

# Prospera Wealth Review

## Newsletter

Winter Issue 2023

## Introducing the Prospera Wealth Review

We're always looking for opportunities to support our members at Prospera. No matter what type of advice you're looking for, or what your financial goals may be, we're here to help.

I am excited to share with you the premier edition of our new Prospera Wealth Review. This online hub is full of valuable information and resources where you can review industry news, learn more about financial products and services and connect with our team.

### In this issue:

- Explore the benefits of Pre-Authorized Contributions
- Take a closer look at the new First Home Savings Account (FHSA)
- Compare how FHSAs, TFSAs and RRSPs work for a down payment
- Check out current Monthly Market Insights

Each quarter we will be adding new articles and updating the [online Wealth Review hub](#), so be sure to bookmark the page and check back often. We look forward to continuing to share our knowledge and advice with you.

Sincerely,  
Tyler Saito  
Director, Wealth Planning



**Tyler Saito**  
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## Important Info and Upcoming Deadlines

- **December 27, 2023** - Tax-Loss Selling Deadline for investors filing their taxes in Canada
- **December 29, 2023** - Tax-Loss Selling Deadline for investors filing their taxes in the USA
- **January 1, 2024** - \*NEW\* 2024 TFSA Contribution Limit - \$7,000
- **February 29, 2024** - RRSP Deadline (this year is a leap year)

# Accelerate Your Financial Goals with Pre-Authorized Contributions

*There is no shortage of financial products, tools and services to help you reach your goals.*

And one of those powerful tools to help you on your journey is a Pre-Authorized Contribution (PAC), offered through our partners at Credential Asset Management Inc.

A PAC allows you to make regular fixed-dollar contributions to an investing solution, such as a mutual fund, without even thinking about it.

While there are many advantages to a PAC, it's also important to acknowledge that financial markets fluctuate and are unpredictable. That's why a strategic and consistent approach to investing, and tools like a PAC, can become a valuable part of your financial strategy.

Pre-Authorized Contributions are a straight forward, convenient and effective approach to building and growing your investments quickly and efficiently. Whether you're a seasoned investor or just starting, a PAC can help propel you toward your financial goals with confidence.

**Ready to get started?**  
Schedule a free in-person or online appointment now.



Visit [prospera.ca](https://prospera.ca) or call 1 888 440 4480 to get started.

## Benefits of Setting Up a PAC



### Consistent Contributions

A PAC makes saving a habit by automating deductions and deposits, ensuring that your financial goals remain a consistent priority and you maximize your potential for investment growth.

### Flexibility and Control

Enjoy the flexibility to customize both the amount and timing of your contributions, aligning them with your budget and overarching financial objectives.



### Eliminating Lump Sum Pressure

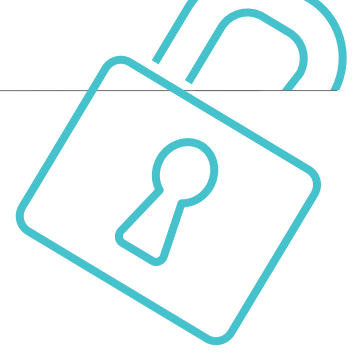
Say goodbye to the stress of trying to come up with large lump sums to invest. A PAC allows you to start with manageable, regular contributions that can add up significantly over time.

### Mitigate Risks with Dollar Cost Averaging

By making regular contributions, you invest during both highs and lows in the market. This strategic approach mitigates the risk of investing a large sum at the wrong time, ultimately averaging out your returns over the long term.



**Pre-Authorized Contributions are a straightforward, convenient and effective approach to building and growing your investments quickly and efficiently.**



# Unlocking Homeownership with a First Home Savings Account

Saving for a dream home is not easy. In fact, it can be downright challenging for many people. The good news is that a First Home Savings Account (FHSA) can help. This new account type is an advantageous way to save and offers multiple benefits like tax-deductible contributions, tax-free investment growth, and tax-free withdrawals for the purchase of a first home.

## Eligibility:

To take advantage of the First Home Savings Account you must:

- ✓ Be a Canadian resident aged 18-71
- ✓ Not currently living in a home you or your spouse or common-law partner own
- ✓ Not have owned a home in the previous four calendar years

## Contribution Limits and Details:

Your FHSA contributions are tax-deductible. Plus, you can transfer existing RRSP funds to your FHSA on a tax-free basis. You can contribute up to \$8,000 annually and up to \$40,000 over the lifetime of the account. Similar to RRSPs and Tax-Free Savings Accounts (TFSA), investment income and growth within an FHSA are not taxable. Through our partners at Credential Asset Management Inc., your advisor can provide advice on FHSA investment options such as mutual funds, that can assist in saving for your first home.

