The Dream Achiever

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INSIDE THIS ISSUE

"Be a lighthouse. Shine for others when they are in darkness."

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Keeping watch on sunny days

We hope that you and your families are well and that you have been able to enjoy some of the warm summer weather. In the first half of 2023 the markets have seen a lot more sunshine than they had in the first half of 2022.

Q2 was a second successive positive quarter for investors. Stocks continued their promising 2023 recovery and bond yields stabilized on growing economic optimism and cooling inflation. U.S., Canadian, and global equities all closed out the quarter and first half of 2023 in positive territory. Technology was again the leading sector with the Nasdaq logging its best start to a year on record.

The broader inflationary trend in the U.S. showed prices are easing, albeit at a slow pace. Inflation fell early in the quarter to 4.9%, its lowest level in nearly two years. However, core CPI, which excludes energy and food, crept up 0.44% later in Q2, led in part by housing costs and used car prices. The Fed also raised its target interest rate by another 25 basis points to 5-5.25% in May, the tenth raise in 15 months. Fed chair Powell then announced a “hawkish pause” in June, but signaled there might still be more hikes needed in the second half of 2023.

Canadian inflation cooled through the quarter, from 5.2% to 3.4%, its lowest level since June 2021. According to Statistics Canada, this was largely due to lower gasoline prices although food and housing costs remain elevated. After a four-month break, on June 7th the Bank of Canada surprised us by hiking rates 25 basis points to 4.75%. The decision was based on concern over excess demand in the economy, a tight labour market, and increased housing market activity.

Capital Markets in Q2: With regards to equity markets, the Canadian S&P/TSX Composite Index ended the quarter up 1.1% (5.70% YTD), the US S&P 500 Index up 6.3% (14.16% YTD), the MSCI EAFE Index up 0.9% (9.50% YTD), and the MSCI World Index up 4.6% (12.73% YTD). With the continued rate increases and the prospects of a shorter-term rate decrease diminishing the FTSE TMX bond index was down -0.7% over the quarter (2.5% YTD). The Canadian dollar was up on the USD$ 1.8% in Q2 and has now climbed 2.3% on the year.

Equity markets rose through April but then dipped in May as the banking sector, falling oil prices, and the U.S. debt ceiling negotiations weighed on performance, before getting back on track in June. U.S., Canadian, and global stocks ended Q2 and the first half of 2023 in positive territory. Technology was again the leading sector with the Nasdaq logging its best start to a year on record (~+31%) and Apple becoming the first company to reach a market cap of US$ 3 trillion. The S&P 500 also had its best first half performance since 2021. A complicating factor is the growing enthusiasm for stocks linked to Artificial Intelligence (AI). Almost all of the S&P 500 gains so far this year have been delivered by stocks linked to AI. Narrow leadership creates a risk that gains can quickly unwind if recession fears prick the AI hype. In Canada, TSX gains were a bit a more modest as a result of its high exposure to the banking and oil sectors (Crude prices falling in recent months) but it is still significantly up from the October market low last year. Global stock gains were somewhat held back too by a slower than expected post-pandemic recovery in China.

Many big tech names released earnings which in general depicted a better picture than anticipated. Investors were comforted by these results, sparking hope that the worst of big tech’s post-pandemic slump, including its recent large job cuts, might be over. U.S. chipmaker Nvidia Corp. also announced earnings that surpassed estimates by more than 50%, highlighting strong demand for its computer chip technology which is used to power AI applications.

It was a tough quarter for the banking sector which was rocked by the regional bank failures in the U.S.. Four of Canada’s top five banks released earnings revealing profits were down compared to a year ago, though in absolute terms performance remained resilient. In global equity markets, Japanese stocks experienced a resurgence, with local indices reaching their highest level in 33 years. This growth is primarily driven by increasing demand from foreign investors.

Despite briefly rising mid-quarter, U.S. and Canadian bond yields were overall stable in Q2. Yields were stable in April, reflecting investor optimism and cooling inflation, then rose in May on uncertainty over the U.S. debt ceiling negotiations and concern about the U.S. regional banking sector. A better-than-expected economic backdrop also impacted the outlook for interest rates which influenced the trajectory of yields as well. But through June, bond yields stabilized again as Democrats and Republicans in Congress reached an agreement to extend the U.S. debt limit until 2025 and worries over the recent bank failures subsided.

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Market Overview Continued

What can we expect now?

The most anticipated recession in history is likely not to show up this year after all. Global growth is humming along nicely, labour markets are still booming and the much-feared deep downturn in corporate earnings has yet to materialize. Resilience, rather than recession, has suddenly become today's watchword. In response, central banks are prepared to increase rates further. But going forward, we expect to hear more questions on the ability of monetary policy alone to solve more structural economic issues, such as labour and housing market imbalances.

Even if the recent market performance has been "all sunshine", 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 that it remains on track. Diversifying investments reduces risk as well.

Thank you for your continued trust in DD Humes for the opportunity to assist you in working toward your financial goals. We are with you every step of your investment journey. Should you have any questions regarding your portfolio, please do not hesitate to contact us.

Planning items

- **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. Note: **You can make us a tax representative** and we'll be able to get this info 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%! 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 taking place in 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.
- **Estate planning:** The pandemic was another reminder that your **wills and mandates** should be in order.

The Planning Corner – The Investia Mobile App has a new look

During the week of Aug 7, 2023 a new version of the Investia Mobile App will be launched. The app revamp is based on feedback obtained from a sample of clients who participated in an online survey and provided suggestions on how to best optimize its use. The new app design is more user friendly and easier to consult. No changes to the functionalities have been made as part of this revamp, rather only the visuals have been enhanced for a better client experience.

As the new app is deployed, existing users will be prompted to update to the new version in order to continue to use it. The current login will continue to be used in the new application and the transition should be seamless.

The Investia App is constantly evolving and new features are always being added to enhance the client experience. You can stay abreast of the latest app developments by visiting the app's website at:
Mobile Application - Investia | iA Financial Group

Need help registering? See Investia's Client Portal Starter's Guide step-by-step instructions.

If you ever have issues with the App or client portal you can contact the support line 24/7 at 1-888-585-1005