

RBC Dominion Securities Inc.

Higher For Longer

Investing in More Volatile Markets

March 2024



Douglas Clark, Senior Portfolio Manager



Wealth Management
Dominion Securities

1. Introduction to the Doug Clark Group



Wealth Management
Dominion Securities

RBC Dominion Securities Inc.

Doug joined RBC in 2009 to create a family office style wealth management team focusing on high-net-worth individuals.

Differentiated investment approach by thoughtful understanding of various asset classes and their particular risk/reward characteristics.

Believe that a holistic approach is essential to meeting client expectations, which requires rigorous discovery before any investments can be made.

Supported by a high-quality team ensuring all aspects of client wealth management needs are met.



Wealth Management
Dominion Securities

RBC : Full-Service Approach



Doug Clark Team

Doug Clark Team



Doug Clark, CFA
Portfolio Manager

Doug brings over 30 years of investment experience in the public and private markets. Prior, Doug has worked on M&A, corporate finance spanning over North America and Europe



Carlen Ramsumair
Associate

Carlen began her career with RBC Dominion Securities in 2006 and joined the Doug Clark team in 2013 as a licensed associate. She handles all the day-to-day administration and brings extensive knowledge, experience and a high level of care in client services.



Kein Bejko
Associate

Kein's passion for investing started in university where he managed portfolios for friends and family. Prior to joining RBC, Kein has worked in the wealth management industry in research and client relations.



Michael Dignam, FEA
Private Banker

Michael Dignam brings over 25 years of experience in wealth management to his role as a Private Banker, providing wealth management advice customized for select families in the GTA.



Robyn Solnik, LL.B, TEP
Wills & Estate

As a Business Owner Specialist, High Net Worth Planning Services, Robyn, together with your primary RBC advisor, helps you explore succession, tax, retirement and estate planning issues you face as a business owner.



Madison Mai, CPA, CA, CFP
Certified Financial Planner

Madison specializes in developing and implementing tax planning strategies for high-net-worth individuals and private corporations with a strong focus on Canadian domestic and cross-border succession and estate planning.

Partners



Who we work with

RBC Dominion Securities Inc.

We work with people we like, trust, and whom we share similar values.

Most of our clients are high-net-worth individuals.

Generally, in our best relationships we service multiple generations within the same family.

Our ambition is to become the trusted advisor, out-sourced CIO.



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2. Our Strategy



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Pandemic Aftermath

The overly large fiscal and monetary stimulus in the wake of the Covid outbreak has produced side effects that the economy is still adjusting to:

- Inflation, while below 2022 levels, is still too high.
- Government debt still growing and a problem for the future.
- Interest rates likely to be higher for much longer.

In contrast, the US economy is benefitting from new secular forces:

- AI developments will cause huge capital expenditure and produce radical improvements in many industries and huge productivity gains.
- On-shoring supply chains to North America will produce new winners.

Canada is more exposed to higher rates risk and will likely have a more difficult adjustment and need to be thoughtful on exposures.



Current Forecasts No Consensus

Most Anticipated Recession Ever

Negative Factors:

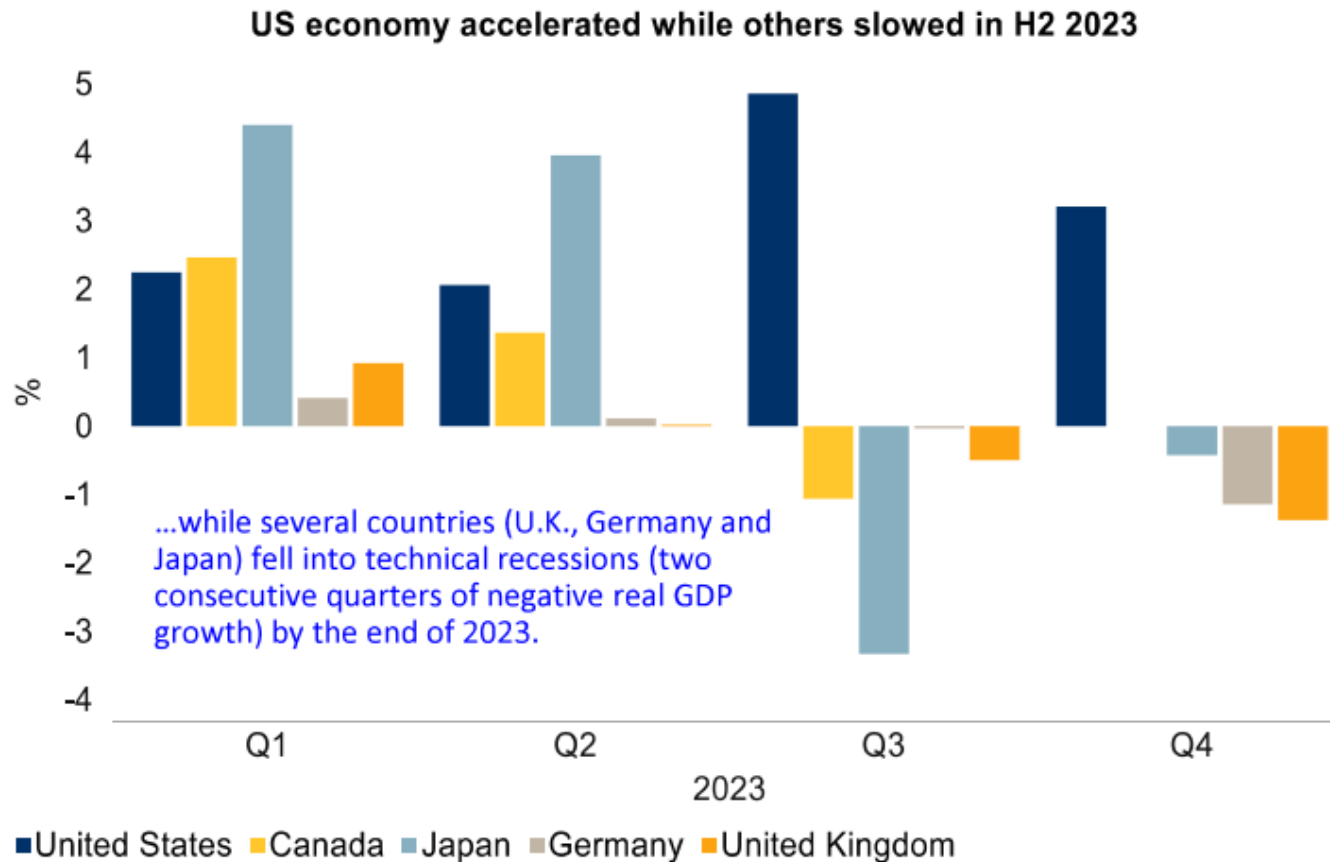
- Inflation still above 2% target
- Government Spending out of control, without political will
- Geopolitical situation continues to deteriorate
- Interest rates likely higher for longer

Positive Factors:

