4,000
2024	$12,000	$4,000	$8,000
2025	$16,000	$4,000	$8,000
2026	$16,000	$4,000	$8,000