The Dream Achiever

DD HUMES

MARCH 31, 2025

"Anyone can find the switch after the lights are on." ~ Confucius

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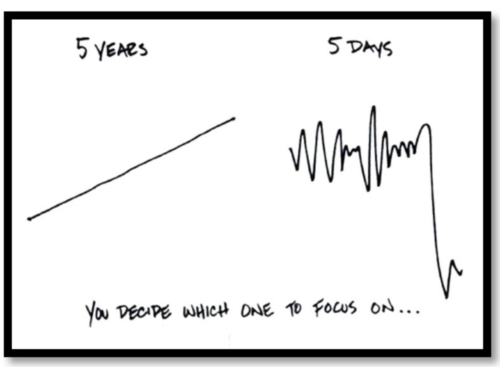
iA Investia Financial Services Inc.



On again off again

In the first quarter of 2025, Donald Trump entered office, Justin Trudeau departed, and Mark Carney became Canada's 24th Prime Minister and called an election for April 28th. Running in parallel to these political changes were numerous and often unexpected US trade tariff announcements that ultimately unsettled markets. With news changing by the hour, it feels like we're in a room with a child testing the light switch—unpredictable and jarring. It's understandable that this can cause some uneasiness.

The cumulative effect of Trump's burst of economic orders and pronouncements on investor sentiment eventually erased a bullish start to the year for North American equities. US investors also found reasons for concern in sagging consumer sentiment and growing unease that tariffs could stoke inflationary pressures and spur broader trade wars. By quarter end volatility was up and US indices were down, with technology shares (such as the Magnificent 7) leading the way. Canadian equities ended essentially flat but European indices posted solid gains. Canadian and US bond yields fell, and gold climbed to new highs, rising 19.20% for the quarter.

In Q1, the S&P/TSX Composite Index ended up 1.51%, the S&P 500 Index fell 4.37% the Nasdaq Index fell 10.26%, the MSCI World Index slipped 2.67% but the MSCI EAFE Index rose 2.89%. In the U.K., the FTSE 100 Index rose 6.11% and Germany's DAX Index soared 11.32%. Canadian and US bond yields fell in Q1 as prices rose, with the FTSE Canada Universe Bond Index up 2.02% for the quarter.* There was a big change in trajectory of the CAD$ as it appreciated 4.3% against the USD$ in Q1, moving from approximately 0.695 USD at the start of the year to 0.725 USD by March 31. With this market divergence you could again see the value in being diversified.

Despite the downbeat quarter North American stocks remained in positive territory on a rolling 12-month basis to March 31. And in a reversal of a familiar trend, Canada outperformed, as the S&P/TSX Composite Index more than doubled the S&P 500's gain for the 12-month period. It also outperformed the S&P 500 in March.

Canadian economic data released in March was mixed. GDP grew in January by 0.4%, month over month, the strongest pace in nearly a year, and one supportive of a view that the economy was gaining momentum fueled by seven straight rate cuts by the Bank of Canada (BoC) since mid-2024. Yet Statistics Canada's early estimate for February suggested growth may have slowed significantly as businesses and consumers began bracing for the potential impact of US tariffs.

The Bank of Canada (BoC) cut rates again on March 12th, trimming its key policy rate by a quarter-point to 2.75%. However, the bank's summary of its deliberations leading to the decision indicated it would not have cut in the absence of the tariff threat looming over the economy. The BoC's next rate decision will be on April 16th. The Federal Reserve (Fed) held its key rate at 4.25% to 4.50%, citing rising uncertainty around the economic outlook. Fed Chair Powell noted that the central bank is in no rush to make further moves and is waiting for more clarity. A divergent investor response to the cascade of political and economic headlines emerged during the quarter.

By the third week of March retail investors had poured USD $67 billion into US stocks and equity ETFs, second only to the USD $71 billion they pumped in during Q4 2024 on the heels of Trump's victory. In contrast, institutional investors (like many of our fund managers) have begun pivoting away from US equities, cutting allocations by 40%, shifting from 17% overweight in February (when the S&P 500 hit a record high on February 19th) to 23% underweight by mid-March. European shares benefited, with allocations to eurozone stocks jumping 27% in the same period. Short term US government fixed income holdings also expanded between January and mid-March, attracting USD $22 billion in net inflows.

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Market Overview Continued

What can we expect now? Donald Trump has said he will announce details of US tariffs on a broad range of countries on April 2 dubbed "Liberation Day". As with most previous tariff announcements markets may react according to initial assessments of the immediate and longer-term implications for economic growth and inflation. Yet investors will also be seeking clarity on the actual nature of tariffs; are they "permanent", negotiable, or subject to carve outs for certain sectors? For Canada, priority concerns include the treatment of the auto sector, energy, steel and aluminum and supply management. A major question is how any US tariffs on Canada's exports will align – or not – with the existing USMCA free trade deal Trump signed in his first term in office, an agreement which is due for scheduled renegotiation next year, if not sooner.

The dislocations of the first quarter are a timely reminder of the value of making diversification a core part of a long-term and disciplined approach to investing. The volatility reminds us of the importance of having an investor profile and sticking to your plan. As Tye Bousada, a vetran portfolio manager with Edgepoint, likes to say "*Volatility is a friend to the investor who understands the true value of a business and an enemy to the investor who doesn't.*" Trying to time the market has never been a good long-term strategy. Thank you for your continued trust in us for the opportunity to assist you in working toward your financial goals. Should you have any questions regarding your portfolio, please do not hesitate to contact our office.

Planning items

- **2024 Tax Return deadline for individuals:** April 30, 2025
- **RRSP Contribution Room for 2025:** Please provide us your room for the 2025 tax year when you receive your 2024 Federal Notice of Assessment. The maximum limit for 2025 is $32,490. 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, 2025. Total room since 2009 is $102,000.
- **Conversion to RRIF account:** Those of you who turn 71 years of age in 2025 (born in 1954) 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 2025 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 – RDSPs: If they qualify, they should open one!

As of December 2023, only **34.9%** of Canadians eligible for a Registered Disability Savings Plan (RDSP) had opened one, leaving approximately **65%**—or nearly **1 million individuals**—without this valuable financial tool.

A **Registered Disability Savings Plan (RDSP)** is a tax-deferred savings plan designed to help Canadians with disabilities — and their families — save for the long term. To qualify, the beneficiary must be a Canadian resident, under age 60, and eligible for the Disability Tax Credit (DTC). Contributions are not tax-deductible, but investment growth inside the plan is tax-sheltered, and the government may contribute generously through the Canada Disability Savings Grant and Bond programs — offering up to $90,000 in lifetime incentives depending on income and contributions. RDSPs can be a game-changing planning tool for families looking to provide financial security for a loved one with a disability without affecting their government benefits. Contributions can possibly qualify for up to 3:1 matching.

Some common conditions that may qualify for this plan are (but not limited to):

- Autism, ADHD, learning disabilities
- Severe arthritis, chronic pain
- Diabetes (Type 1), kidney failure
- Cerebral palsy, MS, Parkinson's, epilepsy
- Depression, bipolar disorder, anxiety disorders

If you or someone you know qualifies for the Disability Tax Credit, have them contact us about opening an RDSP to enhance their financial well-being and future security.