



Portfolio Strategy

The market narrative has shifted of late to the risk of higher inflation with an associated sharp rise in interest rates (although they remain very low by historical standards). This makes intuitive sense since vaccination is accelerating - more so in the U.S. where almost 20% of the population has received at least one shot - which should help unleash pent-up consumer demand in the second half of 2021. We do not believe that the increase in rates has meaningfully changed the relative attractiveness of stocks versus bonds. In other words, for us, high-quality stocks still are the way to go and we maintain our overweight position to equities. For the month of February, the S&P/TSX was up 4.4%, while the S&P 500 was up 2.0% in Canadian dollar terms.

We made a couple of equity adjustments in our portfolios, adding Nvidia (which designs graphics processing units for gaming and professional markets) and Johnson Controls Int'l (a global HVAC company servicing commercial, industrial, retail and government customers), while exiting Waste Management and Advanced Micro Devices.

In fixed income, with U.S. 10-Year yields - the single most important benchmark in the world of finance - having quickly risen to the 1.5% level again, pundits are pondering whether we are on the cusp of seeing a more sustainable move higher. Another very important fixed income driver is the yield curve which has been steepening, with long-term rates rising more than short-term rates. This is good news since historically, this type of move has tended to be a bullish sign for stocks (and particularly Financials) with an 18 to 24 month lead, since it signals an economic upturn and associated inflation fears for which bond investors demand.

In February, rising interest rates meant that the value of underlying bonds went down, leading to a sharp decline in the bond market, with longer term bonds particularly hard hit. In Canada, the CDN Bond Universe Index was off 2.5%, while the CDN Long Bonds Index was down 4.2%. On the other hand, preferred shares saw strong gains, with the S&P/TSX Preferred Share Index up 3.8%, which helped our fixed income portfolios, leading to a relatively flat month for the portfolio despite the falling bond market.

Our overall asset mix has not changed and we remain overweight equities, underweight fixed income and have a small weighting to cash.

Completing Your 2020 Tax Return

As the tax filing deadline approaches, the attached document highlights some reminders to help ensure you're prepared to file your personal income tax return, and that you are able to maximize your tax savings. It's important that you have all required tax documents before you prepare your return, otherwise you will be required to file an amendment.

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

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Completing Your 2020 Income Tax Return Checklist

February 2021

As the tax filing deadline approaches, below are some reminders to help ensure you're prepared to file your personal income tax return, and that you maximize your tax savings. It's important that you have all required tax documents before you prepare your return, otherwise you will be required to file an amendment. In addition, you may want to have your 2019 tax return and the Canada Revenue Agency ("CRA") – and, if applicable, Revenu Québec – Notice of Assessment handy in case you need to refer to tax information from the previous year.

Tax Receipts

All Individuals
<input type="checkbox"/> Salaried Income (T4/R1)
<input type="checkbox"/> Investment Income (T5/R3)
<input type="checkbox"/> Trust and Mutual Fund Income (T3/R16)
<input type="checkbox"/> Limited Partnership Income (T5013/R15)
<input type="checkbox"/> Trading Summary/Realized Gain/Loss Report
<input type="checkbox"/> RRSP Contribution Receipts – For contributions made during the 2020 calendar year, and during the first 60 days of 2021.
<input type="checkbox"/> RRSP Withdrawals (T4RSP/R2)
<input type="checkbox"/> RESP Withdrawal Receipts (T4A/R1)
<input type="checkbox"/> Foreign Securities Report
<input type="checkbox"/> Interest Expenses and Carrying Charges – Including Fee Letter(s) for any applicable management fees relating to fees for non-registered fee-based account(s).
<input type="checkbox"/> Charitable Donations – You can combine your charitable donations with your spouse (or common-law partner) and claim on one income tax return for maximum tax savings.
<input type="checkbox"/> Political Contributions
<input type="checkbox"/> Moving Expenses
<input type="checkbox"/> Medical Expenses
<input type="checkbox"/> Tuition Expenses (Form T2202A/R8)
<input type="checkbox"/> Child Care Expenses
<input type="checkbox"/> Home Office Expenses
<input type="checkbox"/> Employment-related Expenses (including Form T2200/TP-64.3)

Note: For Canadians who received Federal COVID-19 benefits in 2020, such as the [Canada Emergency Response Benefit](#) ("CERB"), the [Canada Emergency Student Benefit](#) ("CESB"), the [Canada Recovery Benefit](#) ("CRB"), the [Canada Recovery Sickness Benefit](#) ("CRSB"), and the [Canada Recovery Caregiving Benefit](#) ("CRCB"), the CRA will be issuing a T4A slip by the end of February to report these amounts received, as they are taxable. Residents of Quebec will receive both a T4A and a RL-1 slip.

Tax Receipts cont.

Retirees

Registered Retirement Income Fund, Locked-in Retirement Income Fund, or Prescribed Retirement Income Fund Withdrawals (T4RIF/R2)

Old Age Security & Canadian Pension Plan Benefits (T4A-OAS, T4A-P, R2)

Other Pension/Annuity Income (T4A, R2)

Helpful Reminders and Tips

Individuals

If you realize capital losses in the same taxation year that a significant capital gain is triggered, the tax liability on the capital gain can be reduced. Also, any net capital losses can be carried forward indefinitely or carried back to offset net capital gains reported in the three previous taxation years.

Remember to report the sale of your principal residence, if applicable.

Employees

During the COVID-19 pandemic, many employees worked from home for much of 2020. As a result, the CRA has simplified the process to claim home office expenses for 2020, which will allow employees (with modest expenses) to deduct an amount of up to \$400 without the need to track detailed expenses. The allowable amount will be based on the amount of time spent working from home and will generally not require a signed form from employers. Employees who worked from home more than 50% of the time over a period of at least four consecutive weeks in 2020 due to COVID-19, will be eligible to claim a (temporary) flat rate deduction of \$2 for each day they worked at home in that period, plus any other days they worked from home in 2020 due to COVID-19, up to a maximum of \$400. Employees with larger claims for home office expenses can still choose to use the existing detailed method to calculate their home office expenses deduction. Revenu Québec announced that it will parallel these Federal changes for Quebec provincial income tax purposes for 2020.

Business Owners

Incorporated small business owners can use their (2020) lifetime Capital Gains Deduction to shelter up to \$892,218 of capital gains on the sale of shares of a qualifying small business corporation. The Capital Gains Deduction can only be claimed on an actual sale (or deemed disposition) of qualifying shares.

Retirees

Consider pension income-splitting to strategically lower family taxes by taking advantage of your spouse/common-law partner's lower marginal tax rate. Canadian residents receiving eligible pension income can transfer up to 50 per cent of this income to their spouse or common-law partner. A T1032 – Joint Election to Split Pension Income form (or Schedule Q for Quebec taxpayers) must be completed.

For more information on this topic, ask your BMO financial professional for a copy of the article, *Pension Income-splitting Provides Tax Planning Opportunities for Couples*.

Please note that this checklist is not a comprehensive review of the subject matter, and it's important to consult a professional tax advisor for assistance in your particular situation.

For more information, speak with your BMO financial professional.



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