

SPRING 2025



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## A CLOUD OF UNCERTAINTY

The rhetorical tautology, *"Predictions are difficult, especially about the future"* may feel particularly relevant today.<sup>1</sup> The start of 2025 has been marked by low visibility, with two events casting a cloud of uncertainty over investor sentiment: the launch of DeepSeek's AI platform—claiming to be a significantly lower-cost model—and U.S. President Trump unleashing a trade war.

While the shift in U.S. policy direction has felt particularly unexpected—from tariffs against its closest ally to talk of annexation—it serves as a reminder of the value of diversification. Until now, Canada's dependence on the U.S. as its primary export market has largely been overlooked: 77 percent of exports go to the U.S.—no other nation accounts for more than 5 percent.<sup>2</sup> Just as diversification is important in portfolio management, it is equally critical in trade.

Over recent years, the focus on diversification in investing may have also taken a back seat. Market gains have been largely driven by a handful of U.S. tech giants, whose dominance has gone mostly unchallenged. DeepSeek's emergence highlights that disruption is inevitable in any innovation cycle, and no sector remains immune.

If the first few months of 2025 have taught anything, it is to expect the unexpected. It may also be a watershed moment—signaling a shift toward a new era of national protectionism. Indeed, it appears to be a critical juncture for Canada to focus on strengthening its economic position.

The tariff situation has also reignited the debate over its effectiveness. While Trump actively campaigned on using tariffs to address the U.S. deficit and support tax cuts, the old economic principle still holds: *If you want more of something, subsidize it; if you want less, tax it.* Many economists

agree that tariffs will have negative effects on the U.S. economy at a time when it faces its own uncertainties: persistent inflation, higher interest rates and slowing economic growth.

Given this backdrop, the tariff situation may evolve. As we have seen, the policy direction of the new U.S. administration is prone to shifting at any time. Even so, the effects of policy changes aren't always immediate or predictable. And, markets and economies don't always react as anticipated—as we saw in the pandemic's aftermath. One of the best ways to navigate uncertainty is by preparing for multiple possible outcomes. Diversification is intended to position portfolios to withstand changing environments and varying conditions.

With the shifting rhetoric south of the border, the next four years will likely be a test of investor discipline. Many other factors, such as geopolitical instability, economic declines or stock market volatility, are also beyond an investor's control. Yet, more often than not, how an investor reacts to these uncontrollable events can have the greatest impact on long-term outcomes. The key will be to look beyond the headlines and keep a broader perspective. While the near-term path may not always be clear, history has shown that, as with any cycle, the seasons change, the clouds will part and brighter days are never far behind.

For many of us, recent events feel unsettling. We continue to monitor the ongoing developments and their potential impact on portfolios making adjustments where needed, without losing focus on the longer term. While challenges undoubtedly lie ahead, brighter days will eventually prevail.

Please reach out if you have concerns.

1. Attributed to Niels Bohr, Danish physicist, and Yogi Berra, baseball player, known for saying, "It aint over 'til it's over"; 2. <https://www.scotiabank.com/ca/en/about/economics/economics-publications/post.other-publications.canada-and-us-economics-canada-and-us-decks.trade-stats-january-31-2025-.html>

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# WHEN LESS IS MORE: SIMPLIFYING YOUR FINANCES

Former *Wall Street Journal* finance columnist Jonathan Clements has long advised readers to plan on living past age 90. But when, at age 61, he was diagnosed with an illness that gave him just a year to live, his financial priorities shifted. His focus turned to ensuring his family would be well-prepared for a time when he was no longer around. One key step? Simplifying his finances: *"I thought my finances were well-organized and pretty simple. Yet, since my diagnosis, I've spent endless hours trying to simplify them even further."* His conclusion: *"Death is hard work."*

Indeed, when life becomes more challenging, simplicity matters more. If you are tackling spring cleaning this season, perhaps there may be an opportunity to revisit your finances. Here are two places to start:

**Consolidate Financial Accounts** — Consider the benefits of consolidating bank, investment and other financial accounts, where possible: better asset allocation, improved tax efficiency, easier administration and no "orphan" accounts forgotten over time. Just as important, it may make life easier for loved ones by reducing the number of accounts they may need to manage in the future if something were to happen.

