



Wealth Management
Dominion Securities

Wealth Management Review



Summer 2025

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of RBC Dominion Securities**

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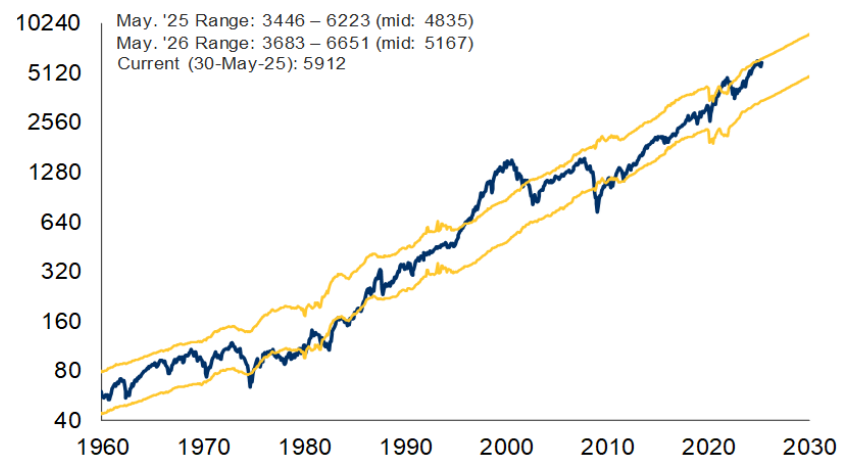
Update on global equity valuations

The stock market has experienced some significant uncertainty in 2025. In April, major indices fell significantly, with the S&P 500 nearing a bear market. However, equities have since rallied, recovering prior losses. While this rebound is encouraging, it raises important questions about the current state of the market and where investors might find value moving forward.

The following chart shows the S&P 500 market cap-weighted index, where the largest companies primarily drive performance. It tracks when the broader stock market is expensive, less expensive or fairly valued.

Currently, the S&P 500 is near the top band, suggesting that U.S. equities may be overvalued when evaluated based on several traditional metrics, such as price-to-earnings (P/E) ratio, return on equity (ROE), book value (BV), inflation (measured by the Consumer Price Index), and short-term and long-term interest rates (both nominal and real).

S&P 500 signals it may be broadly overvalued today



Source: RBC GAM. As of May 30, 2025.

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RBC Dominion Securities Inc.

Update on global equity valuations ...Cont'd from page 1

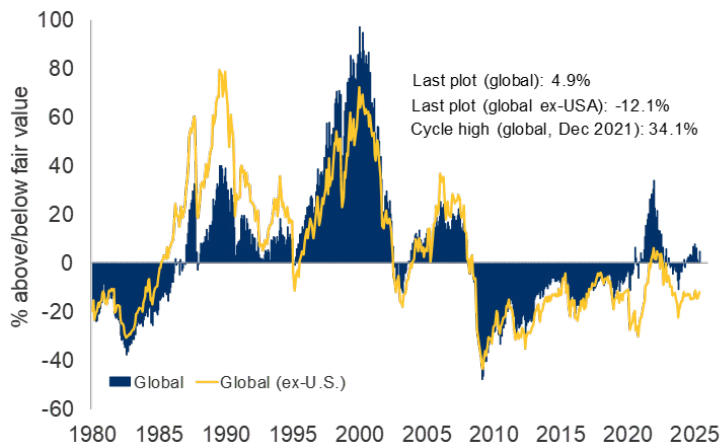
Global stock markets outside the U.S. have better valuations

The following chart compares the valuation of global equity markets versus global equity markets excluding the U.S. The zero line represents fair value:

- Above zero: Stocks priced above fair value
- Below zero: Stocks priced below fair value

We can see that U.S. equities are trading at a premium, while international markets are trading at a discount. That said, we're not suggesting investors move away from U.S. equities entirely. The U.S. market continues to offer strong long-term growth potential. For long-term investors, maintaining exposure to U.S. equities remains an important part of a well-diversified portfolio.

Equity valuations outside the U.S. appear more attractive



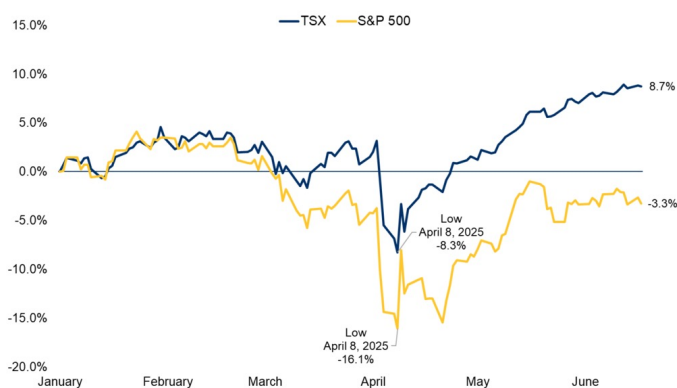
Source: RBC GAM. As of May 31, 2025.

