UPSON'S UPDATE

FALL 2023

MARKET UPDATE

There continues to be a possibility that North American and perhaps other developed markets could post new highs in the next few months. As long as faith in a so-called "soft landing" for the U.S. economy can be supported by some realistic rationale, we think a path to higher ground still remains open. However, beneath the surface consumer confidence and spending power are under pressure from depleted savings, high and rising interest rates, and elevated costs for goods. Next year is likely to feature a more challenging landscape for the economy.

After a rewarding 10-month upward advance into July, the S&P 500 Index, as well as European and Japanese markets, entered a correction/consolidation phase that has been playing out into the often seasonally weak Fall period. These markets appear increasingly oversold. A rebound rally is likely to develop in the coming weeks, in our view, and the possibility of the S&P 500 putting in a new high can't be ruled out. However, the probability of reaching a new high is diminishing, in our opinion, and depends more on technical market factors than on fundamentals.

Faith that the post-pandemic economic expansion has further to run in the U.S. has been the fuel that has driven most markets higher, periodic pullbacks notwithstanding. Ever since the Fed began raising interest rates and dismantling quantitative easing programmes, the forecasting community has been grouped into one expecting a soft landing and another looking for a hard one.

The debate continues. The soft landing proponents have recently been taking heart from some moderately better-than-expected economic data, including employment conditions that have refused to weaken so far. There is also a line of thinking which argues that the fact the U.S. economy is apparently still growing means that it is not about to fall into recession. This group points to the respectable 2.1% annualized real GDP growth posted in Q2, and if more comfort is needed, to the 4.9% estimate for Q3 generated by the Atlanta Fed's widely watched GDPNow model. This model is useful, but pinpoint accuracy is not intended to be one of its features- the average error of its predictions is roughly plus-or-minus 1%. It's also worth noting that the Atlanta Fed's process is not finished yet for this quarter and won't be until the September data releases have all been reported through late October.

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U.S. Recession Scorecard

Indicator	Status: Expansionary	Status: Neutral	Status: Recessionary
Yield curve (10-year to 1-year Treasuries)			✓
Unemployment claims		✓	
Unemployment rate	✓		
Conference Board Leading Economic Index			✓
Free cash flow of non-financial corporate business	✓		
ISM New Orders minus Inventories		✓	
Fed funds rate vs. nominal GDP growth		✓	

Source: RBC Wealth Management

SPECIAL POINTS OF INTEREST:

- *For those eligible, if you do not open a First Home Savings Account (FHSA) account in 2023, you will not be able to carry-forward the $8,000 of 2023 contribution room into 2024.*
- *It is important to review your Will and estate plans every 5 years, and when any major life event takes place.*
- *Higher interest rates and elevated inflation have weighed on markets recently, though the debate of a soft landing versus recession remains.*

INSIDE THIS ISSUE:

We are more persuaded by the historical record, which reveals that the progressive tightening of credit conditions by way of a long succession of Fed rate hikes accompanied by a multi-quarter boosting of bank lending standards has never been a recipe for avoiding a recession. Rather, these factors have always preceded or been part of a hard landing. These restrictive conditions are present and have been building for more than a year. We expect their effect to be more keenly felt by the economy and stock market through some extended part of next year. Of course, there can always be a first time, but planning on being let off easy when the historical probabilities point toward a more challenging outcome doesn't seem like the prudent course to us.

For now, we recommend remaining sufficiently committed to stocks to take advantage of what we regard as a diminishing possibility of reaching a new high in the coming few months. However, we believe investors should consider limiting individual stock selections to companies they would be content to own through a recession, which, in our view, is the most probable economic outcome in the coming quarters. For us, that means high-quality businesses with resilient balance sheets, sustainable dividends, and business models that are not intensely sensitive to the economic cycle.

Perhaps the most compelling reason for focusing on resilient, high-quality businesses is that the headwinds which appear to be gathering will, in our view, run their course and probably fully dissipate later next year. Equity markets typically have anticipated the start of a new economic expansion several months before it gets underway. In our opinion, portfolios that have held their value to a better-than-average degree will be best-equipped to take advantage of the opportunities that are bound to present themselves at that positive turning point when it arrives.

- Greg

When should you review your Will or estate plan?

