RBC Dominion Securities Inc.

Wealth Management
REVIEW

Wealth Management
Dominion Securities

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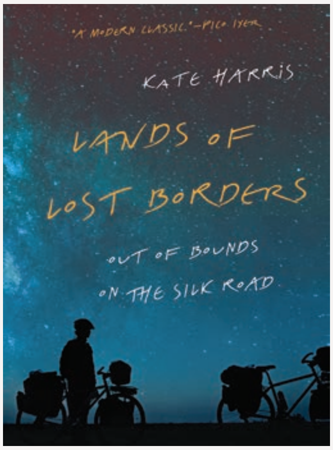

In brief

Expanding boundaries

Kate Harris of Atlin, B.C. is the winner of the 2019 RBC Taylor Prize for her book *Lands of Lost Borders: Out of Bounds on the Silk Road*. Harris' book tells her story of cycling Marco Polo's Silk Road. "Vivid descriptions of the places and people she meets inspire deep and eclectic reflections on the nature of the world, wilderness, and the struggle of humans to define and limit them," the jury notes in its citation. The RBC Taylor Prize, now in its 18th year, recognizes excellence in Canadian literary non-fiction. All finalists receive a $5,000 honorarium, and the winner a further $25,000. The other finalists were Bill Gaston (Victoria, B.C.), Ian Hampton (Vancouver, B.C.), Elizabeth Hay (Ottawa, Ontario) and Darrel McLeod (Sooke, B.C.).

To learn more, please visit: www.rbctaylorprize.ca

Late cycle

By Jim Allworth

One way of looking at the two North American benchmark averages – the U.S.'s S&P 500 and Canada's TSX Composite – would be to note they are a few percentage points higher than at this time last year. A more vivid description would be that they are close to regaining last year's summer peaks after enduring a deep, scary correction in the last four months of 2018.

Valuations are not too different than they were last summer. The S&P 500 is trading at about 17 times (x) consensus forward earnings estimates versus 17.4x at the market peak in September, while the TSX remains comparatively heavily discounted, at less than 15x, as it was last summer. What have changed are investor expectations.

Using the S&P 500 as an example, all the way from mid-2017 until the late summer of 2018, the index was trading at a rich 19-20x *trailing* 12-month earnings per share. But investors weren't put off because one-year forward estimates for earnings were rising at a brisk 10%. As a result the P/E multiple on *forward* earnings was consistently at a less worrisome 17-18x.

Moreover, investors had a much greater degree of confidence in those earnings estimates – for two reasons. First, because a significant part of the forecast earnings growth was coming from the newly arrived lower U.S. corporate tax rate – even if a company's *pre-tax* profits were no higher than a year earlier, its *after-tax* profits were, for sure, going to be on average 8% higher. And, second, because management forward guidance was very confidently optimistic, and had been long before the U.S. administration had even floated the idea of tax cuts.

Ripple effect

Canadian corporations only benefitted directly from the U.S. corporate tax cut through their American subsidiaries. But a buoyant, high-earning U.S. corporate sector, together with a confident, employed American consumer, has typically been very good for Canadian economic and corporate profit growth. Analysts

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certainly thought so: forecast TSX earnings per share rose by 18% from August of 2017 to August of 2018.

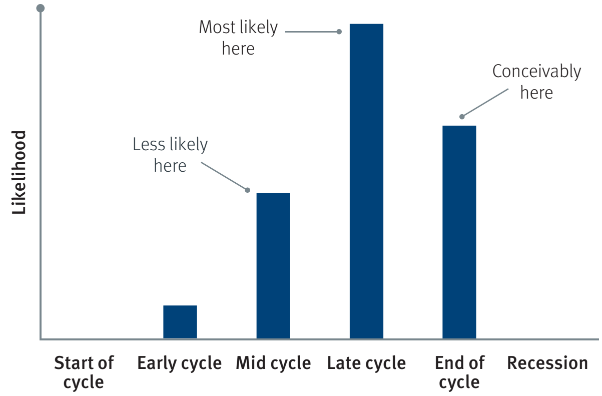
Despite that earnings optimism, the TSX P/E multiple remained at a larger-than-normal discount to the U.S., reflecting the then ongoing NAFTA re-negotiations, the imposition of tariffs and threat of more to come, slowing growth in China, and the rising level of policy uncertainty emanating from the U.S. To these were added concerns around high, and rising, domestic household debt and potentially destablizing real estate volatility.

