UPPER CANADA CAPITAL
PRIVATE WEALTH MANAGEMENT

2022 August Team Newsletter

From the desk of Kurt Rosentreter, CPA, CA, CFP, CLU, TEP, FMA, CIMA, FCSI, CIM
Portfolio Manager, Manulife Securities Incorporated,
President, Upper Canada Capital Inc.
Life Insurance Advisor, Manulife Securities Insurance Inc.
Kurt.Rosentreter@manulifesecurities.ca

Overblown, overhyped, oversold first half of 2022?

Stock markets worldwide fell -10%, -20% and even -30% in the first half of 2022 on fears of recession, falling corporate earnings, the war in Ukraine, inflation and even a resurging pandemic.

In our team's opinion, the decline in the stock market feels overblown based on the conditions we see on the ground.

There may be a technical recession on paper (two negative quarters of gross domestic product [GDP] in the U.S. but not in Canada yet), but with record low unemployment, an economy awash in cash and people continuing to spend, we may instead see an economic slowdown (which is overdue) but not a recession where unemployment skyrockets.

The last two times the stock market fell sharply for sustained times were 2008 and 2020. In 2008 it was because of the financial crisis where some banks worldwide went bankrupt – it was a terrifying time. In 2020 it was the start of the pandemic where we didn't know what would happen next so markets fell on fear of uncertainty.

But this time? Markets fell on inflation concerns and rising interest rates – something that has happened in the past - like the early 80s. So higher inflation looks to have returned for a period of time (perhaps one to three years?) and interest rates look to remain higher (perhaps two years?), but this is a pretty "plain vanilla" market decline caused by factors we all know well – that is, if you are over age 50 and remember the 80s well.

Our position on the current market conditions, an opinion that is constantly evolving, is as follows right now:

Big mortgage? Pay it down like your life depends on it – we have been saying this for a decade. Low interest rates were an opportunity to pay down almost pure capital and get ahead fast. Now a 4% mortgage will slow down your goal to be debt free and may affect your retirement goals.

Really big mortgage? We had suggested moving to a fixed rate mortgage a year ago to get ahead of rising interest rates that were being hinted at in mid-2021. A few mortgage brokers are suggesting to stay with floating rates for your mortgage interest rates – we fundamentally disagree. Gambling on interest rates knowing the worst-case position is bankruptcy is not something anyone should do.

Tech stock drop – stocks like Microsoft, Apple, Google, Nvidia and other behemoths have been down -20% to -30% so far this year. We feel strongly they will roar back – they are some of the strongest and most essential businesses in the world. These fantastic companies have been on sale in 2022 in a way we have not seen for a decade or longer – buy if it fits your investment profile.

General market drop – it is pretty rare to see stock markets drop -20% or deeper and when these events happen (3rd one in 15 years), we encourage people who don't need the money in more than five years to say "show me the deals and tell me where to buy!". Selling high-quality positions during falling markets simply due to fear of watching portfolios decline for a short time is not a good investing habit.

Oil and oil stocks – these stocks have risen due to global politics dictating access to energy related to the war in Ukraine. We have never preferred to invest in commodity-based industries due to political unpredictability. Look at the pipeline wars in Canada over the last ten years: Yes to Keystone. No to Keystone. No to Keystone. Yes, next time? With oil, we were right for a decade in staying away. We were wrong for one year – we'll take those results. Electric cars and carbon tax credits are not going away. But Putin will eventually be gone, and oil prices (and oil company profits) will decline again.

Inflation – only one year of high inflation means most of us don't need to change our lifestyle yet. Three to five years of inflation above 3% and we may start to change our retirement planning assumptions – but we are far from that now. And market pundits and economists (some, not all) have forecasted a return below 2% annual inflation in less than a few years.

Interest rates – buy your GICs and corporate bonds now while interest rates are still high. Do not wait for yet another possible interest rate increase. Markets are already pricing in the end of interest rate increases in 2022 or 2023 and you may not see any more interest rate increases in GICs and bonds. The 1% increase from the Bank of Canada in July did not result in a corresponding increase of 1% in GIC or bond rates. Interest rates may have already peaked and if so, when do you think you will see interest rates on bonds this high again? This could be your 1983 moment if these are the highest rates for the next 10 years to 20 years. Don't miss your opportunity to buy longer maturing GICs and bonds to lock these great rates in – owning 4% to 5% bonds could offer a good, guaranteed cash flow for your retirement. Now is not the time to buy one and two year anything.

Retirement – are you already retired and rattled about the stock market falling this year? Or are you retiring in the next 10 years and worried about having enough money? Our retirement cash flow forecast to age 100 that ties all your assets and spending together along with essential assumptions and goals is a must-do planning engagement with us. We complete two plans a week for clients across Canada and update them every three years on average. These forecasts should be viewed as the "plumbing" that ties together all your decisions and resources, guided by our team to make sure you are financially okay to age 100.

