CIBC PRIVATE WEALTH
WOOD GUNDY

May 2024 Market Update

Spring has arrived and heading towards summer. As of this writing, the weather forecast has beach temperatures here in Victoria by Mother's Day. Almost as important is the end (for another year) of the annoying and burdensome tax filing season.

For investors, 2024 has to-date brought some positive performance numbers for several sectors in the Canadian markets. The January through March quarter saw some strength in both equity and fixed income investments. These positive numbers gave back some in April with a weaker month. As has been the case for the past several months, the direction of equity and bond markets has been determined by the outlook for interest rates. As we have written in the last many market update letters, interest rates in Canada and the U.S. have hit their peak and no rate increases are in the plans of the Central Banks. Investment markets continue to look for interest rates to start coming down. This topic has led to more volatility in the markets the past couple of months. Canada's economy is struggling to stay with nominal economic growth. Canada has so far been able to avoid entering Recession territory, but not by much. A majority of employment growth the past six months has come from government hiring. With the slowing economy, private sector payrolls have declined, and small business openings are at historically low levels. From this, I continue to argue that the Bank of Canada will begin to lower interest rates – by 0.25% – at their June meeting. The consensus of economists calls for the first cut to come in July, but I will remain with this coming in June. With the growing size of government debt and with the huge number of mortgages to be rolled over in 2025, the Bank of Canada should err on the side of lowering rates soon.

The U.S. on the other hand, has a very solid economy. Growth, employment, consumer spending and productivity has not seen much weakness coming from higher interest rates. This strength is currently seeing signs of a slowdown. This should delay the need for the U.S. to begin cutting their interest rates. The forecasts for U.S. rate cuts ranges anywhere from July to early 2025. A wider array of opinions in the U.S. An additional concern for the Bank of Canada comes from the potential for an even weaker Canadian dollar if Canada lowers interest rates at a much quicker pace than the U.S.

The recent "hot topic" of discussion and evaluation for Canadian investors was the decision by the Canadian government in the Federal Budget to increase taxable inclusion rates on capital gains for individuals and businesses. This increase was unexpected. Currently 50% of an individual's or corporate realized capital gains is subject to tax. Effective June 25, 66.67% of realized capital gains from a business or personal holding company will be subject to tax. This is a 33% tax increase. For individuals, the increase to 66.67% inclusion rate goes into effect for any capital gain realized in excess of $250,000 in each year. This tax scenario is re-set each year. There are a number of considerations that makes this tax increase more complex. Capital gains is realized not only on gains triggered in your investment portfolios. Capital gains is also applicable to the sale of any recreational property, or rental property you may own. For many individuals, the largest capital gains they may trigger is upon death. When someone dies, CRA assumes for tax purposes, that the last thing you did was sell everything you own. For example, after June 25, if you sell assets ie. Investments, recreational property, etc. or you pass away at which time you are assumed to have sold the assets. If the gain is $500,000 you, or your Estate, will be subject to higher tax. Currently, a $500,000 gain will see $250,000 subject to tax. After June 25, the amount subject to tax will be $291,675. In my political rant, the federal government says that one of the reasons for the tax increase is to provide more money for young people to buy homes.

This tax increase may reduce the amount of monies you, or your Estate, make available for children or grandchildren to buy a home. The budget document states that they expect this tax increase to impact just 0.12% of Canadians. This must be the new math that I am unfamiliar with. (end of rant).

The tax changes from the Federal Budget have not yet been passed by Parliament but is expected to occur. As a result of these changes, we should review and discuss your personal situations and whether these changes may have an impact on you. For investors with a corporate or a personal holding company, we should have a conversation with your accountant prior to June 25. For individuals, the June 25 date is not as important, but a financial planning conversation may still be appropriate.

Our long term investment strategy does not change. The focus on good quality equity and fixed income investments remain intact and will continue.

As daylight gets longer and the weather gets warmer, it is important to enjoy this time of year.

In addition to investment and tax planning conversations, we have a few other important items:

1) In June our Team will be hosting a webinar on “Responsibilities of an Executor vs. Power of Attorney.” I encourage your attendance at this educational event as the roles and responsibilities of a Power of Attorney and Executor are increasingly complex.
2) While charities welcome gifts of cash, donating certain securities that have increased in value can result in more tax savings. When eligible securities are donated directly in-kind to a registered charity, there is no capital gains tax on the gifted securities. Please reach out to us if charitable giving is something you would like to discuss further.
3) Please keep us informed of your carry forward capital loss, if applicable.

As always, remain optimistic yet cautious.

Best Regards,
CIBC Wood Gundy

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