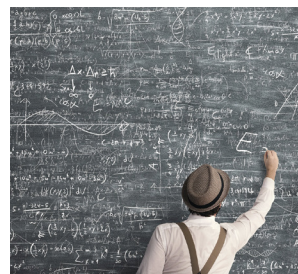
**Reduce Your Digital Footprint** — How many online accounts do you have? According to one source, the average person holds 100!<sup>2</sup> While this might seem high, it adds up quickly when factoring in email, social media, financial, entertainment, retail and other services. The more accounts you have, the greater your exposure to fraud through data breaches and cyberattacks. One of the best ways to protect yourself is by limiting the information scammers can access. Close unused accounts and delete inactive ones to minimize the risk of personal data being compromised.

## Other Ways Less Can Mean More

Here are other ways simplifying can lead to greater financial efficiency and peace of mind:

- **Automate Savings & Investing** — Fewer decisions can lead to consistent habits. Setting up automatic transfers can help you stay on track toward long-term goals with minimal effort.
- **Cut Subscription Fat** — Reduce unnecessary recurring expenses (streaming, apps, memberships) to free up cash flow.
- **Use Fewer Credit Cards** — Reducing the number of credit cards you hold can lower the risk of missed payments or help to minimize fees. Fewer cards may also encourage more intentional spending habits. At the same time, strategically designating cards for specific purposes—such as one for online purchases and another for recurring bills—can make it easier to manage accounts and quickly respond to fraud if a card needs to be cancelled.
- **Minimize Debt Accounts** — Consolidating loans or prioritizing high-interest debt may be financially prudent to lower interest costs.
- **Teach Younger Folks to Avoid Lifestyle Creep** — Prioritizing needs over wants can help prevent overconsumption and financial stress. Owning fewer things can also mean lower maintenance costs and more financial freedom.

1. <https://www.wsj.com/personal-finance/jonathan-clements-personal-finance-cancer-e30d1396>; 2. <https://www.cnn.com/2024/02/26/tech/digital-legacy-planning-personal-technology/index.html>



## PERSONAL TAX SEASON IS HERE AGAIN

# A TURNING TIDE? WORK FROM HOME (& TAX REMINDERS)

Is the golden age of working from home (WFH) nearing its end? Last fall, the federal government mandated that employees return to the office (WFO) three days a week. Major corporations like Amazon and Dell have gone further, requiring full-time in-office work. The upside? This shift may help revitalize downtown areas that have struggled with vacancies since the pandemic. Proponents of WFO also argue it will boost productivity—one study suggests remote work may reduce productivity by 10 to 20 percent!<sup>1</sup>

Regardless of your stance, tax season is a reminder for remaining WFH workers to claim home office expenses. This year, Form T2200 has been amended to simplify employer certification. Now, employers only need to confirm whether an employee worked from home more than 50 percent of the time over a period of at least four consecutive weeks. According to the CRA, taxpayers claimed a record \$2.08 billion in home office expenses in 2023, a 41.4 percent increase from the 2022 tax year, when the temporary flat-rate method was last available.<sup>2</sup>

Here are other notable tax changes as you file your 2024 returns:

**Capital Gains.** The proposed increase to the capital gains inclusion rate has now been deferred to January 1, 2026, from June 24, 2024. For those impacted, the CRA is providing additional time for taxpayers to meet their tax filing obligations, granting relief from late-filing penalties and interest until June 2, 2025, for individuals and May 1, 2025, for trusts.

