PRIVATE WEALTH MANAGEMENT

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APRIL 2021 MARKET UPDATE

Spring into April!

The first quarter of 2021 is already in the history books. With each passing day, we all have either received our first vaccine, or getting closer to it.

The equity markets overall remain positive. For the first three months of 2021, the TSX Composite showed a gain of 7.4%. This is compared to a gain of 5.7% for the S&P500 in the U.S. Much of the TSX outperformance is a result of a recovery in energy and energy related companies. The markets see the return to normal in the near future and more of the traditional industrial and companies energy are showing some strength. The past several weeks, however, have seen U.S. equity markets performing better than Canadian. The pace of vaccinations in the U.S has been staggeringly quick and getting even quicker. It is possible that the U.S. may reach a level of herd immunity around of May. Canada, however, has been disappointingly slow and bureaucratic in the distribution of vaccines. As mentioned in the March Update, some of the issues are currently beyond our control. Canada has no domestic vaccine manufacturing capabilities. Though there are also many reasons for the lack of pharmaceutical manufacturing, it is hoped that we learn a valuable lesson and develop a domestic pharceutical production industry. With the slow pace of vaccine distribution comes increased political restrictions on the economy of many regions in Canada. These two issues may delay the economic recovery in Canada.

This frustration is not meant to sound overly negative. Many conversations with our friends and family which previously started with “Hi, how are you?” have become “Hi, have you had your shot?”. This is a good thing.

As we look to getting back to a more normal lifestyle, we will have some bills to pay. Governments have run up the credit card bills and are now starting to figure out how to pay them off.

We saw President Biden roll out some more spending plans this past week. Included in these packages, are plans on raising taxes. Many of his current tax increases are geared around removing tax cuts successfully brought in by his predecessor. There is significant doubt that the tax increases will be approved as presented. With a basic tie in the U.S. Senate, even one Democrat Senator opposing a tax increase will nullify the bill.

Of more importance is around the plans our federal government may have to pay off some of our recently accumulated debt. The federal government will finally introduce a Budget to Parliament (and Canadians) on April 19th. It has been over two years since our last federal budget. We do not know what Prime Minister Trudeau may want to introduce for tax increases at that time. This Budget may have minimal tax increases to propose, or he may try to bring in several. Is the Budget intended to force a 2021 Summer election? or does it kick the can down the road on taxes?

Whether plans are revealed to pay for our pandemic spending on April 19 or later, we certainly can expect a number of hits to our pocketbooks to occur. The answers to the question around tax increases is unknown, but we can make guesses on some of the areas being considered by the federal government.

Is there an increase coming to the GST? Though this would impact lower income individuals harder, a 1% increase would be quick option.

Does the government increase the corporate tax rates? Such a tax increase would devastate many small and medium businesses. They may try to target large multinational businesses.

Is there an attempt by Ottawa to combat the real estate markets by imposing new taxes. Flipping real estate, development taxes, and closing a number of financial loopholes are possible. I do not see a scenario where they attempt to tax the gain of your principle residence, but I would think it has been discussed.

Does the government consider putting a cap on Tax-Free Savings Accounts (TFSA)? It is estimated Canadians hold over $300 billion in TFSAs. This does not generate any revenue for Ottawa. Though it is not felt they legally could tax TFSAs, they could put limits on future contributions.

The one tax that brings about the most discussion is the Capital Gains tax. Currently 50% of a capital gain on investments is subject to being taxed at your marginal tax rate. Does our Prime Minister look to increase the amount of a capital gain that can be taxed, i.e. to 67% or 75%? For example, if you have a $100 capital gain, 50% ($50) is subject to tax at your marginal tax level. If the rate is increased to 75%, that $100 gain will now have $75 subjected to being taxed at your tax level.

We do not know how Ottawa will look to pay down some of our debt. We may start to get some answers on April 19th (or maybe we don't get any answers).
Only time will tell.

Friendly reminders & Tips:

- To review all your tax slips before filling your return. All tax slips have now been issued. If your accountant or tax preparer has any questions, we can provide this information directly to them (with your approval of course).

- Be proactive. How? By setting yourself up with online access via the Canada Revenue Agency website at Canada.ca/en/revenue-agency.html under "Sign in to a CRA account", "My Account". As per their website the My Account is a secure portal that lets you view your personal income tax and benefit information where you can manage your tax affairs online, including tax slips related information. It also provides access to your RRSP contribution limit, your Tax-Free Savings Account contribution limit along with many other important information.

Stay safe, stay healthy and always remain optimistic yet cautious.

Best regards,
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