RBC Dominion Securities Inc.

Wealth Management REVIEW

RBC Wealth Management Dominion Securities

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In brief

Supporting emerging artists

At RBC, our commitment to the arts includes supporting artists in the earliest stages of their careers and helping artists bridge the gap from "emerging" to "established." As part of the RBC Emerging Artists Project, the RBC Foundation recently announced its largest-ever annual grant, $300,000 per year for three years, in support of The Music Video Production (MVP) Project. The MVP Project provides grants to artists, directors and producers nationwide to create video treatments in various musical genres, including pop, indie rock, hip-hop, electronic and dance. To learn more about The MVP Project, a joint RBCxMusic/ Prism Prize initiative, visit: **www.mvpproject.ca**

A new phase

By Jim Allworth

Our portfolio investment approach is straightforward:

- To get financial markets right you need to get the economy right;
- The economy one needs to get right above all others is the U.S. economy, far and away the largest in the world and the one that sets the cyclical rhythm for the global economy;
- As long as there is no U.S. recession/global economic downturn looming, an investor should remain committed to holding equities at some pre-determined, long-term target exposure in a portfolio;
- Once the path shifts decisively toward an eventual U.S. recession, equities should be approached more cautiously and defensively.

We use a number of indicators and approaches to assess the likelihood of a recession arriving. Six such indicators are rated in the Recession Scorecard (next page). Until just a few months ago all six were unequivocally signaling no recession in sight. Recently one – the gap between short-term Treasury rates and the 10-year Treasury Note rate – has crossed a threshold that would suggest a U.S. recession will be under way in about a year.

Two others – ISM new orders versus inventories and the Conference Board leading economic index – have moved closer to, but not yet crossed, their respective negative signal boundaries. The other three have not and look unlikely to produce a negative signal any time soon.

None of these indicators has a "perfect" historical track record – although some come close. And even if one did there can always be a first time for everything. But followed as a group over time these have given a reliable reading of how the recession probabilities are shifting.

The indicator that has "flipped" to negative is the so-called "shape of the yield curve," much discussed in the financial press. Simply put, the gap between short-term interest rates and long-term yields, normally comfortably wide in favour of the latter, has flip-flopped with short-term T-Bill rates now higher than the 10-year Treasury Note yield. This "inversion" has almost always been a harbinger of a recession arriving a year or so down the road.

Predictably, many opinions – often well-reasoned and compelling – are being offered on why yield curve inversion no longer matters or at

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U.S. recession scorecard

Indicator	Status		
	Expansion	Neutral	Recessionary
Yield curve (12-month to 10-year)	-	✓	-
Unemployment claims	✓	-	-
Unemployment rate	✓	-	-
Conference board leading index	✓	-	-
ISM new orders minus inventories	✓	-	-
Fed funds vs. Nominal GDP growth	✓	-	-

Source – RBC Wealth Management, Bloomberg, FRED Economic Data St. Louis Fed

least doesn't matter in this instance. In our experience such opinions have always appeared at the time of previous inversions but, typically, recessions arrived nonetheless.

For our part we are treating this occurrence as a "shot over the bow" for equity investors – one that should provoke an extra degree of vigilance. Were more indicator pins to topple in the coming months our defensive leanings would intensify. Virtually all bear markets have been associated with U.S. recessions and usually the stock market has set its final peak for the cycle some months before the recession begins. So, within the historical context, the inverting of the yield curve in May can be seen as opening the door to the arrival of a potential bull market peak for the first time in 10 years.

All that said, the other indicators in the scorecard have yet to topple into negative territory. The U.S. economy continues to grow, especially the all-important and dominant consumer sector. Credit conditions remain largely accommodative – i.e., interest rates are low and banks willing to lend. The corporate earnings outlook is constructive, if not overtly buoyant, while price/earnings multiples – 17.8x this year's forecast earnings for the S&P 500, 15.2 for the TSX – though not cheap are not unusually demanding either.

Nor are the market's internals particularly worrying. The majority of stocks have been moving up in gear with the broad averages. This is not a case where the indexes are being propelled higher by a handful of fast-rising, large cap favorites. While there are some narrow pockets of speculative activity – cannabis stocks come to mind – the broad-based "get-in-at-any-cost," unsustainable market froth characteristic of many market tops seems to us to be completely absent. If anything investor attitudes are mostly cautious and somewhat downbeat.

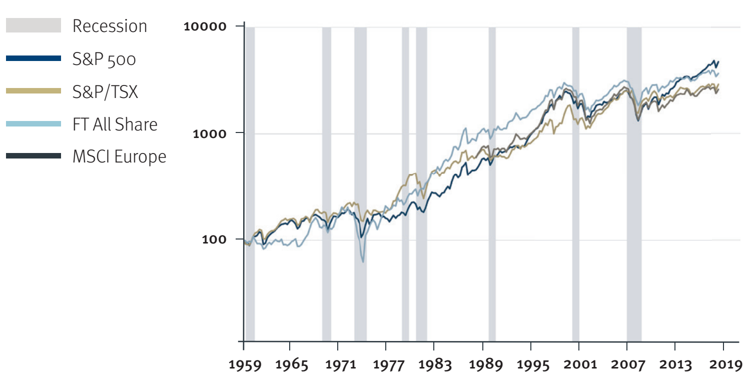
In what we expect will be a repeated theme in this space, we counsel investors to revisit the question of "risk appetite" were an economic and earnings downturn to play out sometime in the coming quarters. Focusing on the quality of holdings also seems more than usually appropriate.

We believe it's too early to become overtly defensive in equity portfolios. But thoughtful readiness and preparation for a change in the investment landscape, which might arrive unannounced or from an unexpected quarter, is always the right policy.

