

RBC Dominion Securities Inc.

Post-pandemic strategy



Doug Clark, CFA
Vice President, Investment Advisor
Doug.clark@rbc.com

Phone: 905-764-5561
Fax: 905-764-7324
Toll-Free: 1-800-268-6959



Wealth Management
Dominion Securities



Agenda

1. Market performance
2. Asset allocation
3. Business sector overview



Wealth Management
Dominion Securities

Planning for a post-Pandemic investment strategy

- The health crisis posed by the pandemic will be dealt with by a combination of better treatment and ultimately a vaccine will reduce the economic impact over the next six to eighteen months, thereby permitting more normal economic activity
- After the market crash in March of 2020, the very strong fiscal and monetary support provided comfort to investors that worse case economic outcomes were unlikely
- The market has responded with an equally swift rally across most asset classes with the indexes recovering most of their losses
- We are in an environment that no investor has been in before so we need to remain cautious and humble
- The explosion of government debt and the central banks ability to keep rates low for longer to enable a full economic recovery is a new risk for investors



Wealth Management
Dominion Securities

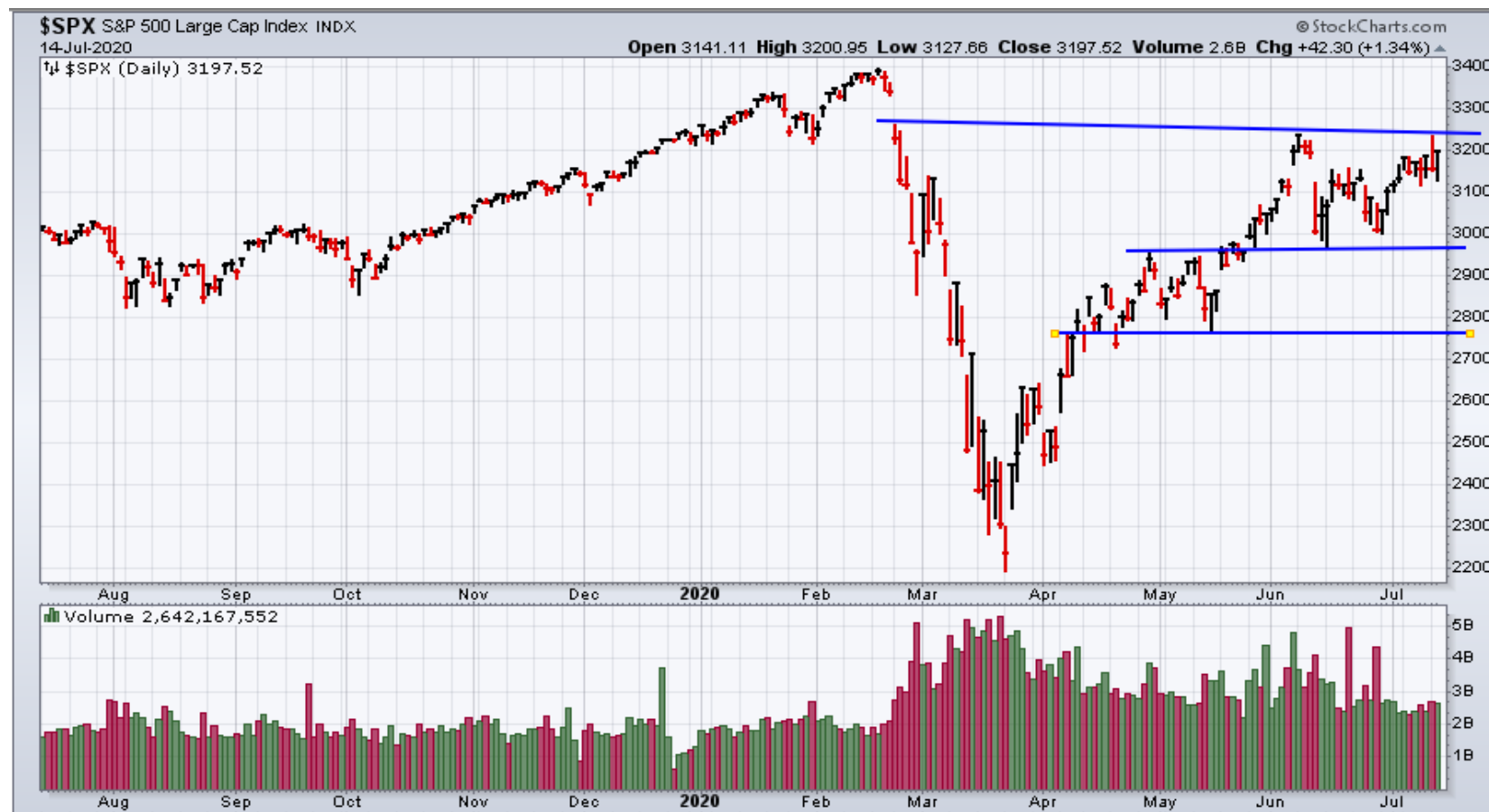
Our base case

- Our base case however is that the economic recovery will be longer and unequal
- We view the current market as being divided into three groups
 1. Stocks whose business models are either unaffected or improved by the Pandemic but where valuations are at all time highs (e.g. Netflix)
 2. Stocks that remain severely depressed because their recovery is uncertain and earnings as a basis for valuation decisions are unknowable (e.g. Airlines Cruise ships)
 3. Stocks that have been affected by the pandemic but who have very strong business models but are not popular with “fast money” but also still have attractive valuations
- We have been focused on the third group as the most attractive and rebalance our portfolios around these names



Wealth Management
Dominion Securities

The market crash of 2020 was remarkable in the speed of the sell-off as in the case in the recovery



S&P500 Large Cap Index July 14, 2019 – July 14, 2020 Source: Bob Dickey, Strategist, PCG Research Technical, RBC Wealth Management US, StockCharts.com



Wealth Management
Dominion Securities

Almost like Bitcoin, popular stocks whose business is viewed as immune from the economic fallout or the pandemic have seen the valuations gone parabolic



Beware of Crowds

“Some stocks and stock groups have made some large moves to the upside during the market advance of the past three months on the anticipation of potential earnings gains as a result of their advantageous positions during the COVID-19 crisis. Many of these stocks have been prominent in the news and have attracted more investor interest as they have moved up sharply in many cases. Often, the sharp advances can peak when the buying interest falls off, and the resulting pullbacks can be as sharp as the moves were on the way up. When a particular investment becomes popular and well-advertised it is also late in the rising trend and then has a higher risk of change, and we think that it is important not to be influenced by stories of recent success and instead look for those investments that are earlier in their bullish trends which is really the common goal for most investing.”

