November 2024

IN THE LOOP

Election Update

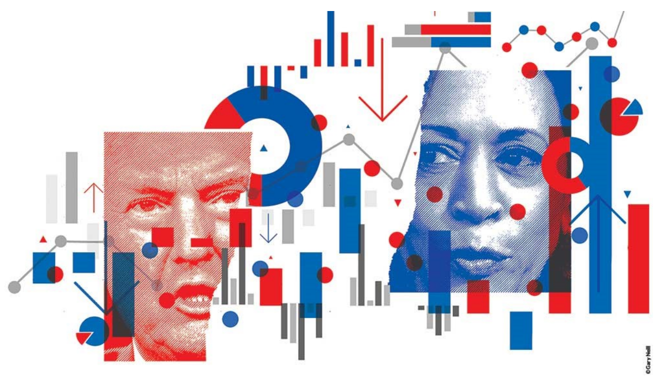
Well, another US election has come and gone, and Donald Trump will be returning to the White House in January.

Here's what to watch for in the months ahead:

Taxes:

Many provisions of the 2017 Tax Cuts and Jobs Act (TCJA) are set to expire at the end of 2025. Trump has said that extending key provisions will be a top priority for his administration. But, congress will ultimately determine the components of a package, its size, and whether it will include additional tax cuts promised during the campaign and potential budget offsets amidst unprecedented debt and deficit levels.

Tariffs:



While Trump needs congress to legislate tax-policy changes, he may use his executive authority to push for other key priorities.

Trump imposed certain targeted tariffs during his first administration – which were largely kept in place, and then expanded upon, by the Biden Administration. During the 2024 campaign, Trump proposed more sweeping levies of up to 60% on imports from China and 10% on all foreign goods.

Debt and Deficits:

Tax and tariff negotiations will take place under the shadow of a record federal deficit. While the federal government has been running significant deficits for years, higher interest rates might bring a new sense of urgency to the issue in 2025. The US is expected to spend more on debt interest this year, than it does on national defense. Elon Musk and Vivek Ramaswamy have been given the reigns of a newly created 'Department of Government Efficiency'.

What it may mean for investors:

Investors often feel more bullish when their preferred party is in power, but while policies do matter, history has shown that markets are nonpartisan and have historically risen under nearly every partisan combination. *(please see attached link for further reference)*

Although it can be tempting to let initial feelings of optimism or pessimism drive one's investing strategy, a sounder course of action is to make a long-term plan that meets your needs and goals and stick with it.

Contribution Room & Deadlines

- 2025 new TFSA contribution room is expected to remain at $7 000, bringing the lifetime limit to $102 000 for those who have qualified since its inception
- December 31, 2024 is the last day to make RESP contributions and receive Canadian Education Savings Grants for children who were born in 2007

Bank of Canada Rate Announcements

Many Canadians assume that when the Bank of Canada (BoC) adjusts its overnight rate, fixed mortgage rates will follow suit. After all, if the BoC lowers rates, it should make borrowing cheaper, right? In reality, the connection isn't quite so direct for fixed mortgage rates. Here's why.

The BoC Rate and Variable Mortgages

The Bank of Canada's overnight rate directly impacts variable mortgage rates and lines of credit. When the BoC adjusts this rate, lenders often change their prime rate accordingly, meaning variable-rate borrowers see the impact quickly. This clear link makes sense, given that the BoC's rate is what banks use for short-term borrowing. However, fixed mortgage rates operate differently.

Fixed Rates Follow Bond Yields, Not the Overnight Rate

Fixed mortgage rates are primarily influenced by bond yields, specifically the 5-year Government of Canada bond yield. Bond yields respond to a wider set of economic factors like inflation expectations, market sentiment, and global economic shifts. When inflation is high, bond yields tend to rise as investors demand higher returns to counteract the decreased purchasing power. This, in turn, pushes fixed mortgage rates up. When the BoC raises its rate, it's often a response to economic growth or inflation pressures. Since these same pressures can impact bond yields, there's an indirect relationship. However, there's no guarantee the two will align—bond markets may respond differently to global economic factors, such as U.S. Federal Reserve policies or international market volatility.

FHSA — What is it and how does it work?

The First Home Savings Account (FHSA) is a registered savings plan that gives potential first-time homebuyers the ability to save up to $40,000 ($8,000 per annum) towards their home purchase without accruing tax. Similar to an RRSP, contributions to a FHSA are tax-deductible on your income tax return for the tax year you make them in.

Additionally, account holders can withdraw funds for purchasing or building their first home tax-free. Any funds not used can be transferred on a non-taxable basis to an RRSP or a Registered Retirement Income Fund (RRIF).

Who is Eligible to Open an FHSA?

Resident Canadians that do not have a primary residence owned by them, their spouse or common-law partner and are at least 18 years of age are eligible to open an account. Keep in mind that potential account holders cannot be 71 years of age or over either.

Can I Invest in the FHSA?

FHSAs can hold investment vehicles similar to that of RRSPs, including: Cash, Mutual Funds, GICs & Bonds, Securities

If you would like additional information on the FHSA or if you would like to talk about opening an account for yourself or your children, please reach out to us. You can also read more information about the FHSA here.