Retiring now? Let us get in the weeds with you and do a detailed cash flow design now that your pay cheque is gone and you are going to live on passive income. We will look at your income sources (CPP, OAS, RRSP/RRIF income, rental income, portfolio income, part-time work) and create a tax-smart income stream that ends up in your bank account like your pay cheque did. We are detail oriented, and this comprehensive view will give you peace of mind on cash flow sources as you head into retirement.

Investing Perspective – in our 24-hour news cycle it is hard to avoid hearing about recession, war, real estate crashes and other bad news that may lead you to worry about money. News sources often sensationalize situations and can sometimes take aggressive views.

We are always defensive in our thinking first and take a view that matches your goals and needs for spending money.

So please keep six months of headlines in perspective and together let's keep our eye on your goals for 3-5 years or longer. These rough markets will too pass and we are here to talk, view the facts and discuss financial plans at any time.

From the desk of Jordan Campbell, CFA

Portfolio Manager, Manulife Securities Incorporated
Jordan.Campbell@manulifesecurities.ca

The first half of 2022 produced the worst stock return in the US to start the year since 1970 – 52 years ago. The S&P 500 (the main US stock market) fell just shy of 20%. The Toronto Stock Exchange (TSX) fared better as it was down almost 10% during the same time, propped-up by our country's large weighting to energy stocks which benefited from oil's surge.

With that said, we have been through sharper declines before, such as those in March 2020 when the S&P500 fell 33.79% over the course of one month (sourced from YCharts, July 26th 2022). The difference is that in 2020, stocks had almost fully recovered from the lows within 100 days while the drop this year has been a slow decline.

When we are living in the moment, these short-term stock movements can become all consuming. But we must remember that investing is a long-term pursuit where the day-to-day fluctuations don't matter when we look back.

In fact, does anyone actually remember what happened in the stock market 52 years ago in 1970 when we last had a bad January-to-June return? What about the October to December 1990 when the US went into a recession? Or what about a more recent example between October 2018 and December 24th, 2018 when the S&P 500 fell 20%?

In truth, I don't even remember this 2018 period well but when I look back on all the emails, I sent out in late 2018, it was clearly front of mind for me and our team here.

When we think back to early 2022 a decade from now, I'm sure this period of time will be nothing more than a curious footnote in textbooks about how the 20% decline was the worst since 1970, one that you can only vaguely remember.

But having a long-term perspective is easier said than done when you see nothing but negative headlines day in and day out. The good thing is that we can take steps to alleviate any distress during these short-term periods without affecting your long-term prospects by rebalancing your portfolio. Yes, the market is down but many of your positions are still up since we bought them years ago. We can sell some of the gains you've made in more volatile sectors (technology) and reinvest into more defensive stock market sectors (consumer staples and healthcare) or look at adding corporate bonds paying +/-5% interest, the first time we've seen such rates in decades.

If you have questions about how we are positioning your portfolio for the short and long-term, please feel free to reach out to our team directly.

From the desk of Mathew Cain, CIM
Associate Portfolio Manager, Manulife Securities Incorporated
Mathew.Cain@manulifesecurities.ca

Inflation, Interest Rates and the Best Fixed Income Yields We've Seen in Decades

2022 will be another year to remember.

The global stock markets fell in the first two quarters, interest rates rose in Canada to a level we haven't seen since before the great recession and inflation in Canada rose to 40-year highs. While all of this is hard to stomach, there is a bright-side – we are experiencing some of the best fixed income yields in decades and it likely won't continue.

The central banks have been aggressively raising their interest rates to combat rising inflation. This caused GICs rates to increase significantly and government and corporate bonds prices to fall precipitously (recall that bond prices fall when interest rates rise). To give you a sense of how fast, a one-year GIC on March 1st, 2022 was 2.05%. Now they are over 4%.

Once inflation is tamed, the central banks may have no desire to continue increasing rates and may even cut rates to stimulate the economy again.

Here's the timeline as predicted by the Bank of Canada governor, Tiff Macklem:

Mr. Macklem forecasts inflation in Canada will start coming down by the end of 2022. By the end of 2023, he predicts that inflation will be between 3%-4% and at or below 3% by the end of 2024 (Source: Bank of Canada, August 2022).

If there was ever a window to buy bonds and GICs, it is now and it is slowly closing. If inflation and interest rates are forecasted to fall over the next two years then there should be no desire to time GIC and bond purchases over the next few weeks and months to see if they go slightly above the 4% where they are now. Losing out on a 4% GIC would be harder to stomach than missing out on a 0.25% increase.

Further to this, our team has started locking-in these attractive rates for longer.

