Wealth Management
& Capital Markets Perspective

Wealth Management
Dominion Securities

For the clients of Grimes Handscomb Asset Management of RBC Dominion Securities | Summer 2023

Andrew Grimes, CIM
Senior Portfolio Manager
416-842-1008

Julie Handscomb, CIM
Senior Portfolio Manager
416-842-2502

Shelley Knox, CIM, FCSI
Associate Portfolio Manager
416-842-2503

Ziyu Chen, CIM, PFP
Associate Advisor
416-842-5596

Aurelia Pompili
Senior Associate
416-842-2504

Laurie Christensen
Senior Associate
416-842-1009

Karen Murphy
Administrative Assistant
416-842-2446

Navreet Kahlon
Administrative Assistant
416-842-2447

RBC Dominion Securities
Brookfield Place
Bay-Wellington Tower
181 Bay St., Suite 2350
Toronto, ON M5J 2T3
Toll-free: 1-855-889-1127
Fax: 416-842-2249

A wide-angle lens

The Global Portfolio Advisory Committee

While the equity and fixed income investment environments in coming months will likely be tethered to the U.S. economy's fate, we think a broader perspective is called for. Our Midyear Outlook argues for patience while financial markets work through persistent challenges.

Over the near term, we continue to anticipate that market returns will be largely shaped by whether the U.S. economy succumbs to recession and the related central bank policies. While the long-term outlook still looks bright to us and we don't recommend major changes to portfolio positioning at this stage, we think the lingering uncertainties require more patience from investors and a wider perspective.

Recessions are normally the difficult periods for equity markets, but those periods do not dominate the investment landscape. Since 1945, the U.S. economy was in recession for only 15 percent of the time, meaning that it expanded during the other 85 percent of the time. Looking at the long-term GDP chart, the economic pullbacks associated with recessions are either barely noticeable or not at all visible.

Making big portfolio asset allocation decisions based on the premise that the economy and already successful businesses could lose the ability to adapt to headwinds, or that the challenging periods are going to last much longer than they have previously, seems out of proportion with the historical record, in our opinion.

Following is a brief summary of the key takeaways from our Global Insight 2023 Midyear Outlook, which provides investment guidance for the next 6–12 months.

Equities: Rallies, recessions, and realistic thinking

The market rally from the September lows has moved far enough to turn many skeptics into believers. Joining other major markets in new high ground this summer is not out of the question for North American averages.

Continued on page 2

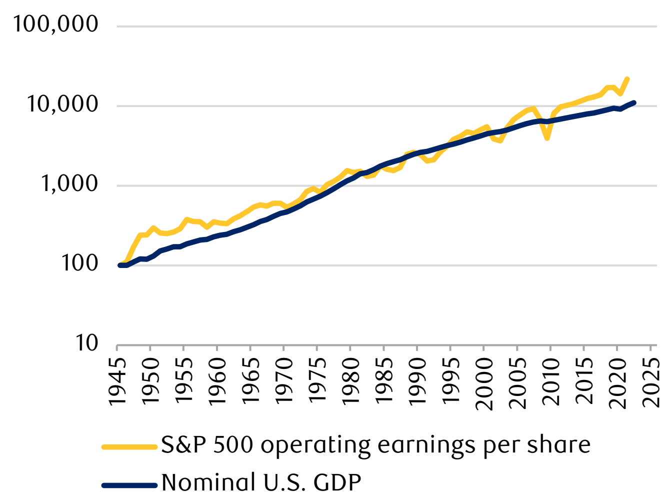
Continued from page 1

"Fear of missing out" has been propelling the North American averages higher and could go on doing so for some months yet. But the attractive valuations of last September are giving way to loftier price-to-earnings ratios that we believe will need the economy to cooperate to be justified.

Reliable leading indicators of U.S. recession continue to worsen, suggesting to us that this latest advance in share prices will eventually give way to a more challenging period for equity investors.

While we believe this advance may have further to go into the summer months, we increasingly think individual stock selection should be restricted to companies that an investor would be content to own through a recession. For us, that means high-quality businesses with resilient balance sheets, sustainable dividends, and business models that are not intensely sensitive to the economic cycle.

Operating earnings per share vs. nominal U.S. GDP



Since 1945, nominal U.S. GDP has risen by 6.4% per annum, while earnings have risen by 7.3% per annum on average.

Source - RBC Wealth Management, Standard & Poor's, U.S. Federal Reserve; annual data shown on a logarithmic scale

Fixed Income: The "year of the bond" hasn't been much of a year at all

The banner year for bonds that we expected in 2023 after a dismal performance in 2022 hasn't materialized thus far, but we continue to expect steady gains as rate hike cycles near their end points.

