Wealth Management
Dominion Securities

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MARKET UPDATE

August 03, 2022

In our last newsletter update in early July, we had just wrapped up one of the worst six-month periods to start a year in market history. Steadily rising interest rates have also pressured bond prices significantly, leaving very few options for investors to find a positive return in 2022. While we recognize there are still many issues for the economy to work through, the month of July has brought a welcome reprieve from the downside volatility that has been commonplace for much of the year. Many large cap growth stocks (ie. Apple, Alphabet, Amazon) are beginning to show signs of strengthening from their recent June lows, and the past few weeks has seen “growth” stocks start to regain market leadership over “value”. In order to see a sustained market recovery, it is exactly these type of businesses that will have to return to prominence over the relative safety of consumer staples, energy and utilities that have outperformed during the downturn. As of writing (July 28th), the S&P 500 is up over 6% in July, while the NASDAQ is up around 9%. The TSX in Canada is up just 2% on the month, though it is still outperforming on the year. There is still a long way to go to erase the losses on the year, but investor sentiment is showing signs of trending more positively, which is not overly surprising given the historic negative readings seen in the past couple of months.

This past week, the Federal Reserve in the United States announced their second consecutive 75bps rate hike at the July meeting, bringing the overnight rate to 2.25%-2.50%. This decision was almost fully expected by the market going into the meeting, so there were no surprises there. What really matters going forward, is how much the Fed feels they need to hike in future meetings to ensure that inflation is trending back to their longer-term neutral rate target near 2%. Fed Chairman Jerome Powell was careful to note that although fighting inflation is their top priority, they are not looking to hike so much to cause a recession, and still see a narrow path to a soft landing in the economy. They will not be providing the same forward guidance on rate hikes over the coming meetings, as their decisions will be dependent on incoming data looking at inflation trends and unemployment levels. Should there be signs that inflation and supply chain issues are starting to decelerate in any significant fashion over the coming months, it can be interpreted that the Fed will slow the levels of their interest rate hikes, or even stop them altogether. If the Fed begins to soften their aggressive tightening of financial conditions, then that would be a positive development for the market. During the early 1980s in a relatively worse high-inflation environment, the market was able to reverse a 27% bear market in the span of four months, once the Fed began to ease up on their aggressive tactics. We don't know when the market will eventually climb back to previous highs, but when it does happen it can be very sharp and quick.

For our discretionary clients, we performed our semi-annual portfolio rebalance in the first week of July. The net effect of this was buying more equities to bring back their asset allocation to the individual long-term target. This rebalancing strategy is the opposite of a timing strategy, as we will do it twice a year regardless of market conditions. However, with the stock market down roughly 20% at the end of June, it was not a bad time to be adding to quality companies that you plan to hold for the longer term. As always, maintaining discipline as an investor is of the most importance, and this is one way to implement that discipline.

We are still positive on equities going forward with interest rates beginning to trend downward, and retain our market-weight rating on the asset class. Fixed income should also be less of a drag on returns going forward after this period of steadily rising rates, and we maintain a very slight underweight. This will continue to be a market trying to find its footing, especially with all the talk of recession going on. While it is hard to conclude we are seeing a recession in either Canada or the US at this very moment (unemployment is still near all-time lows), the risks to the economy are out there and worth watching closely for any more signs of deterioration.

With summer nearing its halfway point, we hope everyone has been able to take some time off and enjoy the nice weather with family and friends. We'll be keeping an eye on all things market related, and are happy to have a conversation any time you have questions about your portfolio or wealth planning needs.

Registered Education Savings Plans

Free Money from the Government!

We are now moving into August which means the new school year is only weeks away. Those with family members enrolled in a post-secondary institution will have tuition due in the coming weeks and many of you will be contacting us about setting up withdrawals from your Registered Education Savings Plan (RESP). We thought this was an ideal time to remind clients about the benefits of setting up an RESP if you have children or grandchildren you anticipate may choose to pursue post-secondary education one day.

The Establishing an RESP article goes into more detail on what an RESP is and the advantages to using one, including a 20% match from the government on contributions via the Canada Education Savings Grant.

Please let us know if you feel you may be interested in setting up an RESP with us.

The Navigator: Establishing an RESP

In addition to the article on RESPs, we have also included a broader tax planning checklist for students. Being a student can be a very financially stressful time and that has never been truer than it is today.

Taking advantage of the various tax credits and deductions available to students can help to alleviate some of that stress.

The Navigator: Tax Planning Checklist for Students

RBC Premier Banking

A dedicated professional to help with your various banking needs and plenty of cost savings.

We wanted to take this opportunity to make more of you aware of the RBC banking options that may exist for you as a client with RBC Dominion Securities.

Attached is some information on our Premier Banking offer to clients who meet the requirement of $1,000,000 in assets held at RBC DS.

This program offers plenty of savings on bank and credit card fees, preferred lending rates, and importantly a dedicated Premier Banking Advisor that you can call any time to discuss your banking needs.

RBC Private Banking Premier

Many of our clients are already enrolled with our Premier Banking and we have received very positive feedback from them. Please contact us if you would like some more information on this offer, and we can provide an introduction to our Premier Banking Advisor.

As always, please reach out to us directly if you have any questions or concerns related to your portfolio.

Best regards, John, Tim, Liam & Kristen