Wealth Management
Dominion Securities

Portfolio Advisor

Fall 2023

Around the world in 80 seconds

Canada

Led by a surprising 0.2% contraction in second-quarter GDP, the Canadian economy is showing signs of mounting weakness. Once-resilient Canadian consumers have at long last run down their extraordinary savings amassed during the pandemic – one of the primary sources of the outsized purchases of goods and services that fueled the highest inflation in decades – while the labour market has begun to strain under the weight of rapidly slowing demand. Interest rate increases by the Bank of Canada are weighing heavily on consumers and businesses, reducing spending and investment further. With the global economy also showing signs of weakness, the probability that the country has entered into a sharply lower economic growth phase or even an outright recession (or will in the coming months) has risen significantly, and equity markets have pulled back over the late summer and early fall in response..

United States

The U.S. Federal Reserve's (the Fed's) aggressive interest rate increases since the spring of 2022 have begun to create cracks in what has been an otherwise remarkably resilient U.S. economy over 2023. While the labour market remains solid, job openings have begun to fall sharply while jobless claims have begun to rise. With housing also taking a negative turn, the country appears poised to begin its march towards an economic slowdown or outright recession in early to mid-2024. Markets have turned downwards and volatile in the face of uncertainty over the Fed's intentions to further increase rates, with bond yields soaring to levels not seen since 2007, and even the much-vaunted Technology sector is beginning to show signs of weakness.

Europe

The region continues to strain under the combined impact of high inflation, which has substantially exceeded that of North America, and the sharply higher interest rates delivered by central banks designed to combat that inflation. The area's economic behemoth, Germany, has already slipped into recessionary territory, making it highly likely that the rest of the continent will soon do the same. Soaring heat this summer scorched much of Europe, killing over 70,000 people and hurting spending and economic activity. While the region's bourses have performed well over the summer, concerns that central bankers will be forced to extend interest-rate hikes to combat slowing, but still-troublesome inflation has pushed prices down more recently, and leading indicators are painting a bleak picture for the months ahead.

Emerging markets

A surging U.S. dollar and rising interest rates are taking a toll on Emerging Market nations, driving up borrowing costs while stifling growth. China's troubled real estate sector and limp economic growth has hit equity values, while sending a chill through developed markets as well. While we expect earnings growth in Emerging Markets to rise faster than in developed markets over the next two years, patience over the coming months will be required as capital flows adjust to the changing monetary regimes across the world, and a more stable market is reestablished following China's sharp equity market downturn.

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

RBC Dominion Securities Inc.

Turning lemons into lemonade

Five ideas to help you survive and thrive through market downturns

"Life is 10% what happens to you, and 90% how you react to it."

\- Charles R. Swindoll

Investors today can hardly be blamed for feeling disappointed about the performance of equity and bond markets, especially in Canada. The S&P/TSX Composite Index is essentially flat year-over-year (price return as of October 31, 2023). But while you can't control the markets, you can control how you react to them. What's more, you can also consider strategies to improve your financial situation – even when markets are volatile. Here are five ideas that can help:

1. Don't panic – time and history are on your side

Unfortunately, there are times when markets do not deliver the returns we'd like. But looking at the history of markets, periods like the ones we face today are not unusual – nor are they something to fear or change our course over. In fact, downturns for investment markets are historically excellent opportunities to take advantage of lower asset prices, while waiting for more normal conditions to return to benefit from their rebound. While there are always reasons not to invest, looking at the following chart shows why crises can really be opportunities in disguise:

Staying invested over time has its rewards

The growth of $10,000 from march 2002 to February 2022

The growth of $10,000 since March 1, 2002. An investment cannot be made directly in an index. Graph does not reflect transaction costs, investment management fees or taxes. If such cost and fees were reflected, returns would be lower. Past performance is not a guarantee of future results. Performance data as of February 28, 2022.

Source: RBC Global Asset Management Inc.