- Bob Dickey, Strategist, RBC Wealth Management US

Source: Bob Dickey, Strategist, PCG Research Technical, RBC Wealth Management US, StockCharts.com

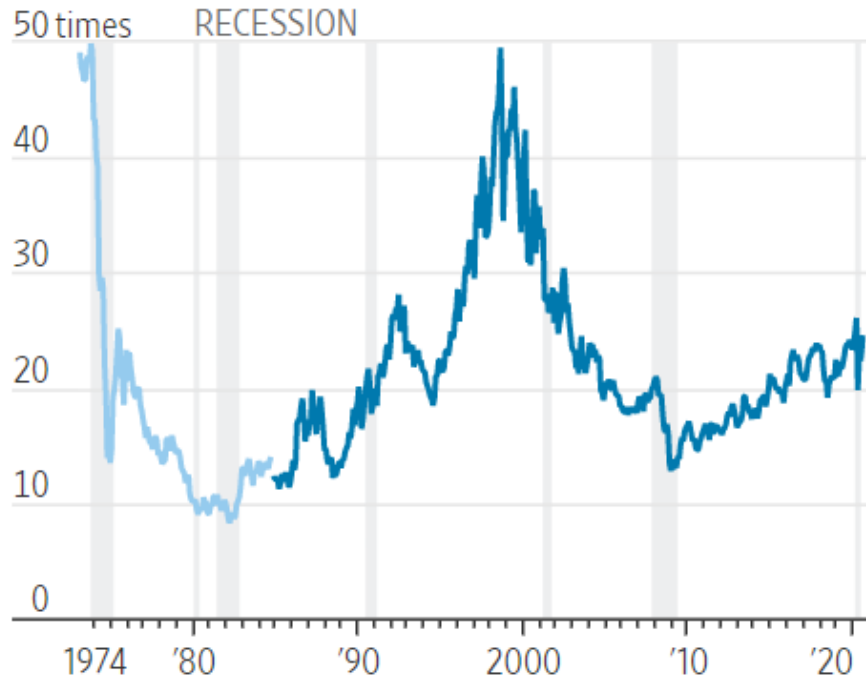


Wealth Management
Dominion Securities

Coca-Cola

Coca-Cola price/earnings ratio

■ Trailing P/E ■ Forward P/E



Note: Monthly data

Source: Refinitiv

Looking back at history at stocks that “everyone had to own” is instructive. Twice in its history, the stock traded over a 40x P/E ratio and thereafter was a terrible investment.



Wealth Management
Dominion Securities

Top 10 S&P 500 holdings

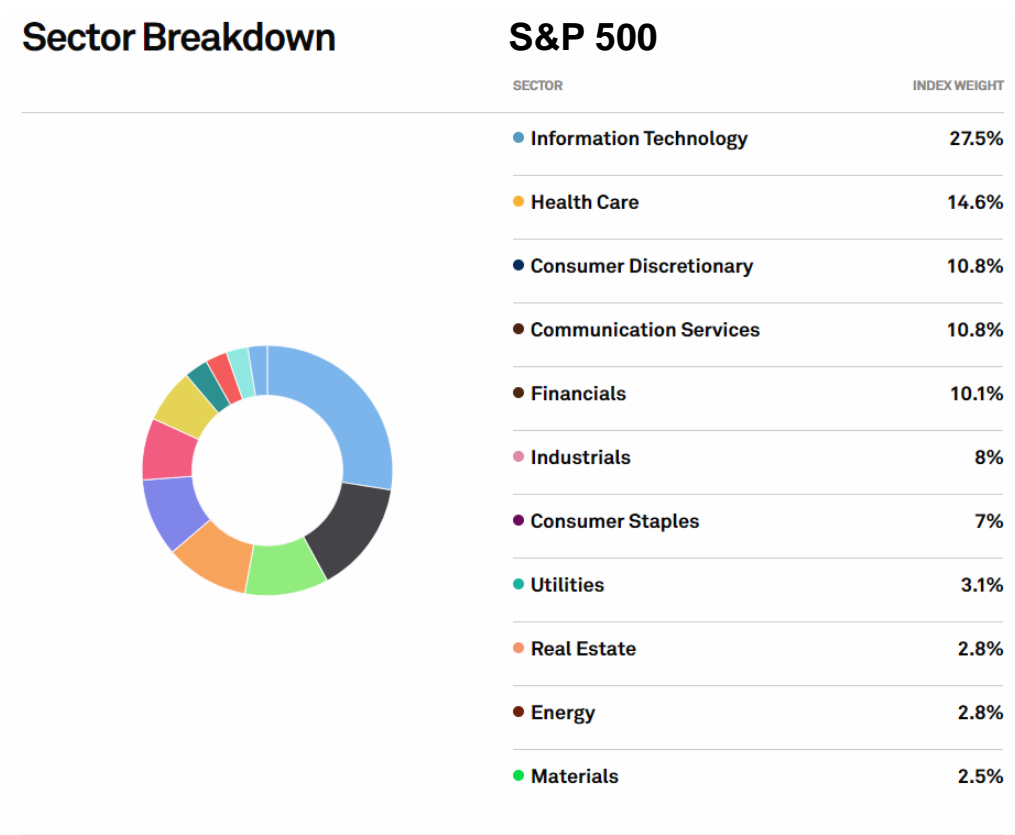
Ticker	Name	Market Cap (in \$ billions)	% of S&P500
AAPL	Apple	\$1,670	6.51%
MSFT	Microsoft	\$1,532	5.98%
AMZN	Amazon	\$1,476	5.76%
GOOG	Alphabet	\$1,025	4.00%
FB	Facebook	\$684	2.67%
BRK	Berkshire Hathaway	\$464	1.81%
V	Visa	\$412	1.61%
JNJ	Johnson & Johnson	\$393	1.53%
WMT	Wal-Mart Stores	\$374	1.46%
PG	Procter & Gamble	\$310	1.21%
Total		\$8,340	32.53%
SPX	S&P500	\$25,640	100.00%

