Wealth Management
Dominion Securities

Portfolio Advisor

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Sechopoulos Valente Group
RBC Dominion Securities

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Market commentary

We have a constructive bias for equities with new highs forecast for 2020. Ultra-accommodative monetary policies already on the books, some additional fiscal stimulus, and a confident U.S. consumer should keep most developed economies growing moderately. That should engender growth in corporate earnings, dividends and buybacks.

Right alongside this is a heightened need for caution, acknowledging that the late stage of the business cycle carries particular challenges for the economy and stock market. In our view, GDP growth for the major economies is unlikely to kick into a higher gear that would usher in several successive years of above-average earnings growth. But as long as U.S. recession risks remain in the distance, as shown by our indicators, we believe portfolios should maintain a Market Weight allocation to equities.

Fixed income

The benchmark 10-year U.S. Treasury yield has held the 1.5%–2.0% range for nearly four months, recently returning toward the top end of that range. The German benchmark 10-year Bund yield remains negative, but has reached -0.2%, the highest level since May 2019. Global growth and inflation expectations have recovered on the back of recent central bank easing. But with the major global central banks now likely to be on hold for the time being, we continue to see the ceiling for developed sovereign yields to be near current levels, as broad uncertainty is likely to remain. RBC Capital Markets forecasts the U.S. 10-year Treasury yield to peak at 2.1% in 2020, while expecting the German 10-year Bund yield will gradually recover back to 0.0% by the end of 2020.

We maintain our Market Weight in global fixed income. Though global yields remain historically low, so too do their ceilings. As we expect market volatility to be higher in 2020 than it has been recently, we look to fixed income to provide some defense and stability for portfolios.

To learn more, please ask us for the latest issue of *Global Insight*.

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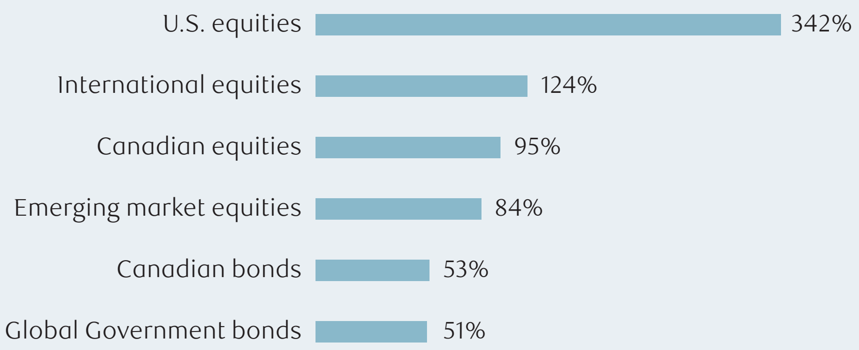
The 2010s: Goodbye to the decade of disruption

This past New Year's Eve, as the bittersweet *Auld Lang Syne* played and we counted down the final moments to midnight to close out 2019, it was more than the marking of the end of another fascinating and, in economic and market terms, outstanding year. It also closed the chapter on a decade that brought breathtaking change in such areas as technology, the environment, politics and medicine. It was also a decade that featured one of the most sustained periods of economic and investment market growth in the modern history of mankind.

The Terrific '10s
Market returns during the 2010s



Source: Morningstar, RBC GAM. Performance as of January 1, 2010 to December 17, 2019.

Ten years to remember

From iPads to self-driving cars, to the Ebola vaccine and nanotechnology, to 3D printers and lab-grown "meat", groundbreaking innovations and invention were the hallmarks of the now-past decade.

Along with countless innovations, the 2010s brought important changes to the world order, as China's economic rise continued at a breakneck pace, and the Obama presidency gave way to the Trump administration and the beginning of a reorientation of American politics and foreign and economic policy. Even the European Union faced its greatest test to date, with Britain poised to exit the EU as the decade closed out.

And, after decades of debate and denial, the climate emergency – the term of 2019 according to the *Oxford Dictionary* – became a front and centre social and political issue, undeniable in its importance and impact for both today and in the not-too-distant future.

A decade of wealth-building

After the tumultuous end of the first decade of the 21st century, characterized by the market crash of 2007/2008 and the ensuing Great Recession, 2010 marked the beginning of a sustained recovery in the global economy. While North American and some European nations bounced back sharply in the early part of the decade, others, particularly in the Eurozone, stumbled out of the gates before finding their footing. Despite the rough start, by mid-decade the global economy was enjoying a mostly synchronized period of growth, as jobs, earnings and a recovery in real estate values soon helped battered consumers and businesses to bounce back.

Driven by strong earnings growth and underpinned by historically low interest rates and yields, equities – particularly U.S. equities – and bonds spent an unparalleled decade providing investors with year after year of strong returns, with only 2018 and its gut-wrenching end breaking what had been an almost perfect 10-year record of wealth-building growth. "Disruptor" became the latest buzzword in the second half of the decade, with companies like Netflix, Tesla, Uber, Amazon and AirBnB upending their industries while thrilling their clients with their inspired business models.

Siri, tell me what the future holds?

The 2010s started at a low point and ended on a high one, providing investors with plenty to celebrate as the decade drew to an end. What the 2020s will hold is anyone's guess, but it's likely to be full of further innovations, challenges and change. Sticking to your investment plan is sure to help you steer through to your goals – no matter what kind of disruptors pop-up in the decade ahead.