2. Tax planning: Convert capital losses into tax advantages

By selling investments that have gone down in value, you can turn "lemons" into "lemonade" – at least from a tax perspective. Here's how. First, consider whether you have any investments in your non-registered account that are worth less than what you paid for them. Do they still meet your investment goals? If not, it can make sense to consider selling them, in order realize the capital loss. That's because you can apply the capital loss against any taxable capital gains realized in the current year (or any of the previous three years). This can reduce your taxable capital gains. We can help you identify which investments to consider selling. You should also speak to a qualified tax advisor to ensure this strategy makes sense for you, given your individual situation.

3. Charitable giving: Giving is its own reward, but giving "in kind" is smart planning

Do you have securities like stocks that have appreciated in value? Are you considering selling them and donating the proceeds to charity? To maximize your gift, consider donating them in-kind instead. If you give actual securities in-kind (i.e., transfer directly to the charity), the donation is assessed at the fair market value of those in-kind assets – AND you do not pay the usual capital gains tax. If you sell those assets and donate the proceeds in cash, you will have to pay taxes on the capital gains AND you will consequently reduce the net donation proportionally.

4. Business management: When markets are cold, consider an estate freeze

If the value of your business shares has recently declined, consider an estate freeze or refreeze –particularly if your company is expected to grow in value once market conditions rebound. An estate freeze may help limit the value of the company that will be taxed in your hands upon death, and also shift future growth to your successors or other family members.

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5. Financial planning: Review your plan and your immediate cash-flow needs

A written financial plan or retirement projection can help to put market volatility into perspective. It's important to know the options available if your plan is off track. If you are concerned you may not meet your long-term objectives, consider any actions you can take in order to meet your goals. For example, if you are approaching retirement, can you continue working an additional few years? Can you reduce your retirement expenses? Can you save more now?

We can help

Volatile markets are tough on investors, often straining their patience, and tempting them to veer off plan and make poor long-term decisions based on emotions rather than reason. We can help figure out how to turn the lemons the market is handing you today into the advice and options that can pay off for years to come.

Don't let April be the cruelest month

Seven year-end tax planning strategies

Poet T.S. Eliot wrote in 1921 that "April is the cruelest month", suggesting that it brings with it the pain of rebirth and renewal, while also reminding people of their past failures and losses.* Canadians might say that April is the cruelest month for another reason: it's tax time. And, for some of us, it can bring regret for not taking the steps we could have taken to minimize our tax bills when we had a chance.

Fortunately, there some things you can do before year's end to manage and reduce your tax bill this coming April.

1. Tax-loss selling

With tax-loss selling, you intentionally sell an investment to lock in a capital loss, in order to offset taxable capital gains realized on the sale of other investments – and potentially reduce your taxes. A capital loss realized in the current tax year is first used to reduce any capital gains realized in the same year. If there are excess capital losses, they can be used to offset capital gains realized in any of the three previous tax years (i.e., 2020, 2021 and 2022) to potentially generate a tax refund. As well, net capital losses realized in the current tax year can be carried forward indefinitely and used to offset future capital gains. Before selling an investment for tax purposes, it's important to consider whether or not the investment still meets your investment needs. We can help you assess your portfolio and identify potential tax-loss selling candidates – before the year-end deadline. Remember – before implementing this strategy, you should consult with your professional tax advisor.

2. Deferring your capital gains

When you sell an investment that's held in a non-registered account for a profit, you may trigger a taxable capital gain. If you have investments you're thinking about selling at a profit, consider whether it makes sense to wait until the beginning of 2024 to do so. By waiting, you can delay any taxes due on the capital gain until April 30, 2025 (instead of April 30, 2024). What's more, you may pay less tax if you expect to be in a lower tax bracket in 2024 compared to 2023.