Source: Koyfin as of July 19, 2020

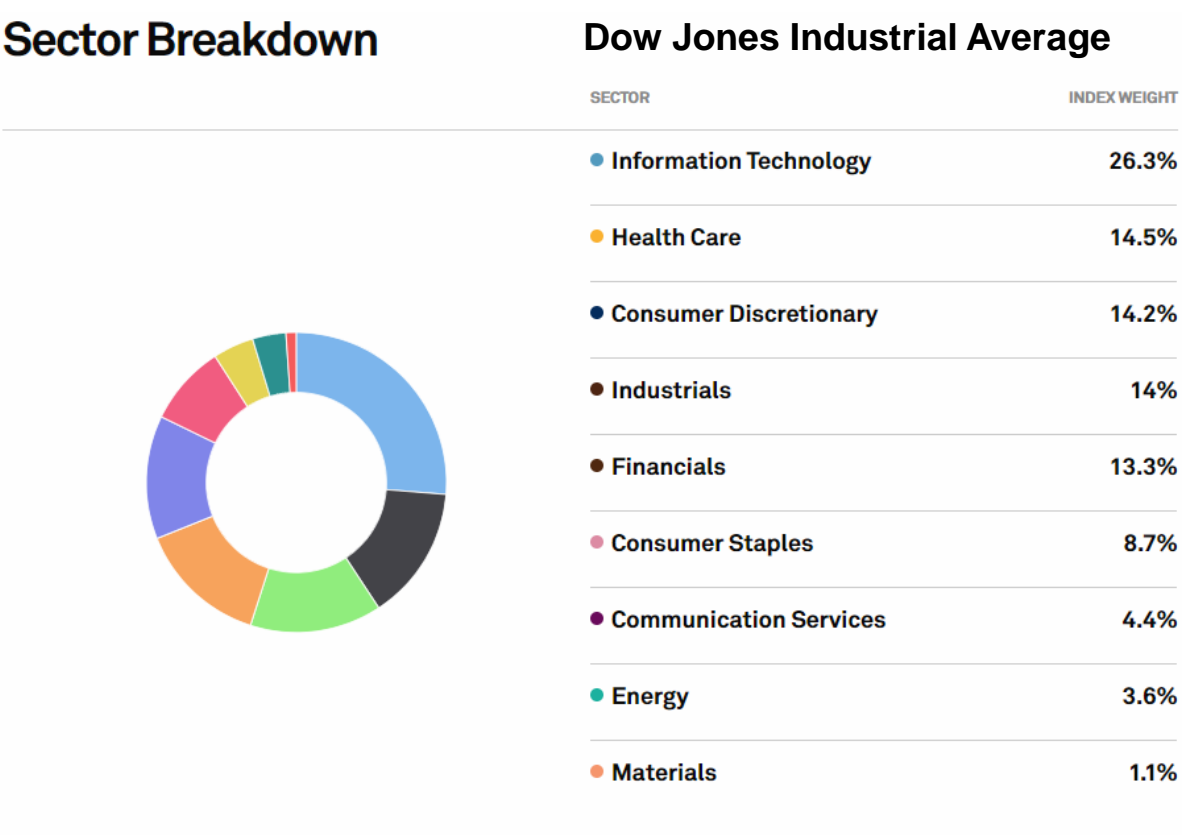


Wealth Management
Dominion Securities

S&P500 vs. Dow Jones sector breakdown



The weightings for each sector of the index are rounded to the nearest tenth of a percent, therefore, the aggregate weights for the index may not equal to 100%.
*Based on GICS Sectors
As of Jun 30, 2020



The weightings for each sector of the index are rounded to the nearest tenth of a percent, therefore, the aggregate weights for the index may not equal to 100%.
*Based on GICS Sectors

S&P500 vs. TSX Composite return by sector

Looking at longer term sector performance, healthcare, technology and consumer have delivered impressive returns. Energy, materials and the TSX in general have not. Real estate as an asset class faces an uncertain future which we view as too difficult to forecast.

United States						Annualized Returns		
S&P 500 Sectors	Level	1 week	MTD	YTD	12 Mo	3 Yr.	5 Yr.	10 Yr.
S&P 500	3,185.04	1.8%	2.7%	-1.4%	6.4%	9.5%	8.9%	11.4%
Consumer Discretionary	1,125.92	4.8%	7.1%	14.2%	15.6%	16.6%	12.8%	16.7%
Consumer Staples	619.33	2.5%	3.0%	-4.3%	1.1%	3.5%	4.2%	8.5%
Energy	270.32	-4.6%	-6.0%	-40.8%	-43.0%	-17.0%	-12.9%	-3.7%
Financials	389.97	2.2%	1.2%	-23.7%	-16.0%	-2.0%	3.3%	7.1%
Health Care	1,173.97	-0.9%	0.5%	-1.2%	8.5%	8.7%	6.2%	13.3%
Industrials	574.69	-1.4%	-1.1%	-16.4%	-10.8%	-0.8%	4.2%	8.8%
Information Technology	1,901.29	2.7%	3.3%	18.0%	35.0%	25.9%	22.4%	18.6%
Materials	364.88	0.8%	2.8%	-5.4%	1.1%	2.2%	4.0%	7.1%
Real Estate	217.32	-1.8%	0.4%	-9.6%	-8.2%	3.8%	3.8%	7.9%
Communication Services	192.39	4.7%	7.0%	5.9%	13.3%	8.7%	4.8%	6.3%
Utilities	293.66	-0.2%	2.3%	-10.6%	-5.1%	4.0%	6.1%	6.9%

Canada						Annualized Returns		
S&P/TSX Sectors	Level	1 week	MTD	YTD	12 Mo	3 Yr.	5 Yr.	10 Yr.
S&P/TSX	15,713.82	0.8%	1.3%	-7.9%	-5.1%	1.3%	1.7%	3.1%
Consumer Discretionary	1,967.60	1.0%	1.5%	-10.6%	-11.3%	-3.1%	-0.5%	7.3%
Consumer Staples	5,568.92	2.3%	3.3%	3.9%	2.7%	7.4%	7.7%	14.4%
Energy	1,414.29	-3.1%	-2.7%	-34.3%	-32.1%	-13.6%	-10.0%	-6.4%
Financials	2,364.11	-0.1%	-0.1%	-18.3%	-15.5%	-3.4%	1.1%	4.3%
Health Care	242.22	-0.3%	-1.4%	-32.2%	-53.6%	-12.1%	-41.0%	-4.5%
Industrials	3,464.75	2.2%	1.8%	-2.9%	-0.8%	6.7%	9.6%	11.8%
Information Technology	853.37	1.3%	6.6%	72.6%	92.5%	50.4%	34.1%	14.7%
Materials	2,943.79	5.8%	4.3%	19.4%	29.1%	12.5%	9.2%	-0.2%
Real Estate	2,844.96	-1.4%	0.4%	-21.8%	-20.7%	-2.5%	-1.0%	5.5%
Communication Services	1,367.21	-1.8%	-1.5%	-12.5%	-12.6%	-2.0%	1.2%	5.7%
Utilities	2,385.47	-0.9%	0.3%	-3.4%	4.1%	3.4%	5.4%	3.6%

Source: RBC Wealth Management, Bloomberg As of July 10, 2020



Wealth Management
Dominion Securities



Risks

- Adjustments to post-pandemic world
- Trade deals & Supply chain disruptions
- Inflation
- Central bank's ability to keep rates low
- Political and taxation



Wealth Management
Dominion Securities

Asset allocation

- Over the last 20 years, 60/40 equity & bond portfolios generate less and less return
- Equities remain the best asset class, despite near-term volatility
- Equities can offset the new risks, but asset allocation is important

2018 Conservative Portfolio		
Asset Class	Weight	Return
Cash	10%	0.1%
Bonds	50%	2.0%
Equities	40%	3.2%
Expected Return		5.3%

2020 Conservative Portfolio		
Asset Class	Weight	Return
Cash	10%	0.0%
Bonds	50%	0.5%
Equities	40%	3.2%
Expected Return		3.7%

2000 Conservative Portfolio		
Asset Class	Weight	Return
Cash	10%	0.5%
Bonds	50%	4.0%
Equities	40%	3.2%
Expected Return		7.7%

2010 Conservative Portfolio		
Asset Class	Weight	Return
Cash	10%	0.1%
Bonds	50%	3.0%
Equities	40%	3.2%
Expected Return		6.3%

