Portfolio Advisor

Wealth Management
Dominion Securities

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The Michie Wealth Management Group
RBC Dominion Securities

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Market commentary

So goes the economy, so goes the equity market. This is our long-standing investment philosophy, and it comes in handy now as multiple uncertainties within and outside of financial markets vie for investors' attention. Amidst the noise, we remain focused on U.S. and global economic momentum. They have slowed, validating the range-bound pattern most markets have delivered for many months, but we are not yet seeing signs that a recession is imminent.

Until recession risks escalate, we believe equities deserve the benefit of the doubt and recommend holding global equity exposure at the long-term strategic recommended level, which equates to a "market weight" or benchmark position. While we think it's too early to become overtly defensive by trimming equities below that level, it is prudent to upgrade the quality of holdings.

Fixed income

The U.S. Federal Reserve (the "Fed") is poised to begin reducing interest rates in the coming months, and, in our opinion, a 0.5% cut will occur at the Fed's July meeting. And as the Fed moves to preempt potential economic weakness, we believe an additional 0.25% cut is likely this fall. Other major central banks are likely to follow suit with "dovish" policies (i.e., lower interest rates to encourage economic growth). Sovereign yields in Europe and Japan have fallen deeper into negative territory, and the 10-year Treasury yield has slipped below 2%. We feel easier Fed policy, ongoing trade uncertainty, and slow growth mean the Treasury yield has settled into a 1.75%–2.00% range.

We maintain our Market Weight positioning in global fixed income, and even with the feeding frenzy for yield across all fixed-income sectors, we continue to recommend investors upgrade to higher-quality corporate bonds as we approach the later stages of the credit cycle.

To learn more, please ask us for the latest issue of *Global Insight*.

RBC Wealth Management
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Fortifying your portfolio

As the longest bull market in history ages, and the economy shows signs of being in the late-cycle stage of its life, many investors are wondering if it's time to take a more defensive stance in their portfolios.

Since the post-Financial Crisis bottom in March of 2009, the benchmark S&P 500 Index has soared, delivering a more than 350% return for investors*. And, during most of the past decade, Canadians have enjoyed a recession-free economic expansion. In short, it's been a decade of wealth creation the likes of which most of us have never seen.

When volatility struck markets last fall, many investors began to wonder if the "bull of all bulls" was finally ready to head out to pasture. Indeed, many of the commonly accepted indicators of an aging economic cycle, from soaring equity market prices and rising volatility, to strong employment, GDP growth and disappearing economic slack, are evident. More market volatility and a potential economic slowdown could be in the offing as we progress to, and through, the end-of-cycle economic stage.

Ready for a siege: building up your portfolio's parapets

No economic outlook is a certainty, and making wholesale changes to your portfolio in anticipation of potential economic or market conditions is rarely advisable. Usually, the only reason to make significant changes to your portfolio is if your life circumstances change. However, there are strategies to shore up your defences if your portfolio looks to be under siege:

Duration

Shorten the duration (i.e., a measure of the sensitivity of the price of a bond to a change in interest rates) of your economically sensitive, corporate fixed-income holdings; maintain the duration of your sovereign debt holdings to take advantage of their hedging effects in volatile times.

Quality

Ensure your portfolio contains quality, blue-chip equities (i.e., reasonable price-earnings ratios, strong balance sheets, high earnings quality, etc.), while remaining mindful of valuations. Look internationally to economies earlier in the cycle than Canada and the U.S. to find better performing markets when domestic markets are challenged. On the fixed-income side, focus on higher-rated corporate and government bonds.

Dividend payers

Long-term, consistent dividend-payers with a track record of increasing those payouts make for an excellent "defensive wall" when markets become challenged to generate capital returns, with the added bonus of allowing you to reinvest the cash flow into under-priced assets.

Defensive sectors

Consider shifting equity holdings to more defensive sectors that tend to fare better during times of economic stress and have a low correlation to the economic growth cycle, including Consumer Staples and Utilities, which benefit from consistent and largely unchanging demand regardless of economic conditions.

Strong walls to stand on guard for thee

We continually monitor market and economic conditions, and will make appropriate recommendations or changes to your portfolio to reflect evolving opportunities and challenges. Using strategic walls, a well-fortified portfolio that reflects your investment objectives and your established risk tolerance will help you ride out all market and economic circumstances.

For more information, or to determine if any of the strategies discussed here are appropriate for you, please, contact us.

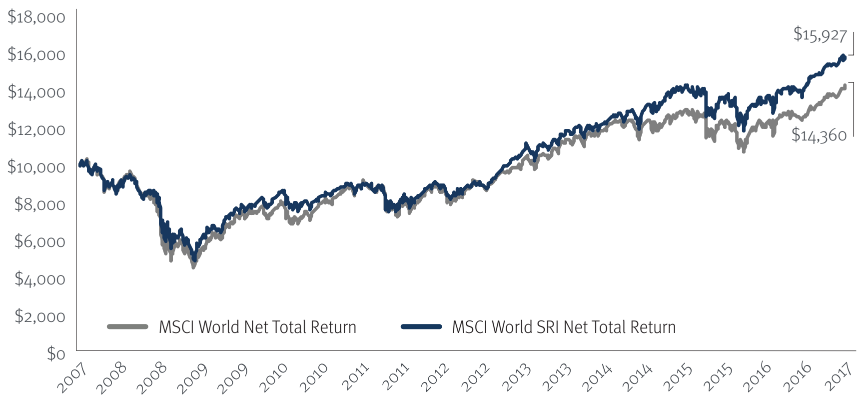
*From March, 2009 to May, 2019. Includes reinvested dividends. Return in local currency.
Source: RBC Global Asset Management.

