

The O'Neill Wealth Management Group



Wealth Management
Dominion Securities

Q4 Executive Summary

The O'Neill Wealth Management Group

RBC Dominion Securities Inc.

Maureen O'Neill

Vice-President & Portfolio Manager

maureen.oneill@rbc.com

613-566-7562

Jennifer Shone

Investment Advisor

jennifer.shone@rbc.com

Dave Cajka

Wealth Advisor

dave.cajka@rbc.com

Doug Wilde

Associate Advisor

doug.wilde@rbc.com

Agnieszka Wasiluk

Associate

agnieszka.wasiluk@rbc.com

45 O'Connor St

Suite 900

Ottawa ON K1P 1A4

www.maureenoneill.com

1-800-461-1958

Happy New Year! We sincerely hope you enjoyed the holiday season, and were able to spend time with family and friends. We are pleased to enclose the fourth quarter, and year-end review for 2017.

Last year was a strong year for economic growth – especially in Canada where GDP growth for the year is expected to come in around 3%. It was also a solid year for equity returns, particularly in the U.S. market, driven by consistently better-than-expected corporate profit growth. In the context of equity market history, 2017 will also be remembered as one of the least volatile periods on record. Intraday moves were muted, measures of volatility hit record lows, and pull backs proved to be rare and limited in magnitude. The largest contributor to volatility was in fact currency movement between the Canadian and U.S. dollar. While pleased, we continued to be somewhat surprised by this given the elevated risks due to rising protectionism in the U.S., U.K. and parts of Europe, increased geopolitical risks, and an aging business cycle with high stock valuations that we considered somewhat vulnerable to a pull-back. In the end we were pleased with the results from our portfolios on an absolute, relative, and risk-adjusted basis.

Looking forward into 2018 we believe it would be prudent to lower our expectations for total returns, and anticipate a higher level of volatility. We recognize the deep discounts available at earlier stages of the bull market have been erased, and further gains for equities will depend on continued earnings growth. Our economists and strategists have been watching ever more diligently for signs of a top in equity markets, however at this point they are not seeing an abundance of signals that would indicate we are at the end of the cycle. In fact, while we must prepare for a wide range of outcomes, several scenarios indicate that even from a starting point of full valuations, returns in the coming year can still be decent as long as earning come through. RBC Global Asset Management (RBC GAM) Chief Economist Eric Lascelle says “in our view the balance of risks and opportunities tilts in favour of growth in the economy, and we are not yet seeing signs of any imminent downturn”. In the absence of technical deterioration, the ongoing strength in profits and the expected boost from meaningful U.S. corporate tax-cuts, suggests stocks continue to offer better total return prospects compared to fixed-income alternatives.

Examining the risks to this base-case view however, RBC GAM highlights some concerns that are now quite familiar. The first is the “late-stage” of the U.S. business cycle, defined by an expansion that is more than eight years old, little-to-no economic slack remaining in the U.S. economy, high consumer and business confidence, low market volatility, increasing interest rates, a flatter yield curve, narrowing credit spreads, and profit margins that are starting to ebb. While perhaps not imminent, in aggregate these factors indicate a recession may arrive in the next few years. RBC GAM is on “high alert” for signs of excessive risk-taking – a classic sign an economic cycle is on its last legs. U.S. protectionism and geopolitical considerations round out the list of primary risks. U.S. relations with North Korea have undeniably deteriorated over the past year. However RBC GAM believes the basic calculation remains fundamentally the same for both sides, and therefore a war is unlikely. Longer-term, the shifting dynamic among the global superpowers – U.S., China and Russia - potentially brings new geopolitical risks.

NAFTA is still being renegotiated with the goal to finalize a new deal by the end of the first quarter. With only minor progress made so far, trade and the impact of U.S. protectionism remains a key concern. There are a number of plausible outcomes according to Eric Lascelle, with the balance between a fairly benign outcome and one that is negative roughly split down the middle. He believes at this stage it is impossible to speak with precision about the economic implications of NAFTA negotiations. He estimates a bad outcome would theoretically cast a shadow subtracting about 0.8% from the Canadian economy and around 0.4% from the U.S.

