With the results of the September 20, 2021 federal election in the books, I sought the current thinking of the investment strategists and portfolio managers from each of our recommended investments. I gleaned their views on inflation, the current investment environment and taxation. The following is a summary of the groups prevalent opinions.

Inflation:
The future of inflation is the number one question on every investor's mind today. In the past year the monthly inflation rate has risen from a long term average of 2.0% to 4.1%, as measured by the Consumer Price Index (CPI). In the past year we have transitioned from the extreme lows of a locked down to a rapidly growing economy. The CPI has certainly been fueled by pandemic related factors. Not surprisingly the main contributors to the increase in the CPI were the Home Owner's Replacement Cost Index up 14.4%, the price of gasoline up 32.5%, the purchase of passenger vehicles up 7.2%, and home renovation costs up 14.3%.

There were also downward contributors to the CPI. These included travel tours down 20.8%, telephone services down 14.2%, and mortgage interest costs down 9.3%, all in the past year.

Arising from pandemic-related government spending the nation's deficit and national debt level have increased substantially. Government borrowing purchased by the Bank of Canada, known as Quantitative Easing, has increased our money supply which is the number one inflationary factor. The Bank of Canada is now reducing the amount of government debt it is purchasing which will reduce this inflationary effect in the future.

Secondly, supply chain disruptions, with surging demand exceeding production supply levels, also contributed to price inflation as the economy reopened. This adds incentive to produce more over time, which will allow the supply to catch up with demand and reduce the pressure to increase prices in the future.

And thirdly; there is upward pressure on costs, which could be passed on in the form of higher prices. This is primarily due to wage increases resulting from worker unavailability, especially at the lower end of the labour market. Affected companies have had to boost wages to lure back employees as government programs implemented to protect income have been relatively generous and, to date, have been slow to expire. In the past, overall wage growth has been solidly negative when adjusted for inflation. Therefore, we should expect to see upward pressure on wages as workers demand raises to offset the difference.

At the moment, the Bank of Canada's target range for inflation is between 1% and 3%. The Bank of Canada is of the belief that the inflation rate has shot up only temporarily and that it will level-out within their target range. If that doesn't materialize, they will need to increase interest rates, which are currently at an all-time low. However, if inflation persists; rest assured that our extremely experienced, professional portfolio managers will continue to develop strategies to produce rates of return above inflation levels, thereby maintaining our purchasing power.

The Current Investment Environment:
The past year has yielded extraordinary investment returns as we transitioned from a pandemic driven lockdown to rapid reopening of the world economy. A part of every portfolio includes equity/stock investments. Equities currently reflect a fair degree of optimism. Future positive surprises will be hard to come by. Most stock markets are overdue for a normal correction which is a downturn of 10% or more. If there is a correction, professional money managers would be buyers of targeted select high quality investments which would reflect well towards future investment returns. Corporate earnings growth which is a driver of investment returns, is expected

to continue well into 2022. Assuming no further lockdown measures due to variants the world economy will continue to recover at a healthy slower pace. Investment returns will also slow compared to the explosive last year. The Bank of Canada is not expected to raise interest rates until the later half of 2022. The central bank must first gradually eliminate Quantitative Easing and the government must reduce supportive fiscal spending. A reacceleration of employment is expected for the remainder of 2021. When looking for signs of a recession there are many typical signs. Currently the only sign of an economic downturn is a positive inflationary trend therefore we do not expect an economic downturn in the near future.

Personal Taxation:
With the Liberal party continuing with a minority government they will most likely be relying on the support of the NDP party who's campaign promise was to increase the capital gain inclusion rate from 50% to 75%. Will this be required in order for the NDP to support the liberal tax initiatives?

As the Liberal government will continue with a big spending agenda and a nonexistent effort to balance the budget there are several tax measures which are being proposed. Liberal's will increase corporate tax rates to banks and insurance companies from 15% to 18% on earnings above one billions dollars. Banks and insurance companies will also contribute to a Canada Dividend Fund. Banks have reported lower loan loss provisions as few Canadians were unable to maintain loans due to government wage subsidy and recovery benefit programs. The banks and insurance companies are an easy target as they are not generally thought in a high regard by the average Canadian however reducing their income potential will affect every Canadian as they are held as an investment in most investment portfolios, the Canada Pension Plan and most if not all pension plans.

A luxury tax would apply to sales of new luxury cars and aircraft with a retail price greater than $100,000 and to new boats sold for more than $250,000. The tax would be the lesser of two amounts: either 10% of the purchase price, or 20% of the amount by which the purchase price exceeds the luxury tax threshold ($100,000 for cars and aircraft and $250,000 for boats).

The Liberal government intends to increase CRA resources to combat aggressive tax planning and avoidance as well as close the tax gap by top tax earners by imposing a minimum 15% federal tax that removes the ability to artificially pay no tax through excessive use of deductions and credits. 15% is the lowest federal tax rate. As we already have the Alternative Minimum Tax for high income earners I am not sure there will be any tax revenue generated from this.

What the Liberal government intends on implementing:
A Canada Disability Benefit which would be a direct monthly payment for low income Canadians with disabilities ages 18 to 64.
A tax sheltered savings account for Canadians under 40 years old to help build a down payment with deposits up to $40,000.
Create an anti-flipping tax on speculation of residential homes which requires the home to be held for a minimum of 12 months.
Ban new foreign ownership of Canadian houses for the next 2 years and implement a 1% annual tax on vacant housing owned by non-resident non-Canadians.
A career extension tax credit for Canadians over age 65 who earn at least $5,000 at their job who will receive a tax credit up to $1,650.
An extension of the house expense deduction and an increase from $400 to $500 for working from home with no receipts required.
A one time tax deduction for health care professionals in the first 3 years of setting up their practice of up to $15,000.

Doubling the home accessibility tax credit to $20,000.

Amanda and I are both qualified CERTIFIED FINANCIAL PLANNER® professionals at your service to assist in all areas of comprehensive financial planning including financial goal discovery, cash flow/budget analysis, retirement income planning, tax savings, estate planning, insurance needs analysis, investment planning, education saving planning, special purpose or major purchase planning.

I wish to thank you for your continued confidence and for the opportunity to serve you in all aspects of Financial Planning. As always, I will continue to keep in touch with you but if you have any questions or concerns, that you would like to discuss or review, please do not hesitate to contact either Amanda or I by email or by calling us at 519-894-2661 or toll-free at 1-800-716-5538.

Have a great day!

Respectfully Yours,

Gary

iA Investia Financial Services Inc.

investia.ca

Gary H. Attack, BBA, CFP®, RFP, RRC®
CERTIFIED FINANCIAL PLANNER®
Investia Financial Services Inc.
203-1601 River Rd. E, Kitchener, ON N2A 3Y4
T: 519-894-2661
TF: 1-800-716-5538
Fax: 519-894-6656
gary@ghafinancial.com
www.ghafinancial.com