Bond yield & returns

Govt Bonds (bps change)	Yield	1 week	MTD	YTD	12 Mo	Cumulative BPS Change		
						3 Yr.	5 Yr.	10 Yr.
U.S. 2-Yr Tsy	0.153%	0.0	0.4	-141.6	-167.5	-123.0	-48.4	-47.2
U.S. 10-Yr Tsy	0.645%	-2.5	-1.1	-127.3	-141.7	-172.8	-175.3	-240.7
Canada 2-Yr	0.290%	-1.1	-0.2	-140.7	-129.7	-86.8	-20.9	-142.6
Canada 10-Yr	0.550%	-0.8	2.2	-115.2	-103.5	-134.0	-113.5	-267.9
U.K. 2-Yr	-0.108%	-2.8	-2.4	-65.3	-68.1	-40.3	-68.4	-84.9
U.K. 10-Yr	0.155%	-3.3	-1.7	-66.7	-60.3	-111.3	-192.5	-317.7
Germany 2-Yr	-0.689%	-0.6	-0.2	-8.8	4.4	-8.1	-47.9	-145.7
Germany 10-Yr	-0.465%	-3.3	-1.1	-28.0	-15.8	-100.5	-136.3	-309.9

Fixed Income (Returns)	Yield	1 week	MTD	YTD	12 Mo	Annualized Returns		
						3 Yr.	5 Yr.	10 Yr.
Global Aggregate *	0.92%	0.6%	0.8%	3.8%	5.6%	4.3%	3.8%	2.8%
U.S. Aggregate *	1.17%	0.5%	0.7%	6.8%	9.6%	5.6%	4.5%	3.9%
U.S. Invest Grade Corp *	2.04%	0.9%	1.5%	6.6%	11.4%	6.9%	6.2%	5.6%
U.S. High Yield Corp *	6.57%	0.4%	1.1%	-2.7%	0.9%	3.8%	5.0%	6.7%
U.S. Municipal Bond *	1.46%	0.3%	0.3%	2.4%	4.5%	4.4%	4.0%	4.2%
Canadian iBoxx Agg *	1.25%	0.0%	0.0%	7.4%	8.3%	5.5%	4.1%	4.7%
Canadian Inv. Grade Corp *	2.03%	0.2%	0.2%	5.3%	6.8%	5.0%	4.2%	4.8%

The Biggest Question facing investors making asset allocation decisions: are long-term bond returns repeatable, or is there too much risk and not enough return?

For most bond classes outperformed the TSX the last ten years?

Source: RBC Wealth Management, Bloomberg As of July 10, 2020



Wealth Management
Dominion Securities

Our favorite sectors

Sector	5-Yr CAGR	Weight	P/E (Trailing)	P/E (Projected)
Communication Services	4.7%	10.4%	20.2	21.91
Consumer Discretionary	11.7%	9.8%	28.03	35.31
Consumer Staples	4.2%	7.2%	25.06	19.67
Energy	-11.3%	4.4%	N/A	205.84
Financials	3.3%	13.0%	11.35	13.98
Health Care	6.9%	14.2%	21.58	16.30
Industrials	5.4%	9.1%	18.1	23.5
Information Technology	21.4%	23.2%	24.01	25.21
Materials	5.9%	2.7%	27.77	20.88
Real Estate	3.4%	2.9%	27.57	49.40
Utilities	6.5%	3.3%	19.45	17.37
S&P500	8.9%	100.0%	22.22	21.88

Healthcare: Johnson & Johnson
Communication Services: Verizon
Technology: Alphabet
Select Industrials: Otis

Source: S&P Global as of July 20, 2020



Wealth Management
 Dominion Securities

Neutral sectors

Sector	Consumer Staples	Consumer Discretionary	Financials	Utilities	S&P500
P/E (Trailing)	25.06	28.03	11.35	19.45	22.22
P/E (Projected)	19.67	35.31	13.98	17.37	21.88
P/B	5.58	7.21	1.04	1.95	2.97
Indicated Div Yield	2.95	0.84%	2.80%	3.65%	1.86%
P/Sales	1.35	1.40	1.50	2.44	1.83
P/Cash flow	17.55	23.07	22.81	N/A	19.79

Source: S&P Global as of July 20, 2020

Consumer: We like the consumer sector but valuations are too stretched

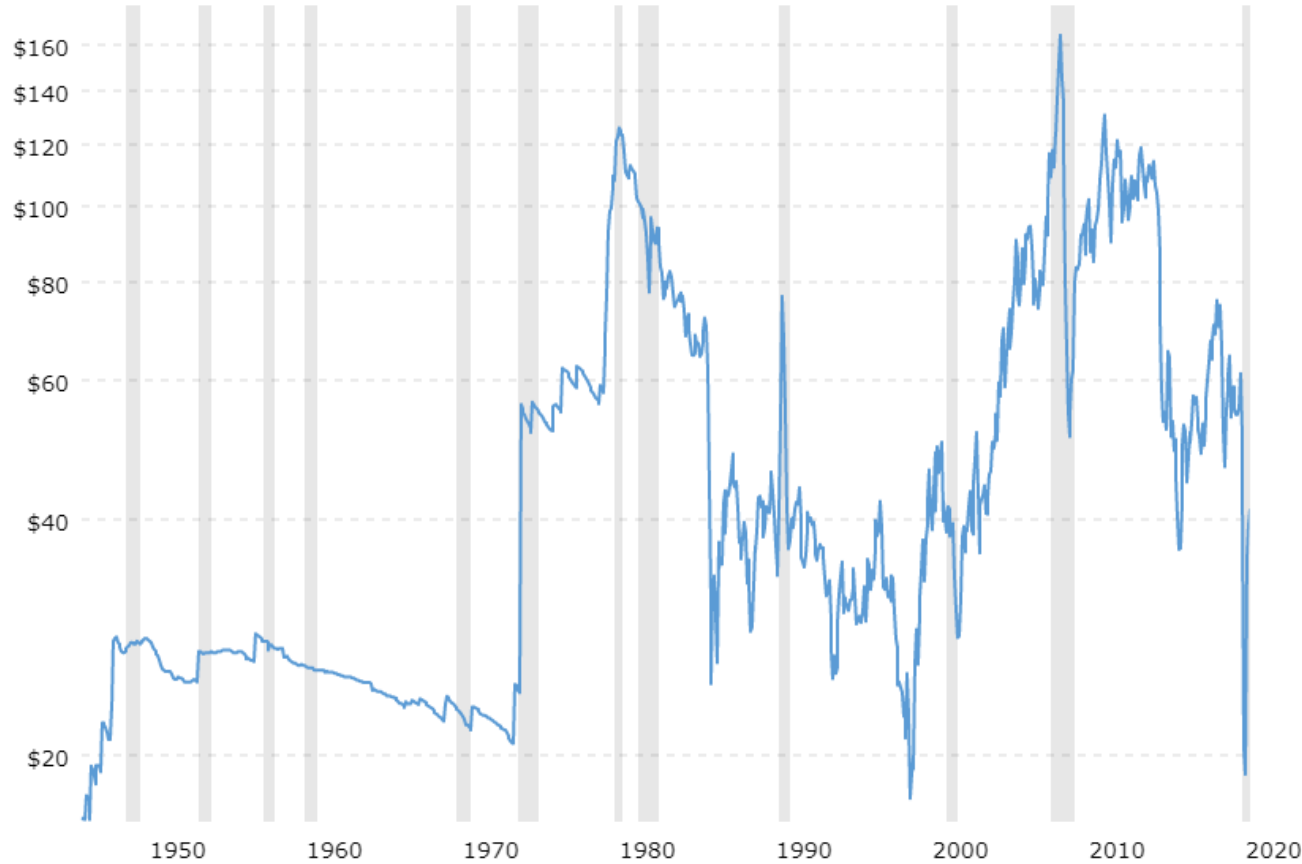
Financials: Only the best – JP Morgan, Bank of America, Blackstone and Royal Bank of Canada

Utilities: We should use utilities as bond substitutes



Wealth Management
Dominion Securities

Underweight sectors



WTI Historical Price Performance Since 1946 Source: Macrotrends.net

- Energy
- Materials
- TSX and Canadian Banks

Longer term, investing in commodities and commodity related stocks has not proven to earn a meaningful return. Oil in particular faces longer term secular issues. We avoided oil in the last ten years and continue to believe this is the best strategy for investors.