## Withdrawals:

Ready to buy? Withdrawals from your FHSA are non-taxable when used to purchase your first home. Plus, you and your spouse or common-law partner can each use your own FHSA towards the purchase of your shared home. You can also use your FHSA in conjunction with the RRSP Home Buyers' Plan to maximize your savings.

With its tax advantages and flexibility, the FHSA is a valuable tool for anyone looking to save up for a down payment on their first home.

Take advantage of your 2023 contribution limit before it's too late!  
Consult with an advisor now to open your account.



To book an appointment or learn more:



Call our Member Service  
Centre at 1 888 440 4480



Visit [prospera.ca](https://prospera.ca)

# FHSA, RRSP, or TFSA? What's best for first-time home buyers?



## There's a new registered plan in town

The First Home Savings Account (FHSA) — and it's designed specifically to help people save for a down payment on a first home. Our members have been asking us how the FHSA stacks up against existing plans like the Home Buyers' Plan (HBP) within a Registered Retirement Savings Plan (RRSP) and the Tax-Free Savings Account (TFSA), all offered through our partners at Credential Asset Management Inc. So, we made a table.

### Why not all of them?


Each plan has its pros and cons, and the best choice for you may actually be all three. After all, with home prices as high as they are these days, first-time home buyers need to use all the tools. Speak with one of our advisors about how the FHSA, RRSP HBP, and/or TFSA can accelerate your savings towards a down payment on a home of your own.

	FHSA	RRSP	TFSA
What's the primary purpose?	Saving for a first home	Saving for retirement	Saving for anything
How much can I contribute in 2023?	\$8,000	18% of earned income in 2022 to a maximum of \$30,780	\$6,500
How much can I contribute over my lifetime?	\$40,000	No maximum (subject to annual limits)	No maximum (subject to annual limits)
Are contributions tax-deductible?	Yes	Yes	No
Can investments grow tax-free inside the plan?	Yes	Yes	Yes
Are withdrawals tax-free	Yes, to purchase a first home	Yes, up to \$35,000 to purchase a first home, but the money must be repaid to the RRSP over a period of 15 years	Yes, with no restrictions
When can I open the plan?	15 years or to age 71, whichever comes first	To age 71	For life
What happens when the plan closes?	Remaining funds can transfer tax free to an RRSP or RRIIF	Funds can roll over tax-free into a RRIIF	No need to close the plan

Speak with your advisor about how the FHSA, RRSP HBP, and/or TFSA can accelerate your savings towards a down payment on a home of your own.



To book an appointment or learn more:

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We are pleased to provide you with additional information and updates from our partners. The current market commentary is provided by Northwest & Ethical Investments Inc. a general partner of NEI LP and a wholly-owned subsidiary of Aviso Wealth Inc.



November 2023

## Markets staged a remarkable November rally

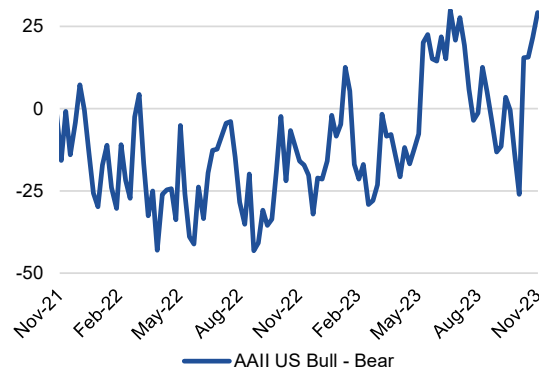
Markets rallied sharply in November, driven by good falling inflation data and promising comments from Fed officials which suggest that central banks might have reached the end of this tightening cycle. Major stock indices, especially the S&P 500 in the U.S., saw solid gains returning 8.9% for the month, while Nasdaq also rallied by 10.7%. Bond yields declined on lower-than-expected inflation, with the U.S. 10-year Treasury yield dropping below 4.4% by the end of the month after hitting a peak of 5% in late October. Fixed income investments rallied from lower yields and increased expectations for rate cuts in 2024. Global Bond Index returned 5.0%, and Canadian Bond Index returned 4.4% in the month. Investment grade credits gained 5.98% and rising hopes for a soft landing supported high yield bonds where spreads tightened, returning 4.53% in November. Emerging market debt instruments also had a positive month thanks to more accommodative local central bank policy and a weaker U.S. dollar.

