Wealth Management
Dominion Securities

Portfolio Advisor

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Around the world

Global markets

Most major stock indexes rose to record highs during the quarter, as investors looked beyond near-term virus concerns to an environment of stronger growth and ample stimulus. The U.S.'s recent stimulus bill is the latest in a long list of massive government fiscal support measures worldwide. Corporate earnings expectations are rising, which should underpin share prices globally for this year and next. Economically sensitive regions such as Canada and some emerging markets – many lagging the U.S. S&P 500 for nearly a decade – are likely to see the most benefit.

Canada

The economy continues to show signs of a strong rebound from the damaging effects of restrictions put in place to control the spread of COVID-19. Recent surges in employment and higher-than-anticipated GDP growth to begin 2021 indicate growing momentum for output and spending as the year progresses, and Canadians begin to spend the significant savings amassed over 2020.

United States

The success of the vaccine rollout across the U.S. has set the stage for increasingly stronger growth in 2021 and beyond. The new Biden administration introduced a massive stimulus package that will deliver more cash into the hands of Americans, and significant financial support for states and schools, underpinning a surge in spending and economic output in the months ahead.

Europe

The economic data in Europe looks solid and increasingly resilient in the face of COVID-19 restrictions. The region was among the hardest hit by the pandemic, and a new cycle should result in a strong recovery given how far the economy fell. This is already reflected in promising recent leading indicators and survey data.

Emerging markets

The powerful recovery in the Chinese economy illustrates how the country has managed to successfully overcome the pandemic. However, many other emerging market economies, such as Brazil and India, were not so fortunate and continue to struggle to overcome the spread of COVID-19. As a result, their recoveries will be more in line with their developed world peers.

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

Pandemic perspective: Three key insights for investors one year later

Insight #1: Crisis = Danger and opportunity

The Chinese symbol for "crisis" is made up of two symbols: one for "danger" and the other for "opportunity." While the pandemic created a great deal of danger – leading some investors to panic and change course from their investment plans – those who stuck to their plans were largely rewarded for their perseverance. As history shows, markets move forward after a crisis, so sticking to one's investment plan tends to lead to better long-term outcomes, rewarding investors for their patience.

Insight #2: Timing the market is a fool's game

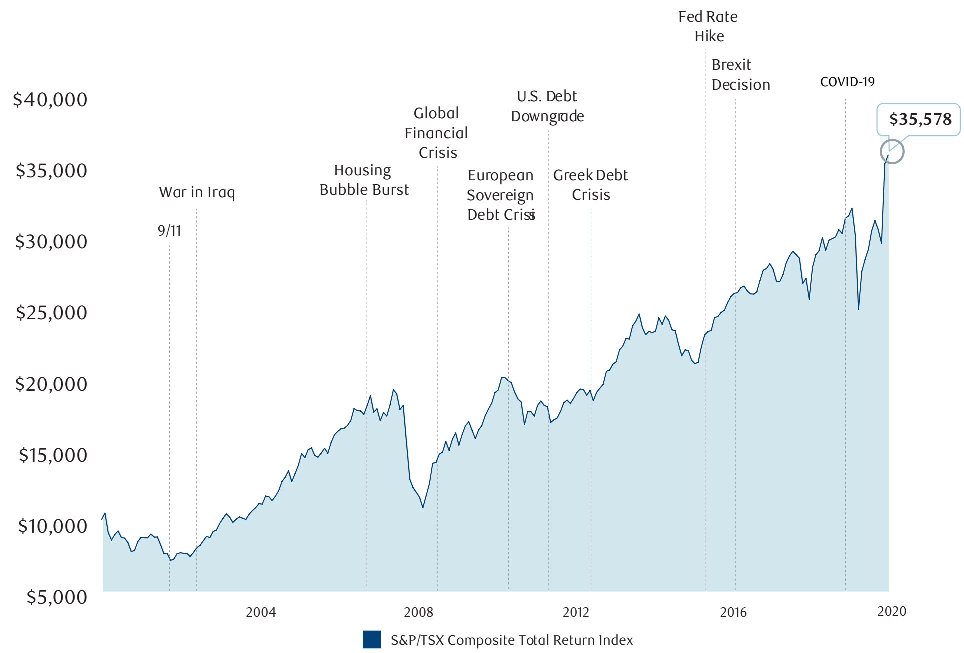
The old axiom that "it's not timing the market, but time in the market that matters" has proven once again to be wise advice. The last year has proved that getting out of the markets can be more detrimental than staying in and persevering through periodic bouts of volatility.