3. Year-end bonus

If you are eligible, and you anticipate having a lower marginal tax rate next year, consider deferring the receipt of your year-end bonus (if your employer allows it) to early 2024 to reduce the tax bite. And, if your employer allows it, reduce withholding taxes at source by contributing the amount directly into your RRSP (if you have the eligible space for the 2023 tax year).

4. Charitable donations

Donations to eligible charities create tax deductions. Remember that to be eligible to be claimed on your 2023 tax filing, you must make the donation by **December 29**. If you are considering donating eligible securities (like stocks) in kind, it may take some time, so plan accordingly to ensure you don't miss the cut-off. It can be worth it – donating in kind allows you to avoid paying taxes on any embedded capital gains, and the donation is valued at the fair market value of the asset, not its cost or adjusted cost.

5. RRSP contributions if you are turning 71

If you are turning or have turned 71 in 2023, you must "mature" (close) your Registered Retirement Savings Plan (RRSP) and transfer your assets to a Registered Retirement Income Fund (RRIF) by December 31 (or purchase an annuity). If you have earned income in 2023, consider making one last RRSP contribution based on your 2023 earned income before your RRSP matures. You will have to pay a 1% overcontribution penalty – but the tax savings should outweigh this. Otherwise, this contribution room will be lost, and you miss out on the tax deduction – unless you have a younger spouse under age 71. If you do, consider making the contribution to a spousal RRSP in 2024, as this still allows you to use your RRSP contribution room without incurring any over-contribution penalty. You can contribute to a spousal RRSP until the end of the year your spouse turns 71.

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6. Other year-end contributions

Along with charitable donations, here are a few more contributions to make before year's end to maximize their benefits:

- **TFSA:** The Tax-Free Savings Account (TFSA) 2023 contribution amount is $6,500, and you can catch-up on any previous eligible contributions at any time. Tip: If you plan to withdraw any funds from your TFSA in the near term, consider doing so before the end of the tax year. You gain back TFSA contribution room on withdrawals – and by making withdrawals before year-end, you can recontribute the funds as early as January 1, 2024 (rather than having to wait until the beginning of 2025).
- **RRSP:** To be eligible for your 2023 tax filing, you have until February 29, 2024 (yes, 2024 is a leap year) to make a contribution to your RRSP or spousal RRSP. However, making a contribution sooner rather than later allows you to benefit from tax-deferred growth sooner.
- **RESP:** Consider maximizing the benefits of Registered Education Savings Plans (RESPs) – including tax-deferred growth and government grants – by making a contribution before year end.

7. Expenses

You can deduct or claim eligible expenses on your 2023 taxes if you make them before year's end. These include expenses such as eligible investment management fees, tuition fees, deductible accounting and legal fees, childcare expenses, alimony, medical expenses, and any business expenses (if deductible on your personal taxes).

As always, it's important to consult your professional tax advisor to determine if certain tax strategies are right for you based on your individual tax situation. But taking the time before year's end to do so can help ensure this April doesn't turn out to be the cruelest month.

Talk to us today – we can help.

* April is the cruelest month - How these famous words enlighten us about seasonal depression in the spring. Sami Grace Donnelly, The Auburn Plainsman (April 5, 2023).

Only in Canada, eh? Pity!

We Canadians love to travel beyond our borders, but we remain surprisingly homebound when it comes to where we invest our money.

According to Statistics Canada, we took millions of trips beyond our borders over the 12-month period ending August 2023, with our voyages rising 32% to almost five million, the vast majority of which were to our closest neighbour the United States.[1] And while recent data shows our interest in purchasing non-Canadian assets, especially U.S. ones, rose significantly – to just under $15 billion in the latest month available[2] – we still seem to prefer to concentrate our assets on homegrown choices:

