The Dream Achiever

DD HUMES

JUNE 30, 2020

INSIDE THIS ISSUE

"Only in the darkness can you see the stars."
~ Martin Luther King Jr.

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The bounce back trampoline

We hope that you and your families are well and that you have been able to safely enjoy life a little more as things have begun to reopen. After a truly unique quarter for capital markets, we want to provide you with a brief overview of some key developments, as well as some insight on what can be expected as we head into the next quarter of the year.

While the first quarter of 2020 was dominated by anxiety surrounding the initial outbreak of COVID-19 and the ensuing lockdowns and capital market declines, the second quarter demonstrated a remarkable bounce back in those markets – even with a resurgence of the virus in the U.S. and renewed lockdown measures.

The S&P 500 Index, a broad measure of U.S. equities, had its best quarter in over 20 years, gaining 19.95% (in $USD), while the Canadian S&P/TSX Composite Index gained almost 16% in the three months ending June 30. This was quite a recovery from the sharp declines by the end of Q1, bringing year-to-date returns to -4.04% (S&P 500) and -9.07% (S&P/TSX). Government bonds declined as both the Federal Reserve (the Fed) and Bank of Canada indicated rates would remain low for a lengthy period. In Q2 the $CAD appreciated 4.5% vs. the $USD and sat at 73.67 cents at the end of the quarter. Most balanced pension style portfolios are now pretty close to parity on the year.

Energy prices rose as the economy began slowly re-opening and production cuts trimmed inventory, but not before prices fell below zero for the first time in history on April 20, ending the day at -US$37.63. This served as a microcosm of the quarter. While virus data, economic numbers and other headlines seemed bearish, markets remained optimistic and continued to climb.

Much of the market's enthusiasm has been attributed to government and central bank intervention designed to support global economies. In particular, the U.S. Federal Reserve's introduction of quantitative easing measures, emergency lending and purchases of corporate bonds and exchange-traded funds are believed to have played a vital part in this rise. The Bank of Canada matched the Fed's willingness to purchase corporate bonds to assist credit markets, while indicating it believes the economy will return to growth in the third quarter. The Fed said it expects 5% GDP growth in 2021, and as for the support it has been providing to the system, Fed Chairman Jay Powell said the agency was, "not out of ammunition by a long shot."

Headlines concerning vaccine progress and phased economic re-openings also seemed to support market moves to the upside. Promising vaccine data from various companies continued to be announced, while in early May the U.S. Food and Drug Administration granted emergency use authorization for Gilead Sciences' antiviral drug Remdesivir as a treatment for COVID-19 patients.

Investors also weighed more negative developments as the quarter came to a close, but these had little impact on the markets' recovery. These included escalating tensions between China and both the U.S. and India, rising infections in 37 U.S. states (with 50 per cent of states halting or rolling back their reopening plans), and data showing 31.5 million Americans collecting unemployment cheques as of mid-June. The Fed said it expects U.S. gross domestic product (GDP) to shrink by 6.5% in 2020, and the International Monetary Fund (IMF) expects global economic output to contract 4.9%. Ratings agency Fitch Ratings, meanwhile, downgraded Canada's credit rating to AA+ from AAA to reflect the deterioration of public finances due to COVID-19.

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Market Overview Continued

If anything, the last two quarters have proven just how important it is to stick with a long-term, diversified plan to withstand market shocks. It would have been almost impossible to predict that shortly following the close of the first quarter, the S&P 500 would have the **best 50-day period in its history** and the Nasdaq (a stock exchange that includes the world's primary technology and biotech giants) would reach new all-time highs. Had you chosen to change course and attempt to time the market, you probably would have missed out on this rapid recovery. We continue to believe that at times of great uncertainty, discipline and the ability to remove emotion from your financial decisions becomes one of an investor's most valuable assets. These characteristics, combined with your trust in us to help manage your portfolio objectively, have allowed us to navigate that uncertainty in an effective manner.

As we begin the third quarter, there is no way of predicting how the markets will react, and whether monetary and fiscal support will outweigh future outbreaks of COVID-19 and any subsequent economic disruptions. What we do know is that even though the VIX (volatility index) has dropped from being in the 80s in March to into the 20s today, volatility remains a distinct possibility, and that history shows continuing to stick to a well-constructed, long-term plan has been the right move. We continue to mostly work from home and are available via phone or Video conference if you need us.

Planning items

- **RRSP Contribution Room for 2020:** Please provide us your room for the 2020 tax year when you receive your 2019 Federal Notice of Assessment. The maximum limit for 2020 is $29,230. You may need to adjust your automatic savings plans for the coming year accordingly. Note: **You can make us a tax representative** and we'll be able to get this from the CRA directly.
- **Registered Education Savings plan (RESP) contributions:** Quebec beneficiaries get the added 10% QESI grant from the provincial government increasing the overall grant to 30%! 2020 room now available.
- **Tax Free Savings Account (TFSA):** A new $6000 of room available since January 1, 2020. Total room since 2009 is $69,500.
- **Conversion to RRIF account:** Those of you who turn 71 years of age in 2020 (born in 1949) 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 2020 or older and not already receiving recognized pension income.
- **Estate planning:** There is nothing like a pandemic to ensure that your **wills and mandates** are in order!

The Planning Corner – Keeping your TFSA tax free at death

In Canada (for all provinces outside of Quebec) TFSA account holders can designate directly on their TFSA accounts a spouse or common-law partner as a "successor holder" and anyone else as a beneficiary. In Quebec transfers must be done via the deceased's estate and need to be **specifically stated in the will**. If neither is specified, the assets in the TFSA account become part of the deceased's estate, **losing their tax-sheltered status** and would become subject to probate fees (There are no probate fees in Quebec).

If a surviving spouse is named the **successor-holder**, they will become the new TFSA holder immediately when the original plan-holder dies. The transfer is seamless and assets remain fully sheltered. The successor-holder can make tax-free withdrawals from the deceased holder's TFSA after taking over ownership and can continue holding their own TFSA, with lifetime and annual contribution limits unaffected. The successor-holder can also consolidate the two separate TFSAs by directly transferring the deceased holder's assets (via a qualifying transfer) into their own plan, without affecting available contribution room.

Designating a spouse or common-law partner as a **beneficiary** on the TFSA contract imposes a paperwork burden on the surviving spouse, as well as decreased tax sheltering. A beneficiary designation allows the surviving spouse to retain the tax-sheltered status of the TFSA without affecting his or her contribution room. This happens thanks to an exempt contribution of the deceased holder's TFSA assets to the beneficiary's TFSA plan via the Form RC240 which you need to send to the CRA within 30 days of the transfer. Any growth in the plan from the date of death to the date of transfer would be taxable as income to the beneficiary. Make sure that if you have a spouse or common law partner that you have them stated as successor holder on the contract or, if in Quebec, in your will.

*Source: CI Investments, Bloomberg Finance L.P, marketwatch.com, The Globe and Mail, reuters.com, the U.S. Food and Drug Administration, TD Newcrest