Wealth for Life

Wealth Management
Dominion Securities

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The Lester Wealth Management Group of RBC Dominion Securities

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After early 4th quarter volatility, equity markets finished the quarter in positive territory after retesting the September low in October. The last quarter of 2022 provided an opportunity to regain some of the equity market weakness through September 2022. The TSX managed a return of 6% in the 4th quarter, trimming 2022 loses to -5.8%. In the U.S., the S&P 500 Q4 return was 7.6% or 5.4% CAD, and the 2022 return was -18.1% or -12.2% in CA$.

Equity and fixed-income markets continued volatile trading in Q4. This is against the expectation that central banks would be softening their rate hike strategy, which has proven too optimistic. Central banks instead continued to increase interest rates and talk of higher interest rates for longer, causing equity markets to lose momentum from November through December.

While financial markets were buffeted by perceptions of central bank objectives, important "market" signposts were noteworthy. Continuing data on inflation seems to suggest that inflation peaked in the summer of 2022. In December, U.S. core CPI had declined to 5.7% from 6% in November. It is also notable that supply chain bottlenecks are easing and prices of goods, including food and gasoline, have declined materially, feeding into the declining inflationary picture. Coupled with the fact that manufacturing activity in the U.S. is slowing, further price and inflation easing seems to be "in the cards."

Why is all this so important? Although economic data is backward-looking, it does feed into the forward-looking positioning of investors and markets.

In reaction to reported data, other signposts include a peak in oil prices in June 2022, a peak in 10 year bond yields in October 2022, and a peak in the USD in September 2022. In contrast to these notable peak value occurrences, gold prices bottomed in October 2022 before rallying into year-end. The strength in gold confirms a weakness in the USD, stemming from the perception that interest rates will continue to decline.

The take away: Markets seem to be forecasting that peak interest rates are near, so 10 year bond yields are declining. Our interpretation is that the U.S. Federal Reserve Bank (Fed) may be near the end of its "tightening" policies. The decline in U.S. interest rates (10 year bond yield) reduces demand for the USD and feeds into lower prices for commodities like oil. The lower prices for commodities in turn feed into lower consumer prices and inflation.

Declining interest rates and manufacturing activity plus lower inflation point to a highly anticipated peak in Fed tightening policy – and hopefully lower interest rates. However, the "fly in the ointment" for central banks is rising wage pressures and rent, both of which are catalysts for higher inflation. Unfortunately, both wages and rent are lagging data points that don't actually reflect current conditions until months after the fact. This lag presents a real risk that central banks may tighten too much, exacerbating any future recession or slowdown.

Real estate prices are down both in Canada and the U.S. One might conclude that it's just a matter of time before declining real estate prices

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feed through to declining rents for central banks to get the message. That said, wage pressures are not as clear, as consumer demand for services remain buoyant. However, we do know personal spending has started to decline, hurting retail sales – not to mention that Tesla has been in the news with price reductions to spur sales. One news source also quoted a prominent U.S. retail company as saying that securing new hires is becoming easier and that premium wages were not as necessary. Hmmmm...Central banks need to see declining wage inflation to feel comfortable about stopping interest rate increases.

Will there be a recession? If so, how bad will it be? The history of recessions is well-documented and nobody is ready to ring the starting bell just yet. In fact, given the unprecedented increase in interest rates since early 2022, a recession is highly probable. With short-term interest rates higher than 10 year bonds, the probability of a recession is starting to increase. A major offsetting factor working against a recession – or at least a deep recession – is the strength of the consumer, who accounts for 70% of economic growth. Although consumer spending is softening, consumers' financial strength is solid and supports continued spending.

With the variable nature of recessions (in terms of timing, duration and depth of impact), it has been virtually impossible to time markets to avoid them. Clearly, we could move to cash, but then we would have to time when to reinvest. But, if we don't know when the recession will start, how will we have the confidence to know the recession is over and markets are about to go up? Market timing therefore seems to present an even greater risk to achieving our wealth management goals than the recession itself.

History suggests the preferred strategy to deal with recessions and unexpected market corrections is to be positioned for a longer-term perspective that can withstand these short term events.