Step back and listen to the whole performance

If you have ever left a concert with ringing in your ears, you know the cost of standing too close to the speakers. For investors, the first half of 2025 has felt similar. From inflation and rate speculations to geopolitical risks and tariffs, the financial markets have been loud.

Earlier this year, the S&P 500 experienced a sharp drawdown driven by a combination of factors like inflation concerns, hawkish U.S. Federal Reserve (Fed) decisions and trade tensions. It has swiftly recovered from its lows. The TSX has outperformed the S&P 500, but there was major volatility that investors had to experience.

Market noise hit its peak in April, followed by improved performance



Source: RBC GAM. Morningstar. S&P 500 Index (Total Return, \$CAD), S&P/TSX Composite Index (Total Return, \$CAD). January 1, 2025, to June 17, 2025. An investment cannot be made directly into an index. The graph does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower. Past performance is not a guarantee of future results.

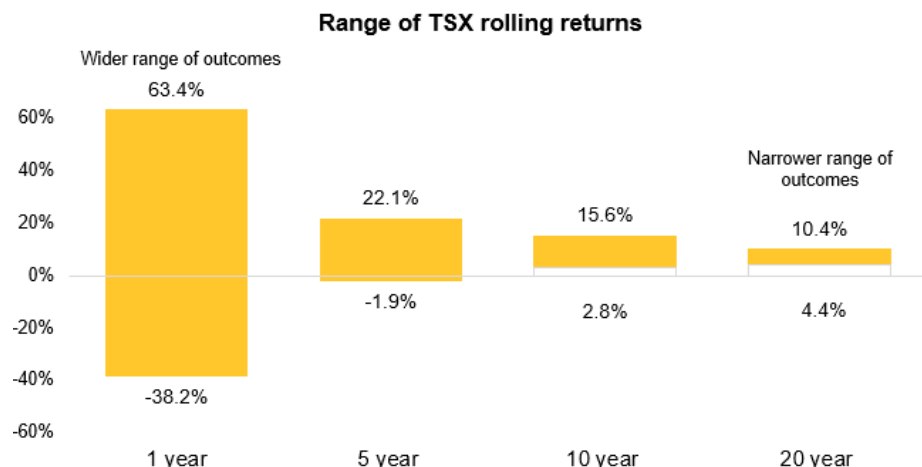
Volatility happens, but so do recoveries. For investors who stepped out of the market during the downturn, the rebound may have passed them by. History has shown that missing even a few of the market's best days can reduce long-term returns. Rebounds often come quickly and long before stability looks certain.

To add to the normal volatility of equity investing, global economies are far from being "in sync". The European equity market has gained 8.9% over the past year in local currency terms (+19% in USD terms). An allocation shift away from U.S. dollar assets has surely helped Europe's performance. Most global investors were overweight U.S. assets heading into the year, encouraged by the idea of ongoing U.S. exceptionalism.

China's economic outlook remains subdued, with growth likely to be weighed down by a struggling property sector and soft exports. While official real GDP growth for 2025 is expected to come in at about 4.7%, nominal growth probably slows to 3.5% amid persistent deflationary price pressure. China's is exporting its deflation into the rest of the world through a weakening currency. This has provided some offset to U.S. dollar weakness but has not played enough of a factor to turn the trade-weighted value of the dollar around on its own.

Short-term noise can turn into long-term performance

Since 1988, one-year returns for the S&P 500 and TSX have swung widely with gains above 50% to losses of 30% or more.



Over a 20-year rolling period, the TSX has yet to post a negative return. This is because fluctuations in value tend to smooth out over time as the impact of market volatility diminishes. Years of strong performance can outweigh periods of decline. Time can function as a natural filter, like earplugs for the market’s loudest moments.

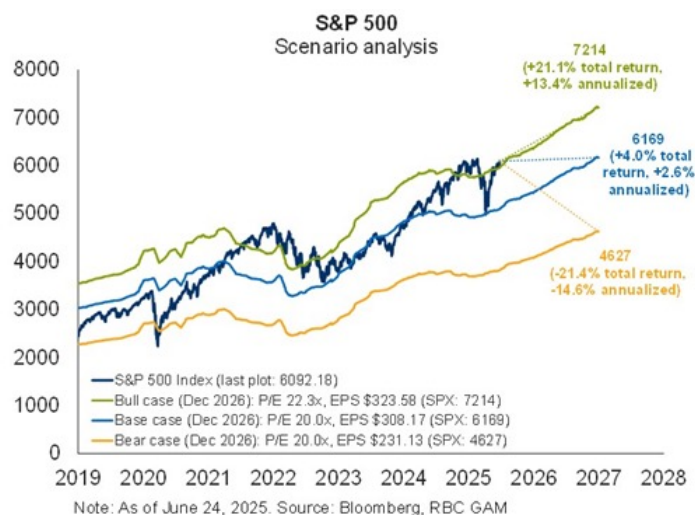
Source: RBC GAM, Morningstar. Rolling 1-, 5-, 10-, and 20-year average annual returns from January 1988 to May 2025. All returns are total returns in Canadian dollars. S&P 500 represented by S&P 500 TR \$CAD, TSX represented by S&P/TSX Composite TR (\$CAD). An investment cannot be made directly into an index. The graph does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower. Past performance is not a guarantee of future results.

