UPPER CANADA CAPITAL
PRIVATE WEALTH MANAGEMENT

2023 February Team Newsletter

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2023 Market Outlook

2022 The Forgettable Year

Many people in the investment marketplace and investors in general are happy to see 2022 behind us. Here is a brief summary of some of the most important economic points from 2022:

- Inflation was not transitory as every central bank had exclaimed in 2021 and U.S. inflation peaked at 9.10% in June 2022 (Sourced from U.S. Bureau of Labor Statistics on 01/12/23). Canadian inflation rates were only slightly lower.
- The Bank of Canada increased interest rates seven times in 2022 to fight off inflation (Sourced from the Bank of Canada on 01/12/23). These interest rate increases led much higher mortgage interest rates for homeowners. At the same time, investors, particularly retired investors, could once again buy a GIC or a bond that paid over 4% interest for the first time in fifteen years (Sourced from TradingEconomics on 01/12/23).
- Russia's War in Ukraine created havoc with global oil and food prices.
- China continued its COVID-zero policy and the related lockdowns created manufacturing and supply chain issues for businesses around the world. It also prevented consumers in one of the largest countries in the world from spending and contributing to the global economy.
- Bond returns had one of the worst years – ever. Rising market interest rates in 2022 resulted in bond prices falling and producing double digit negative returns in managed bond products (Sourced from Ycharts on 01/12/23).
- Rising interest rates designed to cool off a hot global economy and kill inflation also led to global stock markets falling anywhere from -5% to -30% depending on the country. (Sourced from Ycharts, 01/12/23).

- Talk of recession in 2023 was everywhere for much of the year.

January 2023 What a Difference a Month Makes!

January 2023 turned to optimism in North America and beyond, that inflation has peaked, interest rate increases are done or close to done, the pandemic continues to be a fading memory, people are spending again and the stock market is positioned with great value pricing after a stock market decline in 2022 that felt overdone.

For January 2023, here are a selection of investment returns from commonly tracked securities (Sourced from YCharts on 02/10/23):

U.S. S&P 500 Total Return Index: +6.28%
Canada TSX Index: +7.41%
Tesla stock price: +40.62%
MSCI Germany Index: +12.41%
Microsoft stock price: +3.33%
Bank of Montreal stock price: +11.08%
Imperial Oil stock price: +12.35%

Outlook for the Rest of 2023

We believe that more accurate forecasting of the stock and bond markets is achievable by predicting the economy and markets one year ahead. What happens on the ground today is already priced into the market prices of securities. Looking out a year gives you a better sense of where markets are heading and what has yet to be priced in.

We are seeing little evidence of a recession in Canada or the U.S. at this point. With that said, it is early – the effect of eight and maybe more interest rate increases takes time to kick in. A short term real estate correction in Canada is a real possibility and it could drag Canada into a more serious recession later this year and into 2024.

Assuming inflation rates continue a gradual decline, we should then also see the end of interest rate increases. That means the best GIC and bond rates to buy new long term bonds are likely behind us and we have already recovered from the bottom of the stock market. There could easily be more stock market volatility in 2023 but we feel that the worst is behind us. If your time horizon for an investment account is three to five years away, then adding to stocks now and more on short term declines is our recommendation. This is not the time to buy new real estate in Canada in our opinion.

Overall, we are optimistic that 2023 will be a positive stock market year and we are sensing the optimism is shared as we review research reports from competitor banks and brokerages across North America. As always, we are here to talk and will provide regular updates.

Sources:
Bureau of Labor Statistics (01/12/23)
Bank of Canada (01/12/23)
TradingEconomics (01/12/23)

From the desk of Monika Kucinskaite, M.Com
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Should you accelerate mortgage payments or make RRSP contributions?

With mortgage rates near their peaks after the Bank of Canada raised its target for the overnight interest rate to 4.5% in January 2023 (Sourced from Bank of Canada on 02/17/23), many of us are asking if we should pay down debt instead of saving towards retirement. The best way to assess this is to compare your investment rate of return against your mortgage interest rate pre-tax, and with some analysis, determine which option has a better return. As the end of February approaches, talk to us if you are in doubt on what you should do.