Everyone generally knows the importance of getting regular health checkups with a doctor or regular car maintenance with a mechanic, but when was the last time you looked at your Will or estate plan? Have you experienced any life changes recently that require an update to your Will or estate plan? Most legal professionals suggest reviewing your estate plan every three to five years or any time you experience a major life event. This article provides some examples of circumstances which may warrant a change or update to your Will and estate plan.

Entering a new relationship

A common misconception is that your assets will automatically pass to your surviving spouse or common-law partner in the event of your death. In general, if you haven't properly documented your wishes with respect to how you want your estate assets to be distributed on your death through a valid Will or beneficiary designation, you may be considered to have died "intestate" with respect to those assets. This means those assets will be administered under the provincial intestate succession legislation for the province where you reside on death. Under these intestacy rules, it's possible that your spouse or common-law partner may not receive all of your estate assets.

Moreover, in certain provinces, your common-law partner may not even be entitled to any of your estate assets. It's therefore prudent that you ensure you have a valid and up-to-date Will and estate plan.

In some jurisdictions, marriage cancels any Will prepared by either spouse prior to the union, unless the Will is made in contemplation of marriage. As well, many couples wish to appoint their new spouse or common-law partner as the beneficiary of their estate. For these reasons, your Will and estate plans may need to be updated once you get married or enter a new common-law relationship. In addition to updating your Will, you may want to consider changing the ownership structure of your holdings, such as bank and/or

investment accounts or real estate. You may also wish to change beneficiary designations on certain assets such as pension plans, RRSPs/RRIFs/TFSAs, and insurance policies to reflect your new circumstances.

You and your new spouse or common-law partner may also wish to designate each other as attorney under powers of attorney (POA) for both property and personal care. These documents should be updated

Source: RBC Wealth Management, *Global Monthly Insight*– October 2023. RBC Portfolio Advisory Group.

accordingly, particularly if you or your spouse or common-law partner has prior POAs in place.

Raising a family

Reviewing and updating your Will and estate plan is essential not only on the birth of your first child but upon any new additions to your family. It should be a priority for every parent to appoint guardians in their Will for the care of their minor children, to address a situation where both parents pass away.

Disability

Parents of children with a disability may want to determine how it might impact your disabled beneficiary's eligibility for income and/or asset tested provincial disability benefits. Rather than leaving your assets outright to your disabled beneficiary, you may wish to consider having your assets flow on death to an absolute discretionary trust created in your Will, also known as a Henson Trust.

Divorce

Unlike marriage, which may cancel any previous Wills in some provinces, separation and divorce do not cancel an existing Will. Generally, getting divorced will revoke any gifts in the Will left to the spouse and any appointment as executor/liquidator, and your Will will be construed as though your former spouse pre-deceased you. In some provinces, your spouse or common-law partner may be disinherited from your Will if you're separated from them for a certain time period. In other provinces, separation has no impact on any gift left to your spouse or common-law partner. As well, divorce or separation may have no impact on your beneficiary designations on registered plans and insurance policies. In some provinces, divorce or separation does not revoke an appointment of your spouse or common-law partner as your POA.

Starting, buying or selling a business

If you've purchased a business, you'll want to consider how the management and ownership of the business should be transferred if something happens to you. If you're a co-owner of a business, will your co-owners buy your shares or interest in the business should you become incapacitated or die? How will this purchase be funded?

You may also consider the potential tax liability related to your business that your heirs or estate may face upon your death. These considerations should be addressed in a Will that also reflects any shareholder agreements that may be in place.

Mid-life, peak earning years

In general, mid-life is a good time to revisit your Will and estate plan. Consider how your family would carry on financially should you pass away, become badly injured or too ill to make decisions.

Retirement

Your goals for, and needs from, your estate plan may change as you prepare for retirement, depending on your personal situation as well as that of your family members. This presents another good opportunity to review your estate plan and Will to ensure they both meet your requirements and wishes. Is everything up to date? Are there ways to reduce costs, such as taxes and probate fees, at the time of your death? Are all of your named beneficiaries current?

Death of a partner, executor/ liquidator or beneficiary

The death of a spouse or common-law partner, executor/liquidator or beneficiary may also necessitate an update to your Will and estate plan. If your late spouse or common-law partner is named as the executor/ liquidator of your Will, or as the beneficiary of your estate, life insurance, retirement or pension plans, these documents may need to be revised or updated if you have no alternate beneficiaries named.

