The Dream Achiever

DD HUMES

SEPTEMBER 30, 2024

INSIDE THIS ISSUE

"Someone said that life is a party. You join in after it's started and leave before it's finished."
~ Elsa Maxwell

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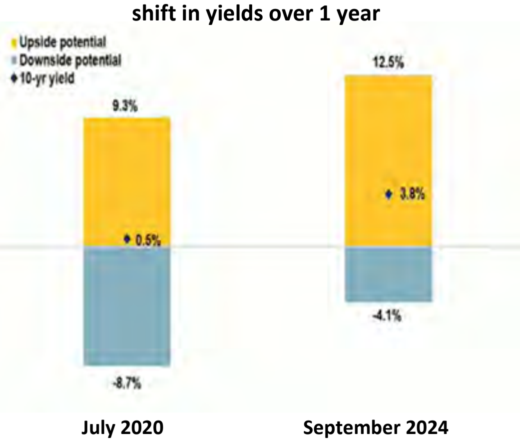
US 10-yr bond return from +/- 100 bps shift in yields over 1 year



Source: RBC GAM, Deutsche Bank as of Sept 30

iA Investia Financial Services Inc.

Joining the party

We hope that you have been enjoying the beautiful fall weather that mother nature has been providing us as the warmth doesn't seem ready to leave the party just yet. On the flip side, the 3rd quarter of 2024 will be remembered as an important inflection point in the monetary policy cycle as the U.S. Federal Reserve finally joined the rate cutting party that the Bank of Canada (BoC) and the European Central Bank had already been attending since June. This is a signal that they felt that inflation had normalized enough to turn their attention to growth risks. While growth in Canada continues to disappoint, the resilience of the U.S. economy and the recent important stimulus announced by Chinese authorities could continue to support markets. Important geopolitical risks remain, with worsening military conflicts and the upcoming U.S. election likely to increase market volatility. We remain positive on markets, but we will likely be entering a more difficult environment to navigate.

Stocks and bonds closed higher in an eventful third quarter as falling inflation and interest rate cuts outweighed sudden bursts of volatility in early August and September. The S&P/TSX Composite Index ended the third quarter up 10.54%, the S&P 500 Index (USD) up 5.78%, the Nasdaq Index (USD) up 2.76%, the MSCI World Index (USD) up 4.69%, and the MSCI EAFE Index (USD) up 0.82%. In this quarter the tech heavy "Magnificent 7" stocks underperformed the broader index for the first time since Q4 2022. Apart from Japan, major global equity indices are in positive territory YTD. Canadian and U.S. Bonds rose in Q3 as yields continued to move lower. As you can see on the RBC bar chart to the left, the upside/downside metrics have improved drastically for bonds when compared to just a few years ago. The FTSE Canada GBI Index (CAD) is in positive territory on a quarterly (1.60%), YTD (3.64%), and rolling one year basis (11.18%). The CAD$/USD$ exchange rate was up 1.1% in the quarter but is still down -2% YTD.

Oil prices declined throughout the quarter and slipped further late in September on news that OPEC would boost output despite tepid demand growth in an oversupplied market. Gold continued its yearlong advance and posted its biggest quarterly gain since 2016.

Canada's unemployment rate rose throughout Q3, inching up to 6.6% in August. Job vacancies fell by 4.1% to 526,900 in July, the third consecutive monthly decline. On a month-over-month basis, average weekly earnings were up 1.0% in July, following a rise of 0.4% in June. The U.S. unemployment rate dropped slightly to 4.2% in August, with job gains in construction and health care, but has risen in six of eight months since January, when it was 3.7%.

Markets were buoyed by a steady decline in inflation in Q3. Canada's Consumer Price Index (CPI) rose 2.0%, annualized, in August, year-over-year, down from 2.5% in July and 2.7% in June. The August reading was squarely within the BoC's stated target range for inflation. Lower gas prices helped while mortgage and rent costs remained the biggest drivers. U.S. inflation hit a new three-year low in August, with CPI falling for the fifth consecutive month to 2.5%, annualized, down from 2.9% in July. Core inflation, which strips out food and energy, was roughly steady at 3.2%.

The mix of inflation, unemployment, and growth data across Q3 facilitated the BoC's quarter point cut to 4.25% on September 4th and governor Macklem noted that the decision was motivated in part by the need to support economic growth going forward. We see more BoC cuts on the horizon since the BoC's own estimate of the neutral rate is 2.75%. Similarly, the long-awaited U.S. rate cut in September reflected both the Fed's growing confidence that inflation is under control and an alertness to the economic risks of sustained high interest rates. The cut, a larger than expected 50 basis points, lowered the federal funds rate to a range between 4.75%-5%.

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Market Overview Continued

What we can expect now?

Markets should benefit if the downward trends in inflation and interest rates persist, with the OECD noting in late September that falling rates and recovering real wages should support global growth through 2024 and 2025. Chances of a soft landing continue to rise. Lower rates are making cash less attractive and reviving interest in traditional dividend paying stocks and the benefits of bonds. October will be overshadowed by the November 5th U.S. presidential election, but investors may choose to look past any turbulence to the prospect of further rate cuts before year end. But a generally positive outlook might be tempered by spiraling geopolitical tensions in the Middle East as Q4 begins.

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 causing you to buy high and sell low like many investors end up doing. Ongoing monitoring and reviewing of your portfolio also ensures it remains on track. Diversifying investments reduces risk as well.

Thank you for your continued trust and for the opportunity to assist you in working toward your financial goals. We are with you every step of the way. Should you have any questions regarding your portfolio while this party is taking place, feel free reach out.

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%!
- **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 – Maximum LIF changes for Quebec Plans

As of **January 1, 2025**, holders of Quebec-regulated LIF accounts can expect a few new rules:

- LIF owners age 55 and older can withdraw <u>any</u> amount from their account above the mandatory minimum. The maximum limit no longer applies.
- If you're under 55, the LIF minimum and maximum amounts that you can withdraw still apply; however, the maximum factor has changed. You can still access temporary income with small adjustments (if your plan allows it).
- If you've been a non-resident for two years, you can still unlock Locked-In Retirement Account (LIRA) funds, but this option no longer exists for a LIF.
- LIF owners between 54 and 65 no longer have the option to apply for temporary income.
- You can no longer transfer any money from a LIF to a Registered Retirement Savings Plan, Registered Retirement Income Fund, or a not locked-in account of a Voluntary Retirement Savings Plan (VRSP).

Being able to withdraw any amount from your LIF in retirement can change your retirement financial planning. For example, some may now choose to postpone taking their Quebec Pension Plan and/or Old Age Security benefits for a few years instead of right at age 65 to receive the maximum amount. Your LIF is therefore a valuable tool to help manage your retirement income.

Right now, you don't need to take any immediate action - just be aware of the changes while planning your retirement. Retirement budgeting should be ongoing, even when you stop working. Just because you can withdraw more money from your LIF, it doesn't mean you should empty the account as quickly as possible. Your retirement life could last decades and be as unpredictable as your working years. Everyone's situation is different. That's why it's important to carefully consider all your sources of retirement income and come up with a plan for your unique situation.