For example, if an investor purchased a theoretical unit of the S&P 500 Index on February 1, 2020, and then held on for a full year even through the worst of the "COVID Crash" in March 2020, their return as of January 31, 2021, would have been 17%.[1] Conversely, an investor might have avoided the unsettling volatility of the market downturn by selling out, but also would have missed out on the far more enjoyable subsequent bounce back.

Insight #3: Stay diversified

The market's pandemic performance reinforced another important insight: diversifying your investments remains critically important. Different investments perform differently at different times and under different economic and market conditions. Sometimes, the performance is driven by factors specific to an investment, but also by industry or sector group, or even by geographic location. Going into 2020, few would have predicted that Emerging Markets equities would lead with a 16.6% return, even beating U.S. equities. When the market downturn ended on March 23, 2020, it would have felt good to be in cash investments – but by December 31, 2020, cash would have returned just 0.6% for the year.[2]

Opportunity in crisis: A 20-year perspective



The growth of $10,000 since January 2001. An investment cannot be made directly in an index. Graph does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower. Past performance is not a guarantee of future results. Performance data as of December 31, 2020. Source: RBC Global Asset Management Inc.

Crises are often an excellent time to determine how well structured your portfolio is to withstand an unforeseen event such as the pandemic. It's also an opportunity to assess your risk tolerance, and to ensure your investment plan is right for you. Questions about your plan? We're here to help – contact us today.

[1] Return of the S&P 500 Index is a total return in local ($US) currency from February 1, 2020, to January 31, 2021. This is a theoretical return, as an investment cannot be made directly in an index. This return does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower. Past performance is not a guarantee of future results. Source: RBC Global Asset Management Inc.

[2] *Asset class diversification*, RBC Global Asset Management Inc. (February, 2021).

Aging in place: Effective planning can help maximize your options - and peace of mind

With the COVID-19 pandemic having a terrible impact on older Canadians, especially those living in long-term care, Canadians have dramatically changed their views about where to spend their later years. In a recent survey*, the National Institute on Ageing (NIA) found that 60% of all Canadians and 70% of those aged 65+ now have a different perspective about living – or arranging for a loved one to live – in long-term care.

More than ever, home is where the heart is

The survey also showed that 91% of all Canadians – and 100% of Canadians aged 65+ – now plan to live in their own homes as long as possible. But while the desire to remain in one's own home is very understandable, especially given the impact of the pandemic, that decision can have major financial consequences. These include:

- The potential loss of a major source of investment capital – your principal residence – to generate income to support living expenses and spending.
- Increasing maintenance costs and rising homeowner taxes affecting your ability to support retirement income needs.
- Significant renovation costs – which are likely to rise over time – to "age-proof" a home (e.g., access ramps, lift chairs, etc.).
- In-home health care support (also likely to cost more as time passes).

Planning for any eventuality can bring peace of mind

With Canadians living longer than ever before**, it is important to plan ahead for a potentially much longer retirement. No one can predict exactly how they will age, so make sure your plan has the flexibility to adapt and adjust as required. Here are some things to bear in mind:

1. **Investment management:** Proper portfolio structure and risk management can help ensure that your savings continue to grow over time – especially above the rate of inflation – and create consistent cash flow to meet your needs.
2. **Retirement planning:** Anticipate changing demands on your cash flow over time, and ensure appropriate levels of liquidity to meet emergency and/or unexpected spending.
3. **Financial management:** Organizing your financial affairs is important, including structuring bill payments (e.g., taxes, utilities), reviewing and securing financial documents (e.g., account statements), and establishing relationships with key service providers (e.g., local bank branch manager).
4. **Estate planning:** Having appropriate Powers of Attorney and an up-to-date Will is important, as are Health Care Directives to ensure your caregivers and loved ones understand your wishes should you become incapacitated.