We have been using shorter-term GICs and high-quality corporate bonds for cash flow needs and exploring corporate bonds as far out as fifteen years to preserve the yields for longer.

We like high-quality bonds in comparison to GICs. GICs are locked until maturity and a lot could happen in five years that you cannot predict.

There is flexibility in corporate bonds – they can be sold at any time, turned into cash and pushed to your bank account or invested in new opportunities. This flexibility doesn't exist with GICs.

We look forward to speaking with you about these fantastic yields.

Data Sources:

GIC rates are sourced from gicsonline.com as of July 27, 2022 and are subject to change without notice.

Individual corporate bond data is sourced from CBID as of July 27, 2022 and is subject to change daily without notice.

From the desk of Jeton Spahiu, CIM
Financial Advisor Associate, Manulife Securities Incorporated
Jeton.Spahiu@manulifesecurities.ca

How do interest rate hikes impact mortgages and home equity lines of credit?

The Bank of Canada (BoC) has further raised its benchmark interest rate by 1.00% last month. That was the biggest one-time rate increase from our central bank since 1998, which reiterated a continuation of its strategy to alleviate the impact and concerns around rising inflation. The move showed the BoC's strong motivation to slow excess demand in the economy and quickly get their policy rate to the top end or slightly above the neutral range of 2-3%.

What does this latest rate increase mean for you? It means that many borrowing rates will further increase and if you have a variable rate mortgage or a line of credit, you should review the impact to your payment amount; considering that the prime lending rate has now increased to 4.7% in all major Canadian banks.

With variable/floating rate mortgages that offer static payments regardless of rate changes, a higher portion of your payment will be going towards interest versus your principal balance, now that the interest rates have gone up. No matter what your financial circumstances are, there are always options available to you should you not be comfortable with your variable rate for your borrowing needs.

One option would be to top-up your payment, so that the added money goes directly to the principal as to help you pay off your mortgage sooner. Another option would be to switch your variable rate mortgage to a fixed-term mortgage as to gain stability in budget planning and have control of your mortgage payment. However, fixed rates for all mortgage terms have gone up as well, which has consequently impacted the monthly payments for everyone looking to lock-in a fixed term mortgage. We would suggest talking to your own mortgage specialist as to explore the best possible option to weather the current interest rate environment, considering that each person's circumstance is different and there may be penalties and fees involved.

With that said, please lean on us with any questions you may have as we can help and guide you with any decision-making when it comes to your mortgage and other credit facilities.

Sources:

https://www.cbc.ca/news/canada/calgary/rising-interest-rates-mortgage-specialists-future-1.6530969, July 27 2022

https://www.rbcroyalbank.com/mortgages/mortgage-rates.html, July 27, 2022

From the desk of Frank Valicek, CFP, CIM
Financial Advisor, Manulife Securities Incorporated,
President & Life Insurance Advisor, Upper Canada Capital Inc.
Frank.Valicek@manulifesecurities.ca

You've no doubt noticed the year-to-date declines that have occurred in the stock and bond markets this year and may be wondering how this may impact your retirement cash flow forecast.

It's important to note the market declines are a normal part of the investing experience and have always proven to be only short term in nature. With retirement forecasts plotting out cash flow all the way to age 100, for the vast majority, you have a long road ahead of you in terms of your investment time horizon even though during a year like this it may not feel that way. Most will also have multiple sources of income, such as Canada Pension Plan and possibly company pension plan benefits, Old Age Security, semi-retirement employment income, investment income, as well as any special sources of money you may be destined to receive such as an inheritance.

In years when you will have a shortfall (more expenses than income) and have insufficient funds available to fill the shortfall in any given year, then the shortfall is "real". When you have a shortfall that is "real", you can only eliminate it by changing one of the variables that you can control. These controllable variables include:

- Saving more and spending less
- Reducing your taxes
- Improving the rate of return on your investment portfolio by changing your investment management strategy
- Reducing or eliminating one or more of your goals

If none of the above is possible, the saving grace is that historically markets always recover from such declines and we've all had recent experience with this, be it the post February-March 2020 COVID rebound to new highs or the multi-year recovery coming out of the 2008-2009 financial crisis.

Wall Street market analysts have a rather wide forecast for the balance of the year of anywhere from another -9% decline to a +24% recovery for the S&P 500 Index with the average forecast being a +10.5% increase from current levels (Datasource: https://www.cnbc.com/market-strategist-survey-cnbc/, August 2022)

Under present inflationary conditions, it's important to have a keen eye on your spending habits and scale back wherever possible as we wait for the market recovery which will help to get you back on track. And in the interim, the year-to-date declines may present an opportunity to re-balance your portfolio by taking advantage of stock market declines and position your portfolio for future growth.