Bull versus base versus bear case

Markets are often said to “climb a wall of worry.” If that’s so, there looks to be lots of climbing left to do. But stock markets shouldn’t be thought of as infallible oracles that correctly divine the future. Rather, they are the collective view of investors about what lies ahead. Those all-too-human investors can and do change their minds—often abruptly. There may be plenty of reasons presented to do just that in the coming quarters.

Over time, the value of businesses grows in step with corporate earnings, which in turn are largely determined by the direction and magnitude of gross domestic product (GDP) growth. Looked at from the negative point of view, major stock market retrenchments have typically occurred around periods when corporate earnings are stagnating or in outright decline. The worst and longest lasting of such market declines, for all the world’s major markets, have been associated with U.S. recessions. This leaves open the question: **Is a U.S. recession likely to arrive in the coming 18 months?** Just a couple of months ago, surveys of consumers, businesses, and investors offered up a deeply pessimistic “yes” to that question. The overwhelming view at the time had the U.S. entering recession by the second half of this year or by early next year at the latest. That extreme low point for sentiment coincided with a low for stock prices in April.

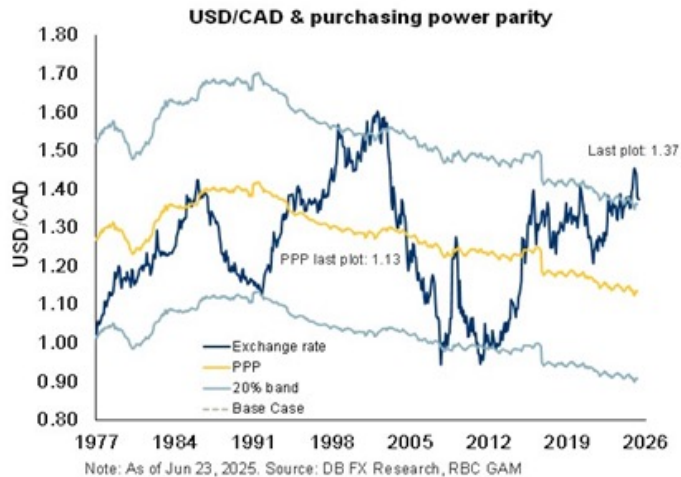
Markets, even “expensive” ones, can withstand some near-term earnings disappointments, like those that might arrive in the wake of full-on tariffs (and counter-tariff) in the second half of the year (H2), as long as investors can remain confident of a 2026 full recovery. However, in our view, “withstand” does not mean “ignore.” A rocky H2 for earnings, should it arrive, could be expected to take a periodic toll on investor confidence and produce bouts of downside volatility along the way. And, while forecasts of a 2026 U.S. recession, so prevalent two months ago, have largely faded away, they could come back on the table just as rapidly.



Canadian dollar strength: Made in the USA

The Canadian dollar has appreciated by close to 6% versus its U.S. counterpart so far this year, reversing most of 2024's year-end weakness. The Canadian dollar's recent strength is probably linked to broad-based weakness in the U.S. dollar more so than any sort of Canadian specific fundamentals. The U.S. dollar has lost value against all major currencies this year. Recent currency dynamics seem largely tied to an elevated level of policy uncertainty emanating out of Washington. While the U.S. dollar is starting to look a little oversold on a short-term basis, the bias remains in favour of further U.S. dollar weakness (and, Canadian dollar strength).

Excerpts and chart from Myles Zyblock, Dynamic Funds Macro Musings



Annie at the Stratford Festival



If you haven't already seen the Stratford Festival production of Annie, it's a must see in 2025. Annie has reigned as one of the world's most beloved family musicals since its original six-year Broadway run. Annie Bennett is the iconic mop-topped orphan who knows the sun will come out tomorrow for her, no matter how dark it gets today. Not only will Annie blow you away with her vocals and dance, her dog (Sandy) is also a crowd favourite. RBC is proud to be the Co-Sponsor of the production.

Coldest Night of the Year 2025

Heather and I participated in the Coldest Night of the Year fundraising walk to support **Shelterlink Youth Services** and the Stratford Connection Centre, which provides those who are unhoused or at risk of becoming unhoused, with shelter, basic needs, support, community aid and advocacy services.



2025 Charity Golf Tournament



What an amazing day of golf and community support! The event raised \$34,717 for the new Chemotherapy Communication Centre in the **Stratford General Hospital**. As sponsors of the putting contest, we are thrilled to be part of this important new upgrade to healthcare in Stratford. And one lucky "putter" ended up with an RBC Canadian Open pin flag signed by professional golfer Adam Svensson.