Wealth Management
Dominion Securities

TD Bank vs. Bank of America

Currency risk should not impact long-term investment decisions – consider TD Bank vs Bank of America

	TD Bank	Bank of America
Valuation		
Market Capitalization	\$72,000	\$196,000
Price	\$62.44	\$26.50
Book Value		
BVPS	\$48.54	\$27.84
P/BVPS	129%	95%
TBVPS	\$37.80	\$19.70
P/TBVPS	165%	135%
Dividend		
Dividend Yield	5.20%	2.94%
Payout Ratio	43.00%	24.00%
CEO		
	Bharat Masrani	Brian Moynihan
<i>Number of years CEO on the job</i>	6 years	10 years

Performance Metrics		
ROE	TD Bank	Bank of America
2018A	16.90%	10.90%
2019A	15.60%	10.70%
2020E	10.00%	5.50%
2021E	10.60%	7.20%
ROA	0.88%	1.10%
EPS Growth		
17/18	41.80%	16.70%
18/19	11.90%	3.50%
19/20	-50.20%	-26.60%
20/21	48.80%	19.10%
Total Loans (in billions)	\$684	\$983
Total Deposits (in billions)	\$887	\$1,430
Total Assets	\$1,415	\$2,430
CET1 Ratio	12.1%	11.2%

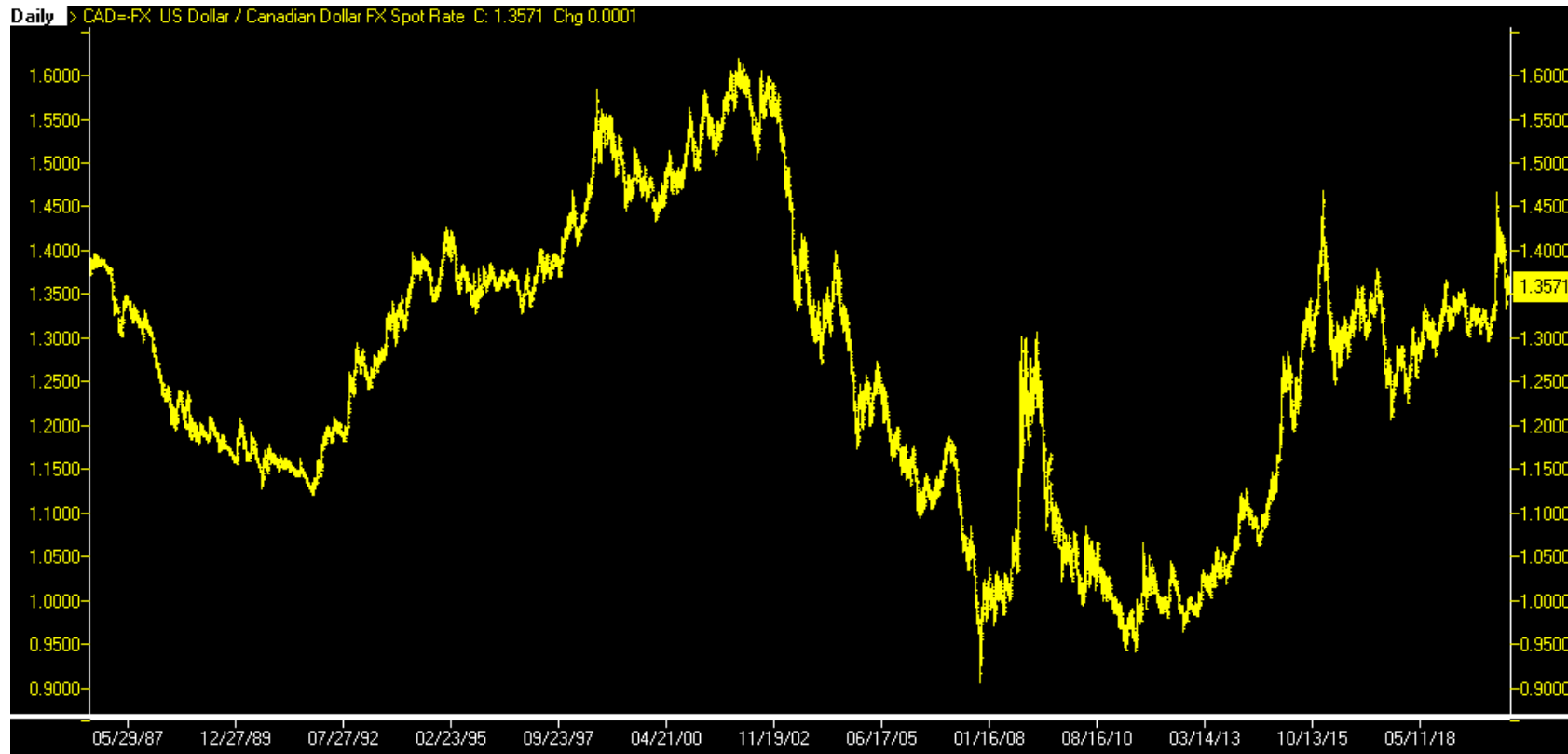
Source: RBC Capital Markets Prices as of June 3, 2020



Currency

- Central bank record printing and shifting views on modern Monetary theory
- Potential weaknesses in the Canadian dollar/economy. Given dependence on oil and foreign investors, difficulty in economic recovery may face the bank of Canada to watch the currency devaluation.
- King dollar

CAD to USD historical chart



Looking back 40 years, the Canadian dollar is only slightly higher than the long-term average. The peak weakness in the C\$ FX rate in the late 90s to early 2000s is muted with low energy.