- Unemployment at all-time lows with US consumer in strong shape
- AI promises to bring massive secular, deflationary change
- US in a capex boom
- Best Fixed Income market in 20 years



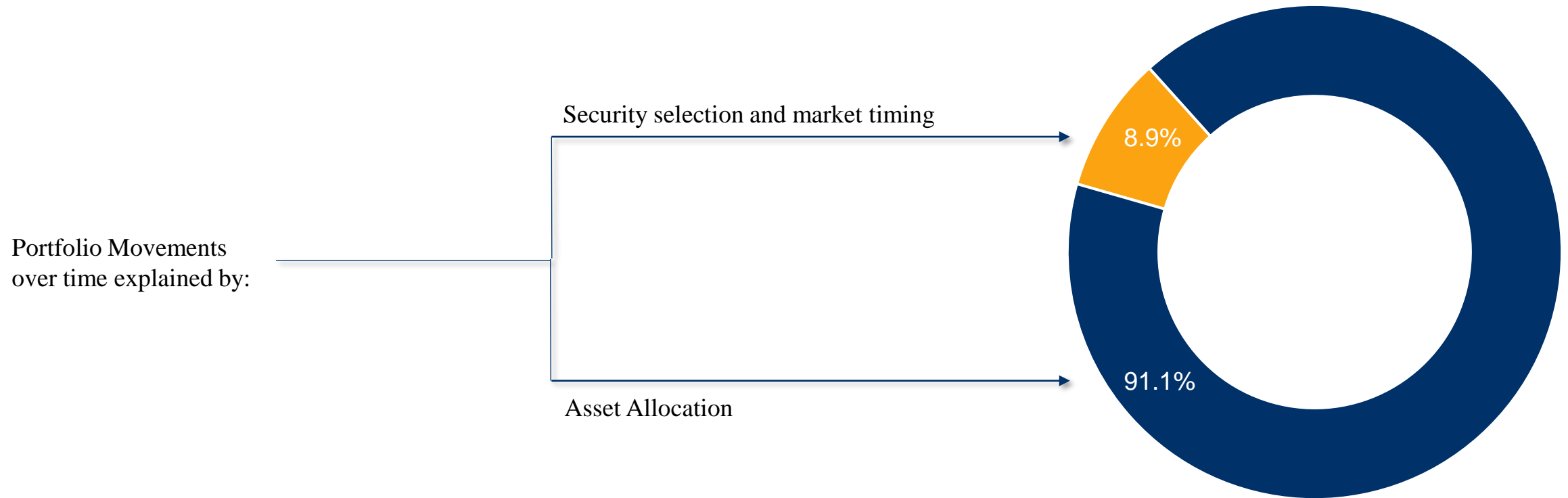
US Economy Still Strong



Note: Annualized QoQ growth rates. As of 2023 Q4. Source: U.S. Bureau of Economic Analysis (BEA), Statistics Canada, German Federal Statistical Office (Statistisches Bundesamt), U.K. Office for National Statistics (ONS), Japanese Cabinet Office (CAO), Macrobond, RBC GAM

- The US continues to outperform other Western economies.
- While some of this outperformance can be explained by Fiscal Policy, US technology leadership is driving growth and points to a new era in computing.
- Slower Canadian growth reflects the impact of higher rates.

Asset Allocation



Sources: Vanguard calculations, using data from Morningstar, Inc.

Notes: Calculations are based on monthly returns for 709 American funds from January 1990 to September 2015. more details of the methodology were presented in Scott et al. (2017).

March 26, 2024

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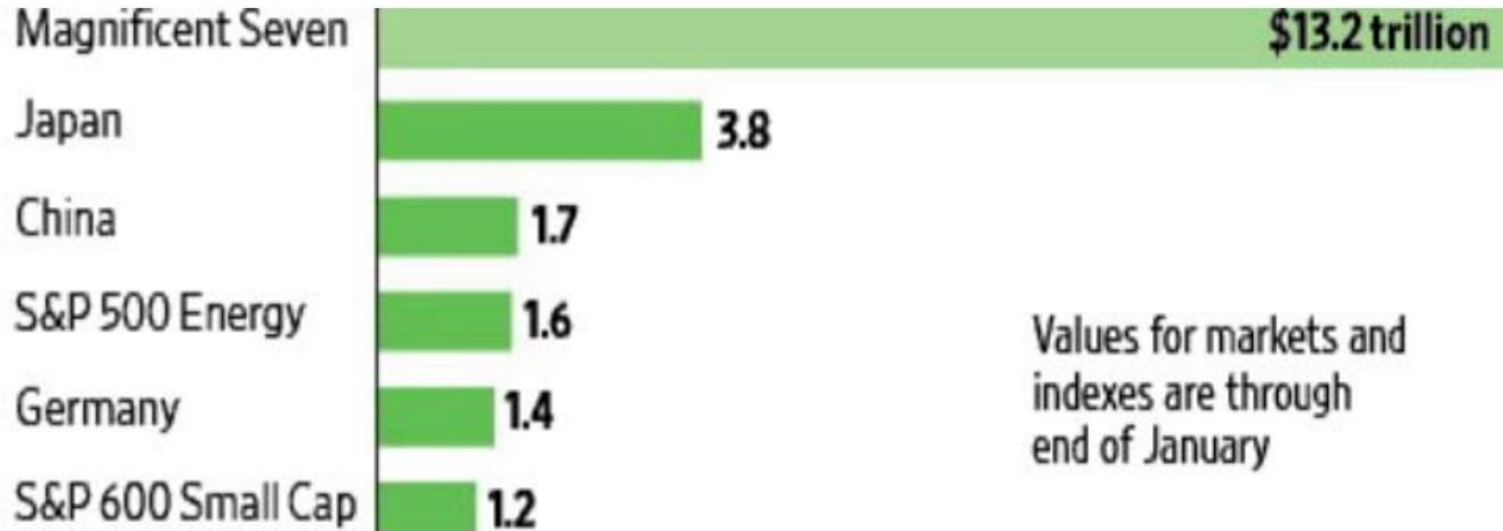
Magnificent 7

Ticker	Company	Price (USD)	Market Value (millions USD)	% of Index	% of Earnings	P/E (LTM)
MSFT	Microsoft Corporation	\$420.45	\$3,121,972	7.23%	4.72%	38.00
AAPL	Apple Inc.	\$174.83	\$2,700,090	6.25%	5.70%	27.21
NVDA	NVIDIA Corporation	\$864.01	\$2,163,700	5.01%	1.71%	72.53
GOOGL	Alphabet Inc. Class A	\$146.26	\$1,822,402	4.22%	4.14%	25.27
AMZN	Amazon.com, Inc.	\$175.09	\$1,818,921	4.21%	1.73%	60.39
META	Meta Platforms Inc Class A	\$488.56	\$1,245,537	2.88%	2.18%	32.85
TSLA	Tesla, Inc.	\$171.05	\$545,940	1.26%	0.79%	39.83
Total Mag 7			\$13,418,562	31%	21%	36.75
<i>S&P500 ex. Mag 7</i>			\$29,774,676	69%	79%	21.65
S&P500			\$43,193,238	100%	100%	24.82