Given stock markets typically peak right before a recession or in the early stages of one, and prolonged bear markets (declines of 20% or more) are associated with recessions, the RBC Global Portfolio Advisory Committee Co-Chair, Jim Allworth of RBC Wealth Management (RBC WM) released an analysis of preferred recession indicators in the Global Insight 2018 Outlook report. In it he reviews the current status of credit availability (or lack of), the gap between short and long-term interest rates, unemployment, jobless claims, the U.S. Conference Board Leading index, Interest Rates, and the ISM Manufacturing index which is an indicator of future economic activity. While these factors require continued close scrutiny in the months ahead, Allworth concluded “as things stand, none are giving any indication a U.S. recession is on the horizon”. Eric Lascelle has kept his probability of a U.S. recession occurring in the coming year at roughly 25%.

When investors often try to stretch for extra returns towards the end of a business cycle, throughout 2017 we gradually reduced our risk exposure by being diligent about profit-taking and rebalancing. As we head into 2018 we are comfortable for now maintaining equity exposure at the target weights defined by individual Investment Policy Statements. Our trading decisions have been motivated by protecting capital. Our defensive core positions, with qualities like tax-efficient recurring revenue from sustainable and growing dividends, are combined with an adequately healthy exposure to the growth opportunities within the U.S. market. We are tilted away from sectors over-exposed to risks related to trade negotiations, and we remain committed to the ongoing practice of frequent rebalancing in this environment, so that profits are crystalized regularly and a prudent level of risk assets are maintained.

We expect the U.S. Federal Reserve to continue to increase interest rates and the Bank of Canada will follow their lead, but to a lesser degree, as they have adopted a more cautious tone in the face of elevated household debt. Like our equity selections, we have used the opportunity presented by higher yields to add to lower-risk (government-backed), high credit quality fixed income securities, and expect to continue into 2018. RBC WM believes that investors are more adequately compensated with preferred shares over corporate bonds, as higher interest rates over the medium term provide a constructive back drop for preferred shares, while they create pricing pressure for bonds.

Finally we have a considerable allocation to our “swing” positions built into our portfolios. The intention is to provide extra liquidity and allow us to tactically adjust the Asset Allocation of our portfolios more quickly in the short-term if we believe it is warranted. We want to ensure we have sources of cash to be able to add to core stock positions, should valuations pull-back and a buying opportunity presents itself.

Of course the starting point for every Investment Strategy are the personalized Financial Plans and Investment Policy Statements developed to be aligned with each client’s personal circumstances, and designed to meet their needs and objectives. We were honored to be your partners in 2017 as you work towards your own goals. Thank you for your trust and confidence in us. We look forward to continued success in 2018.


Sincerely,



Maureen O’Neill
Vice President and Portfolio Manager



Jennifer Shone
Investment Advisor



Dave Cajka
Wealth Advisor

www.theoneillwealthmanagementgroup.com



Wealth Management
Dominion Securities

This information is not investment advice and should be used only in conjunction with a discussion with your RBC Dominion Securities Inc. Investment Advisor. This will ensure that your own circumstances have been considered properly and that action is taken on the latest available information. The information contained herein has been obtained from sources believed to be reliable at the time obtained but neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers can guarantee its accuracy or completeness. This report is not and under no circumstances is to be construed as an offer to sell or the solicitation of an offer to buy any securities. This report is furnished on the basis and understanding that neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers is to be under any responsibility or liability whatsoever in respect thereof. The inventories of RBC Dominion Securities Inc. may from time to time include securities mentioned herein. RBC Dominion Securities Inc. and Royal Bank of Canada are separate corporate entities which are affiliated. *Member-Canadian Investor Protection Fund. RBC Dominion Securities Inc. is a member company of RBC Wealth Management, a business segment of Royal Bank of Canada. Insurance products are offered through RBC Wealth Management Financial Services Inc. (“RBC WMFS”), a subsidiary of RBC Dominion Securities Inc. When providing life insurance products in all provinces except Quebec, Investment Advisors are acting as Insurance Representatives of RBC WMFS. In Quebec, Investment Advisors are acting as Financial Security Advisors of RBC WMFS. RBC DS WMFS is licensed as a financial services firm in the province of Quebec. ©Registered trademarks of Royal Bank of Canada. Used under licence. © 2016 RBC Dominion Securities Inc. All rights reserved.