Recessions are the "trough" of ongoing economic cycles, alternating between economic growth and downturns that have affected global economies for hundreds of years. Interestingly, there are hundreds of companies that have managed these cycles for many decades with success. The pandemic in 2020 ushered in an unprecedented event that tested every aspect of the global economy. While it presented a different test than the great recession, it was still a formidable challenge. Many high-quality companies with sustainable businesses have navigated prior recessions, as well as COVID-19, and are well prepared to navigate yet another "trough cycle" or recession. History is proof that recessions are short-term events in the long history of global economic growth.

Equity markets have followed a down trend for all of 2022, setting successive lower lows on four occasions. In September/October, equity markets tested the vicinity of the June low for a second time. The process of market bottoms is a test to see at what level buyers resurface, so a second test of the June low is potentially positive, if it holds. In any event, we could be in the process of bottoming. In October, many of the highest-quality companies that had held their respective values better than most, gave up some of their strength – again a potentially positive sign. Just like an aging athlete at the end of a long training run, even equity markets experience "exhaustion". Investor sentiment has been at an extreme level of bearishness (negativity) for some time, which is presently showing signs of unwinding.

Our strategy to endure these tumultuous cycles is to be positioned in high quality companies with sustainable businesses. Recessions, or even corrections, offer an opportunity to buy these types of companies at vastly discounted valuations, presenting some of the best wealth creation opportunities we can get. We may not buy at the exact low, but we know the valuation is attractive given the long-term performance of a very sustainable business.

Central banks still have work to do, but we are closer to the end of rising rates and inflation is declining. With the effort being made to normalize interest rates, central banks will almost certainly overshoot with higher rates rather than "pause," and have to restart with even higher interest rates. On the other hand, central banks are very aware that too much interest rate pain will tank the economy. Much lower interest rates are required to resuscitate the economy and potentially undo all the interest rate normalization work done so far. Suffice to say, we would not be surprised to see central banks pause in the near future, followed by a lowering of interest rates to support the economy in the not too distant future.

Equity markets are forward looking and frequently bottom before the recession. We will therefore remain invested and take advantage of attractive valuations as they materialize.

Steve Lester

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Client guide to 2022 tax reporting

Please contact us if you have any questions about your tax package.

This guide summarizes the important dates and required tax information to help 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).

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, including mutual fund tax slips issued by RBC® (tax slips issued by other issuers outside of RBC will continue to be sent by regular mail). Simply log in to RBC Wealth Management Online at rbcwealthmanagement.com to view your tax documents. For access to RBC Wealth Management Online, please contact your Investment Advisor.

T5 tax package – outstanding tax documents

We issue several tax slips and supporting documents to assist you in preparing your tax return. It is important to ensure that you have all of your slips before you file your tax return. Please review the two handy checklists within the cover letter of your T5 tax package: "Outstanding tax documents you may receive from our firm" and "Outstanding tax documents you may receive from third parties."

Multiple account holders/estates

Joint accounts: Although tax slips for joint accounts are issued in the name of two (or more) individuals, Canada Revenue Agency (CRA) only requires one Social Insurance Number (SIN) be included on the tax slip. Therefore, only the primary account holder's SIN will be displayed on your tax slip.

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Estate accounts: According to CRA, there is no requirement to produce a T5 slip to show income earned before and after the date of death. It is the responsibility of the beneficial owners or the estate's executor to report the appropriate share of income in the tax return of the deceased individual.

Residency changes

If you have moved to or from a different country within the tax year, it is up to you to claim back any tax withheld, as CRA does not refund the funds to RBC once they have been paid. In addition, CRA does not accept amendments to or cancellations of NR4s once they have been issued.

Non-resident tax on Canadian income trust units and split-share corporations

The taxable breakdown for income trust units and split-share corporations is not available until after the calendar year is complete. Therefore, non-resident accounts are not charged non-resident tax when distributions are made during the year, but rather a one-time charge for the full year is generated once the taxable nature of the trust's distributions is determined. Any applicable charges will be processed in April 2023 and reflected in your statements.

Return of capital

Return of capital adjustments will be processed in your accounts for income trusts, limited partnership units and split-share corporations in April 2023, and will be reflected in your statements.

Note: Return of capital adjustments need to be factored into determining your adjusted cost base and calculating any gains/losses.

Foreign spin-offs

For Canadian tax purposes, the fair market value of foreign spin-off shares received by a Canadian resident in a non-registered account is considered to be a taxable foreign dividend and must be reported to CRA on your tax return.

