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2023, 2024, Markets, Economists and More From the desk of Kurt Rosentreter, CPA, CA, CFP

January 9th 2025 Economic Outlook Meeting

I attended the annual Economic Club of Canada breakfast, which featured the Chief Economists from five Canadian banks (Beata Caranci, TD Bank; Jean-Francois Perrault, Scotiabank; Doug Porter, BMO; Frances Donald, RBC; Avery Shenfield, CIBC; and Stefane Marion, National Bank) who presented their economic forecasts for the year ahead.

This year, their focus was heavily on the impact of the incoming U.S. President and the outgoing Canadian Prime Minister. Below are excerpts and paraphrases of some of their most important comments that I noted:

- If tariffs are implemented, they could knock 0.5% to 3% off Canadian GDP.
- The Canadian dollar could drop to 50 cents against the U.S. dollar if 25% tariffs are enacted. A lower dollar could offset tariffs in some cases for the American consumer.
- The stock market could be down 10% this year.
- A recession would occur immediately if tariffs are put in place.
- Unemployment in Canada is forecast to rise to 7% by 2025, driven by softening growth due to low productivity among Canadian workers. There will be no business investment in Canada if tariffs are imposed.
- 21% inter-provincial trade barriers need to be addressed.
- Congress will regulate the current administration in the U.S.
- The US will expand oil drilling, and the Conservative government in Canada is expected to do the same.
- The U.S. is at full employment, with good productivity growth.
- The U.S. is working to reduce its trade reliance on China. Canada needs to align its economy with U.S. needs and pivot towards our competitive advantages, particularly energy.
- The current Canadian federal government has contributed to dreadful productivity, poor housing affordability, and a debt-to-GDP ratio now at 40%, up from 30%. The federal budget deficit has increased by \$10B, and we have lost fiscal discipline.
- Canada has experienced 40 years of declining productivity, hindered by red tape. The role of energy in this country and housing supply are key issues and addressing them will require multi-year solutions.
- What do we trade? Energy. Canada has the smallest manufacturing base in the G7. We outsource production and produce very little ourselves. Manufacturing in Canada is down 30%, while it has increased 10% in the U.S. We have made ourselves irrelevant in the North American supply chain. We have the cheapest natural gas and electricity in the world. We need to stop increasing the capital gains tax rate. Canada must become an attractive place to invest.

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- The Conservative government in Canada will reduce the size of government, lower taxes, lighten the regulatory burden, eliminate carbon taxes, and reduce immigration.
- Canada has lost its way. Climate policy has become a complex web of regulations—too many regulations.
- The current government has not adapted to a changing global political environment.
- Expect zero population growth in the next few years, leading to a 1.5% annual population growth rate when including the past few years. No population growth will result in slower economic growth.
- Canada is one of the most interest-rate-sensitive economies in the world. Significant interest rate cuts will be beneficial. Lower interest rates will stimulate spending (e.g., filling restaurants).
- The Bank of Canada is not done cutting interest rates. While rates are not going back to 0%, they could drop to 2%.
- We need a "start over" approach with our income tax system. Current tax rates are too high and discourage entrepreneurs and high-net-worth investors. We need to offer lower income tax rates than the U.S. to be competitive. We also need to reduce regulation and stop handouts.
- U.S. bond yields are rising, with the 10-year Treasury rate at 5%. The U.S. is facing a \$2T budget deficit and record spreads between Canadian and U.S. bond yields.
- The median age for first-time homebuyers in the U.S. is 38.
- Mortgage rates are expected to decrease further. We need to increase the housing supply. Canada requires more family units and fewer one-bedroom units. We also need more rental properties. Housing affordability remains a major issue.
- Other provinces are more affordable for buying homes and living. The baby boomer wealth transfer will assist the next generation.

These comments were made individually by all five economists. None of them were asked the same question.

The overall mood was that Canada faces significant structural issues that are making the country less competitive globally. None of the economists had a positive outlook on the strategies of the current federal government—on the contrary, they blamed the government for many of the challenges facing Canada.

From a business perspective, they emphasized the need for Canada to adopt strategies more similar to those of the U.S., which is setting the global standard for business and productivity.

While they didn't explicitly state it, it was clear they didn't foresee a strong economic year for Canada in 2025, especially with more interest rate cuts on the horizon as a stimulus for the economy.

