June 17, 2024

Insights – June 2024

By Pedro Ribeiro, CIM®, FCSI® – Portfolio Manager and Cross-border Advisor

It is official – the Bank of Canada has officially cut its benchmark overnight rate by 25 basis points to 4.75%. This marks the first-rate reduction in over 4 years. While many view the cut as a sign of relief for many Canadians, the reality is it will have little impact at this time.

Take a $500,000 variable rate mortgage. The interest cost savings annually is just $1,250 or just over $100 per month. While any savings is welcome for variable rate mortgage holders, we need to see rates drop even further to really have an impact.

Most Canadian homeowners, by far have fixed rate mortgages. The most popular being the 5-year term. Our American friends to the south are in an enviable position where they have the option of 30-year fixed rates. I say enviable because most are not facing renewing their mortgage at current rates.

A recent CBC report stated approximately 50% of outstanding mortgages in Canada come up for renewal in 2024 and 2025. The same report states mortgage holders may end up paying up to 40% more based on current rates. Our neighbours to the south currently sit on mortgages with an average rate of approximately 2% and have over two decades before the mortgage comes up for renewal. Another major difference between American and Canadian mortgages is the ability to break or refinance as rates drop without penalties. Canadian mortgages are susceptible to interest cost difference or 3 months of interest when breaking a fixed term mortgage. As rates continued to drop to the lowest levels experienced in our lifetime, Americans kept refinancing at lower and lower rates until rates did not drop anymore.

Bond yields, which do directly impact fixed rate mortgages have been falling recently, and this is very good news for those renewing. Unfortunately, the 5-year bond is still higher today than it was at the beginning of the year and much higher than it was at the all-time lows but is down significantly in the last 3 months. Should this trend continue, it will provide some much-needed reprieve for those soon to renew.

Boots on The Ground – Research

It is too bad central banks don't take the same approach to making decisions as Chris and I do. Without talking to people and business owners, it is difficult to understand what the average family is going through, and the real impact higher rates have had on businesses.

Through personal relationships and connections in the construction and real estate industry that I've developed over almost 30 years, I have been able to learn and understand what is taking place.

As an example, pre-construction condo sales are practically non-existent. New developments have slowed or come to a complete stop. Investors have stepped back. Lenders are much more selective or demanding extra conditions making it difficult or not feasible for builders/developers to start new projects. Listings are increasing faster than sales. Large land developers are offering residential lots for sale to smaller builders. And delinquencies are on the rise.

Based on the slow down we are witnessing in new home/condo construction, it is very possible a void will develop over the next two years even though housing demand remains strong. Economics 101 makes it clear that when demand outstrips supply prices go up.

I believe The Bank of Canada will reduce rates faster than expected as the Canadian economy slows faster than it is forecasting. However, I do not expect rates to drop to the historic lows. Returning to historically average rates is more likely.

We have made some changes to our portfolios recently because of increased risks we see developing. As I meet with my clients, I will explain in more detail.

Vacation Season

As summer approaches so does vacation season. Chris has been taking some well-deserved vacation for the last two weeks and returns to the office on Monday, June 17.

Sue and I are off to Madeira Island to help our brother in-law (Rudy) celebrate his 50th birthday. Marci as many of you know is my sister-in-law and will obviously be on this holiday (she is married to Rudy). We return to the office on June 24th.

Chris, Tracy and Paul are all in the office while we are away and readily available to assist.

I wish all my American friends a happy upcoming Juneteenth National Independence Day and remind everyone the U.S. stock exchanges are closed on June 19th in recognition of this holiday.

Yours truly,

Pedro Ribeiro, CIM®, FCSI®
Portfolio Manager
519.707.0049

OUR TEAM

PORTFOLIO MANAGEMENT	WEALTH MANAGEMENT	CLIENT MANAGEMENT
Pedro Ribeiro, CIM®, FCSI® Portfolio Manager RIA – Raymond James USA 519-707-0049	**Tracy Andrade, CFP®** Associate Wealth Advisor 519-707-0050	**Marci Paquete** Client Care Specialist 519-707-0051
Christopher De Sousa, CIM® Associate Portfolio Manager 519-707-0053	**Paul Thomas, CFP®, FMA®, CIM®, FCSI®** Financial Planner 519-707-0055	**Suzanne Ribeiro** Client Service Coordinator 519-707-0054

Performance as of May 31, 2024

Gross performance results as of May 31, 2024 for our discretionary model portfolios are as follows:

	Performance Summary (%) as of May 31, 2024								
Portfolio Mandate	3 months	6 months	9 months	Year-to-date	2023	2022	2021	2020	2019
Marnoa Strategic Allocation	2.70	8.77	10.05	5.85	10.54	-12.70	12.38	18.01	15.78
Marnoa Conservative	1.69	4.15	5.47	3.02	5.69	-12.05	10.86	9.90	19.86
Marnoa Moderate	2.95	9.03	11.49	7.08	12.35	-13.55	12.92	20.79	25.52
Marnoa Growth	4.81	15.39	18.25	12.85	19.28	-17.26	15.00	29.74	28.70

The returns above are gross of fees. Individual performance may vary based on cash flows and fees. Performance figures for periods greater than 1-year are annualized. The performance data quoted represents past performance. Past performance is no guarantee of future results.

Disclaimer

This commentary has been prepared by Marnoa Private Wealth and expresses the opinions of the author and not necessarily those of Raymond James Ltd. (RJL). Statistics, factual data and other information are from sources RJL believes to be reliable, but their accuracy cannot be guaranteed. No recommendation of any product or service would be made without a thorough review of an individual's financial goals and risk tolerance.

The returns presented are gross of fees. Individual performance may vary based on cash flows and fees. Performance figures for periods greater than 1-year are annualized. The performance data quoted represents past performance. Past performance is no guarantee of future results. The above performance data is current as of May 31, 2024.

Inception date is January 1, 2019 for Marnoa Strategic Allocation, Marnoa Conservative, Marnoa Moderate, and Marnoa Growth.

Generally, mandates with higher returns entail higher levels of risk. Investors should consult with their advisor prior to making an investment decision to help ensure their investments are suitable for their particular situation.

Past performance is not necessarily indicative of future results. Statistics, factual data and other information are from sources believed to be reliable, but accuracy cannot be guaranteed. It is furnished on the basis and understanding that Raymond James Ltd. and Marnoa Private Wealth are under no liability whatsoever in respect thereof. This report is for information purposes only and is not to be construed as an offer or solicitation for the sale or purchase of securities. Raymond James is a Member Canadian Investor Protection Fund.