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CIBC PRIVATE WEALTH
WOOD GUNDY

June 2024 Market Update

June has arrived. Summer will soon be here. We are approaching the half-way point of 2024.

At the beginning of the year, we made the prediction/guess that the Bank of Canada would be one of the first central banks to begin lowering interest rates, and that the first 0.25% cut would come in June. We got this one right as the Bank of Canada cut rates 0.25% at their June 5th meeting. We continue with our belief and opinion that Canada will cut rates another 0.25% at their July 24th meeting. Our 2024 forecast had Canada reducing rates a full 1.00% by the end of the year. This is still within the realm of possibilities, but it is also possible we see rates come down only 0.75% by the end of 2024. This wavering of our forecast comes from the US pushing out to later dates for interest rate cuts. If Canada has to cut interest rates too much before the US even starts cutting rates, this could weaken the Canadian dollar vs the US dollar more than desired or foreseen.

The Canada economy is certainly struggling to maintain positive economic growth and avoid a recession. Immigration – a hot button topic – has allowed Canada to show small economic growth. Without new workers in our economy, Canada's per-capita GDP turned negative almost one-year ago (aka, a mild recession). With the federal Government reducing immigration targets, Canada will need to work harder to avoid a recession in the coming months.

The US economy on the other hand, has remained much stronger and resilient despite the higher interest rate environment. The US shows higher disposable income growth (including lower taxes) and stronger productivity growth than Canada. This removes the immediate need for the US Federal Reserve to start lowering interest rates. Still, the US economy is showing signs of slowing down. The forecasts for US rate cuts range from as early as September, or possibly November (right after the US election) or possibly not until 2025. If the US does not need to start lowering interest rates until next year, this will pose some challenges for the Bank of Canada as it tries to balance the need or desire to lower rates here vs risks to a potentially weaker Canadian dollar which makes goods we import that much more expensive.

As we wrote in the May update, our Federal Government has increased capital gains inclusion rates for some individuals, and all corporations and personal holding companies. As of this writing, the legislation to increase capital gains has not been introduced to Parliament. With less than 2 weeks until these taxes increase, some individuals are hopeful this may mean the higher tax will be cancelled (sorry, but the higher taxes are coming) or will be amended (slim possibility). The most likely reason for the delay in introducing legislation, is that government is hoping that the uncertainty will prompt more selling of securities, rental properties, family cottages and sharply increase 2024 Government revenues. Remember, we do have a federal election next year.

As we will soon head into the back half of 2024, many challenges remain ahead. The earlier discussed interest rate decisions in Canada and the US should provide more positives than negatives, but can be volatile. The US has an election in November. While the longer term performance of investment markets can ignore and ride through political uncertainties, the longer term stability can often be a series of volatile short terms. Pundits are always trying to determine whether the markets will perform better under one President or another. For both the current and former US Presidents, the equity market performance will have been positive under both. One of whom will be US President for another

4 years. For Canadian investors, both have offered up good and bad news for the Canadian economy. These risks will continue to present themselves regardless of who wins. Still, Canada cannot just sit idly by and hope for the best. If the former President is elected, his bluster has been loud regarding personal vendettas and economic retaliation. We have no idea whether the bluster becomes reality if elected, but part of the bluster is to impose a 10% tariff on everything coming into the US. Canada and Canadian businesses must start thinking and considering actions if this were to happen. An important date for Canada (and Mexico) is 2026. During that year, the USMCA (NAFTA 2.0) trade agreement can be opened up for discussion and possible revision. To put it more bluntly, whoever the US President is in 2026, they have the ability to announce the withdrawal from the USMCA free trade agreement effective 2036. The actual withdrawal would occur long after the President has left office, and can be reinstated, but Canada must prepare for that political uncertainty.

Our long term investment strategies will not change. Focus on good quality equity and fixed income investments.

This month we hosted an informative webinar on the responsibilities of an Executor vs. Power of Attorney. Please let us know if you have appointed an Executor for your Estate or have set up a Power of Attorney and would like to go over these details. Please also let us know if you would like to review or make changes to your current beneficiaries.

As always, remain optimistic yet cautious.

Best Regards,
CIBC Wood Gundy

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