Volatility

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In 2024, investors experienced a record number of "up" days in the stock market, which made investing seem easy. Buckle up for what is sure to be a far more volatile 2025—asking for three consecutive positive stock market years in a row is unlikely in Canada. In our team's opinion, 2025 is a year to play defense. That means:

- Own some bonds and GICs as a cushion against volatility and to fund any upcoming spending over the next two years. Refrain from funding short-term spending with stock market investments.
- Review your asset allocations (cash vs. bonds vs. equities) to ensure the mix reflects your stage of life, fears, and financial needs. We review this in every meeting with you.
- If you are retired, work with us to ensure you have at least one year's worth of cash flow set aside in your investment accounts to cover spending for 2025. This way, your basic cash flow needs in retirement won't be affected by volatile markets month to month.

Interest Rates

Well, that was fast! After 10 interest rate increases in 2022 and 2023 by the Bank of Canada to bring inflation down, they have now decreased interest rates six times in the latter half of 2024 and into 2025. Inflation in Canada is back around 2% per year (the Bank of Canada's target), but the economy is slow, and if we face tariffs, we may see more interest rate cuts in 2025.

Given the current economic conditions, it may be advisable to revisit your mortgage strategy with your mortgage specialist. As well, certain higher-yield bonds and GICs are no longer available. We had a brief period to purchase long-term bonds and GICs during the higher interest rate environment. Now, GIC and bond rates have returned to lower levels as of January 2025. Please contact our office for more information.

Bitcoin

As your advisory team, we always try out investments before recommending them to you. Three years ago, when Bitcoin first rose to prominence, we opened trading accounts ourselves to learn about it. We traded Bitcoin and Ethereum, then closed our accounts and wrote about our experience in this newsletter.

When Bitcoin reached over \$100,000 USD per coin (as of Dec. 11, 2024), interest in Bitcoin as an investment grew. Here are our thoughts: Bitcoin is not like stocks, bonds, or real estate. It is a digital currency that can be hard to understand and was created anonymously.

Bitcoin can be used by people in the developing world (where their own currency is weak) to buy food, as it is often more stable than their national currency. It has also been used in the black market worldwide by criminals for money laundering, cyber-theft, or to demand ransoms.

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In our opinion, Bitcoin is an asset that belongs on the same “shelf” as gold—it can be used to buy or sell, but it frankly has less store of value and transactional utility than gold, which has been around for 1,600 years. Bitcoin is not quite on the same level as trading hockey cards or buying artwork.

Bitcoin is not endorsed by any reputable government yet, and many of the same governments are developing their own digital currencies, which could hurt Bitcoin’s value if they are released.

If you want to buy Bitcoin or other cryptocurrencies, you can do so through a variety of cryptocurrency exchanges. Bitcoin is more of a currency than an investment, so you don’t need a stockbroker to buy it.

At this time, we are not recommending Bitcoin as an investment for your portfolio.

Income Tax Season is Around the Corner

Income tax slips will start arriving in February. Please track your tax slips and receipts, and keep in mind that you can now download many of your tax receipts directly from the CRA through your online CRA portal. Be sure to provide all your tax slips to your accountant. Note that tax slips will continue to arrive until early April, so we do not recommend preparing your tax return until mid-April each year.

Are you turning age 71 in 2025?

If so, and we have not already converted your RRSP to a RRIF, we will be in touch between October and December 2025 to assist with converting your RRSP to a RRIF or your LIRA to a LIF. To learn more about RRIFs, see my fall 2024 newsletter on the topic here: www.kurtismycfo.com on the newsletter page.

Make Sure We Have your Key Documents!

If you value our overall perspective on your finances as your "Personal CFO," please ensure we receive copies of your mortgage statement, personal and corporate tax returns for the current year, income tax notices of assessment, copies of your Will and Powers of Attorney, and investment statements for investments you hold at work or with other firms. We believe our advanced skill set makes us the best-positioned team to be your "master planner" for your finances.

Investment Statements and Online Viewing

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Our investment dealer, Manulife Wealth, continues to mail out monthly or quarterly investment statements for your accounts. Please note that you may not receive statements in some cases if there is no activity during the month. We also offer e-statements, which can be emailed to you. Additionally, our online portal allows you to view your accounts every day.

Lastly, Laura on our team manually prints and mails or emails investment statements occasionally, if you'd like to see the performance reporting statements we bring to our meetings. These are a lot of work for Laura to manage on her own, so please request them periodically if you don't mind.