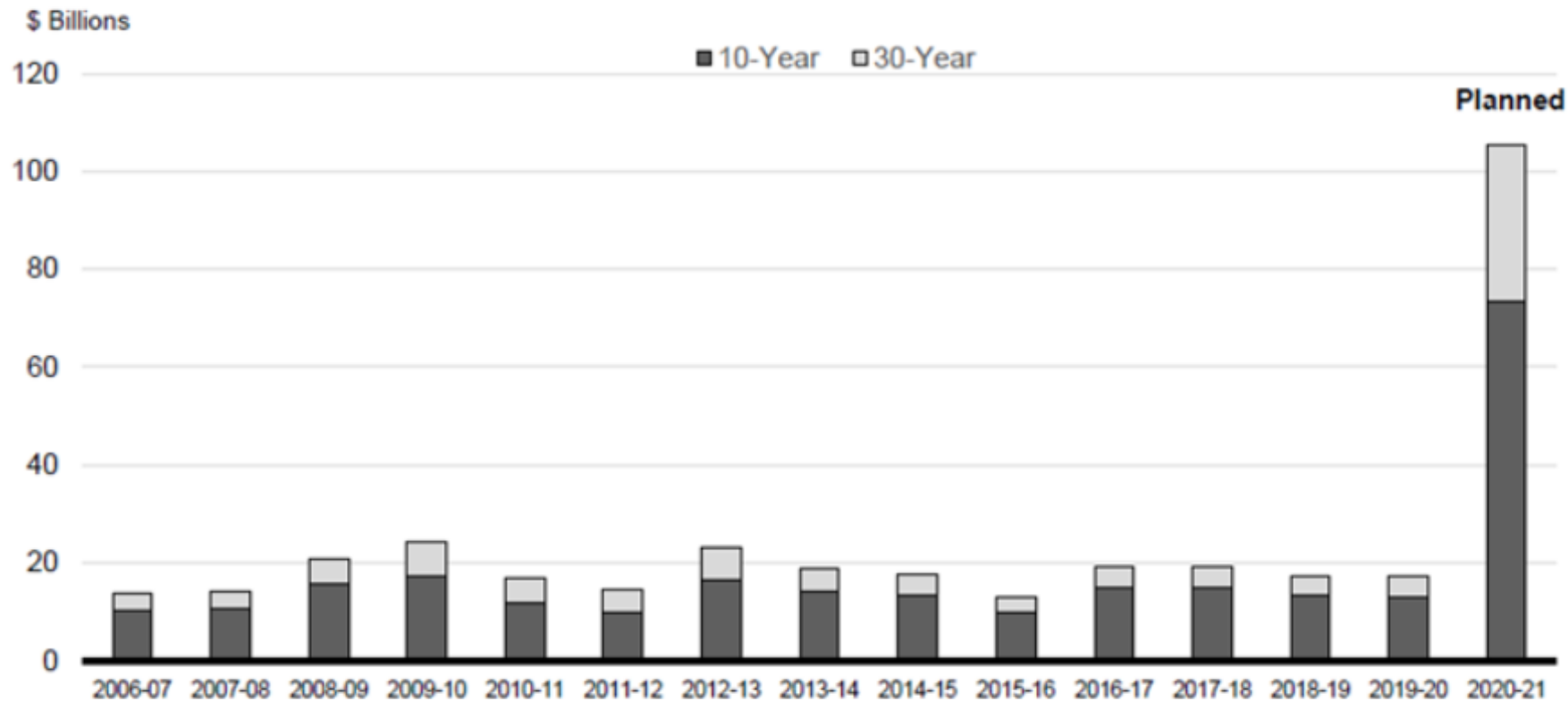
CAD/USD July 17, 1986 – July 17, 2020. Source: Thomson Reuters Eikon



Wealth Management
Dominion Securities

Central Banks will be tested

Exhibit 3: Historical vs. planned GoC long bond issuance (10 and 30-year terms)



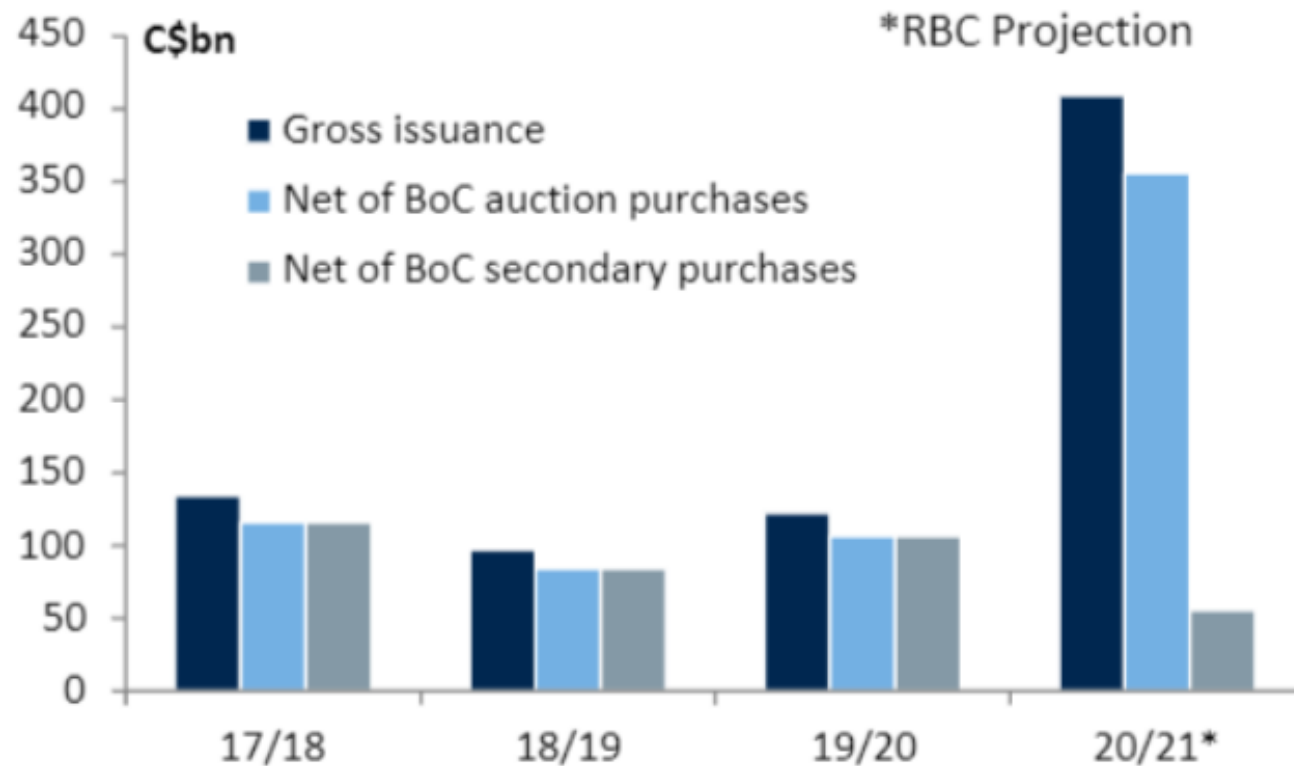
Source: Department of Finance



Wealth Management
Dominion Securities

Continued

Exhibit 4: Projected issuance net of BoC purchases (assuming current pace continues) is C\$56bn for this year



