Wealth Management
Dominion Securities

Wealth Management
Review

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Making tax time less taxing

The Client Guide to 2023 Tax Reporting provides key dates and a handy checklist of tax slips you may receive from RBC Dominion Securities (depending on your investment holdings and account activity).

View it online at:
www.rbcwealthmanagement.com/en-ca/dominion-securities/tax-reporting-guide

Get your tax slips online

Simply sign into your secure client website to view and download your tax documents. Go to www.rbcds.com, select "Sign in" from the top right, and sign in as usual. If you need access, please contact your Investment Advisor.

Key dates

February 29, 2024 – last day for 2023 RRSP contributions.

April 30, 2024 – last day to file your 2023 tax return and pay taxes owing.

June 17, 2024 – last day to file your 2023 tax return if you or your spouse are self-employed (note the payment deadline for taxes owing is still April 30, 2024).

In the balance

By Jim Allworth

After huge rebound advances off the pandemic lows of spring 2020, most blue-chip stock indexes peaked some 22 months thereafter (24 months for the TSX) and have been doing not much more than digesting those hefty gains ever since.

The so-called "Magnificent 7" tech and tech-related stocks (Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, and Tesla) have accounted for most of the gains in the S&P 500. Indexes which contain none of those stocks (Canada's TSX, the MSCI Europe, and the UK's FTSE All-Share) are trading at much lower valuations and have underperformed the S&P 500.

Where the action is

Stock indexes have gone net nowhere over the past couple of years, but bond yields have experienced an unprecedented shift higher to levels not seen since prior to the global financial crisis. The 10-year Canada bond yield has skyrocketed from just 0.5% in the summer of 2020 to almost 4% recently. U.S. yields have moved even higher.

For the first time in more than 15 years, an investor faced with a maturing bond or GIC in a fixed-income portfolio does not have to reinvest the proceeds at a much lower and unappealing rate or alternatively, shift to high-risk debt or high-yielding stocks to fill the gap in current income.

These much-higher yields make bonds and GICs once again a valuable adjunct to equities in a balanced portfolio, providing, as they have traditionally done, a combination of reduced volatility, more predictable returns, and the comfort of a maturity value.

This new, higher level for fixed-income yields has arrived because the U.S. Federal Reserve and the Bank of Canada, together with other major central banks, have abandoned the massive bond purchase programs (quantitative easing or "QE") that had been designed to push bond yields much lower than market forces would have taken them as a support for their respective economies in the wake of the global financial crisis, the European sovereign debt crisis, and the pandemic. (It should be noted the Bank of Canada only resorted to QE in response to the pandemic, avoiding it in the two earlier crises.)

Continued on page 2

In the balance ... Continued from page 1

What do higher bond yields mean for equities?

First, it reduces the need to buy equities for income to make a long-term financial plan work.

At one point in the post-pandemic period, more than 60% of the stocks in the S&P 500 sported dividend yields in excess of the 10-year U.S. Treasury bond yield. Rather than make a multi-year commitment to a bond paying an artificially low rate, an investor was able to acquire the shares of a seasoned, probably well-known company with a higher-yielding dividend and offering the prospect that the dividend might be raised periodically.

Consequently, fueled by the need to boost portfolio income, equity exposure in individual investors' portfolios crept higher over that stretch when bond yields were deeply suppressed by extreme central bank policies.

Today, no such obvious income pick-up advantage is widely available, in our view. Companies possessing dividend yields competitive with or better than bond yields often have other issues attending them.

Second, the need for companies to refinance old loans and take on new ones in this higher-rate world means corporate interest costs are likely to rise, squeezing profit margins if those costs can't be fully passed on to customers.

A significant percentage of high-yield bonds (i.e., bonds of low-quality issuers) will mature in the next 18 to 36 months and will have to be refinanced at higher rates. Even more firms are already being squeezed by the fast-rising cost of floating-rate debt.

And finally, sharply rising borrowing costs reduce the spendable income of households. Canadian consumers, like those in the U.S., are contending with higher rates for mortgages, auto loans, and credit cards. At the same time, 44 million Americans are back making monthly payments on student loans. In Canada, record high levels of household debt amidst rising interest rates have already taken a toll on consumer spending which has been flat in real terms (i.e., inflation adjusted) for four of the past five quarters.

