Hassan Fox Wealth Management

Market Commentary

Interest Rate News

The interest rate environment continues to influence market discussions as early June saw another rate hike by the Bank of Canada. Meanwhile in the US, the Federal Reserve paused its tightening cycle, however, talk from Fed officials continue to indicate that at least one more further rate hike, if not two, are a possibility this year. Despite these hawkish signs, equities in Canada rallied in June, bringing the S&P/TSX 1-year return numbers back into the black. For the US, a strong rally in a handful of tech names continued to drive performance as the S&P 500 gained over 6% in USD terms and is now up almost 20% for the past year. It is worth noting that typically, 10 stocks account for 32% of the S&P500's return each year. This year however, 10 stocks account for 82%. For context, the return on the Dow Jones Industrial Average is just over 3% year to date.

Economic Outlook

Sentiment can change fast, as only two quarters ago many economists were calling for a mild recession in Canada for the summer months. Instead, the labour market remains strong which combined with above average population growth continues to support consumption and economic growth. Not only has the expected economic contraction been delayed, but inflation has been able to trend lower almost returning to the Bank of Canada's target.

The strong economy and slowing inflation are encouraging, but in all likelihood more work and time will be needed, hence expectations are for potentially higher central bank policy rates and more importantly, a "higher for longer" sentiment. As BMO economists have noted "if the most interest rate sensitive part of the economy (the Real Estate sector) is not buckling under the pressure of higher rates, then policy rates are likely not high enough".

Portfolio Strategy

In June we didn't make any changes to our North American equity portfolio, though we did make changes in our dividend portfolios, selling Granite REIT and Nexus Industrial REIT, using the proceeds to purchase Wajax and Aecon Group, two companies in the industrials sector that have an attractive dividend yields. We continue to be fully invested in all our portfolios with an overweight to equities and underweight to fixed income.

Benefits of Charitable Giving Through a Will

People often choose to fulfill their philanthropic goals by making gifts to charity in their Will. There are many benefits to this form of giving and one of them is the tax benefit. When an individual provides for a charitable gift in his or her Will, his or her estate is entitled to a donation tax credit. If the estate qualifies as a Graduated Rate Estate ("GRE"), the donation tax credit may also be used to reduce or completely offset the tax liability that arises from the deemed disposition of capital property that occurs upon death. In the year of death and the year prior to death, up to 100% of a taxpayer's net income can be offset by charitable donations.

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The Tax Consequences and Benefits of Charitable Giving Through a Will

People often choose to fulfill their philanthropic goals by making gifts to charity in their Will. There are many benefits to this form of giving and one of them is the tax benefit. When an individual provides for a charitable gift in his or her Will, his or her estate is entitled to a donation tax credit. If the estate qualifies as a Graduated Rate Estate ("GRE"), the donation tax credit may also be used to reduce or completely offset the tax liability that arises from the deemed disposition of capital property that occurs upon death. In the year of death and the year prior to death, up to 100% of a taxpayer's net income can be offset by charitable donations.

The property donated by a GRE must be owned by the deceased at the time of death. However, since January 1, 2016, charitable gifts in a Will are deemed to have been made by the estate at the time the property is actually transferred to the charity. As such, the valuation of the gift for donation tax receipting purposes is the fair market value of the property at the time it is transferred to the charity. A GRE is defined in the Income Tax Act ("ITA") as an estate that arose on and as a consequence of the death of an individual if:

1. the estate is at that time a testamentary trust (as defined in the ITA);
2. the executor designates the estate as a GRE on its first estate tax return for the year ending after 2015;
3. no other estate has designated itself as a GRE of the deceased individual; and
4. the deceased's social insurance number is provided on the estate's tax return.

It is important to note that a GRE can only qualify as such for up to 36 months following the date of death of the individual. If, during those 36 months, the estate makes a charitable donation, the donation tax credit may be allocated among any of the following tax years:

Year of estate that the donation is made:

- Five following years of the estate.

As well as:

- Year of death of the deceased individual;
- Year prior to the year of death; and
- Any prior year that the estate was a GRE.

The benefits are further enhanced when the property that is the subject of the donation is a publicly listed marketable security. In that case, the property can qualify for an inclusion rate of zero on any capital gains realized on such gifts. It is therefore more tax effective to provide for a gift of publicly listed marketable securities to charity in one's Will than to direct that the shares be sold on death and the net proceeds of sale be donated to the charity, as this would result in 50% of the capital gain being reported for income tax purposes.

As you give thought to your estate planning, it is important to recognize that, whether you make a specific bequest in your Will or decide to allocate a percentage of the residue of your estate to charity, there are tax benefits. Therefore, it is important to seek professional advice at the planning stage if the intention is to make charitable gifts in a Will. In addition, executors (liquidators in Quebec) should speak with professionals when it comes time to administer an estate with charitable gifts, as there may be tax consequences pertaining to the timing of donations as well as the property that is being donated.

For more information, please speak with your BMO financial professional.

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