The Dream Achiever

DD HUMES

MARCH 31, 2023

INSIDE THIS ISSUE

"The day I am too busy to run is a day that I am too busy."

~ John Bryant

Follow us on Twitter
@ddhumes

2023 Gov't Budget Highlights

Quebec: Announced that the provincial tax rates will fall by 1% for the first two brackets (up to $98,540). QPP making contributions optional when already receiving the pension. Can also now delay QPP to age 72 to further enhance the future benefit.

Federal: Included health and dental care spending. The **grocery rebate** is really an enhanced GST credit. There is an increase on the dollar limits in the first 13 weeks for **RESP EAP** withdrawals. The new **FHSA** accounts can be offered as of April 1, 2023. There were changes proposed to raise the Alternative Minimum Tax (**AMT**) rate, calculation, and threshold. The **RDSP** definition of a "qualifying family member" is to be broadened to include an adult brother or sister of beneficiary.

iA Investia Financial Services Inc.

Going for a run

Investors had lots to cheer about at the end of Q1, following a very tough year in 2022, as stocks rallied, bond yields fell, central bank hiking slowed, and inflation cooled further. It's a promising start to 2023 but there were a few shocks along the way.

Equity markets dipped in February over concerns that the strong economic data might mean that Fed interest rates would stay higher for longer. Then in mid-March there was a scare as U.S. regional banks Silicon Valley Bank (SVB) and Signature Bank were forced to close due to a classic bank-run liquidity issue which dragged down banking stocks. The fallout spread overseas, affecting Credit Suisse. However, following a coordinated response by central banks to maintain market functionality, liquidity, and protect deposits, Canadian, U.S., and global equities recovered to wrap up Q1 with solid gains. The tech sector led the way, offsetting any volatility that the banking sector provided. Several major U.S. banks also posted quarterly earnings which were quite strong overall. Canadian banks had another round of strong results largely driven by their trading businesses.

It was also a bright beginning to 2023 for bond markets as prices rose and yields fell on more signs inflation is easing and as a result, lowered expectations for interest rates. This could be seen with the US yield curve, which measures the difference between long-term and short-term government bond yields, temporarily reached its most negative level since 1981. Even two-year treasury bonds now offer a lower yield than the central bank interest rate. This inversion of the yield curve, where longer term rates yield less than shorter term rates, is the market's way of screaming that monetary policy is too restrictive and the outlook for the economy is deteriorating. For many clients we have discussed how the risk / return metrics for bonds are looking attractive for the first time in many years as we could see equity-like returns with less risk.

The Canadian TSX composite finished the quarter up +4.55%. The US S&P 500 was up +7.50%, MSCI World Index ($USD), which measures equity results in 23 developed markets around the world, was up +7.88%, and FTSE Canadian (GBI CAD) Bond Index was up 2.89%. The CAD$ versus the USD$ exchange was basically flat up +0.27% for the quarter.*

There were several market-friendly Canadian and U.S. economic indicators in Q1. Job creation on both sides of the border continued to be resilient. Canadian retail sales rose and home sales slowed while U.S. GDP grew a respectable 2.7%. There was promising economic news overseas as well. Surveys of manufacturers, the services sector, and consumer sentiment in the U.K. and Eurozone revealed an improved outlook and an easing of supply chains. Economic activity is also picking up in China as it reopens for business after lifting its "zero-covid policy" pandemic restrictions. Chinese manufacturing moved back into expansionary territory which global markets responded to positively.

U.S. inflation cooled for the third consecutive quarter, from 7.1% to 6% as prices for goods and energy continued to stabilize. This was still higher than hoped due to food and housing costs remaining high, but the underlying details remain consistent with trending disinflation. The Fed raised its target interest rate by a smaller 25 basis points twice during Q1, from 4.5% to 4.75% in February and to 5% in March. Fed chair Powell indicated the end of its tightening cycle is near adding a soft landing for the U.S. economy, as opposed to a recession, is still attainable. He also stressed the Fed would be prepared to increase rates further if tighter financial conditions do not effectively slow economic activity.

Inflation moderated in Canada as well, from 6.8% to 5.2%, the largest deceleration since April 2020. According to Statistics Canada this was mainly due to lower gasoline prices although grocery and mortgage interest costs continued to rise. The Bank of Canada raised its benchmark rate 0.25% to 4.50% in January. Bank governor Macklem then indicated rate hikes would be on hold to assess the effects of hiking so far. He added, if needed, the bank would hike again to get inflation back to thew 2% target.

Continued on Page 2

Market Overview Continued

The price of oil and natural gas fell steadily through the quarter. Optimism over China reopening was countered by the March banking scare, Fed chair Powell stating that the Fed would increase rates further if required, and concerns about a potential U.S. economic slowdown. Other contributing factors included a slower than expected recovery in international travel as well as continued Russian supply despite western sanctions. Oil did rise about 9% in the last week of March stemming from disruptions to Iraqi exports

So what can you expect now?

Thanks to a swift response from central banks the recent banking troubles have likely been contained. The probability of a global economic slowdown has risen due to tightening credit conditions, which should lead to decreased spending and lower prices. The rate increases over the last year have a delayed effect so are still gradually impacting the economy and monetary policy decisions. The likelihood of interest rates moving lower by the end of 2023 is increasing, potentially setting the stage for the next bull market.

Thank you for your continued trust in the DD Humes team and for the opportunity to assist you in working toward your financial goals. Remember that we are here for you for every step of your planning journey. Should you have any questions regarding your personal situation or have family or friends who could benefit from our help, please do not hesitate to contact us.

Planning items

- **2022 Tax Return deadline for individuals:** Federal April 30, 2023, but since it falls on a Sunday it's really May 1, 2023.
- **RRSP Contribution Room for 2023:** Please provide us your room for the 2023 tax year when you receive your 2022 Federal Notice of Assessment. The maximum limit for 2023 is $30,780. 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%! 2023 room now available.
- **Tax Free Savings Account (TFSA):** A new $6500 of room available since January 1, 2023. Total room since 2009 is $88,000.
- **Conversion to RRIF account:** Those of you who turn 71 years of age in 2023 (born in 1952) 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 2023 or older and not already receiving recognized pension income.

The Planning Corner – Quarterly statements getting paperless option

We have been hearing from more and more clients about how we can reduce the amount of paper they are receiving and why they are getting the same duplicate information from both DD Humes and Investia. For this reason, starting with the September 30th statements, we are considering sending this quarterly newsletter solely in an electronic format and not sending the paper copy of the now redundant DD Humes quarterly portfolio summary which is just another report of the exact same information that is already being provided on your Investia statement. Another advantage of the Investia statement is that you can choose whether you want to receive a hard copy or go paperless via the Investia client portal or mobile application.

The exception to this would be for clients who have accounts at B2B Bank Financial services since these accounts do not appear on the Investia statement. You will continue to receive your B2B statements as you get them now, but you can manage the delivery status of either getting hard copies or electronic delivery on the B2B website. Note that you can still see these investments in the Investia Client Portal and mobile app, but they aren't on the statements of Investia. Any clients who currently have a hybrid of both... we will be in touch shorty to remedy that situation!