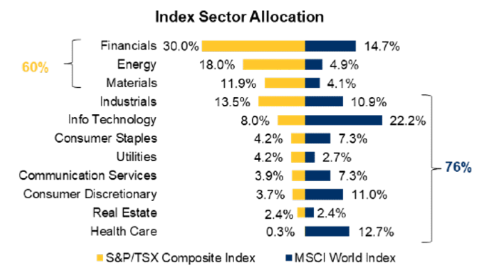
While our home markets provide many excellent investments, the world is a big place full of opportunities to diversify our portfolios, enhance portfolio risk control, and invest in some of the greatest companies in the world. Here are three reasons to get out there and embrace a world of opportunities:

1. A small salmon in a big pond

Looking more closely at our investment portfolios, Canadians may not realize how concentrated they are in domestic holdings. Industry figures put the Canadian content of the average portfolio at approximately two-thirds, with the rest invested heavily in U.S. securities[3]. But on just the equity side of the equation, Canada accounts for less than 3% of total global investment market capitalization[4], meaning domestic investors who are crazy about their homegrown equities may be missing out on more than 97% of available equity investment opportunities. And many of these foreign investment opportunities provide wide-ranging diversification opportunities in leading global companies, such as Microsoft, Apple, Amazon, Nestle, Walt Disney, Unilever, Alphabet, Volkswagen, Toyota, Home Depot, and so many more.

2. Go forth and diversify

From a diversification perspective, Canada's benchmark S&P/TSX Composite Index is heavily weighted in just three sectors, with Financials (30%), Energy (18%) and Materials (12%) accounting for approximately 60% of the entire index. This greatly reduces sector diversification opportunities relative to indexes like the U.S.-based S&P 500, including in such innovative and high-growth areas as Health Care and Technology. For Canadians, allocating a portion of their equity investments outside of their home country can help bring better sector diversification in their personal portfolio. For example, Health Care stocks make up only 0.3% of the Canadian equity market, but are a much larger part of the global stock market at almost 13%.



Source: RBC GAM, as of August 31, 2023.

Within that context, it's not hard to see how much opportunity there is to diversify our wealth across the world. Beyond missing out on a wealth of opportunities for investment beyond our borders, geographic diversification can enhance returns while actually

Source: Investor Economics Household Balance Sheet Report 2022, data as of December 2021.

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reducing risk. So, when one region is underperforming, another could be overperforming, and this has been shown to smooth out returns over time. And this diversification helps investors achieve more stable returns over time, while reducing their volatility of their portfolios.

3. The world is at your fingertips

Fortunately, Canadian investors today have no restrictions on foreign investment ownership in their accounts, like they once did in their Registered Retirement Savings Plans (RRSPs). As well, the ease at which an investor can achieve foreign exposure to equities, fixed income or even a globally diversified portfolio is easier – and more cost-effective – than ever.

Given the enhanced investment opportunities and helping to potentially enhance returns while reducing risk, not travelling outside of and exploring the world beyond our borders seems like a real pity, eh?

Talk to us to learn more.

Sources:

[1] –Travel between Canada and other countries, August 2023 Statistics Canada. (French: Le Quotidien — Voyages entre le Canada et les autres pays, août 2023 (statcan.gc.ca)

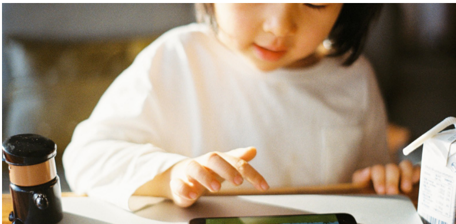
[2] – Canada's international transactions in securities, August 2023. Statistics Canada. (French: Le Quotidien — Opérations internationales du Canada en valeurs mobilières, août 2023 (statcan.gc.ca)

[3] – Ipsos Reid survey of Canadians, conducted July & August, 2015.

[4] – Distribution of countries with largest stock markets worldwide as of January 2023, by share of total world equity market value. Statista (January 2023).

It's bedtime – do you know where your children are surfing?