### The 2nd strongest November in over 20 years

Even with November typically being the best month for equities historically, Christmas really came early for the stock market this year. The S&P 500 Index almost hit a new 2023 high, after seeing its strongest month this year and the second strongest November in over 20 years, only second to the rally in November 2020.

The key reason for the increase in risk appetite and market sentiment in November was the rising expectations of rate cuts in the first half of 2024, coupled with the continued strength in the economy, resulting in a goldilocks scenario. Bond yields fell sharply due to the combination of falling term premia and policy rate expectations. Equities surged as falling risk free rates supported valuations.

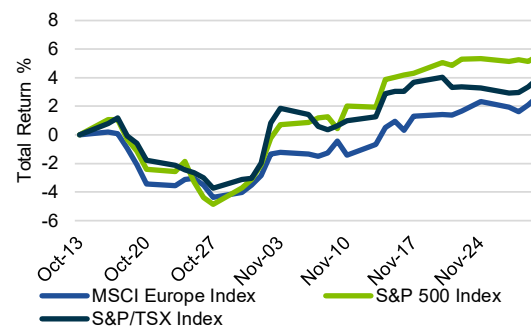
### Strong rebound in market sentiment



Source: Bloomberg, NEI Investments.

Seasonality also played a role in the strong returns in November. Year-end rallies actually occur more often than not, and those gains can be impactful. November 2023 was stronger month than seasonality factor would suggest, likely creating a more subdued environment in December.

### Year end rally and November performance



Source: Bloomberg, NEI Investments.

### Has the miraculous soft landing happened?

Over the past 18 months we have seen the most aggressive tightening cycle since 1980. Unlike 7 out of the last 9 tightening cycles, so far it hasn't resulted in a "hard landing" or recession, as many had predicted at the beginning of the year. Instead, the



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disinflationary trend continues and U.S. GDP is still expected to grow at a healthy 2.5% quarter-over-quarter in the Q4 this year, after growing at 3.0% in Q3 (according to Bloomberg). It appears that the much doubted “soft landing” is where we will be at the end of 2023.

**Disinflationary trends signal that underlying inflationary pressures are easing**

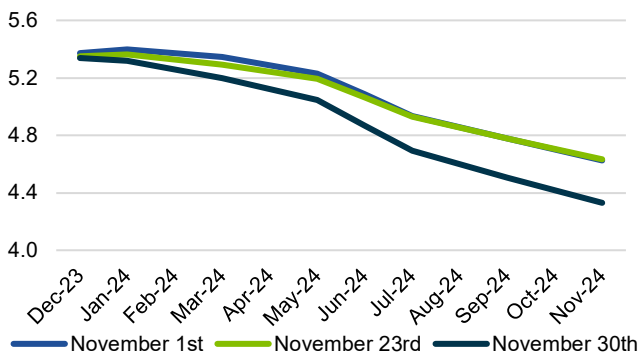
The market was particularly encouraged by the release of the U.S. CPI reading for October, which was cooler than expected. Headline and core inflation dropped to 3.2% and 4.0% respectively year-over-year. The biggest driver of the decline was a fall in energy and gasoline prices, followed by lower travel costs and hotel rates.

The persistent downward trend in inflation has raised hopes that inflation could touch the central bank’s target rate of 2% before the end of 2024, giving the Fed the flexibility to be able to cut rates earlier, and raised the confidence level that the Fed will not have any more rate hikes at the December meeting.

**Market expects deeper rate cuts in 2024**

The subdued inflation figures triggered a change in sentiment over the last month, moving from believing that rates would need to be higher for longer, to believing that the tightening cycle might have already ended. The bond futures market had a drastic repricing of 10-yr yields, falling by more than 30bps in a week, to reflect an implied first rate cut of 25bps by May 2024 and a total of 1% by November 2024.

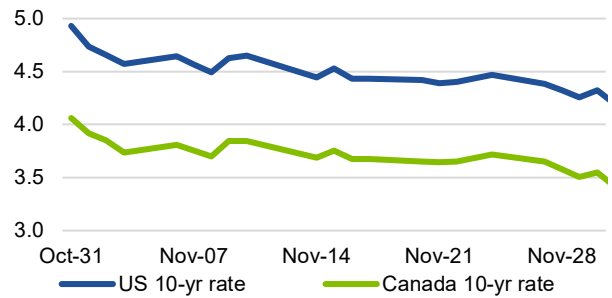
**Implied Fed rate path steepen through November**



Source: Bloomberg, NEI Investments.