RRSP contributions for 2022 tax year can be made at any time during the year or within 60 days of 2023 (by March 1st, 2023). These deposits will reduce your taxable income. If you are in a higher tax bracket or earned above $162,000 your maximum RRSP contribution limit for 2022 will be capped at $29,210. If you earned less, your deduction limit will be 18% of your earned income for the prior year. Click here to be directed to the Ernst & Young 2021 RRSP Savings calculator to find out how much tax you can save by contributing into your RRSP this year (Sourced from EY on 02/17/23).

This calculator is for illustrative purposes only and should not be relied upon as an accurate indication of your financial retirement needs. As each individual's situation is different and changes over time, the results are limited by the accuracy of the assumptions you make in providing the information used in the calculation. I (we) do not guarantee that this calculator is reliable, accurate or complete or that it will be compatible with your computer.

Sources:
Bank of Canada (01/25/23)
EY (02/17/23)

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Tracking Your Expenses

Having a household budget or expense tracking system will help you have a better idea of how much you spend each year. Personal finance literature generally recommends that expenses related to your home (mortgage/rent and utility bills) should not exceed 35% of your after-tax income. Banks also use a similar number when assessing your mortgage affordability. Of course, keeping home related expenses well below 35% means you will have more money available for saving and spending.

What remains after you cover your home costs will be split between your basic needs (food, clothes, home maintenance, transport, healthcare), discretionary spending (leisure, travel, paying for kids' extracurricular activities and more) and saving. The ratio between these categories depends on your family size, stage of life and lifestyle.

You can find online software and apps that help with budgeting, but a good way to start is to follow the tips below:

- Know how much you spend each month on home costs including: mortgage (or rent if you are renting), heating, electricity, phone/internet, home insurance.
- What is the amount you pay each month for "subscriptions"? These can include your cell bill, cable TV or streaming services, car payments and insurance, gym or club memberships, kids' daycare or extracurriculars and more.

Knowing these first two categories is important as they are a "fixed cost" for your lifestyle (the money often comes out automatically from your bank account). If you feel you are spending too much on these items, consider cutting some.

Review your credit/debit card statements for a few months. From the total spending, remove the first two categories above and you will get a sense of your monthly variable spending which includes both basic needs (food, clothes, transport) and discretionary spending. Doing this check for a few months is better as it will "average" the values.

Lastly, think about big annual spending items:

- How much did you spend on vacations for the past five years on average?
- How often do you purchase new vehicles and what do you pay?
- How much have you spent on home renovations in the past ten years?
- Is there any big annual insurance policy that you need to pay?

Adding all these numbers together will give you a sense of how much you spend each year and therefore how much are you able to save based on your current income and lifestyle. It will also help you to see areas where you might be overspending and better allocate your money between spending and saving.

This analysis is an essential part of our personalized wealth planning approach that we use to help you achieve your goals.

From the desk of Frank Valicek, CFP, CIM
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Critical Illness Insurance

You work hard to achieve personal and financial goals during your lifetime. These include accumulating savings and investments to provide you with a comfortable retirement. But if you must draw on your savings to pay for unexpected costs resulting from an illness, your retirement plans can be at risk. A survey of 1,900 Canadians by Fidelity Investments shows a growing number of Canadians planning to work past the age of 65, with more of their working years spent at an age bracket with higher risks for serious health conditions. Click here to see full article (Sourced from BenefitsCanada on 01/15/23).

What would happen to your planning if you had a heart attack, stroke or were diagnosed with cancer? Treating and coping with a serious illness can mean significant costs which may not be covered by provincial or employee health plans. For many of us, this could mean depleting retirement savings to finance your recovery. To deal with unexpected costs resulting from a serious illness, you or your family will typically:

1. Withdraw funds from your savings plans or investments, or
2. Choose a critical illness insurance plan to provide funds if you have a serious health issue

By choosing critical illness insurance, you are protecting your income and savings, so you can focus on getting better without worrying about derailing your retirement plan. Reach out to us if you are interested, and we can explore your needs and discuss applying for coverage.

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