Wealth Management
Dominion Securities

Wealth Management

Review

www.rbcds.com | January 2023

Client guide to 2022 tax reporting

This guide summarizes the important dates and required tax information to prepare your annual tax return. It also includes a handy list of potential tax slips you may receive from RBC Dominion Securities (depending on your investment holdings and account activity).

To view the guide, go to:
www.rbcwealthmanagement.com/en-ca/dominion-securities/tax-reporting-guide

Important dates

March 1, 2023 – last day for 2022 RRSP contributions.

May 1, 2023 – last day to file your 2022 tax return without penalty.

June 15, 2023 – last day to file your 2022 tax return without penalty if you are self-employed.

Access your tax slips online

To help make tax time easier for you, your 2022 tax slips are available through RBC Wealth Management® Online. For access to RBC Wealth Management Online, please contact your Investment Advisor.

On the way

By Jim Allworth

U.S. recessions have always been associated with equity bear markets – not just for U.S. markets but for Canadian and other developed economy stock markets as well. But it's worth pointing out the U.S. is not yet in recession. The official arbiter, National Bureau of Economic Research (NBER), needs to see "*a significant decline in economic activity that is spread across the economy and that lasts more than a few months.*" While no such decline has appeared yet, several factors suggest it may arrive in 2023:

1. History says so. The most historically reliable leading recession indicator – the position of short-term interest rates compared with that of long-term rates, also known as the "shape of the yield curve" – signaled back in July that a U.S. recession was on the way when the one-year Treasury yield rose above the yield on the 10-year note. Whenever such an "inversion" has occurred in the past a recession has eventually followed, usually about a year later.

The Conference Board's Leading Economic Index – also sporting a "perfect" track record – fell below where it had been a year ago back in September. A recession has always followed such a signal, on average some two to three quarters later.

Most of the other leading indicators of recession we follow are still in positive territory but are sliding toward giving a negative signal for the U.S. economy in the coming months.

2. "Tight money" has arrived. With just two exceptions (the post-WWII downturn and the two-month-long 2020 pandemic recession) U.S. recessions have always been preceded by the arrival of tight money – i.e., prohibitively high interest rates accompanied by a growing reluctance of banks to lend.

The inversion of the yield curve in July, noted above, indicated credit conditions were heading in that restrictive direction. Certainly, interest rates have become prohibitively high for many borrowers as a result of the accelerated pace of tightening by central banks including the U.S. Federal Reserve (Fed) and Bank of Canada.

And loans are becoming harder to get too. The last three Senior Loan Officer Opinion Surveys (published every three months by the Fed) have shown that more and more U.S. banks are becoming choosier about who they lend to.

Continued on page 2

On the way ... Continued from page 1

3. Consumer spending is waning. At some 70% of GDP the direction of U.S. consumer spending is all important. While there are still excess savings and wages are rising, high inflation has pushed real incomes below where they were a year ago. Despite that, real personal spending has continued to climb, although it appears to have weakened somewhat through the important holiday season.

A lot of future demand for goods was pulled forward into 2020 and 2021 as many services were not available due to pandemic shutdowns while consumer incomes remained high, boosted by government support programs, which have now mostly ended. Meanwhile, much of the pent-up demand for services such as travel and dining out was fulfilled in 2022, with spending on such services likely ease in 2023.

What it means for investors

Interest rates: We expect 2023 will be a year of trend transition with rates rising somewhat further in the first half before falling in the second.

Over the past 70 years, the Fed has usually stopped raising interest rates and begun cutting even before the recession started. Given today's inflation concerns, both the Fed and the Bank of Canada have made a point of emphasizing the dangers of cutting rates too soon. Rate cutting is unlikely to begin, in our view, until there is some marked worsening in the economic data, most likely around midyear.

Stock markets: U.S. recessions have typically been associated with global equity bear markets. Media commentary over the past nine months has assumed that a bear market has already begun. That may or may not be the case. However, wherever the stock market is headed over the next several quarters it's unlikely to go there in a straight line, in our opinion.

Starting a couple of weeks before the U.S. midterm elections, most major equity markets began a rally that appeared to have better underpinnings than any prior countertrend upswing in 2022.