Our Team

I am pleased to announce that our team consists of twelve professionals working out of our office at 2848 Bloor Street in Toronto. A team as deep and broad as this ensures a high-quality experience in your work with us. We have strived to set up our office so you can speak to any of our qualified team members when you call and want to avoid anyone ending up in voicemail. Between Christmas and New Year, the markets were open, and we had eight people in the office. If you need anything, just call.

Given our team's specializations, licenses, and regulatory requirements, it's possible that you will interact with several team members to get work done. We have moved away from having one dedicated resource for you to call and now embrace a team approach, where everyone can assist with your financial needs on a day-to-day basis.

On a personal note, I turn 58 next month. Some of you have started asking when I will retire, and I find that a bit strange because I still feel like I should be playing baseball, just like I was at 25! The reality is, after writing 7 books, advising for 30 years, and continuing to teach full-day courses in eight provinces across Canada, I'm far from done!

We continue to grow the practice, and I absolutely love what I do and the relationships I have with my clients. Health permitting, you will continue to see me chairing your meetings, leading your financial planning, and always ready to talk—easily for another 15 years, maybe longer. I should also point out that my partner Frank is younger than me, just as knowledgeable, and ready to step in to manage relationships if something were to happen to me. Not to mention the other members of our highly qualified team, who are also ready to help with even the most advanced topics!

Meetings for 2025

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It is very helpful for the team's planning if you indicate which months of the year you prefer to have a meeting with me (Kurt). We have a master calendar in the office and have already set target meeting dates for you in 2025, including the frequency of meetings each year and where to meet. While we've planned it all out, we'd still like your input! Kindly let us know at your convenience.

Final Thoughts

I know many Canadians are nervous about the current US administration, threatened tariffs, and generally the next four years in the world. Even in Canada, we may see a government change for the first time in almost a decade, leading to increased uncertainty.

I cannot speak to the impact of upcoming policies and changes on careers, health, the environment, relationships, or freedom. But I can speak to the potential impact on currency, the stock market, interest rates, real estate, and our economy.

First, I would say that the first set of concerns above is more important than the second. So, take care of yourself and don't worry too much about all of this.

In the last 100+ years, there have been dozens of major catastrophic events in the world—world wars, assassinations, nuclear close calls, weather disasters, bad governments, and more. Put in perspective, I don't think the policies of the current US administration will surpass many of these past events that we survived. Hang in there.

Further, stock, bond, and real estate markets have regularly "taken a hit" during awful events, only to rise again—sometimes fairly quickly—as capitalism takes advantage of short-term turmoil. My message to you with investing: the worse the news, the more you should consider investing into the stock market or real estate while prices may be lower. So, buckle up, build your cash, and wait for the opportunity to buy.

However, for any money you need to spend in the next few years—whether you're a retiree needing food money, a parent paying university tuition for a child, or planning for a new car next year—this money should be parked safely in a bond, GIC, or savings product. Don't gamble with short-term needs. Play it safe.

With respect to currency, we have never advocated holding all of your savings in Canada alone. We have coached most clients on opening and building substantial USD investment accounts to diversify currency.

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You already have a Canadian dollar house, a Canadian dollar job, Canadian dollar RRSP/RRIF, and Canadian dollar pensions—that's enough Canadian dollars in this little, narrow country that is less than 2% of the world's GDP in 2024*. Whether it's Euros, GBP, Yen, or USD, everyone is well-served with significant currency diversification outside of Canada in the long term.

Bingo with stocks—there is an argument to be made that 100% of your stock market portfolio should be non-Canadian. Over the last 10 years, if you did that, your investment portfolio results would have been substantially better in American equities. And as the Canadian dollar dropped against the US dollar, not only would you have made a foreign currency gain on top of your stock gain, but you'd also have USD for travel and spending without having to worry about currency rates. Start living part of your life in a second currency. Permanently.

Sorry, I will never encourage you to buy gold, silver, diamonds, or Bitcoin as a fear hedge. Other than short-term speculation and getting the timing right on a new trend, it's hard to see these products as solid cornerstones of a foundational investment strategy in 2025. They are gambles for gamblers. If you want something unique to speculate on, buy original artwork or real estate.

Overall, I am optimistic that the tariffs will get sorted out, the current US administration could be good for the stock market (again), and if we turn off the day-to-day news and follow longer-term trends, we can all be better investors with less volatility.

As always, the team and I are here to talk—anytime.

Kurt

Sources:

* World Economics Research, 2024. Retrieved on 02/07/25.

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