Legislation allows you to use an alternative tax treatment for eligible foreign spin-offs if certain criteria and time limits are met and an election is filed with your tax return. RBC Dominion Securities is still required to report the full fair market value of the spin-off on the T5 slip.

The book value shown on your statement for a foreign spin-off share will be the taxable foreign dividend amount. The book value of the parent company shares will remain unchanged.

Dates for T3/RL-16 and T5013/RL-15 tax packages

Delivery of T3/RL-16 and T5013/RL-15 packages depends on when information is provided to us by external issuers. The CRA reporting deadline for issuers to provide their tax information to financial intermediaries (such as RBC Dominion Securities) for tax receipt preparation is March 31. Some external issuers, such as mutual fund companies, mail tax slips directly to you.

Note: You may receive tax packages in April due to late disclosures and amendments by some income trusts and limited partnership units. Please do not file your tax return before receiving all required slips.

Registered Retirement Savings Plan (RRSP) contribution receipts

RRSP contribution receipts are delivered online or by mail throughout the tax season to capture all contributions made between March 2, 2022 and March 1, 2023.

Tax-Free Savings Account (TFSA)

In any calendar year, your total TFSA contributions cannot exceed your contribution room. If you withdrew funds from your TFSA in 2022, that amount will be added to your contribution room for 2023.

Non-Qualified Investments in a registered plan

There are significant, punitive tax liabilities for holding a Non-Qualified Investment (NQI) in your registered plan. If this applies to you, a letter detailing any NQI assets and the corresponding values will be mailed to you in February 2023 to help you file with CRA. Depending on your situation, you may wish to consider taking action on any NQIs in your registered plan to minimize potential tax penalties. Please consult with a qualified tax advisor prior to taking action.

Foreign currency tax slips

If you receive a tax slip in a foreign currency, you will need to convert the amounts to Canadian dollars. The table to the right shows the average annual exchange rates for various currencies that can be used for your reference.

Average exchange rates (per Bank of Canada)

	2018	2019	2020	2021	2022
U.S. Dollar	1.2957	1.3269	1.3415	1.2535	1.3013
British Pound	1.7299	1.6945	1.7199	1.7246	1.6076
Japanese Yen	0.0117	0.0122	0.0126	0.0114	0.009940
Swiss Franc	1.3246	1.3352	1.4294	1.3713	1.3629
Australian Dollar	0.9687	0.9228	0.9247	0.9420	0.9034
Hong Kong Dollar	0.1653	0.1693	0.1730	0.1613	0.1662
Euro	1.5302	1.4856	1.5298	1.4828	1.3696

All amounts are expressed in the number of Canadian dollars it would cost on average for the year to purchase one unit of the foreign currency.