Debate still on

Meanwhile, the hard versus soft landing debate for the U.S. economy won't be settled definitively until the National Bureau of Economic Research decides on the official start date of any recession that should arrive. That announcement usually comes about a year after the recession has begun – making the proclamation itself not very useful for investors.

For our part, we are persuaded that the combination of high rates and restrictive bank lending standards in place today is a recipe for recession, like it has been in the past. Soft landings, on the other hand, have historically featured rising interest rates but no overt tightening of lending standards.

Of course, our expectations for a U.S. recession could be misplaced. The pandemic abruptly ended what had been the longest uninterrupted economic expansion in U.S. history. And policy reactions to that public health crisis kick-started a new economic advance just as quickly. Big, decisive shifts in both fiscal and monetary policy over the past few years continue to have lingering effects on the course of the U.S. economy, as well as many others including Canada's. These could persist in 2024. Instead of an outright multi-quarter decline in GDP, the headwinds alluded to above may do no more than keep growth on the slow side in 2024.

Stock markets have been rallying recently, after inflation data improved further and the Fed paused its rate hikes. It looks to us like the rally could have legs into the new year.

For now, we recommend remaining sufficiently committed to stocks to take advantage of the distinct possibility of the S&P 500 and perhaps even the TSX reaching a new all-time high ground in the coming few months. However, given our expectation a recession will arrive in 2024 we believe investors should consider limiting individual stock selections to high-quality businesses with resilient balance sheets, sustainable dividends, and business models that are not intensely sensitive to the economic cycle.

At some point in the coming months, if a more defensive structuring for a balanced portfolio is called for, having bonds back as a reasonable alternative for an investor looking to reduce overall risk is a welcome development.

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.

Four ways to build confidence in your financial future by focusing on what you can control

With today's higher inflation, interest rates and taxes, Canadians are feeling the pinch. But there are things you can do to take control – and build confidence in your financial future.

1. You can't control tax rates – but you can control your tax strategies

Paying tax is one of life's certainties – but you can do something about it by making the most of your tax-advantaged plans, like your Tax-Free Savings Account (TFSA), Registered Retirement Savings Plan (RRSP), or Registered Retirement Income Fund (RRIF).

Catch up to get ahead: Catch up on any unused TFSA and RRSP contribution room as soon as possible. That way, you can benefit longer from tax-free investment growth within your TFSA (your investment income is never taxed even when you make withdrawals) and tax-deferred growth within your RRSP (you're only taxed when you eventually make withdrawals). Make sure you confirm your available TFSA and RRSP contribution room with your qualified tax advisor.

Make your 2024 TFSA contribution: Every Canadian aged 18+ during the year automatically receives additional TFSA contribution room each year they are a "tax resident" in Canada – it's not tied to your earned income like your RRSP. As of January 1, 2024, you can contribute another $7,000 to your TFSA – for a total of $95,000 since the TFSA was introduced in 2009 (assuming you were at least 18 in 2009).

Make your 2023 RRSP contribution: You have until February 29, 2024 to make your 2023 RRSP contribution and receive a tax deduction you can use on your 2023 tax return.

Let your RRSP grow: You must convert your RRSP into a retirement income source (such as a RRIF) by the end of the year in which you turn 71. You can convert it sooner, but if you have sufficient income from other sources, you may wish to consider waiting. That way, you let your RRSP continue growing on a tax-deferred basis that much longer.

Reinvest RRIF payments to earn tax-free income: If you have a RRIF, you are required to withdraw a minimum amount annually, which is taxable at your marginal rate. If you don't need the income, consider reinvesting your RRIF payments into your TFSA (if you have TFSA contribution room) where they can earn tax-free investment income. And when you need the income, you can make tax-free withdrawals (and the amount you withdraw is added back to your available contribution room the following year).

Reduce future tax with a spousal RRSP: Do you expect your spouse to be in a lower tax bracket in retirement? Consider contributing some or all of your available RRSP contribution room to a spousal RRSP. You receive the tax deduction, but the income earned within the spousal RRSP is generally taxed in your spouse's hands at their lower rate. This can help reduce your combined taxes.

Contribute to a spousal RRSP even if you have already converted your RRSP into a RRIF: If you have earned income, you can still contribute to a spousal RRSP (until December 31 of the year in which your spouse turns 71).

Talk to your Investment Advisor about making the most of your tax-advantaged plans.

