Friday, May 10th, 2024

Weekly Wrap

After a tough April the bullishness has resumed in May as North American markets are on a nice winning streak of late. Earnings have been coming in better than expected, pushing share prices up, and economic data has generally been strong; Canadian job data this morning was tremendous with 90,000 new jobs created, a full 70,000 more than expected. Canadian, US and European markets were up about 1.5% this week while the Emerging Markets fell about 0.5%, partly due to President Biden's plans to put further tariffs on Chinese trade. Interest rates were stable in the US this week, although they rose about 0.1% in Canada, much of which came from this morning's job data. There has been a lot of talk about the future of the Loonie with concerns that the relatively greater likelihood of rate cuts in Canada sending the Loonie down versus the US Dollar. It's important to remember that the Loonie has already moved down in 2024 as much of this expectation has been priced in. This week the Loonie, in fact, rose a touch as investors unwind some of that trade this week.

Market Insights

Consumers are showing signs of strain. Food companies have significantly increased prices since the pandemic to offset rising costs like labour. Consequently, the portion of consumers' disposable income spent on food is now at a 30-year high. Even though price hikes have decelerated, food prices remain much higher than before the pandemic. According to the Labor Department, March grocery prices were 26% higher than in 2019, and fast-food prices have surged 33%. This inflation has pressured consumers, especially lower-income households, whose ability – or willingness – to absorb further price increases is diminishing. In addition, the lower net worth consumers have now exhausted their savings which built up during the pandemic. During the pandemic, massive government stimulus and reduced spending on services due to lockdowns allowed many Americans to build up their savings; these excess savings peaked at $2.1 trillion in August 2021 and then were gradually depleted before reaching -$72 billion in March. In Canada there have been a few reports showing that renters (the lower wealth part of the spectrum) are feeling far more strain than mortgage holders. Not surprisingly, we are seeing consumer sentiment data drop substantially of late, including this morning's number. Although consumer sentiment is not always a reliable indicator, the extent of the drop in sentiment should give policymakers something to think about.

Is immigration distorting inflation and economic data? The US has experienced an unprecedented rise in immigration, with 7 million new arrivals between 2021 and 2023, compared to just 2.2 million in the previous three-year period, according to the Congressional Budget Office. While some of the initial effects differ from long-term outcomes, high immigration is assumed to lead to a sustained increase in the labor force. However, new immigrants don't go straight from the airport to their new employer…there is a lag. This boosts potential output above actual output creating a temporarily negative output gap (economist speak for a delayed reaction). Initially, unemployment may rise as newcomers integrate into the labor market, but it eventually falls below levels it would have reached without these immigration gains. Although the recent immigration surge may be shifting some economic metrics to suggest increasing risk of stagflation, the population boom is expected to boost long-term economic growth by increasing aggregate demand and firm profits. This dynamic is just as evident, if not more, here in Canada and it may be leading economists to fret too much about this adjustment phase where the economy absorbs new immigrants and not giving enough consideration to the long term benefits.

Portfolio Update*

This week we made the decision to reduce our holdings of TD bank shares by 50%. For about a year now TD has been dealing with an Anti-Money Laundering (AML) investigation into their US operations. The extent of the investigation has been unknown for most of that time but there are growing signs that it could result in fines, limits on certain business activities, monitoring and, worst of all, a loss of reputation amongst customers. As a result of the swirling clouds, TD shares have already dropped this year and although this could mean that the bad news is priced in already, we've seen this type of reputational breakdown before in the banking industry and it can be very hard to recover from. As such we felt that, on the balance of probabilities, it was best to mitigate our exposure and we remain open to the possibility that it may be wise to sell the remainder of our holdings. This decision was made easier by the fact that there are plenty of actionable investment ideas to replace TD with.

***Please note any changes apply to our PIM Portfolios Only, subject to restrictions. Please call to clarify if you have any questions.**

Planning On

Canada's New Dental Plan

The Canadian Dental Care Plan came into effect on May 1st of this year for those who are aged 70 and older. Those who are 65 and above can also now apply for the dental plan. Applications can be completed online, over the phone or in person at any Service Canada location. The link to the online application is below:

Dental coverage - Canada.ca

To be eligible you cannot have access to dental insurance (either private or group insurance through work or a spouse's employment), have a adjusted net family income of less than $90,000, be a Canadian resident for tax purposes and have filed your income tax return for the previous year.