The bond market also reflected this change in sentiment with yields falling sharply in November after testing the 5% level in October. Rates have dropped sharply in the U.S. despite Moody’s downgrading U.S. sovereign debt outlook to negative.

**U.S. and Canada 10-yr yields declined in lockstep**

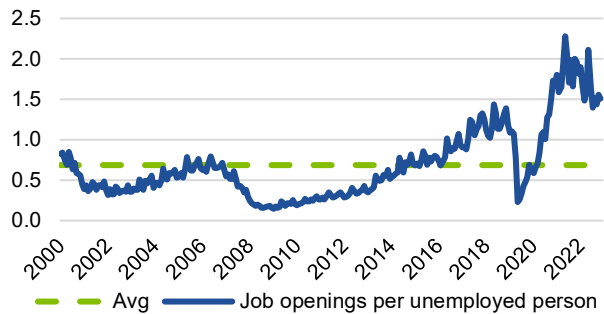


Source: Bloomberg, NEI Investments.

**Too early for a victory lap?**

It looks like the Fed is on the path to achieving its dual mandate of full employment and stable prices. Employment remains strong, and even with some signs of softening, the labour market appears to be in good shape. Inflation has also continued to moderate with CPI falling to 3.2% in October from 6.4% at the beginning of the year.

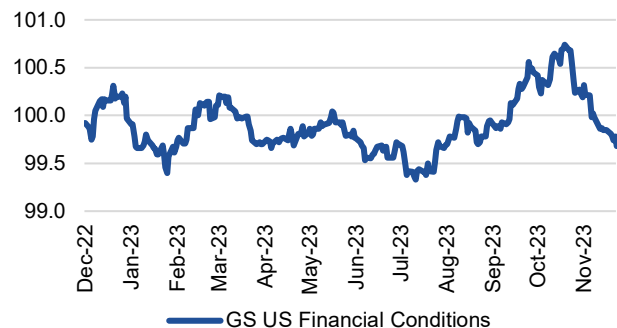
**Job openings per unemployed person remains high**



Source: FRED, NEI Investments.

The month of November also saw significant easing in U.S. financial conditions, which is no longer tightening since late October. This was driven by lower Treasury yields, tighter credit spreads, higher equity prices and a weaker U.S. dollar. The can counter the work that’s been done in battling inflation, and may start putting pressure on inflation yet again.

**Financial conditions easing in U.S.**



Source: Goldman Sachs, NEI Investments.

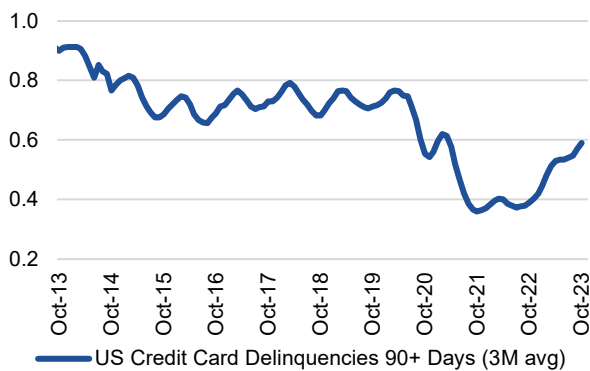
**Bottomline:** We would be cautious against taking a victory lap too early. If the soft landing were to materialize, it would represent an extraordinary success for central banks, but we believe the strength in the U.S. economy over the past year or so is unsustainable, and we are still on track to see a significant slowdown in the first half of next year as the tighter monetary policy starts to weigh on the economy. Whether the economy falls into a hard landing scenario is yet to be determined. That said, U.S. continues to be the strongest region relative to other developed markets in terms of growth. Europe is still more vulnerable to a recession and the ECB may have to cut rates sooner, which could provide a strong boost to both fixed income and equity investments.

### Cracks are showing on consumer spending

Canadian retail sales in September and preliminary data for October indicate a rebound after a weak third quarter, which is optimistic news for continued strength throughout the Christmas shopping season. However, inventory-to-sales ratios have risen to above trend, which typically is a negative indicator for future GDP growth if it indicates that companies may draw down on inventory rather than turning to production.

In the U.S., retail sales and consumer spending fell in October after student loan repayments resumed, suggesting consumers are moderating their spending. U.S. consumers are still supported by their excess savings. Revised data shows there's still another over 500B of excess savings, mostly in high income and wealthy households, while low-income earners have started to incur credit card debt for their spending. Delinquency rates have started to rise, although not at an alarming rate yet compared to historical levels.