2. You can't control rising costs – but you can control how you stretch your dollars.

The cost of living continues to rise. Especially if you're retired and on a fixed income, it makes sense to take a close look at your expenses, switch to less-expensive options where possible, and consider your needs versus your wants. But regardless of your life stage, updating your budget and financial plan is a smart move right now – and we can help.

Ask your Investment Advisor about updating your financial plan for today's economy.

Four ways to build confidence in your financial future ... Continued from page 3

3. You can't control interest rates – but you can control how you turn them to your advantage

On the one hand, you don't want higher interest rates when you're paying them and, in that situation, it makes sense to consider how you can pay off higher-interest debt or switch to lower-interest options where possible. But on the other hand, higher interest rates are great when you're being paid interest through fixed-income investments like bonds and Guaranteed Investment Certificates (GICs). In addition to offering interest and principal repayment guarantees, bonds and GICs are paying higher interest than they have in years, making them much more attractive for investors seeking income and stability in their portfolios.

Your Investment Advisor can help you determine if it makes sense – given your individual needs and goals – to consider fixed-income opportunities for your portfolio.

4. You can't control the markets – but you can control how you react to them.

As an investor, it can be difficult to stay the course – and stick with your long-term plan – during times of economic uncertainty. It's only natural to feel nervous, but by avoiding the urge to "panic sell", you can benefit over the long term.

Crisis or opportunity?

In the short term, the financial markets can be volatile. But over the long term, the trend is up – even through times of crisis.

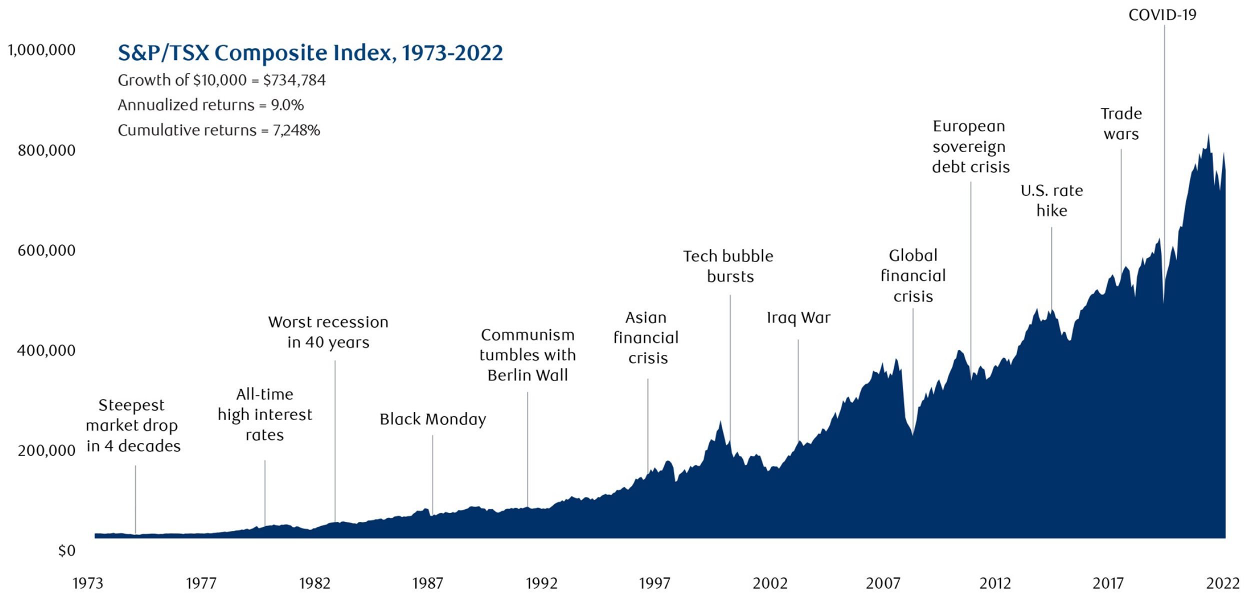

Chart illustrates the growth of $10,000 in the S&P/TSX Composite Index (total returns) from January 1, 1973 to December 31, 2022. Performance as of December 31, 2022. An investment cannot be made directly in an index. Graph does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower. Past performance is not a guarantee of future results. Source: Bloomberg, RBC Global Asset Management. Values and performance are in CAD.

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