Changing the world – one investment portfolio at a time

Kermit the Frog, star of Sesame Street (and Miss Piggy's paramour), once lamented that "It isn't easy being green." Today, it's really easy being green – at least when it comes to investing. But green investing is just one way you can make a difference as an investor: there are a wide range of strategies collectively referred to as socially responsible investing (or "SRI").

SRI integrates social and environmental principles into the management of investment portfolios. The strategy typically uses various screens and analyses to evaluate potential investments based on three specific factors: environmental, social and corporate governance (or "ESG"). This helps identify a universe of acceptable investments for your portfolio.

Growth of $10,000
October 2007 - May 2017



Source: RBC Dominion Securities, Bloomberg

Environmental factors

An environmental analysis typically looks at the steps and procedures taken by a company to prevent pollution and waste, reduce greenhouse gas emissions and improve overall environmental practices. SRI is not necessarily "green" investing, which tends to focus on producers of renewable energy products like solar, water and wind.

Social factors

Social analysis looks at factors dealing with the workplace environment including human rights, diversity, health and safety and labour/management relations. A company's products are also reviewed with respect to safety and quality. Community involvement and philanthropic activities are also considered.

Corporate governance

Governance reviews seek to determine whether the interests and goals of company management are aligned with shareholders. This is accomplished by evaluating executive and board compensation schemes, management accountability and shareholder rights.

Industry exclusions

Typically, SRI portfolios exclude firms with significant revenues from the production of tobacco, alcohol, nuclear energy, gambling, weapons and pornography.

Best in sector

SRI portfolios often incorporate the idea of filtering for "best-in-sector" companies, where even a mining or oil and gas company can qualify if, for example, from an ESG perspective it follows best practices, is a leader in that industry, or responds to challenges better than its peers.

Agent for change

Some SRI proponents may push for change by engaging companies through discussions with management, filing shareholder resolutions and using shareholder votes in accordance with SRI principles.

Do good, while doing well

While there's no clear link between SRI disciplines and investment performance, the chart above shows that the SRI approach has, since 2007, led to modestly better results on a global basis. Perhaps more important is the fact that SRI did not lead to underperformance, despite the more limited range of investment possibilities.

SRI can help to align your investment portfolio with your social values – without compromising your potential long-term returns. To learn more, please contact us.

Boomer-ang effect

Boomers entering retirement need to make arrangements for a longer life

Life is a little like a boomerang throw. In the beginning, we're dependent on family. Later, we swoop out into the world, go to school, build careers, start families and maybe even take trips to Australia. Then, as we age, we often find ourselves boomeranging back to where we began, and once again, needing help from our family.

This is especially true because of our increasing life spans: 83 years and growing in Canada. However, on average, only 72.6 years of that is spent in "full health."* We are increasingly facing challenging health situations that may require us to ask for a little help managing our own affairs. What's more, because of advances in health care, we're living for much longer periods of time with these health situations.

For all of us, there may come a point when we may need help managing investments, paying bills or assessing medical care options. But that doesn't mean we have to lose our autonomy. Arrangements can be made ahead of time, and powers can be delegated to people who will respect and carry out our wishes.

You've got the power

An essential part of these arrangements is your power of attorney, or POA, which legally entitles people you choose to conduct your affairs on your behalf if you are incapable or unavailable. There are two basic types of POA (called a mandatary in Quebec): for property and personal care.

Property: Day-to-day banking, managing investments and real estate decisions require attention if we become physically or mentally unable to handle such matters ourselves. If this happens, it's important to have an enduring or continuing POA come into effect.

Personal care: This type of POA appoints who will make personal and health-related decisions on your behalf regarding healthcare, medical treatment, housing, hygiene and more. In some provinces and territories, you can also write down health directives that dictate what course of action to take if you can no longer communicate your wishes. This can reduce the burden on your loved ones, who might otherwise have to make those decisions on their own.

What happens without a valid POA?

Many of us assume our spouse or next of kin will automatically be appointed as our POA if we become incapacitated. However, each province and territory has specific rules for guardianship and decision-making. Determining POA responsibilities through the courts can be lengthy and expensive, and a burden on your family.

Selecting your POA

Consider whether your potential POA is able to manage family conflict, and has the time and financial savvy to carry out your wishes. To be named a POA is often considered an honour, but family dynamics, lack of expertise, time constraints and personal liability can be concerns. If this is the case, you may wish to consider working with estate and trust professionals, who can support your chosen POA(s) and/or carry out directives objectively, professionally and compassionately on your behalf.

To learn more, please contact us today.

* Public Health Agency of Canada, How healthy are Canadians? A trend analysis of the health of Canadians from a healthy living and chronic disease perspective, 2016.

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