While inflation remains elevated globally, we now have sufficient data in hand to suggest that the tide has indeed turned lower. Central banks will stay on high alert, and we believe a more cautious policy approach should limit economic risks. Before bonds can begin the kind of rally that we have been anticipating, inflation will need to be well and truly on its way back toward target levels, in our view.

We expect yields to fall in the back half of the year, but only modestly so as resilient economies are unlikely to see tight central bank policy give way to rate cuts—extending the window for investors to put money to work at historically high yields.

In the U.S., we have dialed back our return expectations somewhat from high single digits to something in the four percent to six percent range as we see bonds as likely to deliver little more than the coupons paid for the year.

For bond investors who don't often worry about total-return potential but rather the income provided by their capital allocations to bonds—the outlook could hardly be better, in our view.

While we think central banks will take a more cautious approach going forward after a year of brute force, bond investors are in a unique—and privileged—position. From our vantage point, bond yields have rarely appeared more attractive, while at the same time bonds should provide strong capital appreciation potential for portfolios should prices rally if and when central banks pivot back toward rate cuts as economic growth and inflation eventually cool.

Midyear musings

For more details on the investment views and opportunities, as well as guidance for regional fixed income markets and forecasts for commodities and currencies, please take a look at our complete Global Insight 2023 Midyear Outlook.

Long-term perspectives

Recessions: A part of the cycle

Recessions are an ordinary phase of the broader economic cycle, but it is important to bear in mind that expansion is the normal state for the economy and downturns have typically been quite brief.

Recessions are a feature of the economic cycle

The business cycle refers to the recurrent cyclical patterns of the economy alternating between periods of expansion (growth) and recession (contraction). Technically defined as two consecutive quarters of negative GDP growth, recessions can be broadly described as sustained periods when economic activity falls and unemployment rises. All economic expansions eventually end with a downturn. Even though recessions can be unsettling, they are normal and relatively short-lived.

Expansions are the norm

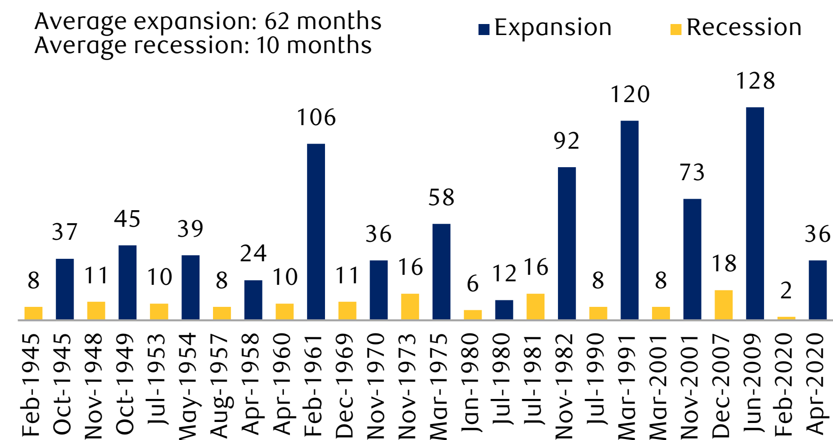
While recessions tend to capture ample media attention, the natural state of the economy is growth. Our analysis of U.S. business cycles since 1945 shows there have been 13 recessions. This means investors should expect to experience an economic contraction once every six to seven years, each lasting from two to 18 months, with a 10-month average. On the flip side, U.S. expansions have endured far longer—62 months on average. This implies that over the past eight decades, the U.S. economy has spent nearly 90% of the time in growth mode. This helps explain why, over the long run, corporate profits have trended upwards and equity markets have generated positive total returns in roughly 70% of calendar years.

"Benefits" of recessions

Reframing economic slumps through the lens of opportunities can be useful for investors in maintaining discipline. Recessions can play a useful role of unwinding "excesses" and "imbalances" that may build up in the economy during an expansion, revamping the foundations for the recovery. The turbulent environment that recessions bring about can stoke efficiency gains, catalyze innovation, and foster the emergence of new companies and industries. Crucially, recessions can also surface opportunities in financial markets. Fears over the negative but temporary impact on corporate earnings tend to provoke substantial price declines in stocks and corporate bonds in the early stages of a recession. Excessive pessimism often pushes valuations to depressed levels that can present attractive entry points for investors to deploy capital at discounted prices, enhancing the prospect of earning above-average returns, in anticipation of the eventual recovery.

Putting the economic cycle in context

Length of U.S. economic expansions and recessions since 1945



Source - RBC Wealth Management, National Bureau of Economic Research; data through 5/31/23

How to create an uncrackable password

When creating a password, apart from following the system's requirements, it is important to use uncommon, unrelated words, randomized numbers, and avoid including personal information.

A strong password is:

Unique

Meaning **exclusive to you,** not easily guessed, and not reused for different accounts.