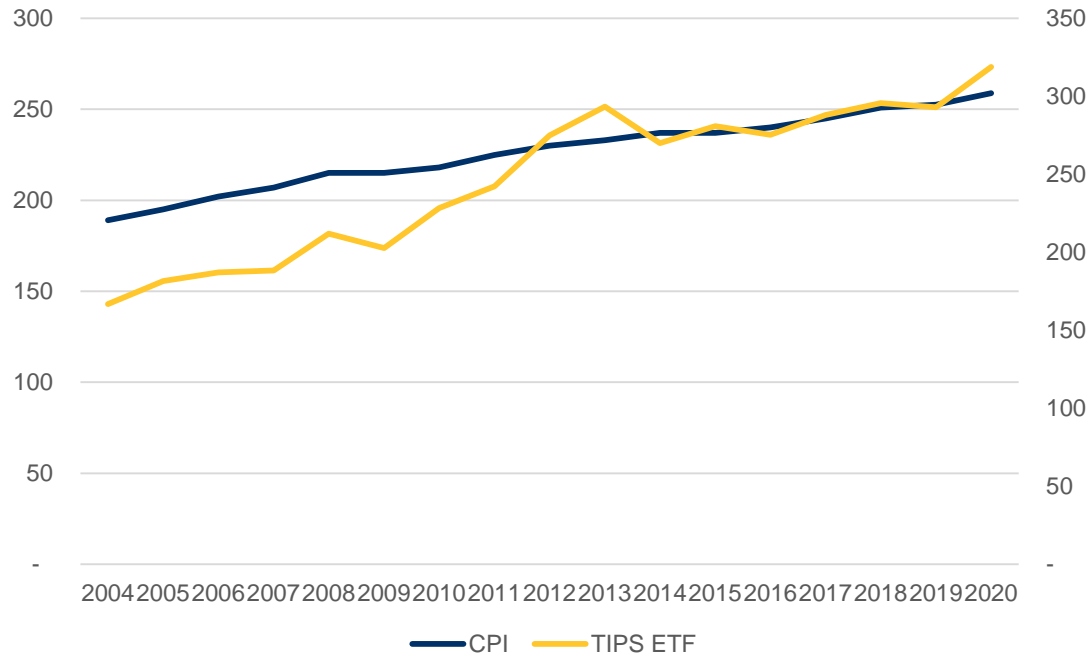
Source: BoC, DoF, RBC CM



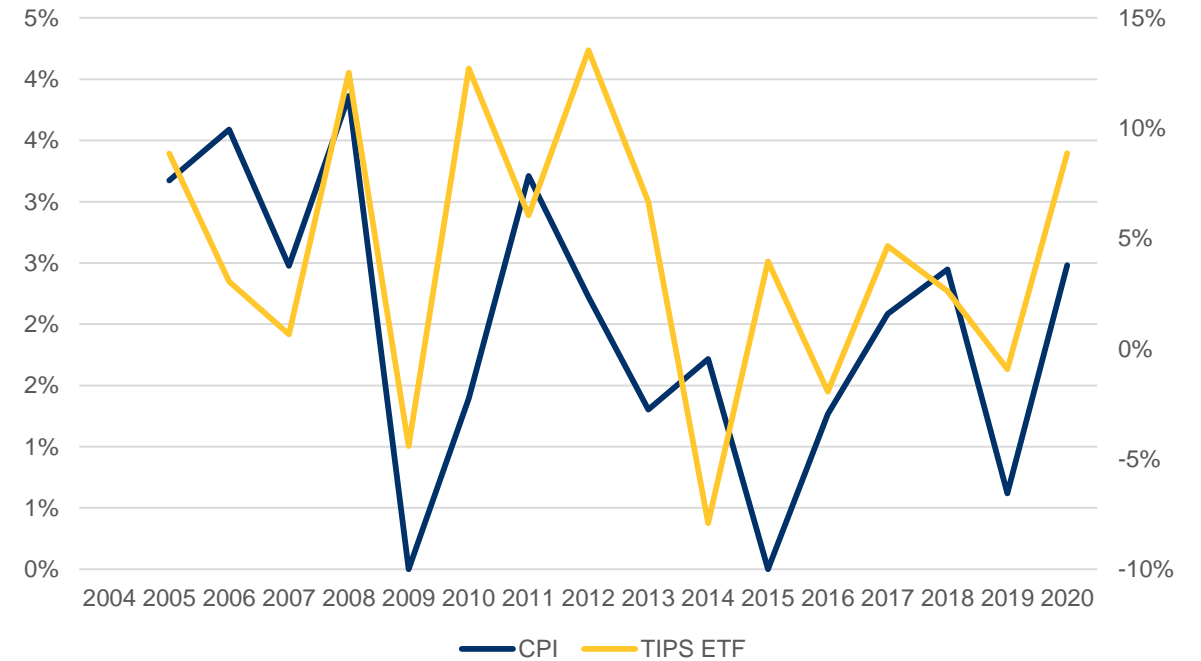
Wealth Management
Dominion Securities

TIPS as a hedge

CPI vs TIPS



CPI vs TIPS changes



Date	Correlation
2004-2020	0.967

Source: Federal Reserve Bank of St. Louis, BlackRock, since December 4, 2003



Wealth Management
Dominion Securities

Other hedges

Ticker	TIPS	TBT	RINF	IVOL
Description	Track the investment results of an index composed of inflation-protected U.S. Treasury bonds	Seeks investment results that correspond to two times the inverse (-2x) of the daily performance of the ICE U.S. Treasury 20+ Year Bond index	Seeks investment results that track the performance of the FTSE 30-Year TIPS Index	Seeks to hedge relative interest rate movements, whether these movements arise from falling short-term interest rates or rising long-term interest rates, and to benefit from market stress when fixed income volatility increases.
Inception Date	12/04/2003	04/29/2008	01/10/2012	05/13/2019
Expense Ratio	0.19%	0.90%	0.30%	1.04%
Total Return since inception	97.87%	-20.77%	-3.98%	11.20%
CPI return matching inception	37.04%	20.47%	12.61%	0.80%

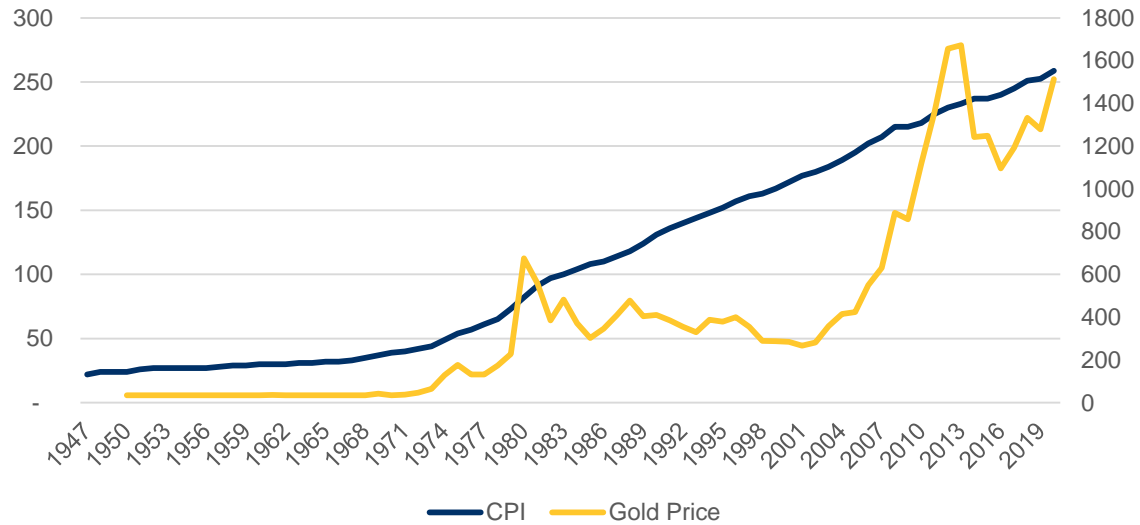
Source: BlackRock, ProShares, Quadratic Capital