From the desk of Evan Campbell
Marketing Assistant, Manulife Securities Incorporated Evan.Campbell@manulifesecurities.ca

2022 Household Savings Considerations

During market downturns, proper budgeting and meeting savings targets can be more important than ever. Looking ahead for the rest of the year, some important dates and limits to be aware of when budgeting for your savings include:

- Tax Free Savings Account (TFSA) - $6,000 2022 limit.
- Registered Retirement Savings Plan (RRSP) - $29,210 limit for 2022 increasing to $30,780 in 2023 with an assumed deadline of March 1st 2023 for the 2022 tax year.
- Registered Education Savings Plan (RESP) – No annual limit ($50,000 lifetime limit for each beneficiary) and an annual RESP contribution deadline of December 31st for Canada Education Savings Grant (CESG) calculations.
    - CESG – 20% matching for first $2,500 of contributions annually per beneficiary up to $7,200 in lifetime grants. Confirm with HRSDC for individual limit.
- Year's Maximum Pensionable Earnings (YMPE) - $64,900 2022 limit.

The new First Home Savings Account (FHSA) introduced in the 2022-2023 federal budget may also factor into budgeting for a savings target going into the end of the year and looking ahead for 2023. This home savings plan will have contribution limits of up to $8000 per year (and $40,000 over an individual's lifetime) with first contributions expected to be available in 2023. Contributions will be deductible to the taxpayer, income earned in the FHSA is tax-free, and withdrawals for the purchase of a first home are non-taxable.

Data Sources:

Agency, Canada Revenue. Government of Canada. Canada.ca, 29 Nov. 2021, https://www.canada.ca/en/revenue-agency/services/tax/registered-plans-administrators/pspa/mp-rrsp-dpsp-tfsa-limits-ympe.html.

"2022-2023 Federal Budget Highlights." Deloitte, 2. https://www2.deloitte.com/content/dam/Deloitte/ca/Documents/tax/en_2022-2023_federal_budget_highlights_AODA.pdf.

Manulife Securities Incorporated
2848 Bloor Street West, Toronto, Ontario M8X 1A9
T: 416-628-5761 • F: 416-225-8650 • TF: 1-866-275-5878
Visit our website: UpperCanadaCapital.com

Manulife Securities

UPPER CANADA CAPITAL

PRIVATE WEALTH MANAGEMENT

Disclosures

Kurt Rosentreter, CPA, CA, CFP, CLU, TEP, FMA, CIMA, FCSI is a national best-selling author seven books on personal finance in Canada and the past co-founder of the national wealth management practice at one of Canada's "Big Four" public accounting firms. For the last fifteen years Kurt has been a core financial course instructor for CPA Associations across Canada and also appears regularly in the national press as an expert on matters of money. Kurt is the owner of a national wealth management practice in Toronto working with professionals and business owners on all topics of personal finance. Learn more about Kurt at *www.kurtismycfo.com*.

Kurt Rosentreter and Manulife Securities Incorporated or Manulife Securities Insurance Inc. ("Manulife Securities") do not make any representation that the information in any linked site is accurate and will not accept any responsibility or liability for any inaccuracies in the information not maintained by them, such as linked sites. Any opinion or advice expressed in a linked site should not be construed as the opinion or advice of Kurt Rosentreter or Manulife Securities. The information in this communication is subject to change without notice.

The opinions expressed are those of the author and may not necessarily reflect those of Manulife Securities Incorporated or Manulife Securities Insurance Inc.

This publication is solely the work of Upper Canada Capital for the private information of his clients. Although the author is a Manulife Securities Advisor, he is not a financial analyst at Manulife Securities Incorporated and/or Manulife Securities Insurance Inc. ("Manulife Securities"). This is not an official publication of Manulife Securities. The views, opinions and recommendations are those of the author alone and they may not necessarily be those of Manulife Securities. This publication is not an offer to sell or a solicitation of an offer to buy any securities. This publication is not meant to provide legal, accounting or account advice. As each situation is different, you should seek advice based on your specific circumstances. Please call to arrange for an appointment. The information contained herein was obtained from sources believed to be reliable; however, no representation or warranty, express or implied, is made by the writer, Manulife Securities or any other person as to its accuracy, completeness or correctness.

Manulife Securities Incorporated does not make any representation that the information provided in the 3rd Party articles is accurate and will not accept any responsibility or liability for any inaccuracies in the information or content of any 3rd party articles. Any opinion or advice expressed in the 3rd party article, including the opinion of a Manulife Securities Advisor, should not be construed as, and may not reflect, the opinion or advice of Manulife Securities. The 3rd party articles are provided for information purposes only and are not meant to provide legal accounting or account advice.

Manulife Securities Incorporated
2848 Bloor Street West, Toronto, Ontario M8X 1A9
T: 416-628-5761 • F: 416-225-8650 • TF: 1-866-275-5878
Visit our website: UpperCanadaCapital.com

Manulife Securities