Sandra Sparanese Financial Focus

Wealth Management
Dominion Securities

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RBC Dominion Securities Inc.

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Dear Clients and Friends,

Summer greetings from RBC Dominion Securities in Victoria! This is the time of year that I feel very fortunate to live in this beautiful part of the world.

In the last quarter, markets have continued to recover from the lows of last year at the start of the pandemic. Gains have been based on solid economic data and recovery as we attempt to move closer to "normal" which may look different in future years. With vaccination rates increasing rapidly, we continue to expect consumer spending will increase with pent-up demand in many areas of the market. Third wave COVID cases should have a lesser impact than previous ones as most of the vulnerable have been inoculated and warmer summer temperatures may limit the spread of the virus. Individuals and businesses have largely adapted to the new circumstances and therefore we do not anticipate that stock markets will re-test the lows of March, 2020 at the onset of the pandemic.

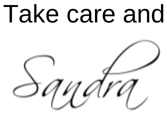
We have seen increased market volatility in the last few weeks, and investors should expect this to continue over the summer months. The potential implications of higher inflation, supply-chain constraints, and economic overheating, along with jitters about U.S. Federal Reserve interest rate policy, have contributed to the market's pause and prompted sector rotation. Growth stocks have lagged, particularly those that are technology-oriented. Value sectors have held up better, especially the most economically sensitive areas, otherwise known as cyclicals. Markets will continue to have potential risk as we work through this next stage of the pandemic but our RBC analysts continue to suggest that any market pullbacks should most likely be short in duration.

Investors should continue to invest in strategies that are consistent with their individual risk tolerances. We believe investors should be adopting a longer-term perspective, positioning portfolios for the time when the pandemic is a distant memory. Market volatility can provide opportunity for clients with cash positions and longer term time horizons and we will continue to be proactive with recommendations as market conditions change.

I continue to be pleased with the efforts that our firm has made to allow us to continue to stay in touch with our clients through the pandemic. We now have the ability for clients to safely E-sign documents using our secure technology platform. My team members, Heather and Mary, have been instrumental in the success of implementing our new and improved systems with clients.

I appreciate the confidence that my clients have in my abilities to guide them through the various stages of life from a financial perspective. I keep telling myself that this pandemic will eventually end and we can go back to seeing each other in person once again. I look forward to that day!

Take care and stay safe,



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 COV1D-19 pandemic, reopen and demand rises. The return of inflation has important implications for fixed-income investors.

Why is inflation on the rise?

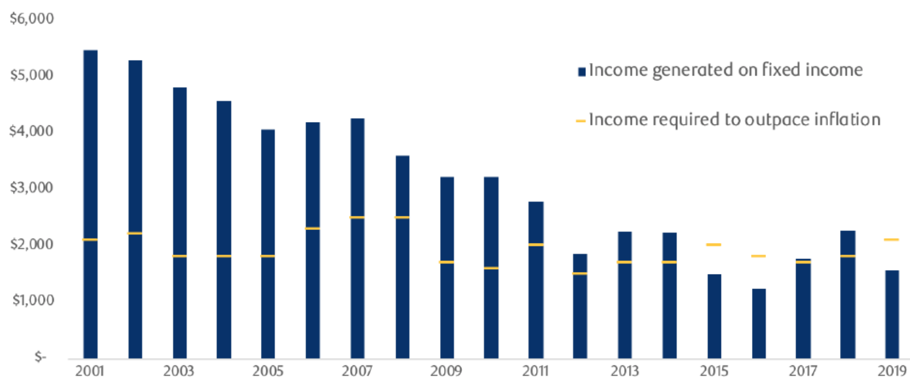
In large part, it's due to the response to the pandemic:

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).

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

With the COV1D-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).

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

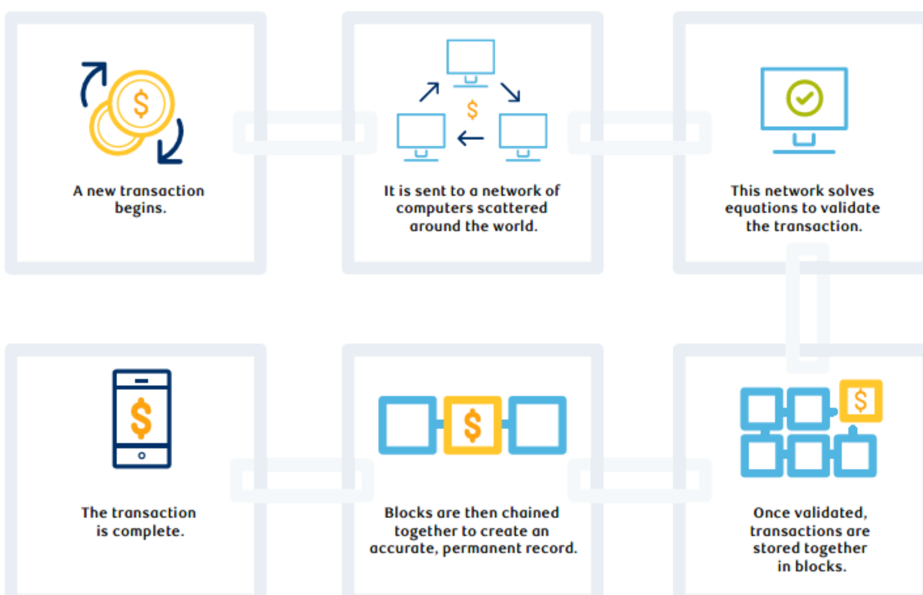
Cryptocurrencies may or may not survive in the face of global central banks deciding to issue their own digital currencies. After all, will people trust a private corporation to act as a backstop to a functional currency, versus a central bank? However, the technology that underpins them - called "blockchain" - 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).

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