RBC Dominion Securities Inc.

Summer 2021

Wealth Management
Dominion Securities

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
Associate Investment Advisor
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

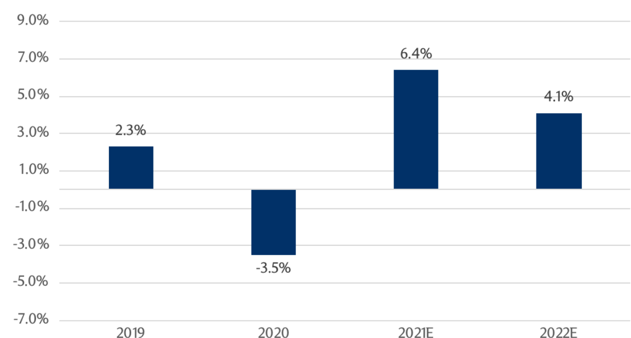
Quarterly Update

Road to recovery

The rapid pace of vaccinations and the availability of ample federal and monetary stimulus have led to a swift recovery in the U.S. economy, as employment trends improve. After spiking last year at 14.7%, the unemployment rate has been steadily declining and stands at 5.9% as of June. The U.S. has added over 3.2 million jobs since the start of the year, as COVID-19 vaccinations reached more of the adult population, allowing states to ease some pandemic restrictions. It is reassuring that the pace of U.S. job creation is gaining strength. New filings for unemployment benefits, which are a proxy for layoffs, have been falling since the start of the year, adding to evidence of renewed labour-market growth. Jobless claims are currently hovering around a seasonally adjusted 400,000, down significantly from early January, and are below the pre-coronavirus pandemic record of 695,000, which was previously set in 1982. While hurdles remain to rehiring, we are seeing real improvement in the labour market nevertheless.

We believe the release of pent-up consumer demand and government support will help drive spending after disruptions related to COVID-19 have eased, and this should lead to a snapback in gross domestic product (GDP) growth to about 6.4% (Figure 1) this year, according to RBC Capital Markets' expectations, which would be a reversal of the 3.5%

U.S. GDP Forecast



Source: RBC Global Asset Management

Continued on page 2

contraction in 2020. Economic activity is going up and we expect it to be fairly strong, with additional stimulus likely to make it even stronger.

Consumer fundamentals are strong, with households saving about $2 trillion more than they would have been without the pandemic, and the federal relief efforts in response to it. As immunity progresses via vaccinations and employment trends improve, we are beginning to see a deployment of extra savings, which should drive consumption growth and boost corporate earnings. Markets are forecasting the recovery this year to exceed the 2019 pre-COVID earnings, as investors look past near-term speed bumps on the road to the post-pandemic recovery. Further supporting the markets has been a generally strong set of second-quarter earnings reports, which has provided fundamental reasons for stocks to move higher.

Corrections – par for the Course

Of course, even years that feature above-average stock market returns can contain within them rocky periods of correction and consolidation. It's always possible that one lies just around the corner. As usual, there is a long list of things that investors are worried about – inflation, the pandemic, geopolitics, severe weather. In one sense, investors are right to expect a correction – they are not uncommon. But they rarely announce their arrival (or conclusion) in a timely enough fashion to allow even a nimble investor to take advantage.

There are also plenty of factors that would argue against a correction occurring, such as:

- Most economies are reopening as the vaccine rollout diminishes the impact of the pandemic;
- Earnings are very strong (GDP-based U.S. corporate profits are already above their pre-pandemic peak) and earnings estimates have been revised sharply higher over the past six months (S&P 500 by 15% and TSX by 13%)
- CEO confidence as measured by The Conference Board is near 18-year highs;
- Corporate bond yields remain very low and access to credit plentiful;
- Capital spending is increasing, which is good news for productivity and inflation.

It's worth remembering that should a market correction occur without an accompanying downturn in economic activity and corporate profits, then even though share prices fall for a few months, the intrinsic, underlying value of most businesses goes on compounding at a rate driven by earnings growth.

Our thoughts

In our view, nothing that has transpired in the past six months has fundamentally changed our outlook for the remainder of the year or for 2022. All of the developed economies, led by the U.S., will likely post above-average GDP growth compared to last year's slump. Absent a vigorous return of the pandemic, the momentum provided by repeated applications of fiscal stimulus by governments – supported by entrenched accommodative monetary policies – should keep most economies powering on through next year and probably beyond. Robust growth this year followed by slower, but still above-average growth is what we are currently forecasting. We still continue to maintain an overweight equities stance vs. our long-term averages. We continue to position our portfolios with a healthy balance of cyclicals, dividend growers and growth equities that look to take advantage of the continued economic expansion. Amidst continual discussions of rising inflation or the eventual increasing of rates by central banks, we still remain underweight fixed income with very short duration. With negative real rates on most fixed income instruments, we believe the risk-return of either extending duration or increasing our fixed income exposure is not worth it at this time.

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 strategies and advice in this report are provided for general guidance. Readers should consult their own Investment Advisor when planning to implement a strategy. Interest rates, market conditions, special offers, tax rulings, and other investment factors are subject to change. 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. ® / ™ Trademark(s) of Royal Bank of Canada. Used under licence. © 2021 RBC Dominion Securities Inc. All rights reserved. 21_90416_JDO_003