#### U.S. Credit Card Delinquencies 90+ Days (3M avg)



Source: Bloomberg, NEI Investments.

During the Q3 company earnings releases, two consumer giants – Walmart and Target – both indicated weaker expectations from consumer spending going forward.

Despite strong earnings and increased market share, Walmart highlighted ongoing challenges for U.S. consumers, citing a decline in sales at the end of October and continued pressure from factors such as higher interest rates and the resumption of student loan repayments. Target reported a decline in same store sales for a second consecutive quarter driven by lower spending on discretionary categories.

**Bottomline:** The depletion of accumulated excess savings during the pandemic will eventually lead to a moderation in spending next year, turning consumer spending from a tailwind into a headwind for economic growth next year.

### The case for moving off the sidelines

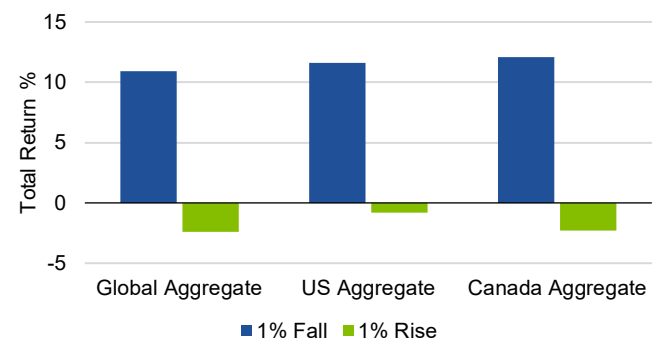
As fixed income and equity investments were being repriced due to rising interest rates in 2022 and 2023, cash and money market investments look relatively compelling. Investors seeking safe haven were rewarded with relatively higher yields. Money market inflow of assets reached record levels in 2023.

Although cash investments may still look compelling today, the relative attractiveness to risk assets may change dramatically over the next little. As short-term rates fall, money market instruments will become increasingly less attractive compared to fixed income and equities. This is an opportune time for investors to get off the sidelines and to redeploy capital back to risky and growth assets, which may provide a strong technical boost to drive markets higher.

#### Opportunity in Fixed Income

Higher nominal yields have once again given bonds the ability to absorb price or interest rate volatility, giving it the diversification benefits in a multi asset portfolio, as it had historically. At a higher yield level, the impact of a 1% rate hike vs a 1% rate cut becomes asymmetrical on an absolute return basis. Even if rates were to rise another 1%, the negative impact to fixed income returns is low, compared to the returns if rates were to be cut by 1%, making fixed income investment much more attractive.

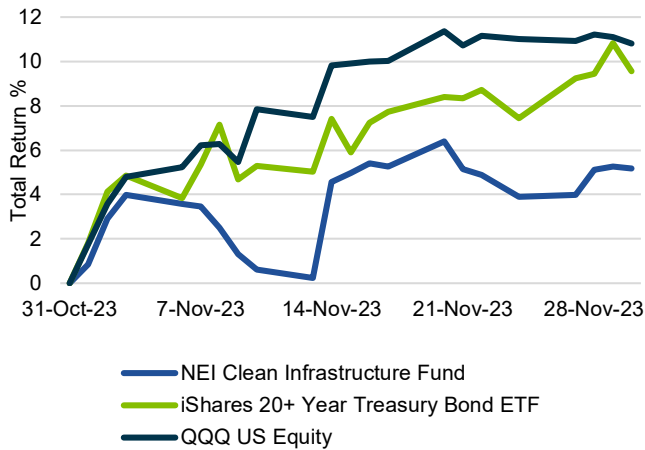
#### Asymmetrical return opportunity in fixed income



Source: Bloomberg, NEI Investments.

Yields have already started to decline from their peaks since October. Although we may see some volatility in yields, expectations for lower inflation are contributing to expectations of rate cuts earlier in 2024 than previously expected. This has historically been very positive for bond returns, and for rate sensitive sectors, as we saw in November since yields rolled over.

**Clean Infrastructure Fund, long Treasuries and Nasdaq rallied**



Source: Bloomberg, NEI Investments.

**Bottomline:** It appears we are at the end of the monetary tightening cycle and projections for rate cuts in 2024 should be supportive of equities and bonds going forward, especially in more rate sensitive sectors. We should start to see the nearly \$6 trillion USD parked in money market funds find its way back into risk assets as the return potential becomes more attractive.