For more thoughts on how to structure portfolios in the current environment please request a copy of our latest issue of *Global Insight Monthly.*

Jim Allworth is co-chair of the RBC Global Portfolio Advisory Committee.

Beware U.S. recessions



Caring for the caregiver

Whether you are giving or receiving care, it can be a very stressful time. Sometimes, caregivers – being so focused on the needs of a loved one – overlook their own well-being. But it's important for the caregiver to take care, too.

Being a caregiver can take an emotional, physical and financial toll. It can even affect the caregiver's ability to earn an income. According to a recent survey, 13% of Canadians have taken time off work to care for an aging parent, and 5% have actually quit their jobs.[1] And with people living longer, and living longer with serious health conditions requiring ongoing care, the need for caregiving is growing.

Of course, taking care of a family member or close friend is something most of us would not hesitate to do, no matter the costs; fortunately, caregivers' financial and emotional costs can be managed.

Get informed

It can be a difficult conversation, but it's important to discuss your loved one's wishes in the event that they need care, and ideally before they actually need it, including:

- Would they prefer assistance from family members, a live-in or drop-in nurse, or a private facility?
- Do they want to stay in their current home (perhaps with some renovations), move to a more convenient location, or stay with a family member?
- Who will make decisions for them about their finances and health care, should they become unable to make these decisions themselves?

Make sure the person you are (or may be) taking care of has an up-to-date Power of Attorney (or Mandate in Anticipation of Incapacity in Quebec). This legal document can help ensure that your loved one's plans regarding their finances and personal care are fulfilled as they intended. It's an essential part of anyone's estate plan that gives a person (or people) the power to act on the grantor's behalf if they become incapacitated.

Generally, there are two types of Power of Attorney: one for making personal care decisions, and another for making financial decisions. Often, the same person (such as a spouse or an adult child) acts in both capacities, and sometimes that same person is also a primary caregiver. Regardless of who acts as Power of Attorney, it's important to know that it's been properly addressed with a qualified legal professional.

Get prepared

Providing care can be a burden – physically, emotionally and financially. As a caregiver, you may be paying for enhanced treatment, extra help, special equipment or home renovations to improve accessibility (e.g., handrails, ramps, etc.). You may need to take some time off work or draw on your savings, which could affect your own goals, such as paying off your mortgage or retiring by a certain age. In fact, 14% of Canadians expect they will postpone their retirement to financially support their parents – and 5% already have.[2]

To help with the financial burden, there are several federal tax credits, including the Canada Caregiver Credit. In addition, you may be able to claim medical expenses and renovations to improve home accessibility, as well as your dependant relative's Disability Tax Credit. And, if you end up taking time off work, you may be able to receive Employment Insurance Caregiving Benefits – up to 55% of your earnings to maximum of $562 a week for a prescribed number of weeks.

And there are other ways to lighten the financial burden, especially if you plan in advance. Consider incorporating an emergency fund into your financial plan, freeing you up to take more time off work, if needed. Look into "living

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Caring for the caregiver
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benefits" insurance, such as critical illness and long-term care, which can provide lump sum payments to use as needed for private care, home improvements and more. Check with your family members today to see if they have this type of insurance in place, as they are more likely to qualify, and have more cost-effective premiums, while they're younger and still in good health.

Get your supports in place

Preparing for the financial stresses of caregiving is, arguably, the easy part. Caregivers can be under a great deal of mental and physical stress, and may end up needing some care themselves. If you're a caregiver, take time for yourself, stay active, socially engaged and involved with the things you love to do. You're not alone, and can reach out for help from friends, family, community, support groups or health-care professionals.

[1, 2] "Aging Parents & Financial Support," Leger survey (2019).

Interest rates applied to account balances as of June 22, 2019*

	Canadian dollar accounts	U.S. dollar accounts
All credit balances	0.05%	0.05%
Debit balances under $10,000	5.95%	7.75%
Debit balances $10,000 – $24,999	5.70%	7.50%
Debit balances $25,000 – $49,999	5.45%	7.25%
Debit balances $50,000 – $99,999	5.20%	7.00%
Debit balances $100,000 and over	4.95%	6.75%
All debit balances for registered accounts	5.95%	7.75%
All credit balances for registered accounts	0.05%	0.05%

The interest rates that will be in effect for debit balances in cash and margin accounts fluctuate with the Royal Bank prime rate as follows:

Debit balances	Canadian dollar rates†	U.S. dollar rates†
Under $10,000	CAD Prime + 2.00%	USD Prime + 2.25%
$10,000 – $24,999	CAD Prime + 1.75%	USD Prime + 2.00%
$25,000 – $49,999	CAD Prime + 1.50%	USD Prime + 1.75%
$50,000 – $99,999	CAD Prime + 1.25%	USD Prime + 1.50%
$100,000 and over	CAD Prime + 1.00%	USD Prime + 1.25%

† Based on Royal Bank prime rates as of June 22, 2019. CAD Prime = 3.95% and USD Prime = 5.50%. Rates are subject to change*.

* RBC retains the right to change interest rates on a discretionary basis. A committee comprised of individuals representing various authorities within RBC Dominion Securities administers these interest rates. These rates are adjusted from time to time based on various factors, including, but not limited to, competitive analysis, Bank of Canada and other bellwether rates and/or cash rates. Interest amounts less than $5 are neither charged nor paid on regular accounts, and interest amounts less than $1 are neither charged nor paid on special product accounts. Rate changes of less than 1% will be processed on the 22nd of the month. The average daily cash balance for the month determines the tier that will be used to establish the rate. For interest rates on balances other than CAD or USD, speak to your advisor, or go to www.rbcds.com/cash-margin-rates.html.

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