So far, this move has been almost universally labeled as no more than a "bear market rally." It may prove to be just that. However, several factors suggest that this advance could have legs into 2023. These include moderating inflation data, which could raise the possibility of an end to Fed rate hikes, and the fact that the S&P 500 has almost always delivered strong, positive returns for months following the U.S. midterms.

Whether any unfolding equity rally is something more than simply an upside interlude in a longer-term downtrend remains to be seen.

That said, our most reliable leading indicators indicate a recession arriving around midyear. Every U.S. recession has been associated with an equity bear market (not just in the U.S. but in every major equity market). As a result, we expect that any rally in equity prices in the coming weeks will, at some point, give way to another period of challenging share price performance (reflecting declining expectations for earnings and eroding confidence in the future that typically comes with a recession).

Putting it into perspective

A longer-term view reveals that the economy and businesses are constantly adapting to changing conditions. Sometimes that adaptation is painful. But if recessions are the painful periods, then they are typically very short. Over the 77 years since the end of WWII, the economy was in recession for a total of 12 years or about 15% of the time.

Making big portfolio asset allocation decisions based on the premise that the economy and already successful businesses are going to lose their ability to adapt, or that the challenging periods are going to last much longer than they have in the past, seems out of proportion to the historical record, in our opinion.

On the other hand leaning more heavily toward quality and sustainable dividends and away from specific individual company risks that may come home to roost in a recession looks to us like a good approach as we enter 2023.

For a more detailed discussion of our outlook for financial markets, ask for a copy of our current issue of *Global Insight*.

Jim Allworth is co-chair of the RBC Global Portfolio Advisory Committee.

Three strategies to optimize your wealth when markets are volatile

Even when markets are volatile, there are things you can do to gain greater control over your financial future, build long-term wealth and organize your affairs for your loved ones.

1. Build and protect wealth the tax-smart way

Maximize your RRSP/RRIF: Your Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF) offer well-known tax advantages. These include tax-deductible RRSP contributions and tax-deferred growth of your investments within your RRSP/RRIF. But Canadians generally don't take full advantage. According to Statistics Canada, just 22.3% of Canadians filing taxes contributed to their RRSPs in 2020.[1]

Catch up if you can: Unused RRSP contribution room carries forward and can be used in future years. If you have unused contribution room, and surplus assets currently exposed to your higher tax rate, consider topping up your RRSP now. That way, you can start taking advantage of tax-deferred investment growth sooner. You can also catch up over time by setting up regular, pre-authorized contributions, which can be easier to budget.

Let your RRSP grow: Consider waiting to convert your RRSP into a RRIF until the deadline (December 31 of the year in which you turn 71). Then, consider taking only the minimum annual required RRIF payment. This will leave more of your RRSP/RRIF assets to grow on a tax-deferred basis.

Generate tax-efficient investment income: Different types of investment income are taxed in different ways – when earned within a regular, non-registered account for an individual.

- Interest income (including accrued interest) is fully taxable at your marginal rate each year.
- Eligible dividends paid by certain Canadian corporations receive a dividend tax credit.
- Only 50% of any net realized capital gains are taxable at your marginal rate.

But within a registered account, like your RRSP/RRIF, all investment income is treated equally: it's only taxable at your marginal rate when withdrawn. As a result, it can make sense to consider allocating more of your investments that pay interest income to your registered accounts, where they can grow free of annual taxation.

Bear in mind that taxes are just one consideration, in addition to factors such as your risk profile and investment objectives, when allocating investments between your registered and non-registered accounts.

Build tax-free wealth: With your Tax-Free Savings Account (TFSA), you can earn tax-free investment income and make tax-free withdrawals for any reason. Yet most Canadians still aren't making the most of this extremely flexible, wealth-building tool: only 9% of Canadians have maximized their TFSA contributions.[2]

If you haven't maximized your TFSA contributions, and you have surplus assets exposed to taxes, consider catching up. All Canadian residents aged 18+ automatically receive TFSA contribution room every year, and it accumulates even if you don't use it. As of January 1, 2023, you can contribute another $6,500 to your TFSA (for a total of $88,000 if you've been a Canadian resident aged 18+ since 2009).

