The Dream Achiever

DD HUMES

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"The day the power of love overrules the love of power, the world will know peace."

~ Mahatma Gandhi

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Investia Systems Merger 2022

You should be hearing soon from Investia about the fact that in late June the formerly FundEX client data will be merged onto the Investia platform. While the overall effects to you will be minimal there are a few items to note of. First, our **dealer code** will change from 7648 to 7599. Next your **client number** will change. Due to the chance that there could be duplication of client #s on the two systems each of your client IDs will increment by 450000000 to avoid the overlap. The client portal will be the same except that it will no longer be branded as "**Wealthview**". Your login information for the portal will not change. Any online bill payments that you have set up to deposit money directly into your accounts will also remain the same.

iA Investia Financial Services Inc.

The war on inflation

U.S., Canadian and global equities ended Q1 positively, posting gains in March, but for the overall quarter, markets were mixed. Geopolitical tensions, rising oil prices, high inflation, supply chain disruptions, and central bank policy weighed on the S&P 500 Index, Nasdaq, Dow Jones, MSCI EAFE Index and global indexes. The energy rich TSX Composite Index, on the other hand, benefited from the market turbulence.

In bond markets, U.S. and Canadian yields rose on inflation news and expectations of more, larger rate hikes by the Fed and Bank of Canada. The yield curve continued flattening throughout Q1, reflecting tighter Fed interest rate policy and forecasts for slower economic growth.

During the quarter many provinces announced the immediate ending or speeding up of the lifting of COVID-19 restrictions. Major corporations started scaling back COVID-19 restrictions as well. National Bank, CIBC, and Scotiabank revealed plans to start bringing staff back to Canadian offices. Deloitte became the first major corporation to end its mandatory vaccination policy and masking of employees in Canadian offices.

In March, Canada and the U.K. began talks on creating a comprehensive free-trade agreement. Representatives from both governments stated they were committed to concluding negotiations relatively quickly and having an agreed upon plan in place soon.

After decades of trending around 2% U.S. inflation climbed to 7.9%, a 40 year-high, driven by money supply, supply chain disruptions, labour shortages and rising energy, food, and housing costs. Inflation is also expected to increase further due to the Russia-Ukraine conflict. Fed chair Powell said inflation "is much too high" and "a severe threat". He noted as the U.S. economy no longer required pandemic-related emergency stimulus, it might be appropriate to raise rates more aggressively to get inflation under control. The Fed hiked rates from near zero to 0.25%, in March, its first increase in three years as well as signalled six more hikes by year end. Powell stated the Fed was ready to make 0.50% hikes if required.

In Canada, inflation surged to 5.7%, its highest level since 1991, and the eleventh consecutive month above the Bank of Canada's 1-3% target range. According to Statistics Canada, prices rose across all major components with housing costs contributing the most. In March, just before the Fed, the Bank of Canada raised rates 0.25% to 0.50% for the first time since the pandemic began. Bank of Canada governor Tiff Macklem said the economy was now ready to adjust to a normal, higher interest rate setting. The period of declining interest rates and low inflation seems to be over.

The S&P/TSX Composite Index ended the quarter up 3.8% while the S&P 500 Index posted a loss of -4.6% and the MSCI EAFE Index a loss of -6.8%. In bond markets, where yields move in the opposite direction to prices, short term yields rose quicker than long term yields on expectations more, larger rate hikes are coming. The yield curve, which is the difference between 10-year and 2-year U.S. treasury yields, also continued to flatten throughout Q1 as short and long yields have been converging. This reflects tighter Fed interest rate policy at the short end and forecasts for softer economic growth at the longer end.

In foreign exchange markets, the Canadian loonie lived up to its reputation as a "petro dollar", increasing to 80 cents against the U.S. dollar off the back of rising energy prices. Oil prices, which surged during 2021 as a result of ongoing supply chain chaos and are currently a "thorn in the side" of inflation, were pressured further after Russia invaded Ukraine. In February, the price of oil broke through the US$100 a barrel range for the first time since 2014 and the prices at the pumps of our gas stations have seen new highs. The oil price continued to skyrocket to US$110 per barrel in March, before falling at quarter end on news that the U.S. would release a million barrels of oil reserves a day over the next six months to help ease prices.

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Market Overview Continued

So what you can expect now? After a stressful start to 2022, there were signs in March that markets are rebounding. More rate hikes are coming to combat inflation, which will likely remain high in Q2, but should cool later in the year as supply chains normalize, prices ease, and hopefully peace restored in Ukraine. Russia accounted for 5% of the global daily oil production but many countries are now refusing delivery of Russian oil. Ukraine accounted for about 25% of global wheat production and it is hard to imagine Ukrainian farmers planting wheat this spring during a war. Due to this, experts are saying that consumers should expect food and energy inflation to persist for months to come. After the record-breaking double digit returns of 2021 it's inevitable the pace of growth will be slower this year. However, economic fundamentals and corporate earnings remain healthy and the post-pandemic recovery continues.

When economic stresses occur, some people react quickly without a strategic plan by cashing out investments or other drastic approaches. Regardless of where we are in the market cycle or how globalization will change, it's important to take a disciplined approach to investing and stay focused on your long-term financial goals. This strategy helps you keep your emotions out of investing, typically buying high and selling low like many investors do. We still recommend you maintain a diversified mix of asset classes in your portfolio to maximize potential returns and minimize risk.

Thank you for your continued trust in our team and for the opportunity to assist you in working toward your financial goals. We are with you every step of your planning journey. Should you have any questions regarding your situation, please do not hesitate to contact our office.

Planning items

- **2021 Tax Return deadline for individuals:** Federal April 30, 2022, but since it falls on a Saturday it's really May 2, 2022.
- **RRSP Contribution Room for 2022:** Please provide us your room for the 2022 tax year when you receive your 2021 Federal Notice of Assessment. The maximum limit for 2022 is $29,210. 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%! 2022 room now available.
- **Tax Free Savings Account (TFSA):** A new $6000 of room available since January 1, 2022. Total room since 2009 is $81,500.
- **Conversion to RRIF account:** Those of you who turn 71 years of age in 2022 (born in 1951) 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 that have taken place to see the effects on your plan.
- **$2K pension deduction:** Those who turn age 65 in 2022 or older and not already receiving recognized pension income.

The Planning Corner – Taxation of RESP withdrawals

If you have been putting money away over the years for your child's education in an RESP plan and they finally begin their journey of post secondary education, it becomes time to start considering withdrawals from the plan. At that point there will be three types of money in the RESP: 1) Contributions (non-taxable), 2) Government Grant money (taxable to student), and 3) Growth of the investments (taxable to student). When you withdraw from a RESP you can choose to take taxable (EAP) and/or non-taxable (PSE) amounts from the plan. Generally, we will look at the student's other income at that time and look to withdraw amounts that make sense for tax planning purposes.

As soon as your child starts post secondary schooling you can immediately withdraw all of the non-taxable contribution amounts without any tax implications. The grant and growth portions (EAP) will produce a T4A (and a Relevé 1 in Quebec) and will be considered taxable income to the student in the year of withdrawal. These amounts should be declared on the child's tax return. We suggest withdrawing taxable amounts from the RESP over time up to where their taxable income (including income from other sources) will reach the basic personal credit amount ($14,398). This way you can bleed taxable money out of the account on a tax-free basis. Planning out your RESP withdrawal strategy is something that should be done when the student finishes high school so that you are not left with large taxable sums that would all need to be withdrawn as a lump sum at the end leading to taxes payable that could have been avoided.