The Porretta Group

Wealth Management
Dominion Securities

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Mark Porretta, CIM
Vice President, Portfolio Manager & Wealth Advisor
mark.porretta@rbc.com
905-764-5258

Theresa Bruno
Associate Wealth Advisor
theresa.bruno@rbc.com
905-764-1345

Eric Hoey
Investment Associate
eric.hoey@rbc.com
905-764-5847

The Porretta Group of RBC Dominion Securities

260 East Beaver Creek Rd.
Suite 500
Richmond Hill, ON
L4B 3M3

www.markporretta.com

Quarterly Update

If we were to roll the clocks back six months and think about where we were as a society and economy at the time, we would think we were living in a Netflix series. Grocery stores looked like they'd been in an apocalypse, mom and pop stores were deserted and citizens hibernated inside. While there are still issues at large, governments globally are doing their part to keep everything afloat. Although it may not always feel like we are progressing on the right track, many indicators show otherwise. Indicators such as employment, gross domestic product (GDP) and consumer spending are all up dramatically since the lows of March and April, demonstrating the resiliency of both the Canadian and United States economies. With the 2020 U.S. presidential election around the corner, there may be some choppiness in the short term, however, as we have mentioned before, while whoever is in power is important, what matters most is where we are in the economic cycle.

Recovery underway

While this has not been a smooth and straightforward recovery back to normal, we are progressing better than expected. An excellent example of this recovery can be found in the labour markets in both Canada and the United States. In Canada, roughly 3 million jobs were lost between March and April, and 21 million were lost in the United States. This created one of the highest unemployment rates (13.7% in Canada and 14.7% in the United States) in history. However, since May, Canada has regained over 2.2 million jobs and the United States has regained over 11 million jobs. While the unemployment rate is still high, sitting at 9% in Canada and 7.90% in the United States, the overall emerging trend is positive and seems to point towards the recovery of both economies.

The fallout of COVID-19 took its toll on citizens and large and small companies alike, as Canada posted GDP numbers of -8.20% in Q1 and -38.70% in Q2. From

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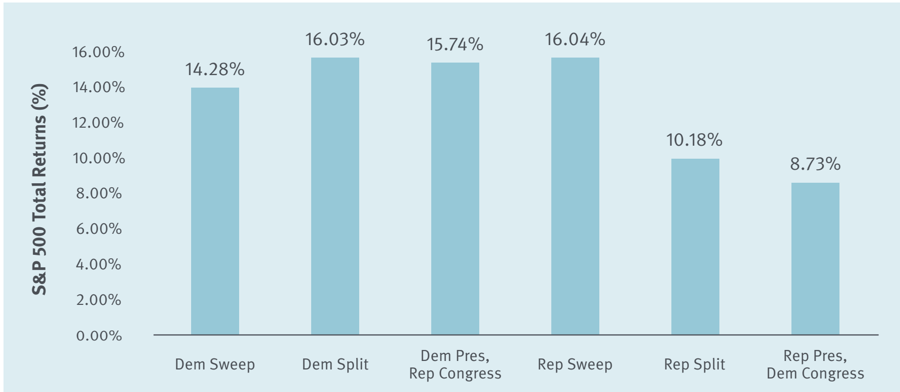
that point, Canada has been growing at a steady pace in its recovery towards positive GDP numbers. The monthly percentage changes in GDP in May, June and July were 4.8%, 6.5% and 3.0%, respectively. While these numbers are not something to jump up and down about following a 38.70% decline in GDP, we expect that the horrible second quarter of 2020 will prove to be the low for many major developed economies, and we believe that a recovery is underway.

Consumer spending in both Canada and the United States is a key metric for evaluating how the economy is operating, as it accounts for approximately 70% of U.S. GDP and roughly 25% of Canadian GDP. Both economies took a major hit in March and April, as lockdowns ensued and consumer spending declined to as low as -14.7% in the U.S. and nearly -40% in Canada. As restrictions began to lift and governments continue to provide support through various stimulus packages, consumer spending and retails sales have returned to pre-COVID levels. In coordination with rising employment numbers and positive GDP growth, this is supportive for the continued recovery of both economies.

Election watch

As the U.S. prepares to go to the polls amid a global pandemic and economic recession, we look at how the candidates' policy proposals could play out under the most plausible election outcome scenarios. Despite strong sentiments across the political spectrum, we argue that the American system includes robust guardrails that limit the ability of any individual, or political party, to impose sweeping change.

Figure 1: Average S&P 500 Total Returns By Make-up of Government since 1945 White House/Congress/Senate



Source: Bloomberg, Manulife Investment Management, as of December 31, 2019.

We believe there are three plausible election outcomes for investors to focus on: the status quo, with Republican leadership and a divided Congress, Democratic leadership and a divided Congress or a "blue wave," with the Democrats controlling the presidency and both chambers of Congress. It is safe to say that opinions and emotions surrounding the U.S. election are running hot. The angst seems to be spilling over into the investment sphere, with people across the political spectrum concerned that various election outcomes could be detrimental to financial markets – or worse. As we mentioned in our U.S. election piece in September, and as seen in figure 1, regardless of which party occupies the White House, the true driver of stock market performance is historically guided by the current economic cycle.

What are we thinking?

There are uncertainties ahead, such as a second wave of COVID-19 and election-related turbulence, that could make for choppy, volatile trading. However, we expect the largest economies, corporate earnings and major equity markets to gain more ground over the next 12 months. While near-term risks are evident, we expect the economy's progression from here will be shaped by these aforementioned factors: a multi-year commitment to low interest rates, a reluctance by governments to withdraw stimulus too abruptly or too soon, commitment from global governments to "do whatever it takes" to facilitate recovery and reasonable expectations that the effects of COVID-19 will be tamed further over the coming year by policy, science and the passage of time. On the fixed income front, corporate bond yields are about 15% lower than they were at the beginning of the year, making the risk / reward less compelling than in prior years. This only reaffirms our strategy of maintain our market weight in fixed income and continuing to add to equities, up to our desired long-term targets.

Thank you for your continued trust and support.

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