The Dream Achiever

DD HUMES

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INSIDE THIS ISSUE

"Inflation is when you pay $15 for the $10 haircut you used to get for $5 when you had hair."

~Sam Ewing

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Fighting inflation can sometimes be sticky

As the fall foliage is in full bloom it is a beautiful sight, yet at the same time it is a reminder that winter is coming. The Fed's determination to wrestle inflation with large rate hikes dominated financial headlines, preoccupied investors, and steered market performance during the quarter.

Despite a bright start to Q3 in July where many markets had their biggest monthly gains since 2020, U.S., Canadian, and global equities gradually lost momentum as the Fed reiterated it would continue on its monetary tightening path. In bond markets, U.S., and Canadian yields rose on the outlook for interest rates. Suddenly CASH and GICs are paying decent interest again!

There were several positive U.S. and Canadian economic indicators during the quarter. U.S. job creation remained solid, jobless claims fell, and wage growth increased. Retail sales and consumer spending rose as well and the federal deficit shrank 50% compared to the same period last year. In Canada, the unemployment rate remained at a record low, job vacancies grew, retail sales increased, house prices continued cooling and the trade surplus widened to its largest in 14 years. The CEOs of two major grocery chains also said food prices have started stabilizing.

Q3 also witnessed many major central banks around the world coordinating with the Fed on "hitting the brakes" by hiking interest rates. These included the Bank of Canada, Bank of Australia, Bank of England, European Central Bank, the Nordic central banks and the Swiss National Bank which notably ended its negative rate policy. The Bank of Japan and China's central bank were outliers. Japan held its benchmark rate at -0.1%. China introduced a 10 basis point rate cut as supply chain disruptions, falling real estate activity and the ruling communist party's "zero-COVID" policy affected economic growth.

U.S. inflation eased during the quarter, to 8.3%, although this was considered disappointing by investors as expectations were for a drop to 8.1%. Food and housing costs continued to be the main inflationary drivers. As a result, the Fed hiked rates 0.75% twice in Q3. At its annual Jackson Hole summit in Wyoming, Fed chair Powell said the Fed would continue hiking rates until inflation was fully under control. He added restoring inflation to the Fed's 2% target was its "overarching focus right now." He also mentioned that there had to be a better balance in the labor markets between the supply and demand before they consider reducing rates. This is currently not the case where in the U.S. there are 2 jobs for every unemployed worker. This scenario leads to inflation being more "sticky".

In Canada, inflation also moderated, to 7%, which was much lower than expected. This largely stemmed from falling gasoline prices which mitigated the cost of groceries remaining high. The welcoming news led some economists to anticipate inflation may have peaked. Aligning with the Fed, the Bank of Canada increased its benchmark rate twice during Q3, 1% in July and 0.75% in September. Its official statement also made clear more hikes are still required.

The third quarter of 2022 remained a challenging investment climate. With regards to equity markets, TSX was down -1.41% (-11.14% YTD), the US S&P 500 down -4.88% in the quarter (-23.88 YTD), and the global MSCI Word index down -6.08% (-25.42%). Even with the rate increases, the fixed income (bonds) front the returns were better than the past few quarters with the Morningstar Core CDN Bond index up +0.52% (-11.53% YTD) and the Bloomberg Global Agg. Bond Index -0.88% (-12.86% YTD). One of the biggest movers in the quarter was the Canadian Dollar which was down -6.7% to the USD (-8.6% YTD). Believe it or not, even with that drop the Canadian dollar was one of the currencies that held up best versus the USD!

Continued on Page 2

Market Overview Continued

The price of oil, considered a leading barometer of inflation, steadily declined through the quarter falling from ~US$110 to under US$80 a barrel towards the end of September, its lowest level so far in 2022. The decline was driven by anticipation the Fed's rate hiking plans, a surging US dollar and slowing growth and ongoing lockdowns in China will continue to dampen demand and as a result, inflation.

The focus continues to be on monetary tightening to combat inflation and the impact this has on markets and the broader economy. Even though there are promising signs inflation may have peaked, a clearer indication will be once we achieve a few more months of declining inflation. Markets will likely stay choppy until then. For active investors the current environment does offer select buying opportunities. Due to the market pullbacks this year, the forward outlook looks much better than it did in January. Economic fundamentals also remain healthy and supply chains are normalizing. In time, a sustained recovery will occur and history has proven investors are rewarded over the long-term.

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, typically buying high and selling low like many investors do. Ongoing monitoring and reviewing of your portfolio also ensures it remains on track. Diversifying investments reduces risk as well. As you know we are always here to answer any questions that you may have.

Planning items

- **RRSP Contribution Room for 2022:** Please provide us your room for the 2022 tax year found on your 2021 Federal Notice of Assessment. The maximum limit for 2021 is $29,210. 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 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 $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 should have been in contact by this point to assist you getting that done.
- **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 2022 or older and not already receiving recognized pension income.
- **Estate planning:** The pandemic was another reminder that your **wills and mandates** need to be in order.

The Planning Corner – Tax Loss Harvesting

With most equity and fixed income markets down double digits in 2022 it makes sense to try and see if you can turn any unrealized losses that you may have in your non-registered portfolios into a tax win. If you have any capital gains in 2022 you can crystalize the investments that sit in a current loss position to offset these gains on your tax bill for the year. If you don't have any gains to use against for the current year you would have the ability to use these losses against any capital gains that you also had in the three previous years. So, if you paid capital gains on the sale of a mutual fund in 2020, you could create the loss this year and amend your 2020 taxes to recuperate taxes paid in that year. Additionally, losses can be carried forward indefinitely to be used against future capital gains.

If you never use your capital losses in the future, they can be used to reduce income in the year of a taxpayers death or the immediate preceding year. At this time, the net capital loss (50% of the capital gains based in current inclusion rate) would be used to reduce other income. Once you crystalize the loss you (or an affiliated person) cannot repurchase the identical investment within 30 calendar days (before or after the disposal) in order to avoid the superficial loss rules which would disallow use of the loss. If you wish to stay invested in the same way you can sometimes use a different version of the fund or use a similar fund. If you have some losses in your non-registered investments that could benefit you from a tax perspective, let us know as soon as possible as it would be something we would need to address before year end.

*Source: CI Investments, Bloomberg Finance L.P, marketwatch.com, The Globe and Mail, reuters.com, Monrningstar.