Five tips to help ensure your children are safely using and navigating social media



Since their introduction, social media apps and platforms have been eagerly embraced by Canadians. According to cybersecurity experts, there are 33 million Canadians who use social media, and of the specific apps, Facebook is the most popular with its 26 million users, while TikTok is the fastest growing.[1]

While most of us use social media safely and securely, our youngest social media users can be vulnerable. Children under 13 in particular face real and substantial dangers on and through social media, including cyber bullying, online luring, malware, inappropriate content, and online scams. And controlling their kids' access to and engagement with social media is no easy thing to manage for parents. According to a recent report from MediaSmarts called Life Online (and the first in a series of reports released as part of the latest phase of "Young Canadians in a Wireless World", a national survey of 1,058 youth ages 9 to 17 conducted in Autumn 2021), 86% of Canadian children aged nine to 11 "have an account on at least one platform that requires users to be 13 or older, and almost half of young people are worried they spend too much time online" – yet almost 60% of them would be "unhappy if they had to go offline for a week."[2]

Social but secure – five tips to keep kids safe online

Perhaps because of its pervasiveness and kids' online savviness, social media is getting a lot of unsupervised facetime with our kids. The same study from MediaSmarts found that 60% of parents aren't checking up on their kids' online behaviour, trusting them to make smart decisions and choosing to empower rather than spy on them. While that might work for some, even the savviest users can be fooled or taken advantage of online.

To help parents engage with, and create a positive strategy to help protect, their kids, here are five tips from our RBC cybersecurity experts:

1. **Beware of fake accounts:** Children can be particularly susceptible to seemingly "friendly" requests to connect through social media sites, especially when the requestor purportedly shares similar interests. As a result, it's important to educate kids to watch out for new "follow" or "friend" requests from people or companies they don't know, given how easy it is for these accounts to be fake. Instead, aim to keep followers to people your kids know personally. And it's a great best practice to review your kids' friend and follower lists regularly, removing anyone they don't recognize or who is no longer in their social circle.
2. **Don't overshare:** Kids are often unguarded when it comes to the information they share online. It's important to be aware of and control what one's kids are sharing, even inadvertently, especially around their activities, location they will be in, and information about friends and family, such as vacation plans and times. As well, never post phone numbers, addresses, birthdays, pet names – these can be used to determine where a child is located, how to reach them directly, where they will be at a certain time, and is often information that can be leveraged to guess passwords or steal vital information.
3. **Control privacy settings:** Most social media sites allow users to control access to their information and posts via privacy controls. Make sure to use them, as doing so will limit exposure to information, while reducing the opportunities for nefarious accounts to learn about and contact your kids.
4. **Disable geotags or location services in apps:** While they can serve an important function, geotags and location services allow phones and other devices to be tracked by location. This creates significant risks, as it allows cybercriminals, fraudsters, and others to see where you — or your children — are at any given moment. Disabling geotagging is particularly important because many smartphones and social media platforms enable geotagging by default.
5. **Set strong security questions:** Another risk to your child's social media account is others accessing it. It can help to occasionally revisit the security questions you or your kids answered when they first set up their account — it's possible they've shared this information with people who are no longer friends. Regularly changing their security questions and other sign-in credentials can help keep their account safe.

Having a conversation with your children – whether pre-teen, teen or even young adult – and collaborating with them to establish a strategy or rules to protect them from online and social media threats, can go a long way to developing smart and safe Internet and social media app users. To learn more about cyber protecting your kids and other loved ones, check out the RBC Cyber Security site at https://www.rbc.com/cyber-security/.

Sources:

[1] https://www.techwyse.com/blog/general-category/canadian-social-media-statistics-infographics.

[2] New research reveals the online lives of youth during the pandemic (newswire.ca).

