MAUDE FINANCIAL INC.

2021 Year in Review + Looking Ahead

2021 was another good year in equity markets around the world with most markets up in the double digits. Volatility was certainly a theme throughout the year. Uncertainty around COVID-19 and its variants along with employment data and interest rate speculation served to exaggerate the normal market movements. Inflation has become a major concern for Canadians and we cover it in more detail in this issue's article.

Economies seem to be faring well even in the pandemic. The hardest hit areas continue to be small business in the travel, restaurant/bar and personal services (fitness, spas, etc.) industries. Amazingly enough, we continue to face a shortage of workers in Canada as many have left the workforce for a variety of reasons and immigration is down. The shortage may be partially alleviated as the federal government's new funding for early learning and childcare programs is rolled out. At this point, almost all provinces and territories have negotiated agreements with the federal government to achieve $10/day childcare within two years, create new spaces and provide funding to improve certification and increase training for workers in this sector. Making childcare more affordable and accessible will allow parents (mostly moms) to return to the workforce – one of the best ways to kickstart the economy.

Our dollar rose against the USD by about 0.6%. This had a small negative effect on foreign content in our portfolios. Our balanced portfolios did well this year with gains of over 10% on average.

Looking ahead to 2022 and beyond, economists are having difficulty creating forecasts with any real confidence. Some analysts are predicting rocky times while we get through the Omicron wave, adjust our overall approach to COVID-19, sort out ongoing supply chain issues and adapt to a massive drop in government stimulus spending. Many experts are also expecting a return to growth if we can make it through these challenges, albeit at a slower and steadier pace than has been the case recently. This seems like a reasonable forecast for the upcoming year, but there are so many unknowns that could throw a wrench in the works – inflation, interest rates, lockdowns in China and port closures and backlogs around the globe. As the world is in flux, our core investment principles have not changed. We continue to work with our clients to create a strategy that will serve their needs regardless of the short-term market conditions.

	Market	Dec 31/20	Dec 31/21	YTD
Canada	TSX	17433	21215	21.69%
U.S.	DOW	30606	36338	18.73%
U.S.	S&P 500	3756	4766	26.89%
U.K.	FTSE	6461	7385	14.30%
France	CAC	5551	7123	28.32%
Germany	DAX	13719	15885	15.79%
Japan	NIKKEI	27444	28792	4.91%
Canadian $		78.57	79.03	0.59%
Oil (US$)	WTI	48.52	75.43	55.46%
Western Canadian Select	WCS	33.17	62.87	89.54%

***Source: CNN Money*

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TFSA Reminder

All Canadians aged 18 and older have an additional $6,000 in Tax Free Savings Account contribution room as of January 1, 2022. The lifetime maximum contribution limit for those who were 18 in 2009 is now $81,500.

If you are unsure of your personal TFSA contribution room, please refer to our October 2021 Newsletter or contact our office for instructions on how to access that information through Canada Revenue Agency.

"…can we please*(sic)* retire the 'skilled' vs 'unskilled' labor terms? A lot of so-called 'unskilled' labor is what held us through this crisis."

-Frances Donald,
Global Chief Economist & Strategist,
Manulife Investment Management

John Maude
Life Insurance Advisor

Bridget Maude
Life Insurance Advisor

Jessica Maude
Life Insurance Advisor

Julie Zorn
Life Insurance Advisor

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Inflation and Retirement Planning: The Basics

Inflation has been dominating headlines for the past several months and it has become a significant source of worry for many Canadians. Our inflation rate over the two years prior to the pandemic averaged less than 2%. The Bank of Canada recently reaffirmed a target of 1-3% as an ideal for Canada's inflation rate, and we are now well above that range. According to Statistics Canada data, the cost of living has increased by nearly 5% over the last year, but incomes have gone up by only 2.8%.

Inflation and Buying Power

We know that inflation makes goods and services more expensive and therefore affects household budgets and spending decisions. The fact that it causes immediate – and sometimes major – affordability issues for all Canadians means we often focus on the short-term impacts of inflation. However, inflation is also an important factor affecting longer term financial planning.

As a concrete example about inflation's impact on longer term planning, consider a family with a household income of $90,000 in today's dollars. If we assume average inflation of 3% over a period of 25 years, that family's income would need to grow to $188,440 just to maintain the same purchasing power. Most people would like to have a little more wiggle room in their budget 25 years down the road, but when inflation is well above the growth in wages, it becomes difficult to assume that will be the case. That is why investing according to a plan and earning a strong rate of return on those investments are key factors to saving enough for retirement.

Inflation and Rates of Return

Typically, when we talk about a rate of return on an investment, we are referring to a gross rate of return. Gross returns do not factor in management fees, taxes or any other applicable expenses, nor do they account for inflation. If your $1,000 grew to $1,100 over the course of a year, your gross return on that investment is 10%. Your real rate of return is in fact less. Even if we ignore management fees and applicable taxes, an inflation rate of 3% means your real rate of return on that investment was just 7%.

This is one reason it is critical to invest wisely to achieve growth over the long term. Most "high interest" savings account rates start around 0.10% these days (excluding short term promotional offers). One-year Guaranteed Investment Certificate rates start around 0.5%. Bank accounts and GICs can work well to protect your money and get a small return on funds you know you will need to access in the short term (less than 2-3 years). However, if inflation is even 1%, your real rate of return on this type of product is actually a loss – your account balance will not decrease, but your money will buy less.

Inflation and Retirement Income

Investing in products that will yield long term growth to outpace inflation is one important piece of the puzzle when planning for income at retirement. Public pensions like Canada Pension Plan and Old Age Security are also key pieces that provide additional income security to retired Canadians. CPP and OAS are partially indexed to inflation, meaning the monthly payment amount from those programs will increase annually, working to reduce the impact of increasing prices on seniors' budgets.

Unfortunately, personal investments such as RRSPs and TFSAs are not indexed to inflation. This means that when choosing investments, one must weigh risk versus return. It has become apparent over the years that our clients must accept some level of risk in order to save enough for retirement. It would be nearly impossible for the average person to accumulate enough money by using GICs at the current rates or even at a 2% interest rate given that the average inflation rate over the past 50 years has been 3.91% (source: Statistics Canada).

It is important to understand the impact that inflation can have on your financial goals. It should be factored into any projections you are relying on to help you make a retirement savings plan. Given its potential impact, it makes sense that rising inflation would be cause for concern to families in the short and long term, but we at Maude Financial Inc. are here to guide you through this and other complexities of planning for your financial future.