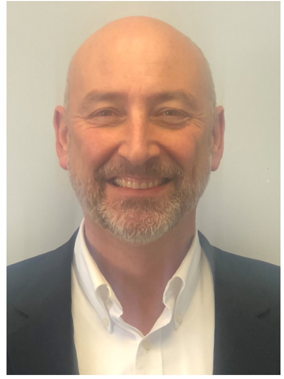
Manulife Securities **HOLISTIC WEALTH®**

Wealth DIRECTIONS

December 2023



Most unusual recession ever – divorced and living together in the USA

In late October, it was announced that the US economy grew faster than in the past two years. The US GPD grew at an annualized rate of 2.1% in the second quarter and then accelerated to 4.9% in the third quarter which was double what was expected. GDP stands for Gross Domestic Product (which means how productive the local economy is). There is some concern that Americans may not be able to continue to spend at his rate.

Canada is a different story. This can be primarily explained due to the difference in mortgages between the two countries.

Traditionally, in Canada people have a mortgage amortized over 25 years and the interest rate is 'locked' in for around 5 years. Along the way, we can sell our house and buy a new one and 'port' or move the mortgage onto the new property. The past two years, Canadian interest rates have risen more in the shortest time than ever before and as people's debt renews (approximately 20% of the mortgages each year), they are seeing their payments increase substantially. This is reducing available money in our pockets to spend in the economy. (Hence the expression tightening as we tighten our belts).

This is expected to snow ball in Canada with a majority of very low interest rates renewing in the next two years at what is expected to be a much higher rate. This may force some people to sell if they can not afford the significantly higher mortgage payments. As a result, our housing market could correct significantly. In addition, BC has introduced two changes which could negatively impact the value of real-estate.

The first is changes to the 'airbnb' rules restricting rentals where the property is not owner occupied (which may cause investors with short-term rental properties to sell rather than rent long=term.)

The second is the expansion of the vacant property or speculation tax which penalizes recreational and seasonal property owners who do not live or rent out the property for 6 months or longer each year.

One factor that may help to support house prices is Canada has a net increase in the population of around 500,000 each year and new housing is being constructed for only 200,000 people. This is on top of an already existing housing shortage.

The United States is very different. There, people typically have 30-year mortgages where the mortgage rate stays the same for 30 years! People can (and have) cancelled and reset their mortgage when rates are lower without penalty. Another major difference is that the mortgage is not portable. This means if they sell and buy a new place, they are hitting the reset button and the new mortgage would be at the much higher rates.

The result is the housing resale market has greatly diminished and people are staying in their homes. The divorce rate is down because people can't afford to separate and move (Wall Street Journal, Nov 27th 2023) Mortgage brokers & realtors in the US are seeing a significant drop in their income (even more so than those in Canada).

This explains how Canadians are feeling the effects of rising interest rates more than our US counterparts and how our recession and housing bubble could create stress.

Sources: https://www.wsj.com/personal-finance/they-want-to-split-up-the-housing-market-wont-let-them-bafd67f0

https://www.theglobeandmail.com/business/article-why-the-us-economy-is-booming-while-canadas-economy-stalls/?

https://financialpost.com/news/interest-rates-high-home-costs-mortgage-renewal-fears

https://financialpost.com/news/financial-stress-canadians-mental-health-personal-relationships

Normally, there is an increase in unemployment during a recession. This recession seems immune as there are so many baby boomers wanting to retire that the work force is shrinking.

FHSA – First Home Savings Account is here!

This new program offers an alternative to the existing First Time Home Buyers Plan (which is associated with your RRSP).

Unless you are planning on withdrawing funds in the next few years for a first-time home purchase, this new program offers significant benefits!

There are significant differences between the plans. The FHSA contribution room is based on when you open the account. So, if you want to get started (even if you are not ready to contribute to the plan), we need to complete this before the end of 2023.

You can contribute up to $8,000 each year (with some catch up provisions) up to a cumulative of $40,000 and the account can grow for up to 15 years. So, you could accumulate much more than $40,000 towards a down payment on a new home.

It does not decrease any RRSP contribution room and does not need to be repaid (unlike the current First Time Home Buyers plan). You still get the income tax deduction on your contributions.

There are many more factors to consider. If you are wondering if this is a strategy you should take advantage of, please contact us for a consultation.

TFSA contribution limit increases again!