Source: FactSet As of March 19, 2024



Magnificent 7 in Context



Values for markets and indexes are through end of January

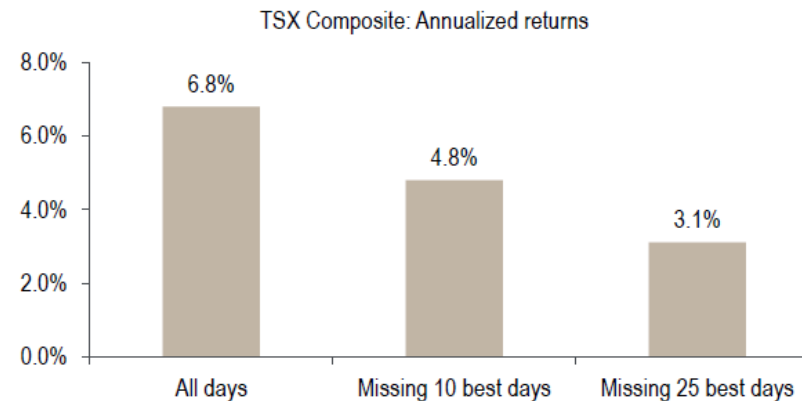
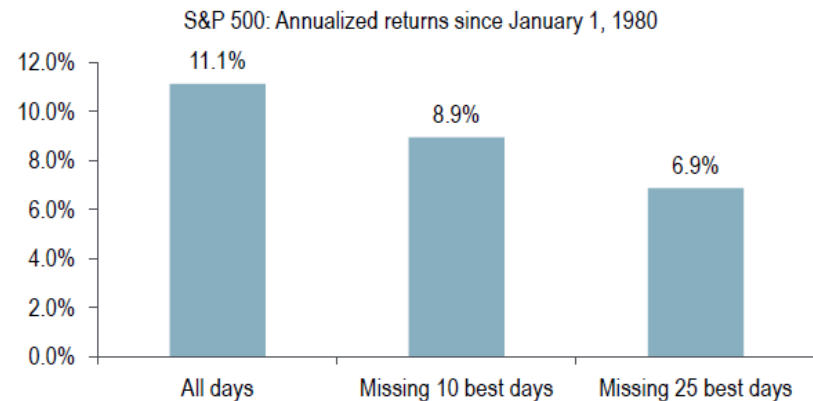
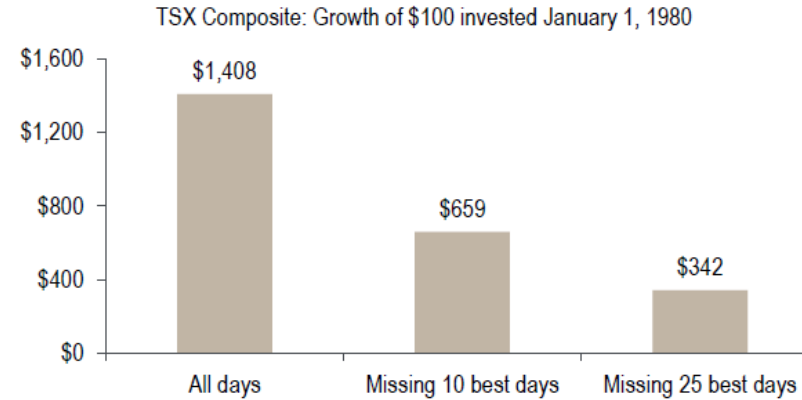
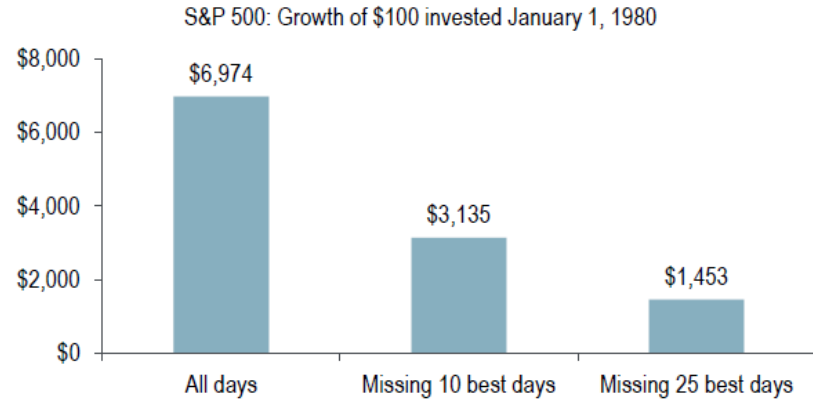
The scale of the growth from a small number of stocks compared to other markets is indeed remarkable.

The big question for 2024 is can these stocks still grow?