## Asset class outlook

**Overall Equities – bullish:** Despite expectations that economic growth will slow in the coming quarters, we believe an equity rally to year end is still possible. Valuations, seasonality and earnings growth should favour equities in the near term.

**Canadian Equity – neutral:** Valuations are attractive but Canadian equities remain under pressure as earnings growth has been weak.

**U.S. Equity – bullish:** Macro data remains positive with inflation moving lower. Valuations of the “Magnificent 7” along with the whole S&P 500 are less demanding and corporate earnings are expected to show positive y/y growth for the first time in over a year.

**International Equity – neutral to bearish:** European macro data continue to weaken, making U.S. investments more favorable. However, weakening economic growth may lead to rising expectations of rate cuts, which can provide boost to buying sentiment at attractive valuation.

**Emerging Markets Equity – from bearish to neutral** – continue to be structurally bearish, but near-term downside could be overdone and ripe for a technical rebound.

**Overall Fixed Income – bearish:** Yields rolling over since peak in late October, may rebound in the near term. There is a low probability of interest cuts in the near term, making equities more attractive compared to bonds.

**Government Bonds – neutral:** Government yields have declined dramatically in November, may rebound in the near term, but relatively less attractive than equities in the near term.

**Investment Grade Corporate Bonds – neutral:** Elevated yields continue to be attractive within the asset class but slowing economic growth may move spreads wider.

**High Yield Bonds –neutral:** Recent rally in spreads may be overdone, attractive entry point and yields to partially offset volatility in spreads. Default rate expected to remain low in the near term.

## Asset allocation outlook summary

	Bearish	Neutral	Bullish
<b>Equity</b>			
Overall Equity			This month
Canada Equity		This month	
U.S. Equity			This month
International Equity	This month	Last month	
EM Equity	Last month	This month	
<b>Fixed Income</b>			
Overall Fixed Income	This month		
Govt		This month	
IG Corp		This month	
U.S. HY Corp		This month	
<b>Cash</b>		This month	

This table illustrates the short-term outlook of NEI’s Asset Allocation Team on various equity and fixed income asset classes as of November 30, 2023. If an asset class has a blue box in its row and no green box, it means this month’s outlook is the same as the prior month’s.

## Market performance

### Percent return in Canadian Dollars

	1 Mo	3 Mo	6 Mo	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs
<b>Fixed Income</b>								
Bloomberg Canada Aggregate TR USD	4.29	1.96	0.66	2.91	1.36	-3.73	0.88	2.01
Bloomberg Global Aggregate TR Hdg CAD	3.33	0.71	0.38	3.17	1.89	-3.36	0.64	1.87
Bloomberg US HY 2% Issuer Cap TR Hdg CAD	4.40	1.80	5.03	8.58	7.84	0.87	3.33	3.77
<b>Equities</b>								
MSCI World NR USD	6.82	1.84	8.45	18.07	13.00	8.67	10.41	11.02
MSCI World Growth NR USD	8.62	2.59	9.25	31.25	23.16	7.30	13.71	13.49
MSCI World Value NR USD	4.88	1.00	7.56	5.88	3.22	9.33	6.43	8.17
MSCI Canada NR CAD	7.82	1.28	6.22	8.20	2.81	8.74	8.30	6.69
MSCI USA NR USD	6.81	2.00	10.00	20.93	13.70	10.08	12.42	13.93
MSCI EAFE NR USD	6.73	1.49	4.85	12.35	12.38	5.38	6.41	6.50
MSCI Europe NR USD	7.31	1.78	5.07	14.26	14.21	7.31	7.44	6.45
MSCI Japan NR USD	6.02	1.71	5.93	15.36	15.61	2.11	4.96	7.23
MSCI Pacific Ex Japan NR USD	4.45	-0.74	1.18	-2.30	-1.94	1.92	3.93	5.45
MSCI EM NR USD	5.48	1.31	4.33	5.77	4.22	-2.58	2.75	4.68
<b>World Currencies</b>								
US Dollar	-2.33	0.21	-0.25	0.07	0.01	1.52	0.40	2.50
Euro	0.82	0.74	2.09	2.30	5.98	-1.55	-0.34	0.26
Pound Sterling	1.89	0.12	1.88	5.31	6.31	-0.26	0.24	-0.10
Yen	0.05	-1.31	-5.73	-10.69	-5.60	-9.63	-4.76	-1.19

Source: Morningstar data as of November 30, 2023.

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