**Alternative Minimum Tax (AMT).** For 2024 and beyond, the AMT rate increases to 20.5 percent from 15 percent and the basic exemption

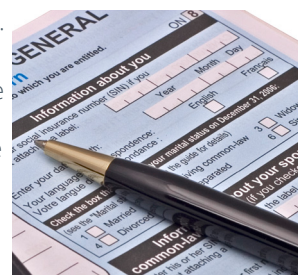
threshold rises to \$173,205 from \$40,000.

**Charitable Donations.** Due to the postal strike, draft legislation extended the deadline for 2024 charitable donations to February 28, 2025. Individuals can choose to claim eligible monetary donations made up to February 28, 2025, on their 2024 tax return, 2025 return or during the normal five-year carryforward period. Corporations with taxation years ending after November 14, 2024, or before January 1, 2025, are also eligible.

**Short-Term Rentals.** If you rent a residential property for less than 90 consecutive days, you must now comply with all provincial and municipal regulations and licensing or the CRA will deny any expense deductions. Transitional relief is in place for the 2024 tax year.

**Canada Carbon Rebate (CCR) for Small Business.** While the government stated that the rebate is tax free, at the time of writing, legislation is pending so it must be reported as taxable income.<sup>3</sup> This was distributed in December to eligible Canadian-Controlled Private Corporations (CCPCs) to offset the federal fuel charge in certain provinces: AB, MB, NB, NL, NS, ON, PE, SK. CCPCs in other provinces/territories may be eligible if they employ people in designated provinces.

1. <https://www.forbes.com/sites/benjaminlaker/2023/08/02/working-from-home-leads-to-decreased-productivity-research-suggests/>; 2. <https://www.investimentexecutive.com/news/industry-news/claims-of-home-office-expenses-increased-41-last-tax-season/>; 3. <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/corporations/business-tax-credits/canada-carbon-rebate-small-businesses.html>

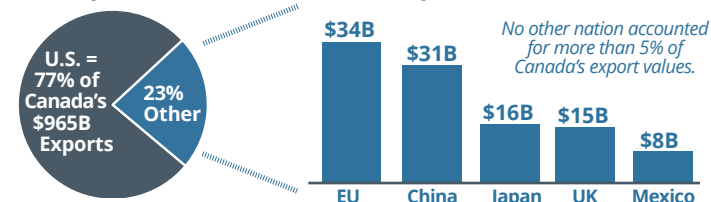


## OH, CANADA: TRADE PERSPECTIVES, IN BRIEF

In brief, here are four perspectives on Canada/U.S. trade:

**1. The U.S. is Canada's main export market.** In 2023, Canadian total exports were valued at C\$965 billion, with 77 percent going to the U.S. No other nation accounts for more than 5 percent of Canada's exports.<sup>1</sup>

**2023 Exports = \$965B<sup>1</sup>** **Non-U.S. Export Destinations = C\$222B<sup>1</sup>**



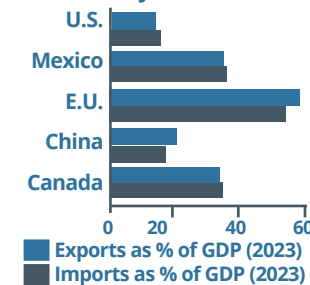
**2. Canada is the U.S.'s largest export market.** However, only 18 percent of total U.S. exports go to Canada.<sup>2</sup> These exports account for 44 percent of Canadian imports, which totaled C\$978 billion in goods and services in 2023.<sup>1</sup>

**3. Canada is relatively vulnerable to tariffs.** When comparing trade as a percentage of GDP (chart, right), Canada has greater exposure than the U.S. and China. However, Mexico and the E.U. are more vulnerable by this metric.<sup>1</sup>

**4. The U.S. relies on Canada's resources.** Canada exports over 4 million barrels of oil per day to the U.S., with Midwest refiners importing 3 million barrels daily and lacking viable alternatives.<sup>3</sup> Canada ranks 4<sup>th</sup> globally in natural resource value<sup>4</sup> and is a key supplier of critical minerals, providing around 50 to 80 percent of U.S. zinc, tellurium, nickel and vanadium.<sup>5</sup>



