THE
Grey Gazette

Wealth Management
Dominion Securities

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Welcome to the **Grey Gazette**

The Grey Gazette brings to you in this issue an economic commentary from Jim Allworth, co-chair of the RBC Global Portfolio Advisory Committee, with a commentary on Brexit.

We would like to welcome back Stacy DaSilva to our team. She worked with the Grey team in 2002/03 and has returned to us after raising her children. We are very happy to have her rejoin us and she can be reached at 780-944-8855. Stacy will be handling all administrative questions.

Chris and Bruce have been busy attending a number of courses to further our breadth of services to our clients in the areas of customized tax and estate planning, overall wealth planning and business succession planning. We welcome the opportunity to discuss strategies related to business risk, transition, succession, retirement and tax, and incorporate our integrated planning and wealth management services to build and protect your wealth.

We would like to take this opportunity to thank all our dedicated clients for their support. Our business has grown successfully over the past couple of years through your referrals and we thank you for this. If you know of someone who could benefit from our services, please don't hesitate to call us.

Our city and office are decorated in orange to celebrate the Oilers' playoff run!
GO OILERS GO!

Wait and see

By Jim Allworth

"Uncertainty" has taken on a new meaning over the past year. The surprising Brexit referendum result apparently kicked off a new interlude (or perhaps "era") in which the shifting priorities of voters disrupt traditional party allegiances and the electoral equilibrium.

It was the Trump upset that convinced many that Brexit was not a one-off. Observers are now looking ahead to French and German elections later this year with some trepidation. And meanwhile the emerging policy ramifications of both Brexit and the new administration in Washington remain murky and highly fluid.

It has taken Britain nine months just to get to formally asking for a "divorce" from the EU. That has triggered the start of a two-year negotiating period at the end of which the U.K. will be out of the EU regardless of whether any agreement on continuing a relationship has been reached; many believe the actual negotiating period will drag on for much longer.

Meanwhile, uncertainty takes a toll. The pound is down 16% since the vote and has been down as much as 20%. As a result, U.K. inflation is now rising briskly and expected to move above 3% later this year, squeezing household purchasing power and possibly triggering an unwelcome interest rate hike from the Bank of England.

Up to now, the economic fallout has been less pronounced than initially feared. While the big drop in the pound had been expected to boost exports, so far that has not happened. Rather, any strength has emanated from consumer spending fueled by a drawdown of savings and run-up in consumer debt. However, recently, consumers have backed off, as inflation pinches real incomes. Retail markdowns are unusually high, while retailers' profit margins and confidence are falling.

House prices have plateaued in much of the country and have been falling in greater London for more than a year. That trend may continue now that a few international banks have begun implementing preliminary contingency plans for moving some operations and personnel to the Continent, while some manufacturers have stated they are drawing up such plans in case they are needed.

It's fair to say that the policy outlook is not a great deal clearer than nine months ago and on some fronts less so. Nor is there any prospect for clarity to arrive any time soon – either from the U.K. or the EU.

Muddling through

In the U.S. it's still comparatively early days for the new administration. Its policy preferences for fiscal stimulus, tax cuts and deregulation remain in the formative stage. Once formally proposed, they are unlikely to sail through Congress quickly or unaltered.

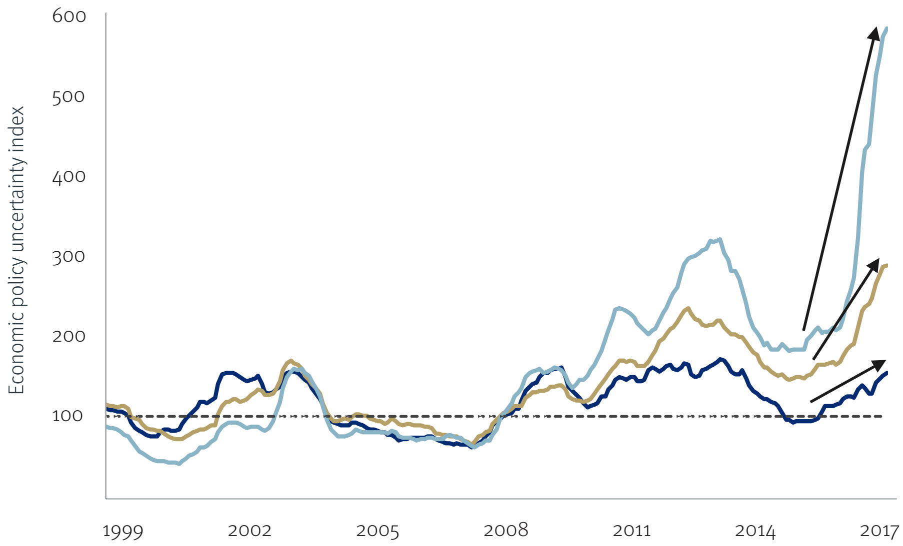
President Trump's own party tends to be reluctant on infrastructure spending, especially if it is not accompanied by offsetting cuts elsewhere in the budget. Some deep spending cuts have been proposed but are getting pushback from legislators in both parties. And tax cuts, unless they are "revenue neutral" (i.e., largely offset by spending reductions or other revenue increases) will need some significant Democratic support.