Document/Tax slip	Approximate mailing date	Approximate online availability	Information reported
Registered			
RRSP contribution receipt			Issued to report the value of cash or securities (in-kind contributions) contributed to Registered Retirement Savings Plan (RRSP) accounts.
	Mid-January	Mid-January	For the last 10 months of 2022, the receipts will be issued in mid-January.
	Late January and daily thereafter	Late January and daily thereafter	For the first 60 days of 2023, the receipts will be issued in late January and daily thereafter.
RRIF/LIF/LRIF/ RLIF/PRIF evaluation letter	Late January	RRIF/LIF Details page always available online with current information	Details (i) the value of your assets at December 31, 2022; (ii) the minimum amount that must be withdrawn; (iii) the maximum amount that can be withdrawn if you have a Life Income Fund (LIF), Locked-in Retirement Income Fund (LRIF) or Restricted Life Income Fund (RLIF); and (iv) your desired payment amounts and frequency.
T4RSP/RL-2/NR4 (RRSP withdrawals)	Late February	Late February	Issued to report withdrawals from RRSP accounts. All payments from RRSP accounts must be included in your income. Relevé 2 slips for Quebec residents/NR4 slips for non-residents are issued.
T4RIF/RL-2/NR4 (RRIF withdrawals)	Late February	Late February	Issued to report withdrawals from RRIF, LIF, LRIF, RLIF or PRIF accounts. All payments from the above plans must be included in your income. Relevé 2 slips for Quebec residents/NR4 slips for non-residents are issued.
T4A/RL-1/NR4 (RESP withdrawals)	Late February	Late February	Issued to report the receipt of Educational Assistance Payments by the beneficiaries of a Registered Education Savings Plan (RESP) during the 2022 calendar year and/or Accumulated Income Payments to the subscriber during the 2022 calendar year. Relevé 1 slips for Quebec residents/NR4 slips for non-residents are issued.
Non-registered			
T5/RL-3	Late February	Late February	Issued to Canadian residents to report income of $50 or more on investments held in stocks, bonds, mutual funds or interest on credit balances during the calendar year. A Relevé 3 slip corresponding to the T5 slip is issued to Quebec residents.
NR4	Late February	Late February	Issued to non-residents of Canada who received Canadian investment income. Both the gross amount of the income received and any Canadian non-resident taxes withheld are reported.
Summary of investment income and expenses	Late February	Late February	Summarizes income received as well as charges to your account for dividends owed, interest paid on debit balances and accrued interest paid on the purchase of bonds. The amount in the “Paid to You” column supports the figures reported on the T5. The amount in the “Paid by You” column may qualify as an investment expense on your tax return.
Summary of security dispositions	Late February	Late February	Summarizes the proceeds of any sale or maturity that took place through your account during the year. Each line on the Summary corresponds to an actual T5008 slip filed with CRA. This report, together with your trade confirmations or month-end statements, will assist you in calculating your capital gains/losses. For Quebec residents, an additional T5008/RL-18 combo slip will be included as part of the T5 tax package.
Foreign securities report	Late February	Late February	Lists any foreign assets to support your T1135 filing requirements with CRA. It has been formatted to provide the information required in Form T1135, Section 7: “Property held in an account with a Canadian registered securities dealer or a Canadian trust company.” All amounts are reported in Canadian dollars. • This report is issued only to residents of Canada. If there is a residency change during the year, the report will include information only for the period when you were a resident of Canada.

Document/Tax slip	Approximate mailing date	Approximate online availability	Information reported
T5/RL-3 (additional investment income)	**Late February**	**Late February**	Issued to report income allocations from split-share corporations. A Relevé 3 slip corresponding to the T5 slip is issued to Quebec residents.
T3/RL-16 (trust and mutual fund income)	**Throughout March**	**Throughout March**	Issued to report income on investments held in Canadian-based Real Estate Investment Trusts (REITs), income trusts, ETFs, capital trusts and mutual funds. A Relevé 16 slip corresponding to the T3 slip is issued to Quebec residents.
T5013/RL-15 (limited partnership income)	**Throughout March**	**Throughout March**	Issued to report the allocation of the limited partnership's income among the Canadian resident partners. A Relevé 15 slip corresponding to the T5013 slip is issued to Quebec residents. An SK-METC (Saskatchewan Mineral Exploration Tax Credit) slip is issued to Saskatchewan taxpayers who invest in eligible flow-through shares issued by mining or exploration companies.
T3/RL-16 & T5/RL-3 (mutual fund slips issued by fund companies other than RBC)	**Not applicable**	**Not available**	Directly issued and mailed by respective mutual fund management companies.
U.S. reporting			
1042-S (non-U.S. beneficial owners of flow-through entities)	**Late March**	**Not available**	Issued to non-U.S. persons that are beneficial owners of flow-through entities with reportable U.S.-source income. These slips are filed with the Internal Revenue Service (IRS).
1099 official package (for QI/U.S. persons)	**Late February**	**Not available**	Issued to U.S. and suspected U.S. persons with income that is required to be filed with the Internal Revenue Service (IRS): • 1099-DIV: Reportable dividends paid to U.S. persons subject to U.S. tax laws • 1099-INT: Reportable interest paid to U.S. persons subject to U.S. tax laws • 1099-B: Reportable proceeds from sales or redemptions of securities, issued to U.S. residents • 1099-MISC "Miscellaneous Income": Reportable income not included in any of the above forms (such as U.S. royalty income) • Effectively connected income from U.S. limited partnerships: Reportable distributions will be provided on the 1042-S slip, which will be mailed separately from the 1099 package.
1099 unofficial package (for QI/U.S. persons)	**Late February**	**Not available**	Issued to U.S. and suspected U.S. persons who do not receive "official" 1099 packages: • Information in the "unofficial" 1099 package is not filed with the IRS and these unofficial forms should not be attached to a tax return. • Effectively connected income from U.S. limited partnerships: Reportable distributions will be provided on the 1042-S slip, which will be mailed separately from the 1099 package.