History lessons

What investors can learn from Canada's 150th birthday

True, 150 years may be a little longer than any individual investor's timeline. But the long-term trends our country has seen since Confederation in 1867 provide almost endless lessons for investors today.

Gross domestic product (GDP)

1867: $280 million
2017: $2.11 trillion

Inflation

1867: $1
2017: $23

The Canadian dollar

1867: 0.25 British pounds
2017: 0.59 British pounds

Take a long-term view

In 1867, our population was about 3.6 million and our annual GDP was about $280 million. One hundred and fifty years later, our population has grown at a steady rate of 1.5% to 36 million and annual economic growth has averaged just under 4%. While these may seem like modest growth numbers, the result is an economy with a GDP that is over 7,000 times the size it was in 1867.

While there were economic and market ups and downs over the last 150 years, and unfortunately you couldn't buy a share in "Canada" in 1867, the power of steady growth and a long-term view has served Canadian investors well.

Consider that the Canadian stock market, the S&P/TSX, reached 568 in 1956 (when they started keeping track). Sixty-one years later, it's over 15,000. The market capitalization was $2.5 billion in 1956 – and today it's over $2.8 trillion.

Protect against inflation

You might recall spending a quarter at the corner store, and your parents a nickel, but what about your great-great grandparents? One hundred and fifty years of inflation paints an interesting picture of Canada's economy.

From 1867-1887, deflation ruled and prices actually dropped by 20%. From 1910-1920, prices increased by an astounding 160%. By 1932, the midst of the Great Depression, deflation had struck again and prices sat a mere 8% higher than at Confederation, 65 years earlier.

Through 150 years, Canada's inflation has averaged a modest 2.1% – just above the Bank of Canada's current target of 2%. Prices have increased about 23-fold and $2.00 today is equivalent to about 8.5 cents in 1867, illustrating how even modest inflation can erode purchasing power and the need to protect your portfolio from its effects, especially considering today's ultra-low interest rates.

Manage currency risk

In 1867, the Canadian dollar was pegged at $4 per British pound-sterling, while the down-trodden, post-Civil War U.S. dollar floated at $6.75 per pound. A century and a half later, relative to the pound, the Canadian dollar has more or less doubled in value, while the U.S. dollar is worth almost five times more.

Over time, currencies often swing up and down through long-term cycles, and arrive back at long-term averages. But the long-term appreciation of the U.S. dollar illustrates that currency values can also trend in one direction, pointing to the need to manage the risks of foreign currency exposure in a portfolio.

Notes: Inflation data source: Statscan, Wholesaler General Price Index from 1867-1945, Consumer Price Index from 1945-2017. Currency data source: Statscan, U.K. Telegraph. Population, GDP, stock market data source: Statscan, Fraser Institute.

An increasingly undeniable truth

A new RBC report helps debunk the myth that socially responsible investing hurts returns

Here's some good news for investors who want to align their ethical beliefs with their investing practices: there is a clear correlation between strong sustainability business practices and company performance. This is according to key findings from the 2019 RBC Global Asset Management report, *Does socially responsible investing hurt investment returns?*

The booming universe of Responsible Investing

Responsible Investing (RI) has been around for over a hundred years, and involves applying social and environmental factors to choose investments. With almost US$31 trillion invested globally in RI mandates as of 2018 – a 34% increase from 2016 – this approach to investing is growing quickly.*

RI is an umbrella term that captures many types of investing approaches under it – including socially responsible investing (SRI), engagement, screening, sustainability-themed investing, integration of environmental, social and governance practices (ESG), and impact investing. Presently, SRI mandates rule the RI world, with $19.8 trillion in assets.*

SRI: the principles of principled investing

SRI is a portfolio construction process that attempts to avoid certain investments according to defined ethical guidelines. In other words, SRI is values-based, and involves the formal integration of social values into the traditional investment process. It focuses on screening out or excluding particular investments based on a defined set of values. An example of this may include screening out investments in companies affiliated with the tobacco, alcohol or gambling industries.

Doing right doesn't have to hurt

While SRI appeals to many, one question continues to linger for individual and institutional investors: does adopting SRI help or hinder investment returns?

RBC Global Asset Management's report concludes that there is a clear correlation between strong sustainability business practices and company performance. The report looked at dozens of independent, third-party academic and industry studies and concluded that SRI does not result in lower investment returns.

Here are some of the key findings:

- There is a positive relationship between stock price performance and strong governance practices, strong environmental performance and high employee satisfaction.
- The use of aggregated sustainability scores to determine the impact on performance has demonstrated evidence of a positive impact.
- Companies with high environmental, social and governance ratings outperform the market in the medium term (three to five years) and long term (five to 10 years).
- Strong corporate responsibility practices improve operational performance of firms.
- Corporate social responsibility considerations in stock market portfolios do not result in financial weakness.
- Companies that prioritize sustainability manage environmental, financial and reputational risks better, which increases likelihood of reduced volatility of cash flows.

Is SRI right for you?

While evidence continues to mount that SRI doesn't hurt – and may even enhance – investment returns, it is important to speak with us about whether SRI is right for you. But investing according to one's principles is getting easier and more widespread – and that truth is undeniable.

* Global Sustainable Investment Alliance, Global Sustainable Investment Review, 2018.

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