

Hassan Fox Wealth Management

## Market Commentary

### Interest Rate News

After bouncing along for much of the year with markets seeing either only slightly up or slightly down months, November came on strong, with both stocks and bonds posting impressive gains. The catalyst? Continued moderation in US inflation numbers. The consumer price index for October, increased by less than anticipated, fueling expectations that further interest rate increases are not necessary. Over 16 months, the US Federal Reserve hiked rates at an unprecedented speed from 0.25% in March 2022 to 5.50% in July 2023. In Canada and the US, equity markets advanced with broad participation, while the Canadian Bond Universe Index was also up 4.29% for the month.

### Portfolio Strategy

Looking ahead, there are optimistic themes from recent Fortune 500 companies earnings calls. Tone from management has changed from earlier in 2023, more specifically indicating that: 1) inflation is becoming less problematic, 2) a recession doesn't seem imminent, and 3) earnings are generally stabilizing. In the last quarter, we saw the lowest number of S&P 500 companies citing "inflation" on earnings calls going back to Q2 2021, and it also marked the fifth successive quarter in which the absolute number mentions of "inflation" declined.

Also encouragingly, during Q3 2023, over 80% of S&P 500 companies reported a positive earnings-per-share (EPS) surprise and over 60% of companies reported a positive revenue surprise. Companies, in aggregate, posted an earning growth rate of 4.3%, the first quarter of year-over-year earnings growth since 2022.

The credit trend with corporate yield spreads and credit default swap spreads tightened significantly in the last month. This is a good indication that the fixed income market is getting less concerned about a severe economic slowdown.

We did not make any changes to our portfolios in November and maintain our asset allocation of a slight overweight to equities and slight underweight to fixed income.

### Joint Tenants with Right of Survivorship

Couples commonly hold property in Joint Tenants with Right of Survivorship (JTWROS). In certain circumstances there can be benefits to doing this. However, there can also be instances where it might not be appropriate. Please see the attached document, which outlines the pros and cons of owning property in JTWROS.



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# Pros & Cons of Owning Property Joint Tenants with Right of Survivorship

Couples commonly hold property as Joint Tenants with Right of Survivorship (“JTWROS”).\* In certain circumstances, there are several benefits to this ownership structure, including:

- Each spouse has the ability to manage the property without written consent of the other;
- Upon the first death, the surviving spouse automatically owns 100% of the property that was held JTWROS; and
- Probate tax is payable on the value of the property only once (i.e., at the time of the second death of the joint tenants).

However, JTWROS ownership for couples may not be appropriate if one of the spouses wishes to benefit children of a previous relationship, other family members, friends, charities or other beneficiaries. In addition, conflicts may arise during the administration of the estate of an individual who had transferred an asset into Joint Tenants with Right of Survivorship with another adult person who is not a spouse and for no consideration (i.e., a gratuitous transfer).

In that case, if the joint tenancy is challenged a presumption of a “resulting trust” arises. This rebuttable presumption provides that the surviving non-spouse joint owner holds the asset in trust for the benefit of the estate of the original owner on their death. The onus is then on the surviving joint tenant to provide evidence of the deceased’s intention to make a “gift” of the right of survivorship as well. This intention is best documented at the time of the transfer into joint tenancy to minimize the risk of estate litigation. Disgruntled beneficiaries, heirs at law or creditors, may try to claim that the property held jointly should form part of the deceased’s estate to be distributed in accordance with the terms of their Will, or be subject to estate liabilities.

When a parent transfers property in JTWROS with only some of their children, there is potential for conflict among the other children or beneficiaries as to whether an immediate gift was intended at the time of transfer, or whether the surviving joint owners hold the property as a Resulting Trust for the parent’s estate.

In addition to potential conflict, a host of other problems may be associated with the transfer to JTWROS. For example, if the property transferred has an accrued gain, there could be an immediate tax liability triggered upon transfer. If the family home is transferred to JTWROS, there may be a loss of some of the Principal Residence Exemption in the future. In general, property should be transferred into joint names with children only when an immediate gift is intended.

If you are contemplating a Joint Tenancy with Right of Survivorship, you should be aware of the following:

- All owners have immediate, full access to the property.
- The property passes to the surviving owners on the death of one joint owner by right of survivorship, bypassing the deceased’s estate and possibly conflicting with distribution plans in their Will. For example, the Will may provide for an equal division of the estate among surviving children. If property is held jointly with only one of the children, the question is whether it was intended that the child receive this asset in addition to an equal share of the estate.
- If there is an out of order death, family members may be disinherited. For example, what if one of the children dies before the parent? Usually grandchildren receive a gift of their deceased parent’s share under their grandparent’s Will. However, with joint tenancy grandchildren who are the surviving children of a predeceased child of the testator will not receive their deceased parent’s share. On the grandparent’s death, the property will pass only to the surviving children who are joint owners.
- In the event of the simultaneous death of two joint tenants, the law converts the joint tenancy into a tenancy-in-common in certain jurisdictions. When an asset is owned by tenants-in-common, on the death of one of the tenants, their proportionate share of the assets forms part of the estate to be distributed according to the Will of the deceased tenant-in-common.

## Joint Tenants with Right of Survivorship

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- The property may become subject to the claims of creditors of each of the joint owners. In the event of divorce of one of the joint owners, a creditor could include an estranged spouse of one of the joint owners.
- A transfer of property into joint names, unless to a spouse, is a deemed disposition or sale at fair market value for income tax purposes on the portion passed to the other joint owners. The death of a joint owner also triggers a deemed disposition of that person's share and tax payable by their estate.
- All joint owners must declare their portion of the income and capital gains from the jointly held property, if any, annually.
- A portion of the Principal Residence Exemption will be lost if the jointly owned property is a principal residence for only one, or some, of the joint owners and other joint owners have their own residence on which they intend to claim the Exemption.

- Any one of the joint tenants can sever the joint tenancy, converting the ownership to co-tenancy (also known as tenancy-in-common), without consent of the other joint tenants.

If property is held jointly and you want to avoid any of these consequences, it is recommended to seek professional advice. If you are a joint owner or are considering becoming one, talk to your tax and legal advisors about the benefits and risks.

**For more information, please speak with your BMO financial professional.**



\* Joint tenancy with right of survivorship is not recognized in Quebec. In Quebec, ownership of property by more than one person can only be achieved by way of co-tenancy, also known as tenancy in common.

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