Acquisition of foreign property

There are a number of considerations when purchasing foreign property. For instance, a Canadian Will or POA may not provide your executor/liquidator or attorney with the authority to deal with your foreign property in the case of your death or incapacity. In this case, creating a separate Will and/or POA that complies with the requirements in that jurisdiction may help your executor/liquidator or attorney navigate the foreign jurisdictions.

Changes in residence

Every jurisdiction has its own laws and requirements pertaining to Wills and estate planning. If you move to another province or country, it's important to ensure with a qualified legal advisor that your Will is still valid and the provisions of your Will can be carried out by your executor/ liquidator.

Plan ahead

Not surprisingly, as people experience the joy or sorrow of any one of these mentioned life changes, reviewing their Will and estate plan is probably not top of mind. However, the sooner it's addressed the better, and the less chance of larger issues presenting themselves in the future with a Will or estate plan that is out of date.
Speak to us today on how we may assist you with your estate planning.

Source: RBC Wealth Management, *When should you review your Will or estate plan?,* June 2023.

Tax-free first home savings account (FHSA)

The tax-free first home savings account (FHSA) is a new registered account to help individuals save up to $40,000 on a tax-free basis to purchase a first home. The FHSA is a mix between an RRSP and a TFSA. Like an RRSP, contributions you make to a FHSA are tax-deductible, and like a TFSA, withdrawals you make to purchase a first home (including investment income earned) will not be taxable.

Opening the FHSA

To open a FHSA you must be a Canadian resident of legal age in your province and not turning 72 or older in the year. In addition, you must be a first-time home buyer, which means you and your spouse must not have owned a home that you lived in as your principal residence at any time during this year or the last five calendar years.

Advantages of the FHSA

The FHSA has many advantages, as it combines the attractive features of both the RRSP and the TFSA. Like an RRSP, contributions you make to a FHSA are tax-deductible; like a TFSA, withdrawals you make to purchase a first home (including investment income earned) will not be taxable.

Contributions

You will be able to contribute up to a lifetime limit of $40,000 to your FHSA, with an annual contribution limit of $8,000. The full annual limit of $8,000 is available now, and will only carry forward into 2024 if the FHSA account is opened in 2023.

Carry-forward amounts

The earlier you're able to open the account, the longer you have to take advantage of the 15-year limit for tax-free growth. If you're not in a position to contribute the full $8,000 of annual contribution room this year, your contribution room will carry-forward and you can contribute up to your available room in the following year. However as noted, if you don't open the account in 2023 then the $8,000 of 2023 contribution room doesn't carry-forward to 2024.

If you make a contribution to your FHSA, you do not have to claim a deduction for that year. Since undeducted FHSA contributions can be carried forward indefinitely, if you have relatively low income this year and expect to have higher income in the next few years, you can contribute to your FHSA this year and wait to claim the tax deduction in a future year when you have higher income. With this approach, you gain access to tax-free growth immediately and you also get to benefit more from a tax deduction in a later year when you're paying tax at higher marginal income tax rates.

It may make sense to first start contributing to your FHSA, as opposed to your RRSP. This is because if you don't end up buying a home within 15 years, you have the flexibility of transferring the funds accumulated in your FHSA to your RRSP, where you can later make a withdrawal under the Home-Buyer Program (HBP). This transfer will not reduce your available RRSP room; therefore you can create more RRSP room by first contributing to your FHSA. On the other hand, if you contribute to an RRSP and then transfer to your FHSA, you don't get an additional deduction and you will have lost that RRSP room.

This is an excellent new account for first-time home buyers and we highly recommend opening a FHSA account in 2023 for anyone eligible. This account can help you save tax-efficiently towards the purchase of a home by taking advantage of tax-free compounding growth and receiving tax deductions on your contributions. Please contact us to discuss opening a FHSA account.

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Contact us

We are committed to providing you with the highest quality of service. If you have any questions, if there is anything we may assist you with, or if you would like to speak in greater detail about anything, please let us know.

Avinash's Admin Note: Did you know that we send out a Morning Update email that includes daily market commentary, a collection of our latest research reports on Canadian, US and Global companies, and a summary of the trending news headlines from the Wall Street Journal? If you don't currently receive the Greg Upson Wealth Management Morning Comment but would like to, please contact Avinash Haswani at 604-257-7653 or avinash.haswani@rbc.com to make it a part of your morning coffee routine moving forward.

Closing Quote:

"The single greatest edge an investor can have is a long-term orientation."

-Seth Klarman