Investor Insights

Q1 2025 - Investor Insights

Market Review

The first quarter of 2025 showcased some volatility, with the month of January contributing to a positive start to the year while the latter two months of the quarter erased most of those gains. For our Canadian markets, the S&P/TSX Index ended Q1 2025 just shy of one percent. The biggest gainer was in the precious metals sector, with the gold subsector index gaining in the mid-thirty range for the quarter. Utilities had a moderate positive quarter, which was up nearly 4%. Our energy sector for this recent quarter was relatively muted but posted a low single-digit positive return. The most heavily weighted sector for the Canadian index is the financial sector, and the bank sub sector index was down close to 4%. The U.S. market, S&P 500 Index, on the other hand posted negative returns for the quarter. The index was down in the mid-single digit range at close to 5%. The largest detractor to the index was from the Information Technology (IT) sector, which was down in low teens for the quarter. The largest sector by weight for the S&P500 Index is the IT Sector accounting for close to a third of the index at about 30%, this sector weighed down the U.S. Market index. Consumer Discretionary and Communication Services sectors were moderately to significantly down. Notable sectors that provided some positive returns to the S&P500 to help soften the decline were in the areas of Health Care, Financials and Consumer Staples, posting moderate returns near the mid-single digit range. The Magnificent Seven stocks, Tesla, Apple, Microsoft, Google, Amazon, Nvidia and Meta, the performance of these mega-cap stocks have been negative and due to their outsized market capitalizations hold a disproportionate influence on the Nasdaq and S&P 500

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while the Nasdaq ended the year closer to the thirty percent range. Growth outpaced value for the year, S&P Growth index measured in at the mid-thirties while S&P Value index in the 10% range. Gold reached new highs touching $2800 per ounce. The U.S. Dollar strength maintained all year and reaching its peak at the end of 2024 in the final month. The WTI oil ended the year flat, erasing all its gains from the start of 2024. The U.S. 10-yr treasury yields made a rally for the year and added to the volatility in equity markets.

Our Portfolios

Our model portfolios have performed relatively well over the market indexes, our Canadian portfolios are defensive in nature and are focused on value-type stocks. Our best performing equity portfolio was the High Income portfolio, with solid positive returns for the quarter. The consolidated portfolio the Canadian Dividend portfolio had a moderately positive return. While our other two fully Canadian equity portfolios Dividend Growth and the more concentrated Infrastructure portfolio had slightly positive returns outperforming the Canadian index slightly. The balanced portfolio, Defensive Income with the half allocation to equities and other to fixed income, similarly performed decently well for the quarter and posted returns in the same range. The Canadian Fixed Income portfolio showed the same slightly positive return for the first quarter of this year. The only portfolio down is our U.S. dollar denominated Global Growth portfolio, focused on the growth-style of investing, posted a nearly flat to slightly down quarter. Portfolio changes for the quarter, included some trimming back of our largest positions and reducing some energy exposure to crystalize some gains and to raise some cash. In our Dividend Growth portfolio we reduced, Tourmaline, Cenovus, Canadian Natural Resources, Baytex and Arc Resources. For the High Income, Infrastructure and Canadian Dividend portfolios, we trimmed back our larger positions in the mid-stream energy area to raise some cash. A slight hair-cut in TC Energy, Enbridge and Pembina Pipelines we completed towards the end of the quarter. As we head into this continued volatility, we will selectively take opportunities to raise a bit more cash as a tactical strategy to keep some dry powder on the sidelines as well as help absorb any dramatic pullbacks that may be on the horizon. Changes to Global Growth portfolio includes a switch out of Nike and into JD.com.

As we align ourselves with industry standards and the continually evolving regulatory guidelines, we will be referring to general aggregated return figures based on the client's investor profiles. Your individual consolidated performance returns are enclosed but for reference purposes in this commentary we will be providing return figures on how each investor profile has performed on aggregated numbers. The majority of clients are in the Growth profile, while some without any fixed income allocations would be in the Maximum Growth profile. A very small number of our clients are in the Balanced profile. For Q1 2025, Maximum Growth had an aggregate positive return of 4.0%. For the Growth investor profile, the first quarter return is a positive 2.5%. The Balanced investor profile closed the quarter with a positive 1% return.

Outlook

We're in for a year of extreme volatility, as it's been apparent with the headline driven market activity. The uncertainty of trade war escalations, with on again and off again back and forth has dominated headlines, markets are reacting in extreme fashion. As United States-Mexico-Canada Agreement (USMCA) trading partners, Canada and Mexico were largely spared from the tariff list. Canadian producers have been quickly imposing the self-compliance registrations to protect themselves from the tariff effects, which our economic team forecasts there would be close to approximately an effective overall 4% tariff rate on Canada. Although Canada's overall impact on tariffs is sheltered, from a global perspective the effective rates would be more significant. The potential impacts and threat of a global slowdown and structural shift that would cause a recessionary environment is a risk that we should prepare for. Markets historically work in cycles and there are periods of recessions and bear markets that work on the other side of strong economic cycles and bull markets. Our investment portfolios are defensive in nature with the type of dividend paying stocks we own and value-focused strategy within our equity holdings. When there's a pullback in markets, the valuations of these solid company names in our portfolios will be squeezed and downward pressures on their prices but the majority of these companies will continue to pay their dividends. Patience and rational investing will help endure these moments without reacting with emotion to market changes.

UNDERSTANDING RRSP TO RRIF – Seamless pathway to retirement income management

For many Canadians, saving for retirement involves diligent contributions to a Registered Retirement Savings Plan (RRSP). The RRSP offers tax-deferred growth opportunities, allowing funds to accumulate over the years without immediate taxation. However, as retirement approaches, the focus shifts from accumulation to income generation. This is where the Registered Retirement Income Fund (RRIF) comes into play.

What is a RRIF?

A RRIF is a financial tool designed to provide a steady stream of income during retirement. It acts as a continuation of the RRSP but with the aim of disbursing funds rather than saving them. While RRSP contributions are made to grow savings, RRIFs are established to convert those savings into regular retirement income. The transition from an RRSP to a RRIF is a mandatory step before the age of 71, as per Canadian tax law. At this point, individuals cannot retain their RRSP and must either withdraw the funds in a lump sum, transfer them into a RRIF, or purchase an annuity.

Converting RRSP into RRIF

The process of converting an RRSP into a RRIF is relatively straightforward but requires careful planning. First, no immediate taxes are applied during the transfer, as the RRSP and RRIF share the same tax-deferred structure. This means that individuals do not face a tax penalty for moving their savings into the RRIF, making it an efficient and seamless transition.

Once the funds are transferred into the RRIF, however, the structure changes. RRIFs mandate annual withdrawals, which are taxed as income. The government sets minimum withdrawal amounts based on the RRIF holder's age and the balance in the account. These amounts are calculated using predetermined percentages that increase as the account holder ages, reflecting the expectation of drawing down the savings gradually over time.

The Transition into Retirement

The conversion from an RRSP to a RRIF marks a significant milestone in the journey toward retirement. It is a reminder that financial planning does not cease upon reaching retirement age—it evolves to meet new challenges and goals. With proper management, a RRIF can support retirees in maintaining their desired lifestyle, ensuring financial security throughout their golden years.

By understanding how the RRIF works and its requirements, retirees can make informed decisions that optimize their savings and minimize unnecessary tax burdens. As a versatile and structured retirement income tool, the RRIF helps Canadians navigate the complexities of retirement with confidence and peace of mind.

Sincerely,

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