Long

Ideally, **10 characters or more.** Research shows the most frequent length of passwords is 8 characters, hence the longer a password is, the better.

Memorable

Make sure you use words and numbers you can **remember later,** without writing down the password on a sticky note, notepad or anywhere else.

How do you create a strong password?

1. Use three completely random words and mix uppercase/lowercase letters
2. Include a random number
3. Add special characters in the middle

Bonus tip: Add extra letters to increase complexity

Introducing... Navreet Kahlon

Navreet joined RBC Dominion Securities in 2019, and has more than 16 years of financial services industry experience. As an Administrative Assistant, Navreet draws on her considerable organizational skills to provide support to all members of our team, especially with day-to-day administrative functions. Her extensive knowledge regarding estates, transfers and registered accounts makes Navreet an integral part of our team.

Fluent in English, Hindi and Punjabi, Navreet graduated from India's Punjab University with a Bachelor of Science and Computer Applications degree. In her free time, Navreet enjoys visiting with family and friends, and going for long walks. Welcome Navreet!

Benchmarks

Equity market 12-month trailing return (for month ending June 30, 2023)	
S&P/TSX composite total return index	10.4%
S&P 500 total return (C$)	23.0%
S&P 500 total return (U$)	19.6%
DJIA total return (C$)	17.5%
DJIA total return (U$)	14.2%
Nasdaq composite price return (C$)	28.6%
Nasdaq composite price return (U$)	25.0%

RBC CM Canadian bond market indices 12-month trailing return (for month ending June 30, 2023)	
Short-term index	1.4%
Intermediate-term	3.1%
Three-month T-Bill (C$)	3.4%
Three-month T-Bill (U$)	3.4%

Wealth Management
Dominion Securities

This document may contain forward-looking statements about a fund or general economic factors which are not guarantees of future performance. Forward-looking statements involve inherent risk and uncertainties, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement. All opinions in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.This document has been prepared for use by the RBC Wealth Management member companies, RBC Dominion Securities Inc.*, RBC Phillips, Hager & North Investment Counsel Inc., RBC Global Asset Management Inc., Royal Trust Corporation of Canada and The Royal Trust Company (collectively, the "Companies") and their affiliate, Royal Mutual Funds Inc. (RMFI). *Member – Canada Investor Protection Fund. Each of the Companies, RMFI and Royal Bank of Canada are separate corporate entities which are affiliates. "RBC advisor" refers to Private Bankers who are employees of Royal Bank of Canada and licenced representatives of RMFI, Investment Counsellors who are employees of RBC Phillips, Hager & North Investment Counsel Inc. and the private client division of RBC Global Asset Management Inc., Senior Trust Advisors and Trust Officers who are employees of The Royal Trust Company or Royal Trust Corporation of Canada, or Investment Advisors who are employees of RBC Dominion Securities Inc. In Quebec, financial planning services are provided by RMFI which is licenced as a financial services firm in that province. In the rest of Canada, financial planning services are available through RMFI, Royal Trust Corporation of Canada, The Royal Trust Company, or RBC Dominion Securities Inc. Estate and trust services are provided by Royal Trust Corporation of Canada and The Royal Trust Company. If specific products or services are not offered by one of the Companies, clients may request a referral to another RBC partner. The strategies, advice and technical content in this publication are provided for the general guidance and benefit of our clients, based on information believed to be accurate and complete, but neither the Companies, RMFI, nor Royal Bank of Canada, nor any of its affiliates nor any other person can guarantee accuracy or completeness. This publication is not intended as nor does it constitute tax or legal advice. Readers should consult a qualified legal, tax or other professional advisor when planning to implement a strategy. This will ensure that their individual circumstances have been considered properly and that action is taken on the latest available information. Interest rates, market conditions, tax rules, and other investment factors are subject to change. This information is not investment advice and should only be used in conjunction with a discussion with your RBC advisor. None of the Companies, RMFI, Royal Bank of Canada nor any of its affiliates nor any other person accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. In certain branch locations, one or more of the Companies may carry on business from premises shared with other Royal Bank of Canada affiliates. Notwithstanding this fact, each of the Companies is a separate business and personal information and confidential information relating to client accounts can only be disclosed to other RBC affiliates if required to service your needs, by law or with your consent. Under the RBC Code of Conduct, RBC Privacy Principles and RBC Conflict of Interest Policy confidential information may not be shared between RBC affiliates without a valid reason. ® / TM Trademark(s) of Royal Bank of Canada. RBC Wealth Management is a registered trademark of Royal Bank of Canada. Used under licence. © 2023 Royal Bank of Canada. All rights reserved.

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. ® / TM Trademark(s) of Royal Bank of Canada. Used under licence. © 2023 RBC Dominion Securities Inc. All rights reserved. 23_90423_LZQ_011 (07/2023)