The new contribution limit for TFSA's for 2024 is now $7,000. This means that if you have never, ever, ever contributed or withdrawn from a TFSA that your contribution limit is $95,000! If you should have a windfall of funds such as inheritance, lottery winning or downsize you should maximize your TFSA as the income is tax free and does not impact benefits such as Old Age Security. We can help you to determine your limits and how to invest the funds.

There is a reason your front windshield is bigger than your rear-view mirror

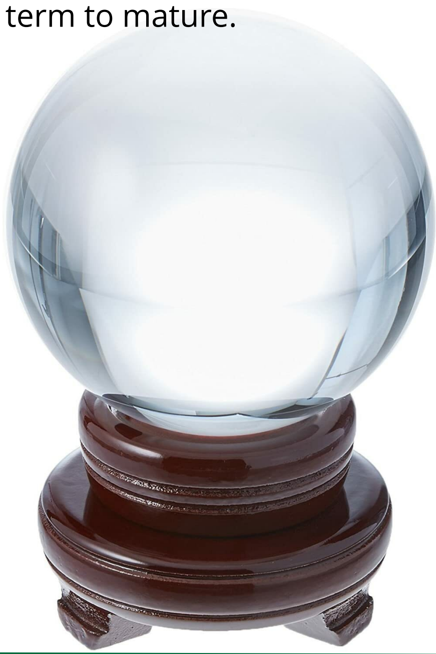
The investment industry often promotes past returns (with a disclaimer that past performance may not be repeated). We like to explain that the front windshield is much larger than the rear view mirror as is shows you where you are going.

It is interesting that people often look at the returns of bonds or equities over the past 3 or 5 years and yet when looking at a GIC's (Guaranteed Investment Certificates), they look forward.

With the significant rise in global interest rates the past few years, bond prices (which traditionally go down when interest rates go up – and vice versa) have not performed as well as people expected.

One should remember that 3-5 years ago, GICs were paying historical lows and very few people were locking in the rate at such low levels. Going forward, GICs are now paying attractive rates (around 5% for 1 through 5 years).

Many bond funds are now yielding in excess of this and could perform even better as globally interest rates come down (likely much more slowly than they rose). An advantage of individual bonds, bond mutual funds and ETFs (exchange traded funds) over GIC's is that you are not locking in for a period of time and they can be traded at current market value should you require the funds or wish to reposition to take advantage of equity opportunities, you do not have to wait for the term to mature.



What is in our crystal ball?

Some of these predictions may be more realistic or likely than others. There is an expression, if you make enough predictions, some will come true. Here are our latest:

- The hype over AI (Artificial Intelligence) may be another bubble and several of the stocks will crash.
- The Canadian housing market (bubble) may significantly correct over the next two years.
- Many Canadians may face increased mental health issues as a result of the dynamics of people having to share housing due to the affordability.
- It will be a white Christmas for most of Canada this year. Hopefully, the airlines can better handle the weather than last year.

Our Current Allocation Outlook

Below is a chart of different asset classes and sector exposure with our current outlook compared to the normal weighting. Based on the economic outlook, we may want more or less than our normal exposure to each category. Each individual investor will have a different investment portfolio depending on their personal circumstances considering their: Risk Tolerance, Income requirements (both current and anticipated), Time Horizon, Taxation, and of course Temperament (investor behavior). We then look for opportunities to tax-optimize the holdings based on which plans hold which investments. You should consult us to determine the ideal asset mix and asset selection given your circumstances.

		Underweight	Slightly Underweight	Neutral	Slightly Overweight	Overweight
Fixed Income						
Government	Long-term	➤	●			
	Mid-term		➤	●		
	Short-term		➤	●		
Corporate	Investment Grade			●		
	High Yield			●		
	Floating Rate				●	
EQUITIES						
Canadian	Dividend Focused				●	
	Large Cap				●	
	Small Cap			●		
US				●		
European				●		
Asia						●
Emerging Markets					➤	●

Sector		Underweight	Slightly Underweight	Neutral	Slightly Overweight	Overweight
Consumer Discretionary			●			
Consumer Staples					●	
Energy						●
Financials	Banking			●		
	Insurance			●		
	Asset Managers		●			
	REITS		●			
Materials					●	
Utilities				●		
Telecommuni-cations				●		
Healthcare					●	
Industrials					●	
Information Technology				●		

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