Planning for our later years can be challenging. Getting the support, expertise and service you need to live how and where you wish is important to achieving peace of mind. Talk to us about how we can help.

**Pandemic Perspectives on Ageing in Canada in Light of COVID-19: Findings from a National Institute on Ageing/TELUS Health National Survey*, National Institute on Ageing (July 2020).

***Life expectancy tables*, Statistics Canada (2019).

In a fix: How inflation affects fixed-income investors

After falling gradually for more than 30 years, inflation has been flat for the last decade. But now the prices of goods and services are sharply rising as economies, starting to move past the COVID-19 pandemic, reopen and demand rises. The return of inflation has important implications for fixed-income investors.

Why is inflation on the rise?

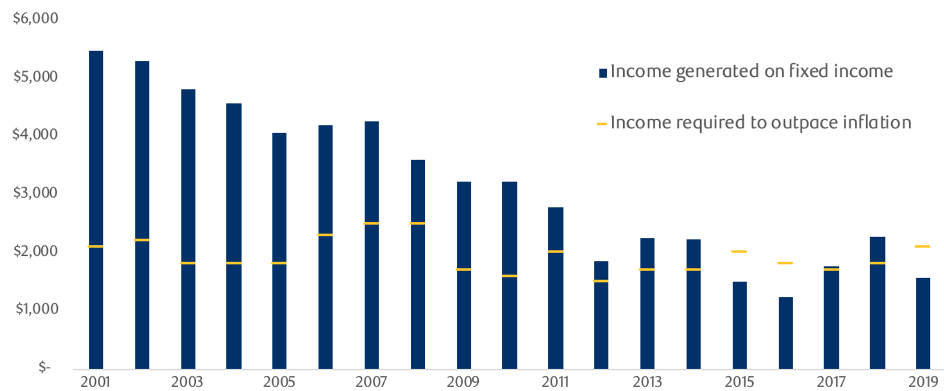
In large part, it's due to the response to the pandemic:

1. Central banks slashed interest rates to historic lows. They also bought massive amounts of bonds (driving down yields) to stave off a collapse in borrowing, and to reduce the burden on existing borrowers – both consumers and businesses – during the economic downturn caused by restrictions imposed to reduce the spread of COVID-19.
2. Unprecedented government stimulus programs injected trillions of dollars into the global economy to ignite demand, thus increasing prices. Some of this wealth – around $200 billion in Canada alone – has been stored up over the last year and is likely to be spent in the coming months.*
3. As the global economy begins to heat up, supply chain issues and commodity price increases are growing.

The bane of bonds

Rising inflation historically brings in its wake rising interest rates and bond yields, in turn reducing fixed-income prices (bond yields move inversely to bond prices). And, rising inflation erodes the purchasing power that fixed-income investors receive. In order to really "make a buck", an investor has to "make a buck" plus a return over and above the inflation rate that their "buck" is being eroded at. In short, they have to generate a real return – the nominal return minus the rate of inflation – to maintain their purchasing power.

Income generated by fixed income vs. inflation
Based on $100,000



Data as of December 31, 2020. Source: Bloomberg, Bank of Canada, RBC GAM. Bond income based on annual yields for Government of Canada 10-year bonds. Inflation based on median core Consumer Price Index (CPI).

As the chart here shows, after many good years, this has become harder to do. Looking at 2020, the real return "gap" has soared – a situation that only appears more challenging this year as inflation increases.