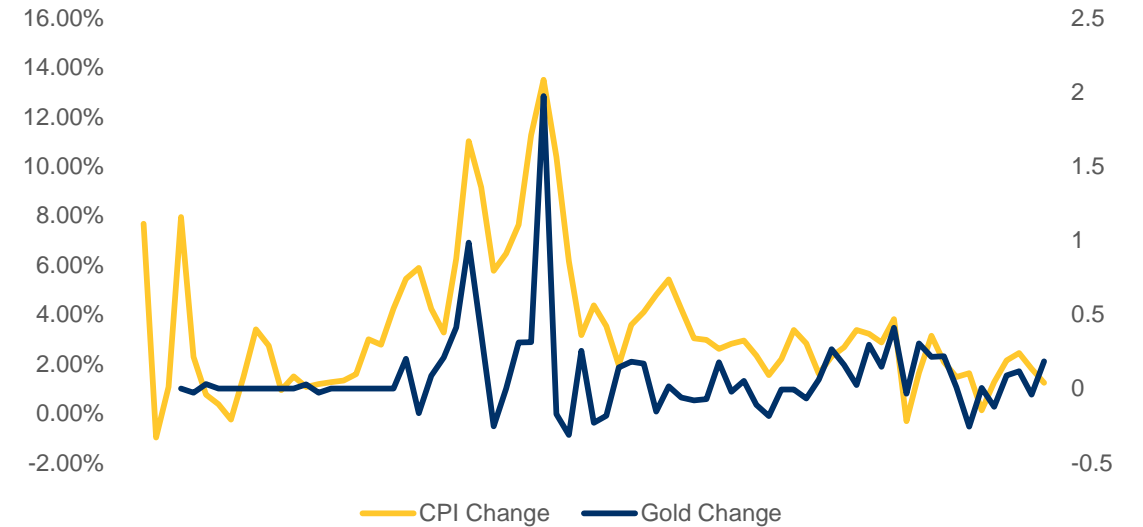
Wealth Management
Dominion Securities

Gold as a hedge

CPI vs Gold



CPI vs Gold Yearly Changes



Date	Correlation
1950-2020	0.865
1972-2020	0.802

Source: Federal Reserve of St. Louis, Bundesbank, Gold Data since 1950, CPI Data since 1947



Wealth Management
Dominion Securities

The long run

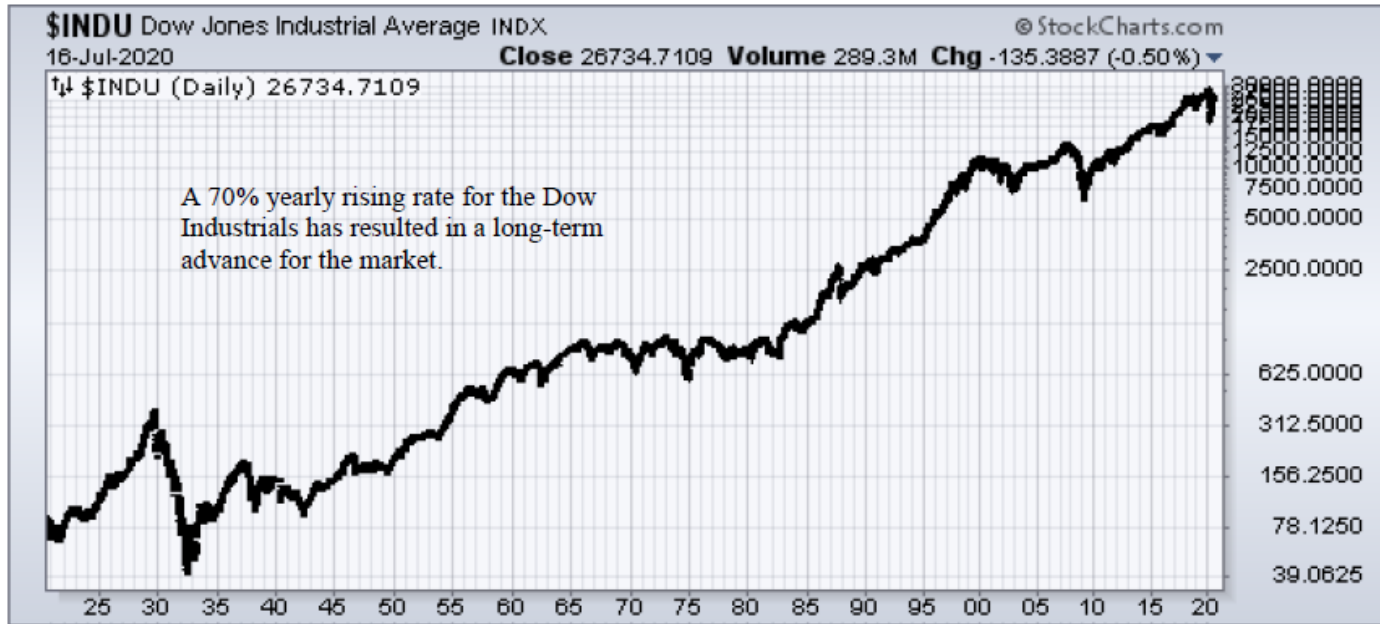


Chart courtesy StockCharts.com and RBC Wealth Management

Dow Jones Industrial Average Index July 16, 1920 – July 16, 2020 Source: Bob Dickey, Strategist, PCG Research Technical, RBC Wealth Management US, StockCharts.com

“We see many statistics that are used to describe the market in historical terms but we find many of these numbers to be either too short-term or focused on parts of the market that are too narrow to provide a clear picture of the trends. Our preferred view is one that takes in all the market cycles over the long term that includes many different past situations. The past 100 years has seen many changes in the world and over that time the Dow Jones Industrials have risen 70 of those years which is more frequent than many would surmise. That suggests to us that the probability of any year being up for the stock market is around 70%. It also means that 30 of the past 100 years were down. Out of those 30 down years, 13 were down less than 10%, as we saw most recently in 2018 when the Dow was down around 5% for the year. That leaves just 17 years out of the past 100 that were down more than 10%, and yet these are the periods we tend to worry about most of the time. Over time, these down periods become lost in the longer-term trend of the rising stock market that is once again up to near all-time high levels. So over the near term we can get excited and concerned about what the future may hold, but statistically, the stock market appears on our side.” – Bob Dickey, Strategist, PCG Research Technical, RBC Wealth Management US



Wealth Management
Dominion Securities

Thank you!

Questions?

Doug Clark, CFA

Vice President, Investment Advisor

Doug.clark@rbc.com

Phone: 905-764-5561

Fax: 905-764-7324

Toll-Free: 1-800-268-6959

Kein Bejko

Associate

Kein.bejko@rbc.com

Phone: 905-764-2224

This publication is not intended as nor does it constitute tax or legal advice. Readers should consult their own lawyer, accountant or other professional advisor when planning to implement a strategy. 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. ®/™ Trademark(s) of Royal Bank of Canada. Used under license. © 2020 RBC Dominion Securities Inc. All rights reserved.



Wealth Management
Dominion Securities