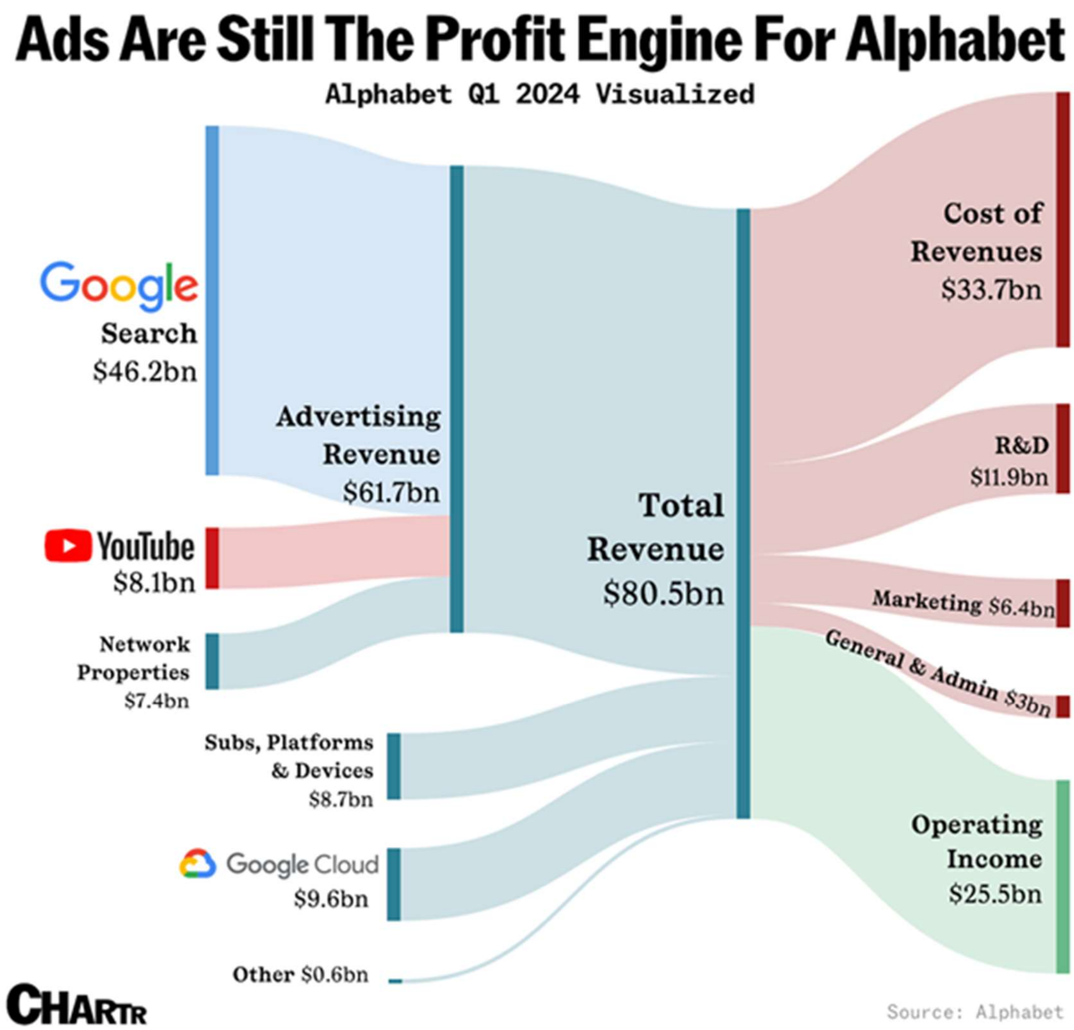
In June, children under the age of 18 and people with a valid disability tax credit certificate can also apply. For everyone else (those aged 18 – 64), you will have to wait until you can apply online in 2025.