Fixed-income fortifications

Here are a few ways to mitigate the impact of rising interest rates and bond yields:

1. **Increase exposure to short-term bonds:** Short-term bonds are less sensitive to increases in yields.
2. **Consider lower risk-rated bonds:** There are a myriad of fixed-income investments available to investors that offer higher yields based on varying degrees of risk, including corporate bonds.
3. **Offset rising yields with floating-rate bonds:** The yields of these bonds rise in tandem with market yields, inflation and/or interest rates, neutralizing the impact of rising rates.
4. **Deploy bond funds or ETFs:** These investments can help mitigate the impact of rising yields by holding a wide array of fixed-income investments, while managing the risks involved through broad diversification and hedging strategies.

This list is not exhaustive, and it is important to remember that the impact of rising inflation – and consequent interest rate and bond yield increases – can be mitigated but not eliminated. Also bear in mind the recent surge in inflation is expected to be temporary, and adjusting your portfolio based on short-term changes in markets is rarely a good idea.

**Canadian household wealth rose in 2020*, RBC Economics (March 2021).

Responsible Investing: A tree of many branches

Responsible Investing (or "RI") describes a range of approaches to incorporate environmental, social and governance (or "ESG") considerations into the investment process. But with this myriad of different approaches, it can be a challenge for investors to determine what's right for them. So, let's "clear the air" on RI.

A rapidly growing canopy

A growing number of investors want to own investments that reflect their values, according to a 2020 survey from Canada's Responsible Investment Association (RIA)*, with 72% indicating an interest in RI. And this trend has momentum, with 50% reporting more interest in RI than a year earlier. The vast majority also stated that they want to invest in companies that are striving to achieve clear ESG policy targets. This includes in specific areas such as inclusivity, female leadership opportunities and diversity.

And the dollar figures confirm this interest. According to the RIA survey, 50% of those aged 18-34 and 20% of those 55+ already own RI assets. RI assets under management have grown at a staggering rate over the last few years, reaching $2.3 trillion in Canada at the end of 2018, primarily in ESG mandates. More recent numbers show that during the first quarter of 2020, RI funds saw more investment inflows than for all of 2019. And there is room to grow: in Europe, where RI has dominated for much longer than in North America, more than 85% of money managers have integrated ESG policies into their investment process.**

The many branches of RI

Despite the interest in RI, nearly 75% of investors have little to no knowledge of their investment options.* To help, here are some key concepts:

- **ESG integration:** going beyond traditional financial factors to consider ESG factors when analyzing the risks and return potential of investing in certain companies.
- **Socially Responsible Investing (SRI):** investing in companies to earn a financial return, while also making a measurable positive social and environmental impact.
- **Positive screening:** using ESG factors to identify and include specific companies or economic sectors in an investment portfolio.
- **Negative screening:** using ESG factors to exclude specific companies or sectors.
- **Sustainability themed:** only including investments that meet more specific ESG criteria, e.g. specifically helping the environment.
- **Engagement:** seeking to influence corporate behaviour through direct engagement, proxy voting and/or shareholder proposals.

Picking the right approach – and solutions – for you

RI provides a variety of options to help investors align their investments with both their personal values and financial goals. But given the wide variety and popularity of RI investments today, it's important to watch out for "green washing": investments that claim to follow RI principles, but don't. Talk with us and we can help you make the right choices for you.

**2020 RIA Investor Opinion Survey*, Responsible Investment Association (October, 2020).

***The future of ESG integration*, RBC Global Asset Management (2019).

Decrypting cryptocurrencies

Cryptocurrencies – particularly the most widely known, Bitcoin – have existed since an unknown entity by the name of Satoshi Nakamoto released a white paper laying out the parameters of the Bitcoin digital token. Since then, Bitcoin's price has risen and fallen – often dramatically – in value over the last decade, surging as much as 5,400% in 2013, and falling as much 75% in 2018. More recently, investors have driven up the digital token's value by approximately 800% year-over-year*, leaving many to wonder: what are cryptocurrencies, and how do they work?