Source: FactSet Research, RBC Capital Markets



Staying disciplined and invested crucial to achieving long-term objectives

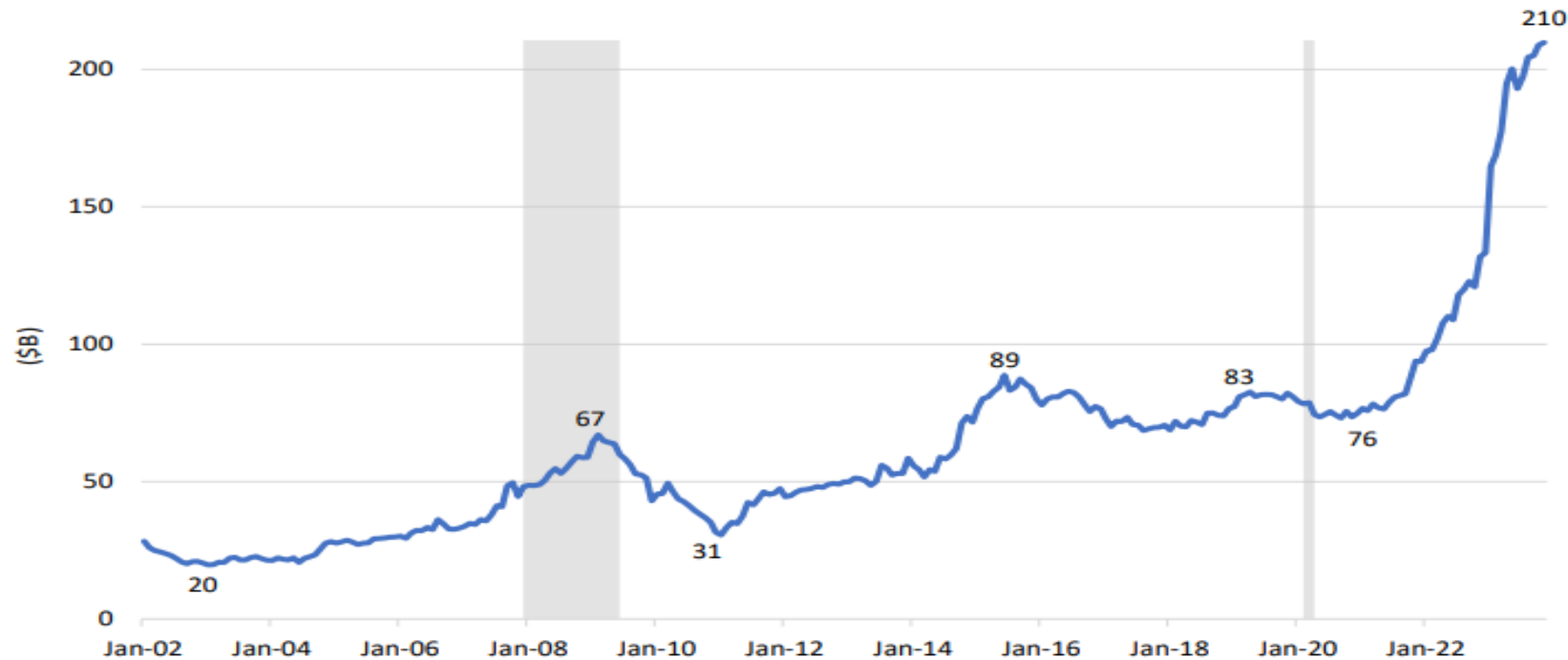


Source: RBC Wealth Management, Bloomberg. Calculations based on daily data from January 1980 to March 2020.



US Manufacturing Boom

United States Manufacturing Plant Construction

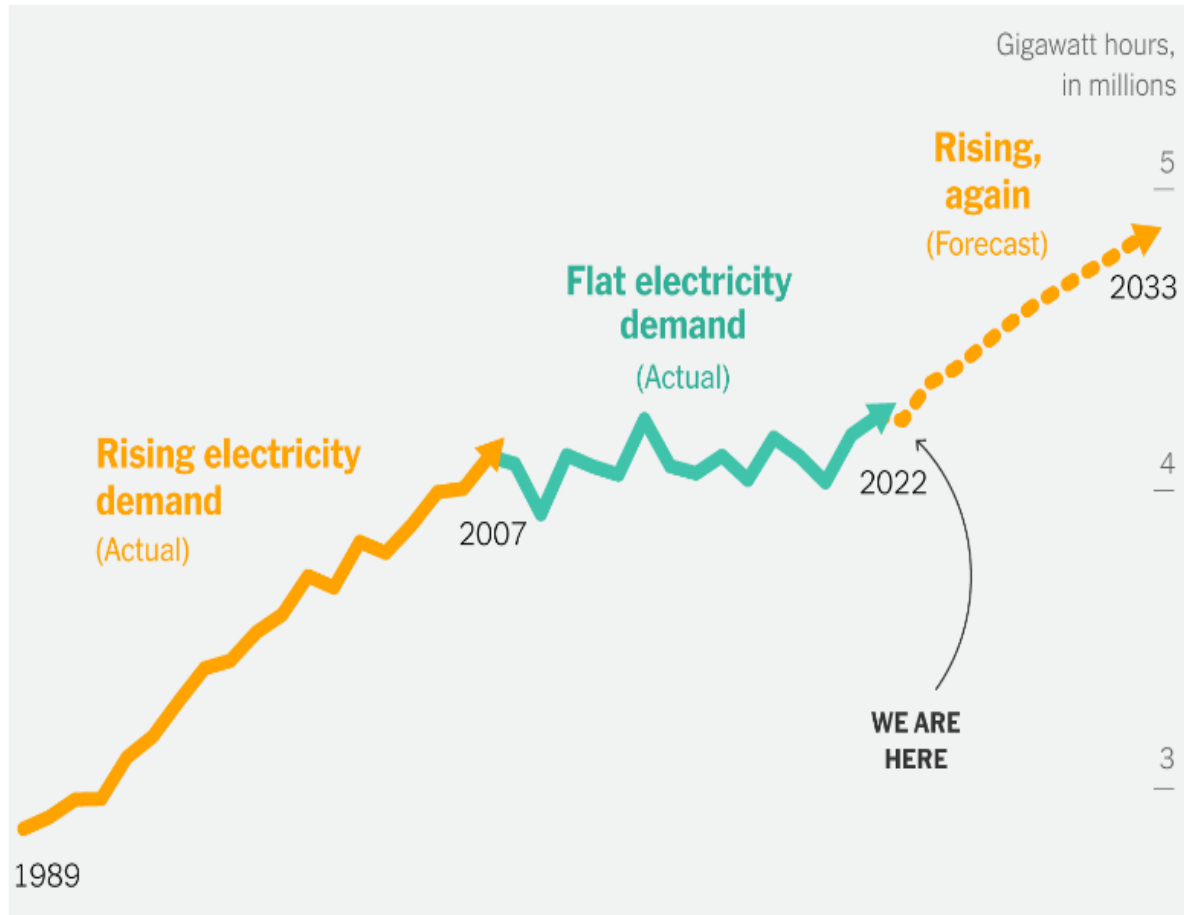


- The US is currently enjoying one of the largest capex booms in the last 40 years.
- Most of the “Chips Act” funds have not yet been spent.
- The spending will eventually lead to large productivity growth.