End game

The "expectations" picture is very different today: forward earnings estimates for this year are falling, not rising, all the way from $179 per share for the S&P 500 to $168 – representing a skinny 4% improvement over 2018 results. This has left the trailing 12-month and forward P/E multiples at a more subdued 17.3x and 16.7x respectively. TSX 12-month forward earnings per share estimates have fall fallen by 5% from their November peak.

Shaping today's diminishing earnings expectations is the widespread view that the longest of all U.S. economic expansions is in its final stages. The Chief Economist at RBC Global Asset Management, Eric Lascelles, rates 17 different variables as to which phase of the economic cycle – early, mid, late, end of cycle, or recession – each is currently in. He noted in a recent commentary: "Whereas a year ago 'mid cycle' was giving 'late cycle' an honest run for its money, the 'mid cycle' argument has withered markedly over the past year. Simultaneously, the 'end of cycle' argument has strengthened substantially …"

U.S. business cycle probability



Note: Calculated via scorecard technique by RBC GAM. Source: RBC GAM

That said, even as the early and mid-cycle phases of the U.S. economic expansion both lasted for an extended period, the end-of-cycle phase could prove to be drawn out, too. All the more so given that every major central bank has indicated they are in no hurry to raise rates from here. The Peoples' Bank of China, for its part, has been easing monetary policy aggressively.

Waiting for a sign

Since it is our view that the U.S. economic cycle very largely determines the rhythm of the Canadian cycle, and heavily influences the global outlook, we are focused on pinpointing the likely start date of the next U.S. recession well ahead of time. Of several, reliable leading indicators of an impending U.S. economic downturn, so far none have definitively reached a level that would say a recession is on the way. However two of these that have typically given the longest lead time ahead of the recession start date – the gap between short-term and long-term interest rates, and the trend in U.S. unemployment insurance claims – are both within striking distance of giving such a signal.

The reassuring news is that even once such a signal is given the ensuing recession is typically a year or more away from starting. Less comforting is the fact the stock market usually peaks some months before the recession begins.

We have been impressed by the power of the markets' liftoff from the depressed December correction lows. Some measures of market breadth have reached new highs ahead of the averages. Some time over the next months or quarters, we expect most broad market averages will reach new high ground as well. If, by that time, our leading indicators are signaling a U.S. recession is on the way, then we expect to counsel using that strength to adopt a more defensive stance toward equities.

Until such signals arrive, our recommended stance is what it has been for the better part of nine years: Give equities the benefit of the doubt.

For a more detailed update on our outlook for fixed income and equity markets, ask for the latest edition of RBC Wealth Management's Global Insight publication.

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

Seven tips for choosing your executor

The person you name as your executor has a very important responsibility – settling your estate according to your wishes. By naming someone as your executor, you may believe you are honouring them. However, you are also giving them numerous duties – not to mention a potential personal liability. That's why it's important to carefully consider who you choose as your executor.

In their Will, people often name the person closest to them to be their executor – they trust them to understand their wishes and to handle their beneficiaries appropriately. But the best person for the job may not be the obvious choice. Here are seven things to consider when choosing your executor:

1. Can they handle family dynamics?

Often, there is family conflict when an estate is being settled. This is especially true when you're transferring wealth from one generation to the next, or if you have children from multiple marriages. What's more, it can be an emotionally charged time – people are often not thinking straight, which can lead to misunderstandings.

When deciding on an executor, look for someone who is fair, diplomatic and able to manage complex family dynamics. Your executor may need to explain why you made certain decisions in your Will, and gently encourage family members to respect your wishes. If there's a dispute, they may also need to act as a mediator.