Our view continues to be that any stimulative benefits to the economy from lower taxes and/or infrastructure spending are unlikely to arrive before late 2017 or more fully in 2018. So too for harder-to-handicap policies to do with immigration, protectionism or foreign profit repatriation. And it's far from clear the latter group will add anything to economic prospects and could detract from them.

In the meantime, there are costs being borne by the U.S. economy without any offsetting benefits. Higher bond yields are hurting housing affordability. A stronger dollar is a headwind for U.S. exports. And tax uncertainty is making it difficult for businesses to plan or commit to new capital investment with confidence.

On balance, and despite the elevated levels of business and consumer confidence, the lack of policy clarity may dampen U.S. GDP growth in

Global policy uncertainty high on rise of populism



Note: 12-month moving average shown in chart. Mean = 100 for U.K. and EU; 1985–2009 mean = 100 for U.S.
Source: PolicyUncertainty.com, Haver Analytics, RBC GAM

the first half; the first quarter already looks a little soggy. However, looking further ahead, some degree of fiscal stimulus and tax relief seems bound to arrive by 2018, which should provide a bump for GDP growth next year and a somewhat bigger lift for U.S. corporate profits.

But the new administration's infrastructure spending initiatives, whatever their eventual scale, will be layered onto an economy where labour conditions are already very tight – the unemployment rate is approaching a 45-year low, unemployment insurance claims are at all-time lows, while small- and medium-sized businesses (55% of total U.S. employment) overwhelmingly report their biggest problem by far is an inability to find candidates to fill available job openings.

Recession risks

Rising wage inflation (already here) together with any higher import prices that result from border taxes or tariffs could force the Fed off its patient, wait-and-see approach to raising rates that it has mapped out for this year, into a brisker, more pre-emptive mode in 2018. If things play out that way, then the odds of a U.S. recession arriving in 2019 will have gone up considerably from where they are today.

In our view, it is highly likely the next U.S. recession will be triggered, as recessions nearly always have been, by the arrival of restrictive monetary conditions – i.e., the combination of prohibitively high interest rates and an unwillingness by banks to extend credit. We don't think those conditions are likely to arrive before 2019. Until they do, we expect to remain committed to equities in both Canadian and U.S. portfolios.

For further thoughts on how we would structure investment portfolios, and a discussion of what is facing Brexit negotiators in the coming two years, please ask for the April edition of *Global Insight*.

Jim Allworth is co-chair of the RBC Global Portfolio Advisory Committee.

Denny Smith

Estate Planning Specialist

The Grey Wealth Management Group of RBC Dominion Securities is pleased to introduce to you Denny Smith. We work closely with Denny to address and find solutions for any insurance needs that our clients may wish to discuss.

Denny is a valuable member of our team, helping you create, preserve and increase your wealth by incorporating insurance solutions into your comprehensive financial plan. He is able to provide innovative and tax-efficient solutions to various wealth management issues.

Having begun his career in the financial services industry in 2003, Denny has a range of experience working in both sales and management positions. He prides himself on fostering high trust relationships and matching client goals with ideal solutions. Specializing in working with families, professionals and business owner clients, including extensive work with physicians, Denny offers unique and customized life and living benefits insurance based solutions to meet your needs.

Denny obtained a Bachelors of Commerce degree (2005) from the University of Alberta, Alberta School of Business and plans to continue his studies to obtain the Chartered Life Underwriter (CLU) designation in 2016. He is also an active member of ADVOCIS, The Financial Advisors Association of Canada, which is the oldest and largest voluntary professional membership association of financial advisors and planners in Canada, where he previously held a 5 year board member position for the Edmonton Chapter.

Denny lives in St. Albert, located just outside Edmonton with his wife and two children. He is very active in community organizations and volunteers numerous hours through the year with a variety of fundraising initiatives that focus on eradicating illness, health and well-being.

Comprehensive insurance planning

Working closely with us, Denny employs a comprehensive process to assess your wealth management needs and then recommends creative, tax-exempt insurance strategies to help address them. For more complicated situations, he works with your other professional advisors in the development of appropriate solutions.

Denny can focus on both personal and corporate insurance solutions to help increase your net worth, reduce the impact of taxation and secure your wealth through a variety of life insurance, annuity, and living benefits solutions. He can also assist you in structuring your insurance contracts to ensure your wealth is transferred to your heirs in accordance with your wishes. To help you receive high-quality, cost effective insurance solutions, Denny evaluates various insurance offerings from Canada's top-ranked insurance providers.

To schedule a complimentary meeting with Denny Smith, please contact us.

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