Source: FactSet Research, RBC Capital Markets



Big Growth in Electricity Demand



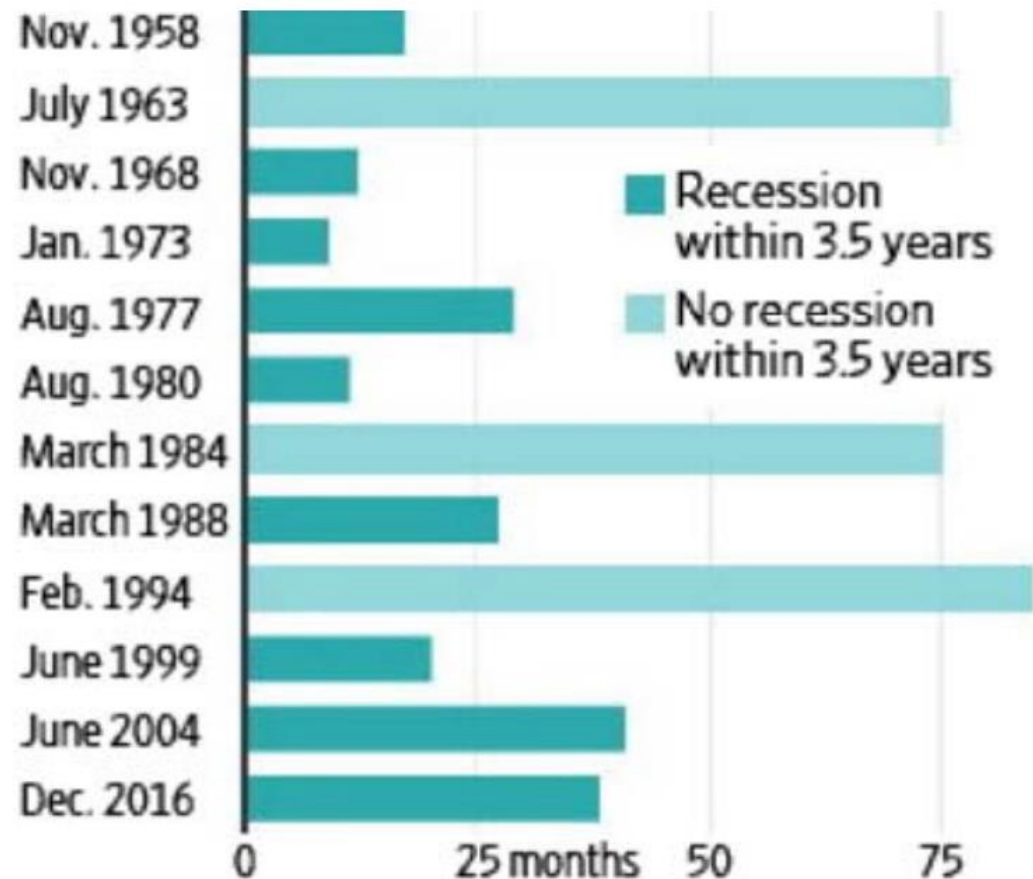
The New York Times

The growth in Electricity Demand seems very likely

- Big surge in new US plant construction
- Mass adoption of EVs
- AI/Data centers require much larger amounts of power



2024 Recession or 1994?



Source: FactSet Research, RBC Capital Markets

- In 2022, the US Fed increased rates at the fastest pace in the modern era.
- Most asset classes corrected sharply in 2022, with large losses even on government bonds.
- In early 2023 a regional bank failed and many forecasted imminent recession.
- However, many times after fed tightening cycles there has been no recession and so far, so good.

Inflation Dominates Monetary Policy

Monetary forecasts murky



- Inflation has reduced much faster than expected 18 months ago.
- However, inflation needs to reduce below 2% target before there are likely to be rate hikes.
- US elections later in 2024 will likely see the Fed move to the sideline.

Inverted Yield Curve

Term		YIELD	1D Chg	1M Chg	1Y Chg		YIELD	1D Chg	1M Chg	1Y Chg	
1M	CANADA	4.90				USA	5.25				March-19-24
3M		4.92					5.20				
1Y		4.70					4.80				
2YR		4.19	(0.11)	0.01	0.66		4.71	(0.02)	0.07	0.88	
5YR		3.58	(0.09)	0.01	0.69		4.34	(0.01)	0.06	0.84	
10YR		3.52	(0.07)	0.03	0.74		4.32	(0.00)	0.04	0.89	
30YR		3.40	(0.05)	0.04	0.50		4.45	0.00	0.01	0.83	
		PRIME	7.20				PRIME	8.50			
		3M CDOR	5.31	CORRA	5.01		3M LIBOR	5.59	SOFR	5.31	

- Short-term rates are higher than any time since before the 2008 financial crisis.
- Inverted Yield curves often predict recessions within 18 months of the curve inverting i.e., now
- The long-term rate differentials in Canada versus the US are very rare

Source: FactSet Research



Investors Reducing Bets on 2024 rate cuts

Current Implied Government Overnight Rates

Canada			US		
Meeting	Implied Rate	#Hikes/Cuts	Meeting	Implied Rate	#Hikes/Cuts
04/10/2024	4.97	-0.15	03/20/2024	5.33	-0.02
06/05/2024	4.89	-0.49	05/01/2024	5.30	-0.11
07/24/2024	4.75	-1.02	06/12/2024	5.17	-0.63
09/04/2024	4.63	-1.52	07/31/2024	5.06	-1.08
10/23/2024	4.49	-2.06	09/18/2024	4.88	-1.79
12/11/2024	4.35	-2.64	11/07/2024	4.75	-2.33
			12/18/2024	4.60	-2.92
			01/29/2025	4.45	-3.52
Target:	5.00		Upper/Lower:	5.50	5.25
Effective:	5.01		Effective:	5.33	

Source: Bloomberg

- At the start of 2024, many investors were betting on multiple rate cuts ahead.
- Recently, the numbers have scaled back as economic data has been better, but inflation still high.
- Some high-profile investors recently changed their forecasts for no 2024 rate cuts.

