A PORTFOLIO MANAGER'S PERSPECTIVE

Mid-year fixed-income review: Mistaking a cyclical bounce for a turn in inflation trend

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*As part of our August 9, 2017 Wealth Matters webcast, we heard from **Kamyar Hazaveh,** Vice-President, Portfolio Management and Portfolio Manager, and Alexandra Florescu, Senior Fixed Income Analyst, of Signature Global Asset Management. Their presentation provided an overview of the team's economic outlook for the remainder of 2017. Kamyar and Alexandra also discussed Signature's positioning within the Global Fixed Income Pool in response to some of the challenges highlighted in their global market analysis.*

Economic outlook

- Global industrial production is headed for a slowdown in the second half of 2017
  - This will affect industrial economies (China, Japan and Germany) the most and put pressure on commodity prices
- As a result, global inflation is headed lower in the next two to three quarters
- The service-oriented U.S. economy will slow in response to the lag in industrial economies
  - Expect declines in car sales and multi-family housing construction, which have driven growth in the past few years
- Fiscal stimulus, which was expected, is actually being reduced.

Central bank outlook

- The U.S. Federal Reserve's plans for further rate hikes and a balance sheet reduction will be delayed as a result of growth and inflation slowdowns in the global economy
- The Bank of England has no room to raise rates given the weak U.K. economy and consequences of Brexit
- The European Central Bank will be limited in its removal of stimulus given the indebtedness of Italy
- The Bank of Canada's decision to raise rates is ill-timed and in due course will prove to be a policy mistake
  - The decision was made despite inflation being on the lower end of the bank's 1-3% target
- Overall, we are concerned with the globally coordinated policy when the various national economic conditions are significantly different, as it creates risk in the global economy.

Current global bond positioning

- Our goal is to translate the current market views into a portfolio that can generate high-risk adjusted returns
- Our solution to create these returns is through diversification.

Positioning and diversification

- Diversification for us means investing in more than just developed market global government debt and currencies
  - These levers are not sufficient to diversify and take advantage of all the aspects of our macro outlook
- Current positioning is approximately 50% U.S. dollar-denominated assets, including a combination of U.S. Treasuries, corporate and agency mortgage-backed securities, as well as U.S. dollar-denominated emerging market sovereign bonds
- The remainder of the portfolio is approximately 25% Canadian dollar-denominated assets in the form of provincial government bonds, and 25% European, Japanese and U.K. government bonds.

Tactical changes

- Portfolio duration was shifted to be more underweight European and Japanese government bonds, and overweight Canadian and U.S. dollar-denominated debt
- Incrementally added U.S. duration (measures the sensitivity of a bond's price to changes in interest rates) to accommodate for the turn in the U.S. economy in the second half of this year
- Increased our global bond strategy exposure to emerging market sovereign debt, which is supported by a lower U.S. dollar, reduced volatility, and interest rates that are failing to move higher despite the central bank being in a tightening mode
- Decreased inflation-linked exposure.

Performance

- Local returns YTD are approximately 0.84% greater than the benchmark, largely due to our asset allocation decisions (emerging market debt and U.S. mortgage-backed securities etc.) and duration positioning
- Have seen some detraction from our security selection in the government sleeve and currency return, yet our total portfolio risk is roughly two-thirds that of the benchmark.

A WEALTH PLANNING PERSPECTIVE

The limitations of a TFSA: An investigation into the alternatives

WEALTH MATTERS

Since its launch, the Tax-Free Savings Account (TFSA) has become a preferred savings vehicle for many Canadians, yet it can sometimes fall short of fulfilling all their wealth planning needs. During the Wealth Matters webcast, ***Troy Rumpel****, Vice-President, Estate Planning at Assante Estate and Insurance Services Inc., provided an examination of life insurance solutions that individuals and their corporations can use to enhance the benefits offered by a TFSA for long-lasting and tax efficient estate planning.*

What is a TFSA?

- An account in which Canadian residents of the age of majority can save and invest
- Income earned in the account is not taxed
- TFSA account holders may withdraw money from the account at any time, tax-free
- Can recontribute the amount withdrawn at a later time as the amount of the withdrawal increases next year's contribution room
- Annual contribution limit is indexed to inflation in $500 increments.

TFSA vs. RRSP

TFSA	RRSP
- Contribution room isn't based on income	- Must have income to accumulate contribution room
- Contributions are not tax-deductible	- Contributions are tax-deductible
- Withdrawals from a TFSA are tax-free	- Withdrawals are taxed in the year of the withdrawal and cannot be added to the contribution room in later years
- Any amount withdrawn is carried forward to later years	- Must be fully withdrawn or transferred to a RRIF or annuity by the end of the year the account owner turns 71.
- No requirement to convert to an income payment option.	

TFSA vs. life insurance

TFSA	Life insurance
- Funded with after-tax income or capital	- Funded with after-tax dollars
- Growth and payout are tax-free	- Growth and payout are tax-free
- Ability to name a beneficiary or successor holder (except QC)	- Ability to name a beneficiary and avoid probate
- Can directly transfer funds to the beneficiary upon death	- Similar estate planning attributes to a TFSA
- Liquidity	AND…
BUT…	- No limit on contribution room (other than the health and face amount of coverage available)
- Contributions are limited	
- Plans are limited to personal ownership.	- Can be owned by a corporation.

Why life insurance?

- Life insurance offers tax-deferred growth during the insured's lifetime and pays out tax-free at death, similar to a TFSA
- For those clients who are able to contribute beyond their TFSA limit, investing in an insurance policy means they can put more away, and pass their wealth on to the next generation tax-free
- By owning an insurance policy in the name of a corporation, business owners can receive the estate planning and tax benefits of a TFSA, when they would otherwise be restricted by the tax implications of a non-registered account.

Your Assante advisor is available to help

If you have questions about whether the estate planning benefits of life insurance is right for you, talk to your advisor for assistance.

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