Stagflation – what to know and four ways to mitigate its impact

Despite central banks' efforts to tame it, inflation remains elevated in North America, while economic growth has begun to stall, especially in Canada. These conditions raise the threat of a sustained period of high and increasing prices and low or even negative growth in the months ahead. And this real and present threat of "stagflation" is hitting the economy and investment markets hard, punishing bond prices through rising yields and stock prices over worries of falling profits. The term combines "stagnant" with "inflation" – and here's what you need to know about it, and four tips to mitigate its impact.

Inflation inflammation

As the economy transitioned through and past the COVID pandemic, demand for goods, and then eventually services, skyrocketed over 2021 and 2022. In the wake of reopening economies across the globe, the pull of surging demand strained global supply chains, and geopolitical events exacerbated the issue. In response, prices and inflation soared, forcing central banks to raise interest rates to quell demand, in turn increasing the threat of an economic slowdown – or even recession.

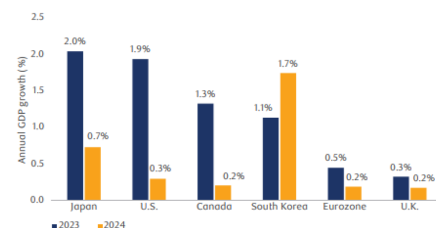
Ongoing "stagflationary" conditions impact investors too, by affecting both bond and stock markets:

- **Bonds:** When investing in new bonds, investors now receive higher interest rates. On the other hand, the market value of their existing bonds, because they pay lower interest rates, is down. That's less of a concern for investors simply holding their bonds to maturity – they can expect their principal to be fully repaid. But it's more of a concern for investors investing in funds which trade bonds before maturity at prevailing market values.
- **Stocks:** Stocks can also be affected, as investors increasingly anticipate companies will struggle to generate sustained profits in these challenging conditions, as inflation drives up costs and reduced spending lowers revenues.

Sticking the landing – aiming for soft, bracing for hard

Unfortunately, the accepted remedy to tame inflation often adds to investors' pain, at least in the short run. In response to rising prices, central banks have had to raise interest rates, in turn increasing borrowing costs for businesses and consumers, and further crimping their dwindling resources. While this can stifle demand and gradually inflation, it can also stifle economic growth. If the central banks cause a recession, especially a painful one, that's called a "hard landing." If they manage to finesse a slowdown but it doesn't result in a recession – or at least a prolonged and nasty one – that's called a "soft landing."

Bumpy road ahead: Global GDP outlook for 2024



Note: As of 08/24/2023. Source: RBC GAM

Fortunately, there is still time for central bankers to engineer a soft landing and avoid a hard one, and a recession, especially a painful one, is not a forgone conclusion – but in Canada, the evidence continues to point to a recession on the horizon, if not one already underway.

Stagflation mitigation

Here are four steps to consider to help mitigate the impact of stagflation:

1. **Debt:** If borrowing costs are rising, it can be timely to review your debt service costs, and to consider reducing debt or deferring purchases that may increase it. Increasing mortgage terms or disposing of debt-laden assets can also reduce the strain on cashflow.

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2. **Investment portfolio:** The market's negative response to stagflation and rising interest rates can provide a "stress test" and an opportunity to review your portfolio with us to determine whether it requires any rebalancing. Taking advantage of lower asset prices can also be a smart strategy when markets are stressed.

3. **Quality:** In times of economic and market stress, certain types of assets tend to perform better –or "less bad" – than others. A focus on assets that are considered high quality – such as blue-chip stocks and investment-grade corporate debt – because they can more consistently perform through challenging economic circumstances can help reduce volatility.

4. **Fixed income:** As central banks have rapidly increased interest rates, the bond market has seen yields soar and prices fall. On the positive side, fixed-interest-rate investments (e.g., GICs) tend to see their returns rise, while newly higher yields on bonds offer the opportunity to "reset" coupon payments at higher levels, and creating the opportunity to enhance fixed-income returns over the longer term.

If you have questions about stagflation and how to mitigate its impact on your portfolio and investment plan, speak to us today.

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