C\$ Moves on Relative Rates

Little Short-Term Upward Pressure

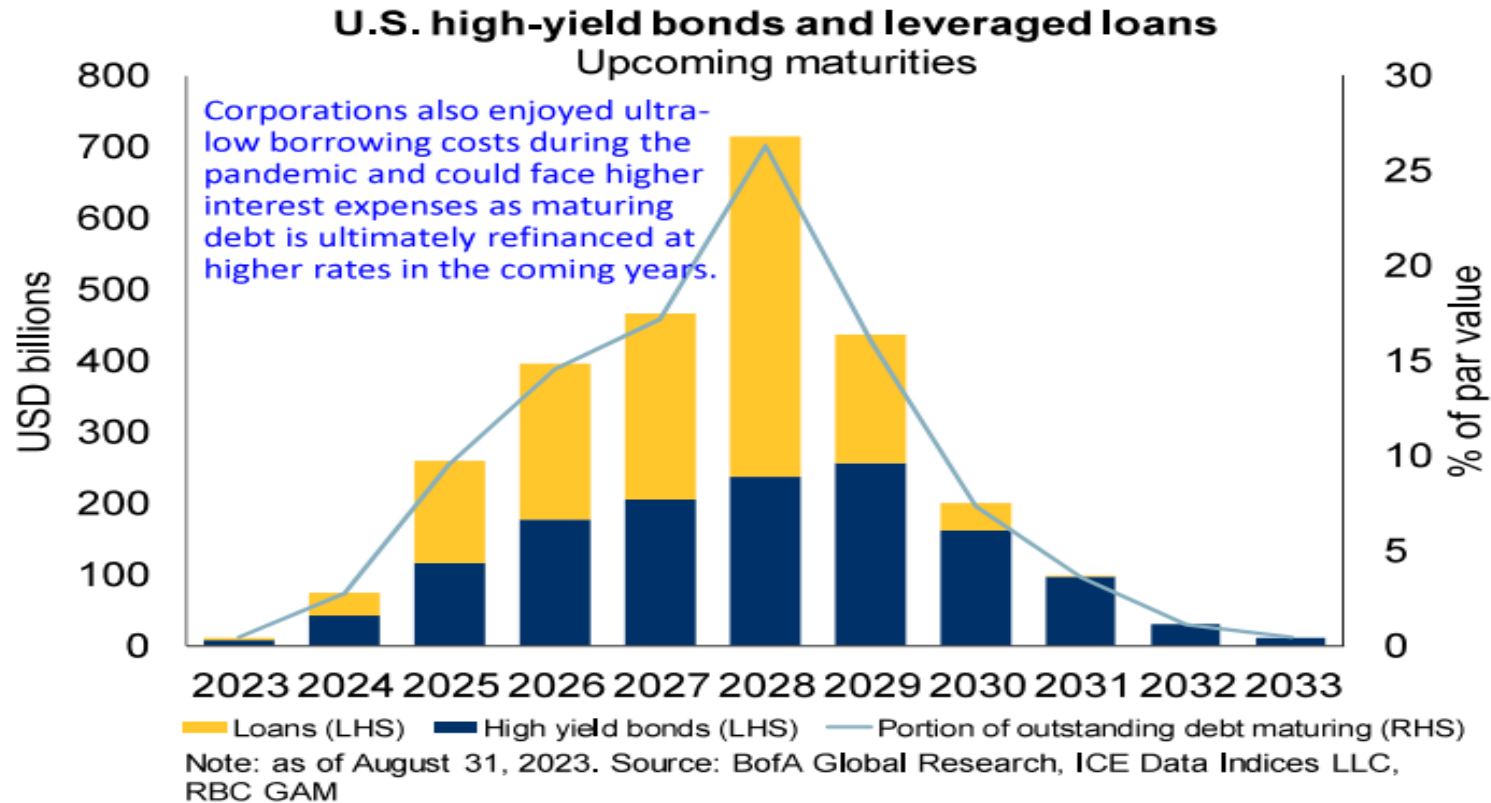


Source: FactSet Research

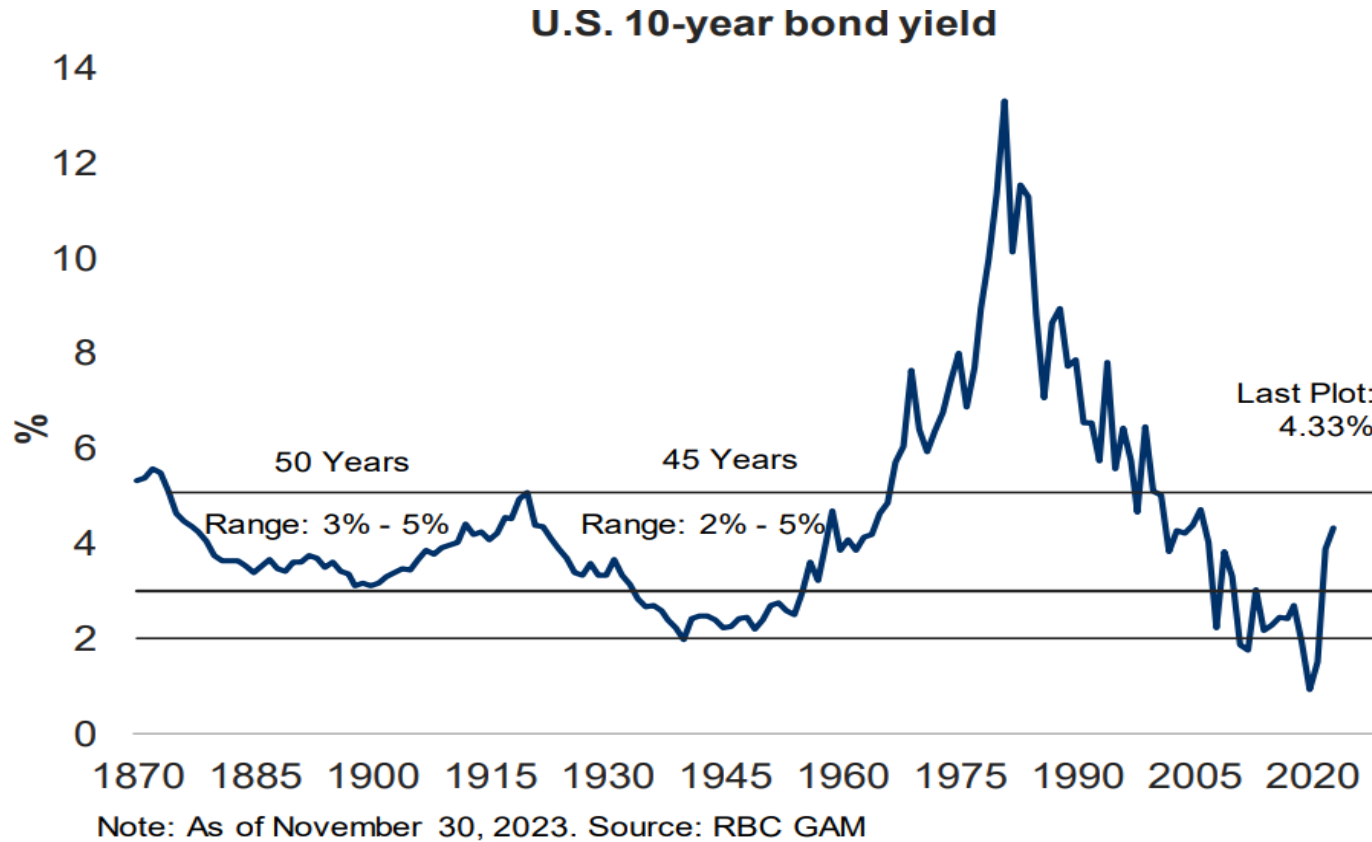


Some US sectors still at risk

Commercial Mortgage and High Yield LT risks



10 Year Treasury History



- The US 10-Year is the most important benchmark bonds for pricing risk assets.
- Over long periods of time the 10-Year has averaged between 3-5%, consistent with 300-year studies of the UK rate market.
- The periods of time like 2008-2021 are outliers, much like the 60s/70s when rates were really higher for long.
- The current 10-Year at 4.15% is within the long-term average.

US Government Debt Maturity

US Federal Debt (millions of USD)	Outstanding Amount	Maturing in <3 years	% of Total
Bills Maturity Value	\$6,011,236	\$6,011,236	100%
Bonds	\$4,445,077	\$72,331	2%
Floating Rate Notes	\$553,566	\$553,566	100%
Inflation-Protected Securities	\$1,973,687	\$665,045	34%
Notes	\$13,829,792	\$7,266,518	53%
Grand Total	\$26,813,358	\$14,568,696	54%