A token by any other name

It's important to note that Bitcoin and its cryptocurrency peers are not actually currencies, at least not by traditional definitions. Yes, they can be used to purchase some goods and services, but these tokens are only virtual, not physical. Importantly, they are not issued by a government, country or central bank – instead, they are issued by private corporations, referred to as exchanges, such as Bitcoin Inc., Ethereum, Coinbase and XRP. In fact, Bitcoin and its peers are designed to bypass banks and other financial institutions, providing a decentralized, anonymous and global (non-country or region-specific) payment form. They cannot at this stage be deemed a store of value either (for instance the way gold might be).

Blockchain technology – a look under the hood of cryptocurrencies

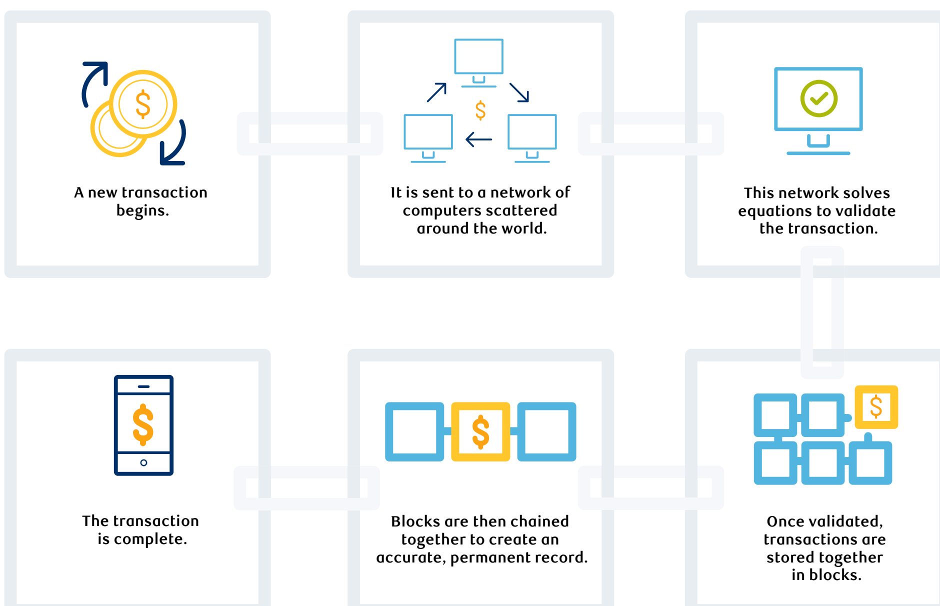
Cryptocurrencies may or may not survive in the face of global central banks deciding to issue their own digital currencies. After all, will people trust a private corporation to act as a backstop to a functional currency, versus a central bank? However, the technology that underpins them – called "blockchain" – may well have a bright future, whether or not cryptocurrencies become more broadly accepted.

In essence, blockchain is a virtual chain of transactions that are linked together as a "block." As cryptocurrency transactions are generated, they are added to the chain as a new "link." Bitcoin itself uses a massive global network of decentralized computers to store this "chain of blocks." Each of these computers is called a "Bitcoin miner," and they verify every transaction in the blockchain (see graphic).

To date, the Bitcoin blockchain has never failed, has never been compromised or hacked, and successfully processes over $2 billion a day in transactions. And how this blockchain technology may be leveraged for other purposes is a source of great interest – some of the current applications include secure medical data sharing, digital identification and copyright protection. This technological innovation explains much of the excitement that surrounds cryptocurrency.

Wait-and-see approach

New financial instruments are periodically developed and accepted over time and as they prove their usefulness and value. But for now, Bitcoin and other cryptocurrencies remain highly volatile and speculative. As a result, we encourage investors to exercise extreme caution, and we do not currently provide any investment advice or solutions related to cryptocurrency.



Source: *What is cryptocurrency?*, RBC Global Asset Management (March, 2021).

*Source: Bloomberg L.P. Return from April 20, 2020, to April 16, 2021.