2. Are they savvy about financial issues?

Being an executor is a bit like being a financial advisor, accountant and lawyer – all rolled into one. Your executor doesn't necessarily need to be an expert in all these areas, but should be knowledgeable enough to deal with them, and know how to access experts when required. Consider naming an executor who is detail-oriented, has their finances in order, and has experience dealing with tax and legal matters.

3. Are they located near you?

It may be difficult for an out-of-town executor to travel back and forth, especially if they have career or family commitments. In addition, they may not be familiar with tax and legal issues in your province. As a result, it's usually a good idea to choose an executor who lives nearby.

4. Do they have the time?

Fulfilling the many responsibilities of an executor takes time. Among their many duties:

- Reviewing and probating the Will
- Making final arrangements
- Taking an inventory of the estate property
- Protecting valuables
- Managing investments
- Paying bills, debts and taxes
- Dealing with beneficiaries
- Working with tax and legal professionals

Simply put, all this can be very difficult for busy people – even if they are financially capable – so it makes sense to choose an executor who can make the time commitment.

5. Are they in good enough health?

Often, people name their spouse or close friend to be their executor. However, age and health can be a concern. Generally, it's a good idea to name someone who is younger than you, and likely to be in good health when the time comes to settle your estate.

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6. Are they actually willing to do it?

Sometimes people name executors without even asking them, assuming they will feel honoured. That may be true, but it's also possible that they'd rather not take on the responsibility. Of course, they may be reluctant to say that, not wanting to hurt your feelings. Give them the opportunity to decline, guilt-free: "Are you sure you're OK with this? There are a lot of duties – I can choose someone else."

7. Do they need professional assistance?

When the time comes, many executors are surprised to learn how many duties they have as an executor, and that there are financial consequences – and potential personal liability – if they fail to carry them out properly. At this point, they often decide they need professional assistance from a corporate executor who has the expertise to settle an estate, and can act as a neutral third party with beneficiaries. You can also name a corporate executor in advance in your Will, to either support a friend or family member as their co-executor, or to act as sole executor.

For information on naming an executor, or for a referral to a corporate executor, please contact us.

Interest rates applied to account balances as of March 22, 2019*

	Canadian dollar accounts	U.S. dollar accounts
All credit balances	0.05%	0.05%
Debit balances under $10,000	5.95%	7.75%
Debit balances $10,000 – $24,999	5.70%	7.50%
Debit balances $25,000 – $49,999	5.45%	7.25%
Debit balances $50,000 – $99,999	5.20%	7.00%
Debit balances $100,000 and over	4.95%	6.75%
All debit balances for registered accounts	5.95%	7.75%
All credit balances for registered accounts	0.05%	0.05%

The interest rates that will be in effect for debit balances in cash and margin accounts fluctuate with the Royal Bank prime rate as follows:

Debit balances	Canadian dollar rates†	U.S. dollar rates†
Under $10,000	CAD Prime + 2.00%	USD Prime + 2.25%
$10,000 – $24,999	CAD Prime + 1.75%	USD Prime + 2.00%
$25,000 – $49,999	CAD Prime + 1.50%	USD Prime + 1.75%
$50,000 – $99,999	CAD Prime + 1.25%	USD Prime + 1.50%
$100,000 and over	CAD Prime + 1.00%	USD Prime + 1.25%

† Based on Royal Bank prime rates as of March 22, 2019. CAD Prime = 3.95% and USD Prime = 5.50%. Rates are subject to change*.

* RBC retains the right to change interest rates on a discretionary basis. A committee comprised of individuals representing various authorities within RBC Dominion Securities administers these interest rates. These rates are adjusted from time to time based on various factors, including, but not limited to, competitive analysis, Bank of Canada and other bellwether rates and/or cash rates. Interest amounts less than $5 are neither charged nor paid on regular accounts, and interest amounts less than $1 are neither charged nor paid on special product accounts. Rate changes of less than 1% will be processed on the 22nd of the month. The average daily cash balance for the month determines the tier that will be used to establish the rate. For interest rates on balances other than CAD or USD, speak to your advisor, or go to www.rbcds.com/cash-margin-rates.html.

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