#### Vulnerability to Tariffs<sup>1</sup>



1. <https://www.scotiabank.com/ca/en/about/economics/economics-publications/post/other-publications/canada-and-us-trade-stats-january-31-2025-.html>; 2. [https://www.usitc.gov/research\\_and\\_analysis/tradeshifts/2023/us-trade-industry-sectors-and-selected-trading](https://www.usitc.gov/research_and_analysis/tradeshifts/2023/us-trade-industry-sectors-and-selected-trading); 3. <https://www.bnnbloomberg.ca/investing/commodities/2025/02/03/eric-nuttall-says-the-us-has-no-alternative-to-replace-canadian-oil/>; 4. <https://www.voronoiapp.com/natural-resources/Ranked-Top-Countries-by-Natural-Resource-Value-2885> (2021 figures); 5. [https://economics.td.com/domains/economics.td.com/documents/reports/me/Setting\\_the\\_Record\\_Straight\\_on\\_Canada\\_US\\_Trade.pdf](https://economics.td.com/domains/economics.td.com/documents/reports/me/Setting_the_Record_Straight_on_Canada_US_Trade.pdf)

## PERSPECTIVES ON THE LOONIE'S DECLINE

## FOOD FOR THOUGHT: A WEAKER CANADIAN DOLLAR

The Canadian dollar's (CAD) weakness has raised questions about its broader impact and the path forward:

**The CAD is trading below its historical average.** To start 2025, it fell below 68 U.S. cents—a level not seen in two decades. The decline has been driven by factors such as diverging U.S. and Canadian monetary policies (lower interest rates make the CAD less attractive to foreign investors), ongoing tariff threats and a strong U.S. dollar. Historically, the CAD has moved in cycles. From 2005 to 2014, it benefitted from strong resource demand, surpassing parity with the U.S. dollar (USD) in 2007 and peaking at US\$1.09. Over 50 years, it has averaged around US\$0.80.<sup>1</sup>

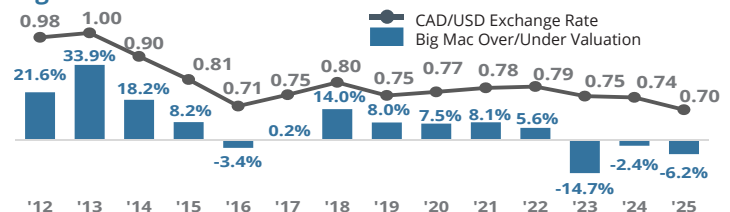
#### Historical CAD/USD Exchange Rate, 01/01/1974 to 01/31/2025<sup>1</sup>



**Will the loonie continue its fall?** The "Big Mac Index" may offer some fun "food for thought." Published by *The Economist*, it was developed as a lighthearted way to make exchange-rate theory digestible by comparing the purchasing power parity (PPP) of currencies. PPP suggests that, over time, exchange rates should adjust so that an identical basket of goods and services costs the same in each country. The index estimates an exchange rate by comparing the price of a Big Mac in different nations to its cost in the U.S. By comparing this to the prevailing exchange rate, it gauges whether a currency is under- or overvalued. According to the index, the CAD is undervalued (chart, top).

**What does this mean for investors?** Currency swings can impact returns on foreign-denominated investments when converted to

#### Big Mac Index Over/Under Valuation: CAD vs. USD 2012 to 2025<sup>2</sup>



Canadian dollars. A notable example occurred between 2000 and 2009—a period with parallels to today. At the start of 2000, U.S. equity markets were at record highs amid the dot-com boom, while the CAD traded below 70 cents USD. If an investor put CAD into the S&P 500 Index in early 2000, they would have experienced a loss—just due to the market downturn, but also due to currency appreciation. By December 2009, the S&P 500 declined by 24.1 percent, but over the same period, the CAD

appreciated by 38 percent.

When converting investments back to CAD, the loss would have been 45 percent.