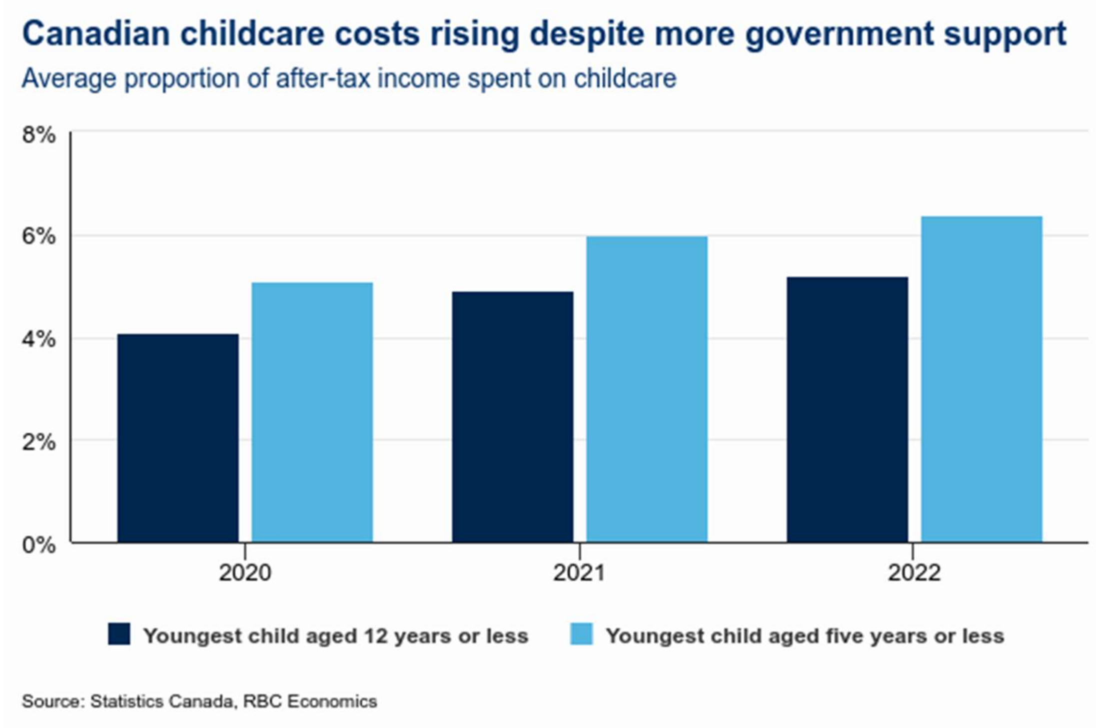
This information is not intended to provide legal, tax, or insurance advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified lawyer or accountant, as applicable, before acting on any of the information.

Peach Arch Hospital Foundation Gala

The Milau Private Wealth Management Group was proud to support the Peace Arch Hospital Foundation last week at their annual Gala – Kokomo. Thanks to all the generous donations, over $1.5 million was raised for new imaging equipment. It was a retro beach party themed event enjoyed by all. Thank you to all the RBC partners and colleagues who made the trip (and the dip into the ball pool – Ray Mohan, Lynn Houle and Aida Etminan)

Charts of the Week





Spare Time Updates

[All of the Best Mother's Day Gift Ideas 2024]

The big day is this Sunday and for all those last minute shoppers here is a list of ideas providing your local e-commerce provider can ship them in time 😊

[Brute force password protection]

Chances are some of your passwords could be cracked in seconds. Check out the estimates below showing how long it could take a hacker to brute force passwords based on their lengths and complexities.

Financial Term(s) of the Week

Cash Equivalents: Securities for short-term investing. They are considered cash as they are very liquid and can be converted to cash very quickly. Some examples of these low-risk investments are government T-bills, bankers' acceptance, corporate commercial paper and other money market instruments.

Feel free to pass on this email to anyone you think would benefit from its information or see some value in it.

Thank you very much for reading through our commentary.

Feedback is welcome!

Milau Private Wealth Management Group
of RBC Dominion Securities Inc.

Contact Us | Website | Meet The Team

Nick Milau
Senior Portfolio Manager & Wealth Advisor
nick.milau@rbc.com
Phone: 604-535-3825
Toll-Free: 1-800-663-4664

Justin McKenzie

Ryan Sandhu
Associate Advisor
ryan.sandhu@rbc.com
Phone: 604-535-3813

Lori Lougheed

Associate Wealth Advisor
justin.mckenzie@rbc.com
Phone: 604-541-6697

Associate
lori.lougheed@rbc.com
Phone: 604-535-3853

Marci Hammer
Administrative Assistant
marci.hammer@rbc.com
Phone: 604-532-2839

RBC Dominion Securities Inc.