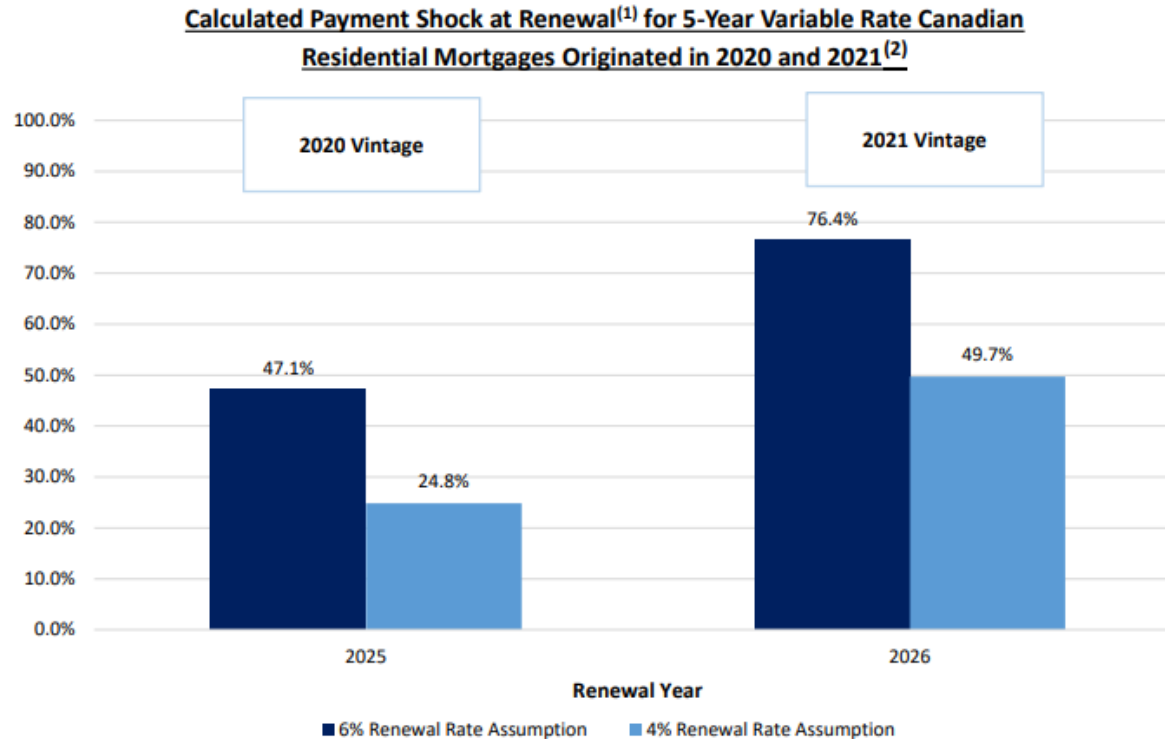
The large amount of short-term debt, maturities plus the current size of the deficit makes it hard to imagine long rates have much room to go down

Source: US Treasury, as of February 29, 2024.

Data excludes \$5,492 of Federal Financing Bank and \$7,652,233 of nonmarketable securities, the largest of which is Government Account Series (intragovernmental debt).



Canada Mortgage Rate Shock



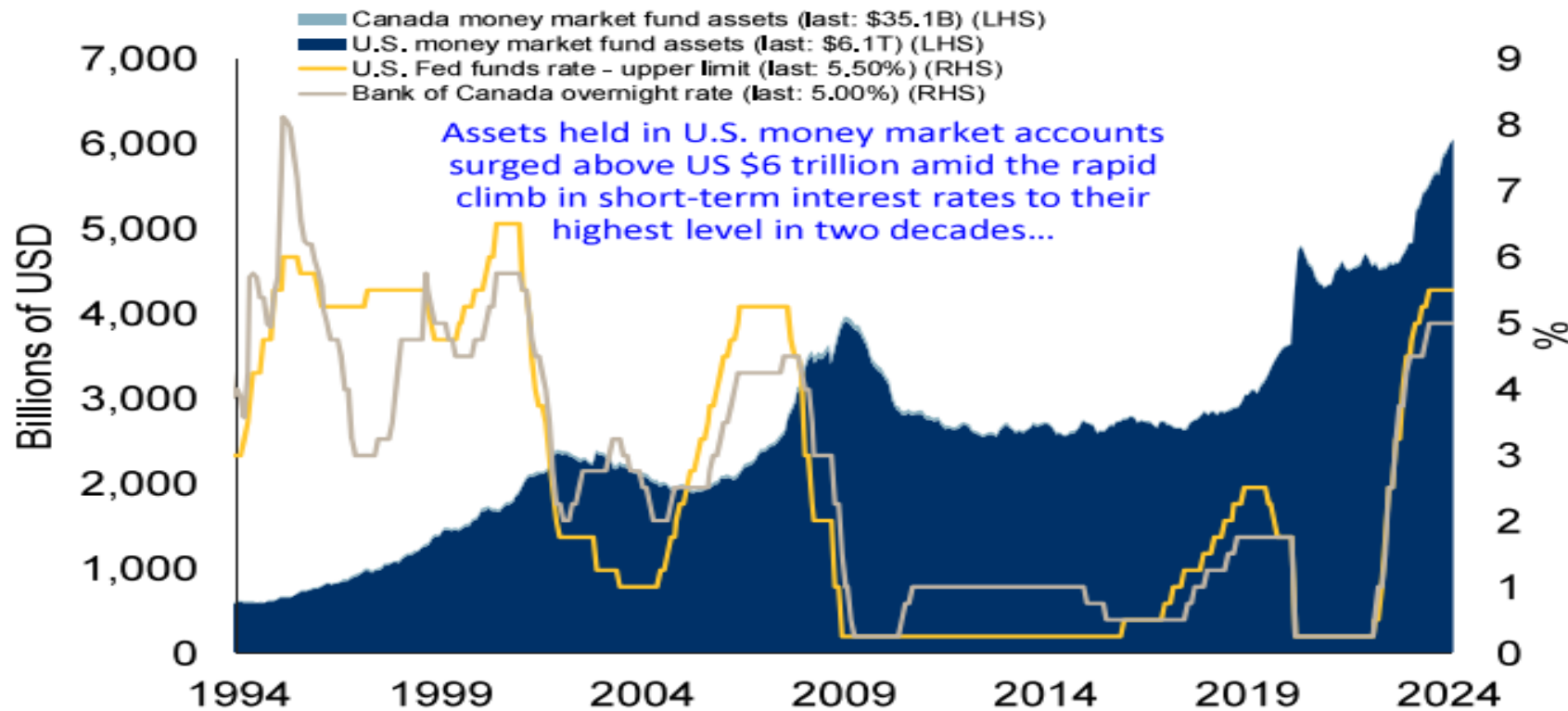
(1) Calculated payment shocks at renewal in 2025 and 2026 (Canadian bank fiscal years) are simple averages of monthly mortgage payment shocks based on our calculations. At renewal, we assume 3-year fixed rate terms and a remaining amortization period of 20 years (no changes to the original 25-year amortization period).

(2) At origination, we assume conventional mortgages with an amortization period of 25 years. Assumed rates are the monthly uninsured residential mortgage variable rates as posted by Statistics Canada. We assume that these variable-rate mortgages have fixed payments.

