Maximum growth

April 2024 Edition

Interest Rate Cuts ~ Laurel Hickey & Garth Bluekens

What's Tax Season Got To Do With It?

We felt it was timely to bring back a topic that we have discussed before: interest rates and the potential for interest rate cuts. In the fall there were signs of inflation cooling, which was reflected positively in the markets as we closed out the year. Though there were various estimates of how many interest rates cuts would occur, an overall popular opinion of economists was that interest rates cuts could start in 2024. As we started out the year, the timeline of these cuts has become more unclear, as inflation is remaining sticky. To get a better understanding of a couple areas that we look to in determining the potential for monetary easing, we want to talk about inflation when it comes to shelter and jobs numbers.

In the National Bank Investments CIO Office April Asset Allocation report, they bring forward the question of if the Fed's Job is done when it comes to interest rates and how the situation in the US is different than what we are seeing in Canada. One big difference we see regarding inflation in Canada lies in housing. With the higher housing costs, the decrease in inflation to reach the Bank of Canada targets needs to come from other areas like, food and gasoline. We are getting closer to the 1–3% targets, but the shelter is still remining elevated (chart below).[1]

We have a growing population is Canada and with more people you need more homes. Housing is an issue that you can't fix over night, but we are seeing progress with housing starts in February growing 14% over a month earlier to around 253,000 units versus the market expectation of 230,000 units.[2]

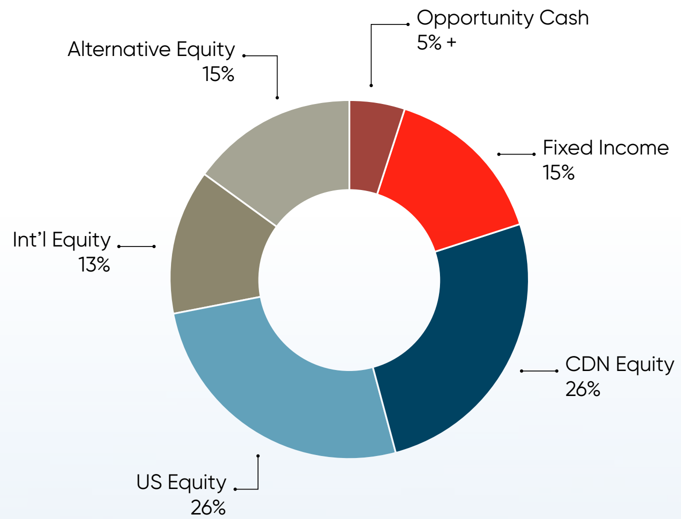
Jobs number are always a part of the conversion when measuring the strength of the economy and whether we might see rate cuts. One important thing to remember is the start of rate cutting is a sign the economic slowdown is upon us, not behind us. If a rate cut doesn't come in the US until the summer, the affects on employment might not been seen until the end of the year or early next year. Employment data in Canada is also more volatile than what is seen in the US, and the weakness of our economy is becoming more apparent.[3] In March, we saw unemployment in Canada rise to 6.1% which is the highest rate seen since February 2022. Job creation and hiring is not keeping pace with population growth. With continue restrictive monetary policy, this upward trend in unemployment is likely to continue.[4]

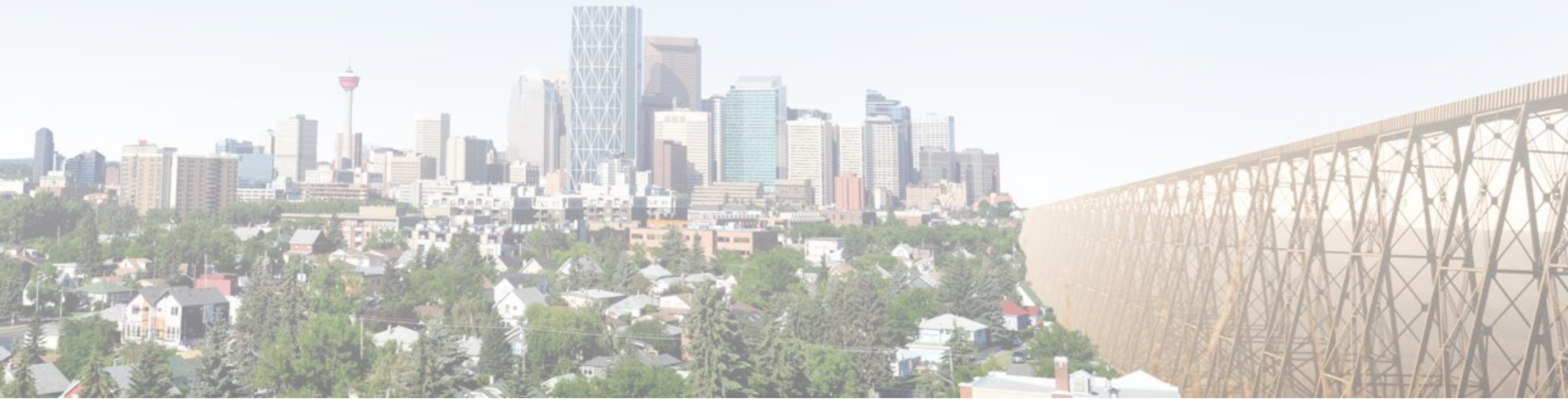
Overall, the housing factor in Canada is really driving the decision of if we see movement in interest rates. When a conditional pause was declared at the beginning of last year, housing sales increased, and home prices rose for five months. The balancing act of inflation forecasts and housing is something the Bank of Canada needs to work with, and this will play a role in how much they can cut rates by.[5] We are always watching interest rates as yield is a part of total portfolio return. Not only with portfolios, but interest rates and debt can affect our client's financial plans. There is a lot of information out there when it comes to interest rate outlook, and we want to help you make sense of it all!

1 asset-allocation-strategy.pdf (nbinvestments.ca)
2 Canada Housing Starts (tradingeconomics.com)
3 asset-allocation-strategy.pdf (nbinvestments.ca)
4 economic-news-jobs.pdf (nbc.ca)
5 Bank of Canada to Hold as It Debates When to Start Easing Rates: Decision Guide - Bloomberg

Maximum Growth Investment Model Goal Asset Allocation

Your Investment Policy **MAXIMUM GROWTH PROFILE:** You want to maximize the growth of your investments by investing all or most of your portfolio in equities. In doing so, you accept a higher level of risk and change in the value of your investment in the hope that your returns will ultimately be higher. If you feel that your risk tolerance is shifting, please let us know!





Source: This information is for illustration purposes and subject to change. Your portfolio may not hold all of these positions. We enhance the composition of your portfolio with additional equity solutions that are not illustrated. The weightings change with market fluctuations and model rebalancing.

Laurel Marie Hickey, CFP®, CIM®, FCSI®
Wealth Advisor & Portfolio Manager
239 8th Avenue SW, Calgary, Alberta T2P 1B9

Garth Bluekens, CPA, CA, PFP®, CIM®
Senior Wealth Advisor & Portfolio Manager
404 6th Street S, Lethbridge, Alberta T1J 2C9

Tel.: 403-531-8429 | **Toll Free:** 1-877-506-7900 | **Email:** laurel.hickey@nbc.ca

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