If you have any questions about tax-smart investing, contact your Investment Advisor.

Continued on page 4

Three strategies ... Continued from page 3

2. Revisit your financial plan

One of the smartest things you can do at any time to improve your financial situation is to create a financial plan. But it's a great time to update your financial plan when markets are volatile. That's because it can give you greater confidence that you are on track to achieving your goals despite the markets – or identify strategies to help you get back on track. In fact, it's a good idea to periodically update your financial plan to reflect changes in the markets or economy, as well as changes in your personal or family situation, that may affect your goals.

Your financial plan helps you:

- Set realistic financial goals that you can achieve based on your individual situation.
- Establish a budget for your income and expenses that can identify opportunities to save money.
- Understand your overall net worth by compiling your assets and liabilities.
- Identify opportunities to reduce or restructure higher-interest debt.
- Assess the impact of higher taxes and rising inflation on your future purchasing power.
- Project how much you need to save, and what rate of return you need, to provide the income you need, while helping to ensure you don't outlive your savings.
- Coordinate your various retirement income sources, such as your RRIF, TFSA, Canada Pension Plan (CPP) and Old Age Security (OAS).
- Evaluate opportunities to build or protect the value of your estate.

Ask your Investment Advisor for more information about creating or updating your financial plan.

3. Update your overall estate plan

There's never a bad time to consider how you can organize your estate to help build your legacy and transfer wealth to the next generation, efficiently and tax-effectively. Yet according to a recent RBC Royal Trust survey, fewer than half of Canadians even have a Will – the basic building block of any estate plan. If it's been a while since you updated your estate plan, here are a few things to consider:

Does your Will reflect your current situation? Generally, your Will should be reviewed and updated at least once every five years, and whenever there's a major life event, like a change in marital status, new child or grandchild, or loss of a loved one.

Have you appointed the right executor of your Will? Acting as the executor of a Will involves completing dozens of tasks – many of them legal obligations – from probating the Will to providing bequests to filing final tax returns.

When naming your executor, consider naming someone who is likely to outlive you, lives nearby, and has the time and ability to carry out these tasks. Depending on your situation, you may wish to consider a professional executor.

Have you named someone to make decisions about your finances should you be unable to make those decisions yourself? People are living longer – and living longer while dealing with age-related health issues like dementia.

That's why it's important to appoint someone as your Power of Attorney (or Mandatary in Quebec) to make decisions for you, if you can't.

Have you considered your elder care needs? Plan ahead for your future care needs and how you can live independently in your own home for as long as possible.

Have you prepared the next generation for their inheritances? Having conversations with your beneficiaries in advance, and building their financial literacy, helps get them ready for their future responsibilities.

To learn more, please contact your Investment Advisor.

[1] *Registered retirement savings plan contributions, 2020,* Statistics Canada (April 1, 2022)
[2] *Tax-Free Savings Account statistics (2019 tax year),* Canada Revenue Agency.

Wealth Management
Dominion Securities

This information is not intended as nor does it constitute tax or legal advice. Readers should consult their own lawyer, accountant or other professional advisor when planning to implement a strategy. This information is not investment advice and should be used only in conjunction with a discussion with your RBC Dominion Securities Inc. Investment Advisor. This will ensure that your own circumstances have been considered properly and that action is taken on the latest available information. The information contained herein has been obtained from sources believed to be reliable at the time obtained but neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers can guarantee its accuracy or completeness. This report is not and under no circumstances is to be construed as an offer to sell or the solicitation of an offer to buy any securities. This report is furnished on the basis and understanding that neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers is to be under any responsibility or liability whatsoever in respect thereof. The inventories of RBC Dominion Securities Inc. may from time to time include securities mentioned herein. RBC Dominion Securities Inc.* and Royal Bank of Canada are separate corporate entities which are affiliated. *Member-Canadian Investor Protection Fund. RBC Dominion Securities Inc. is a member company of RBC Wealth Management, a business segment of Royal Bank of Canada. ® / ™ Trademark(s) of Royal Bank of Canada. Used under licence. © 2023 RBC Dominion Securities Inc. All rights reserved. 22_90081_1773

94620 (01/2023)