Portfolio Strategy

Wishing you all a very happy new year.

Despite a second calendar year of a global pandemic, in 2021 equity markets in North America – and many parts around the world – climbed to new all time highs. Expectations for a global economic recovery from a weak 2020, as well as continued historically low interest rates helped fuel performance.

While interest rates remained low during the year, they did face upward pressure, leading to negative performance for the Canadian Bond Universe Index for the first time since 2013. In total, the index was down about 2.5% during the calendar year while preferred shares posted a strong performance in 2021.

In current market news, the Omicron variant is now a household name all over the world only a few short months after having been discovered in South Africa. It may be difficult to see the positive in this outcome as many Canadian provinces are once again shutting down gyms and restaurants. However, there could be a silver lining as Omicron is fast crowding out all other forms of the variant and appears to have milder health implications.

Some epidemiologists have made the bold prediction that Covid – as we've known it to date – could effectively be over by spring (in North America) and be replaced with something more akin to a common cold as opposed to a death virus. Further, they have said that as variants develop, they appear to become more contagious but less severe. The data so far appears to bear this out with hospitalization rates much lower for Omicron than previous strains, though sheer number of positive cases are currently much higher accounting for higher absolute numbers in hospitals – thankfully, there are some early indications that hospitalization are plateauing. The other good news is that vaccines appear highly effective at reducing serious outcomes against this strain.

The investment implications of this scenario are potentially quite positive, especially for so called "recovery stocks" which have been under pressure in recent months. Additionally, expectations are for consumers spending to remain strong and for businesses to continue investing in technology, automation and to generally bolster their supply chains, which will help give more momentum to the rising capital expenditure cycle.

Another key theme of our investment process is to invest in high-quality, financially-strong companies. An indication of this is the number of companies in our portfolios who have significantly raised dividends in recent months. Some of the names in our portfolios who have recently announced increases are: TD Bank, BMO, Royal Bank, Manulife, Johnson Controls, Suncor, Microsoft, Pfizer and Waste Connections to name a few.

During the month of December, we didn't make any material changes to our portfolios. Our positioning reflects our positive outlook for the market with an overweight position to equities and an underweight to fixed income.

Canadian Snowbirds and U.S. Income Tax

If you plan to spend your winters (or longer these days thanks to the pandemic) in the U.S., you should be concerned with more than just ensuring your passport is up-to-date and that your bags are packed. Snowbirds – Canadian residents who spend part of each year in the United States – need to be aware of the potential liability to pay U.S. income tax on the same basis as a permanent U.S. resident. Please see the attached document for more information.

As always, if you have any questions, please do not hesitate to contact us.

Please note: We cannot take trading instructions via email or voice mail, please contact your Investment Advisor directly.
For disclaimer details, please click here: http://www.bmo.com/nesbittburns/popups/about-us/disclaimers

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U.S. citizens and Green Card holders must pay U.S. taxes on their worldwide income, regardless of their country of residence. Even though snowbirds only visit the U.S. for the winter months, there is the potential that they can be considered U.S. residents for income tax purposes, and, in certain circumstances, they may be taxed in the U.S. on their worldwide income.

Counting days in the U.S.

If you are not a Green Card holder or a U.S. citizen, you may still be considered to be a resident for U.S. tax purposes if you were present in the U.S. for more than 30 days in the current year and meet the Substantial Presence Test outlined below.

Substantial Presence Test

Number of days spent in the U.S. in the current year	_____ x 1 =	_____
Number of days spent in the U.S. in the year before the current year	_____ x $^1/_3$ =	_____
Number of days spent in the U.S. two years prior to the current year	_____ x $^1/_6$ =	_____
	Total	

When counting your days for the formula, partial days spent in the U.S. are counted as full days.

If the total number of days spent in the U.S. from the test exceeds 182 days, you have met the Substantial Presence Test and you may be subject to U.S. tax on your worldwide income. However, if you were present in the U.S. for less than 183 days in the current year, you may be eligible to claim the Closer Connection Exception (explained below) and avoid being considered a U.S. resident for U.S. tax purposes.

Since the Substantial Presence Test calculation considers days (including partial days) of presence in the U.S. during the current and the two preceding years, it is important that you keep a record of the number of these days you were physically present in the U.S. during each calendar year.

Closer Connection Exception

If you have met the Substantial Presence Test, you are considered to be a U.S. resident alien and be required to file a U.S. individual income tax return (Form 1040) to report your worldwide income. However, if you were present in the U.S. for less than 183 days during the current year and can demonstrate that you have a closer connection to Canada than the U.S., you may be able to claim a Closer Connection Exception and be treated as a non-resident of the U.S. The Internal Revenue Service ("IRS") will consider the following factors in their determination of a Close Connection Exemption:

- location of permanent home;
- location of family;
- location of personal belongings;
- country where your driver's licence was issued;
- country of residence listed on official documents; and
- country where you are deriving the majority of your income in the current year.

Continued

To claim the Closer Connection Exception, you must file Form 8840, with the IRS by the June 15 filing deadline (assuming you did not earn wages as a U.S. employee).

Canada-U.S. Income Tax Treaty Tie-Breaker Rules

If you are present in the U.S. more than 182 days in the current year, you will not be eligible for the Closer Connection Exception and are considered to be a U.S. resident for tax purposes under U.S. tax law. However, if you are also considered to be a tax resident of Canada, you may be able to claim that you are a non-resident of the U.S. by applying the Canada U.S. Income Tax Treaty Tie-Breaker Rules ("Tie-Breaker Rules"). If you maintain a permanent home in Canada and your personal and economic ties are closer to Canada than the U.S., you would likely be considered to be a non-resident of the U.S. under the treaty Tie-Breaker Rules.

Consult a tax professional before you fly south

As the tax filing requirements and residency determination can be complex, it is important that you consult with a professional tax advisor experienced in cross-border taxation to ensure that you are complying with all your tax obligations south of the border.

BMO Wealth Management

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