Source: Statistics Canada, RBC Capital Markets

Lots of Cash on the Sideline

U.S. and Canada money market fund assets

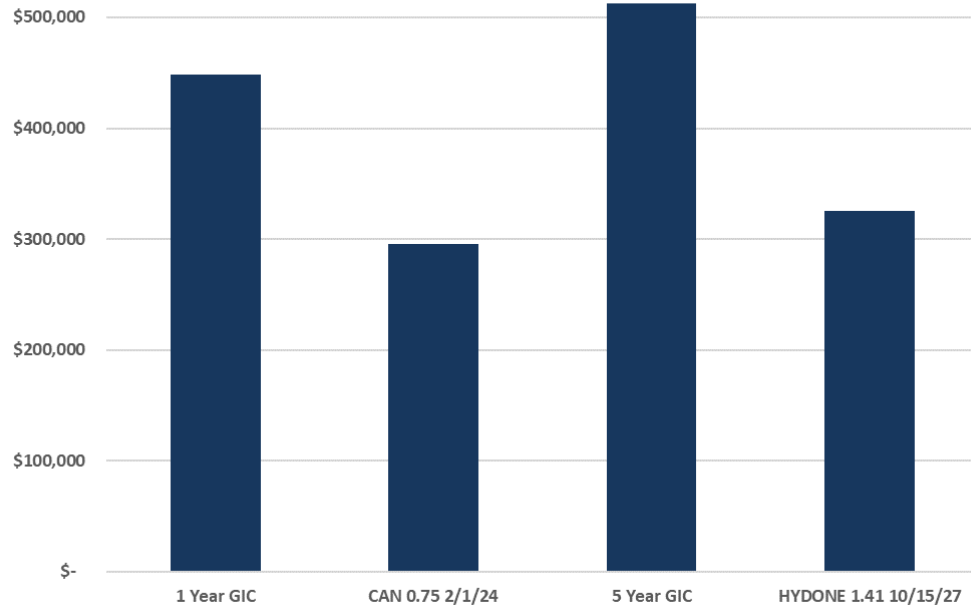


Note: as of February 29, 2024. Source: ICI, Bank of Canada, RBC GAM

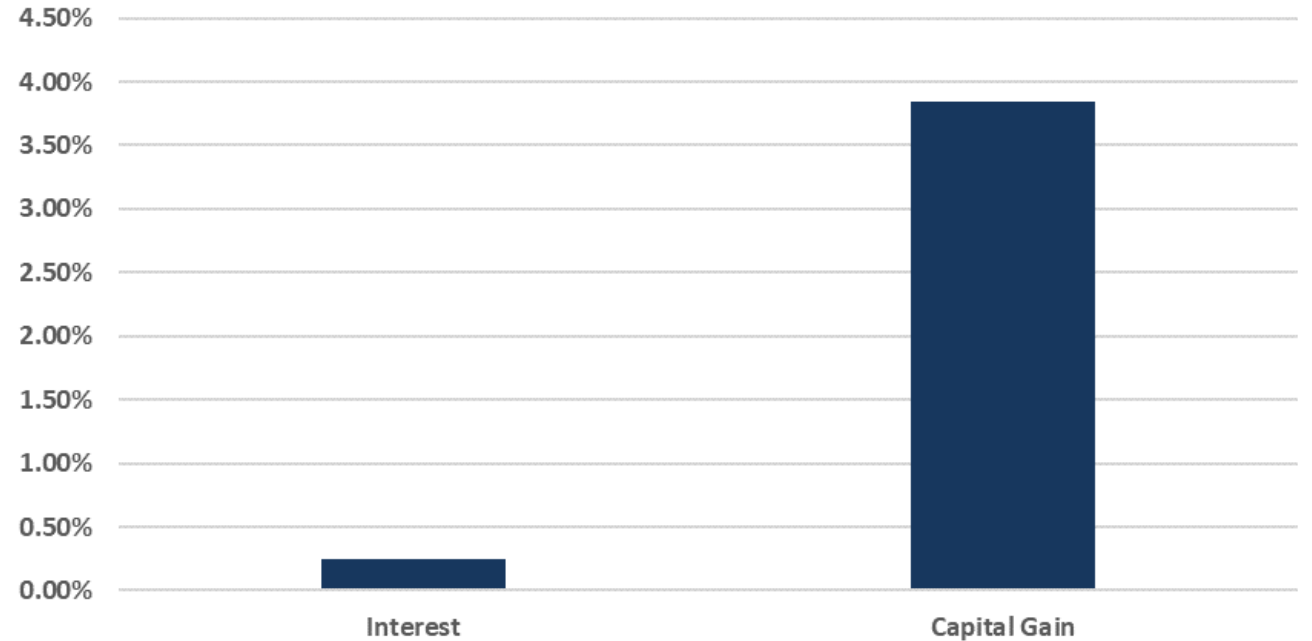


Need to think about after-tax return in FI

Investment Required to Produce \$10k in After-Tax Yield
(53.53% marginal tax rate)



How the Yield of CAN 0.25 3/1/26 is Taxed



Source: FactSet Research, RBC Capital Markets



Bond Portfolio Management Key

10-Year Government Bond Yields

RBC GAM Forecasts and Equilibrium Levels

	RBC Global Asset Management			Equilibrium Level	
	Current (%)	Forecast (%)		Forecast (%)	
	Yield	Forecast	Total	Equilibrium	Total
United States	4.25	4.00	6.3	1.90	25.7
Canada	3.49	3.50	3.4	1.82	18.8
Germany	2.41	2.35	2.9	0.61	19.8
U.K.	4.12	4.00	5.2	0.69	37.3
Japan	0.71	1.00	-2.1	1.08	-2.8

Source: RBC GAM



Sample US Treasuries

CUSIP	Price	Maturity	Coupon	Yield-to-Maturity	Taxable Equivalent Yield	Modified Duration
912828ZQ6	\$80.02	15-May-30	0.675%	4.36%	6.32%	5.93
91282CAE1	\$79.12	15-Aug-30	0.625%	4.36%	6.33%	6.18
91282CAV3	\$80.07	15-Nov-30	0.875%	4.33%	6.10%	6.34
91282CBL4	\$81.09	15-Feb-31	1.125%	4.29%	5.89%	6.54
91282CDJ7	\$80.29	15-Nov-31	1.375%	4.34%	5.75%	7.10
91282CDY4	\$83.21	15-Feb-32	1.875%	4.34%	5.40%	7.21
91282CHC8	\$92.25	15-May-33	3.375%	4.35%	4.56%	7.69

Source: FactSet, As of March 19, 2024



Tighter credit conditions add to the probability of recession

U.S. recession scorecard

Indicator	Status		
	Expansionary	Neutral	Recessionary
Yield curve (10-year to 1-year Treasuries)			✓
Unemployment claims		✓	
Unemployment rate	✓		
Conference Board Leading Economic Index			✓
Free cash flow of non-financial corporate business	✓		
ISM New Orders minus Inventories			✓
Fed funds rate vs. nominal GDP growth		✓	

Source: RBC WM Global Portfolio Advisory Committee



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Thank you!

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