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THE ELEPHANTS EAR

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What's Next?

After an incredible year in the markets, many are left wondering what lies ahead. The psychology of anticipating the next downturn can be challenging to shake off, leading us to question where the potential bad news may emerge after such strong returns.

The S&P/TSX Composite Index concluded the third quarter with a remarkable gain of 10.54%, while the S&P 500 Index rose by 5.78%, the Nasdaq Index by 2.76%, the MSCI World Index by 4.69%, and the MSCI EAFE Index by 0.82%. With the exception of Japan, major global equity indices are in positive territory for the year, and both the S&P 500 and Dow closed the quarter at new highs. In addition, Canadian and U.S. bonds experienced gains in Q3 as yields continued to decline, with the FTSE Canada Universe Bond Index reflecting positive performance both quarterly and year-to-date.

Corporate earnings also showed positive momentum, with profits increasing in both Canada and the U.S. during Q2 compared to Q1 and year-over-year. U.S. Q2 GDP grew at an annualized rate of 3%, up from 1.6% in Q1, bolstered by consumer spending, inventory investments, and business expenditures. However, August retail sales data indicated a more cautious approach among consumers. In Canada, GDP climbed by 2.1% annualized in Q2, but subsequent July data and August estimates revealed signs of softer growth, particularly in the retail trade, public sector, and finance and insurance industries.

Following my recent attendance at the Fidelity Focus conference, I gained valuable insights into the markets and the outlook for 2025. With the outcome of the U.S. election now settled, the effects of the "Trump trade" have provided a significant boost to many markets. However, the transition in U.S. leadership is expected to generate increased market volatility, underscoring the importance of portfolio managers and financial planners in identifying valuable opportunities amidst the chaos.

The prospect of tax cuts and deregulation has further propelled U.S. equities higher. While the U.S. is relatively expensive on a price-to-earnings (P/E) basis, it aligns with the adage that you often get what you pay for. Earnings for the S&P 500 have risen by an average of 7.4% year-over-year in Q3, predominantly concentrated in the top 80% of the market (large-cap stocks). Consequently, the bottom 20% of the S&P 500 is perceived as undervalued, presenting opportunities within the U.S. small- to mid-cap segments.

Recent data at the end of October illustrated contrasting economic conditions between the U.S. and Canada, with implications for the pace of interest rate cuts into 2025. The U.S. economy appears significantly stronger than Canada's, suggesting the Federal Reserve may approach future rate reductions with greater caution than the Bank of Canada.

Ultimately, the recent "Trump trade" rally reinforces the value of maintaining emotional discipline in investing; a well-diversified portfolio and a commitment to staying invested can lead to higher long-term returns.

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Tax Update

Going into 2025 I just wanted to remind my clients to have a look at your 2024 income, if you are a T4 employee, compare that to your provinces tax brackets to help determine the optimal RRSP contributions. For self employed individuals, including rentals, ask yourself how was the year compared to last and think about what tax planning needs to be done prior to year end if any.

Fidelity has a handy tax calculator that can help with estimates: https://www.fidelity.ca/en/taxcalculator/

For my clients with non registered accounts (i.e. not TFSA, RRSP, or RESP's), given how strong the market has been in 2024 you can expect higher tax distributions in 2024 and 2025. Like always the focus will be on using tax efficient solutions like capital gains and dividends instead of interest income where possible in non registered accounts.

The liberal governments proposed new rules for the capital gains inclusion rates are still bogged down in parlement; it does not look like it will be implemented. The recent announcement of a temporary tax break for GST on some items and one time $250 payment is quite frankly very poor economic/tax policy and if implemented will be a mess to administer and does nothing to help the Canadian economy.

Name Change?

A few clients have noticed Karen recently changed her last name back to Paynter. As a result her e-mail address has changed to kpaynter@redoakfinancial.ca. You can still reach her at her old e-mail as well but we will slowly transition over to the new e-mail.

Merry Christmas

On behalf of Red Oak Financial we wanted to wish all our clients a very Merry Christmas and a Happy New Year. We thank all of you for your continued support and we value all of our clients and enjoy working with you. We wish everyone health and happiness in the New Year.

Reminder: The office will be closed between Christmas and New Years

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