Over the long run, currency fluctuations tend to even out in well-diversified global portfolios, as gains in one currency can offset losses in another. There are also ways to mitigate currency risk directly, depending on an investor's objectives, such as by using currency-hedged investment funds or Canadian Depository Receipts, which allow investors to buy foreign stocks on Canadian exchanges in CAD.

1. <https://ca.investing.com/currencies/usd-cad-historical-data>; 2. January data; <https://github.com/TheEconomist/big-mac-data/tree/master/output-data>



# SPRING CLEANING: IS IT TIME TO REVISIT YOUR INSURANCE STRATEGY?

For many investors, insurance traditionally starts as a risk management tool to provide income protection in the event of unexpected life events. However, over a lifetime, insurance can evolve into a versatile tool that serves the multiple needs of high-net-worth (HNW) individuals.

HNW individuals often have different priorities than the average investor. There is typically a greater emphasis on preserving wealth and managing risk. HNW individuals may have more complex tax planning needs. The approach to estate and succession planning may focus more on preserving wealth to pass on to future generations, while minimizing estate taxes. Additionally, there may be more intricate financial structures, such as family trusts or business ownership, which may require careful planning.

While protection remains a fundamental objective of any insurance strategy, HNW investors should also consider the additional benefits, including tax-sheltered investment growth (where funds invested in the policy are protected from income tax or probate fees), estate preservation (providing liquidity to cover taxes triggered upon death, so estate goals aren't compromised) and enhanced wealth transfer (with a tax-free death benefit paid to beneficiaries, not subject to probate, where applicable).

## Insurance as an Asset Class?

Many HNW clients have already maximized contributions to tax-advantaged accounts like RRSPs or TFSA's. As such, they may seek ways to minimize the tax burden associated with non-registered investments. This is where permanent insurance solutions may offer an opportunity. The tax-preferred growth of the cash value in participating whole life insurance, along with the tax-free death benefit (and protection from probate fees, where applicable), makes insurance a potential alternative to low-risk fixed-income options. Some policies may even outperform the fixed-income component of a traditional balanced portfolio on an after-tax basis. As a result, alternative wealth strategies using insurance and annuities are increasingly being used to complement investment portfolios and provide diversification.

As a reminder, here are four insurance strategies used by HNW investors that might be considerations to enhance your wealth management:

**Cascading Life Insurance Strategy** — This strategy offers a tax-efficient way to accumulate and transfer wealth across generations. It involves investing in a permanent life insurance policy on a child or grandchild and naming a grandchild or great-grandchild as the named beneficiary. Upon the policyholder's death, ownership



transfers tax-free to the child or grandchild.<sup>1</sup> When they eventually pass away, the grandchild or great-grandchild receives the death benefit tax-free.

**Back-To-Back (Insured) Annuity** — This strategy is ideal for retired clients seeking to boost income while leaving an inheritance. An insured annuity helps manage longevity risk and generates guaranteed income while diversifying a fixed-income portfolio and providing tax efficiency.

**Joint Last-To-Die Policy** — This policy insures two lives under a single premium and pays out after the second insured person passes away. It helps manage future tax liabilities, such as capital gains taxes on investment properties or business holdings, ensuring heirs are not burdened with excessive costs. For HNW individuals who don't need RRSP/RRIF funds for income and anticipate a high marginal tax rate in retirement, one strategy may be to gradually draw down RRSP/RRIF funds to fund a joint last-to-die policy.

**Corporate-Funded Insurance** — Business owners can benefit from holding life insurance within a corporate structure. Most or all of the death benefit can be distributed tax free to shareholders through the capital dividend account. If the policy accumulates cash value, this growth may also be tax free.

## We Can Assist

Have you considered insurance for the benefits beyond income protection? There may be compelling opportunities for HNW investors to enhance their wealth strategies. To learn more, please don't hesitate to reach out.

1. Change of ownership requires a named contingent owner listed; not an automatic transfer of ownership. This also applies for a named contingent beneficiary.

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