Wealth Management
Dominion Securities

RBC Dominion Securities Inc.
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Market Update & Report from RBC's Canadian Investment Committee

March 2021

Dear Clients,

We wanted to provide you with some current thoughts on the market, in light of the volatility that has returned in recent weeks. This is not unexpected, as we are coming off some pretty strong gains since the bottom of the market in March 2020. Since that time, there have been some smaller corrections, ultimately making way for new all-time highs for all major market indices in North America.

Recently, there have been plenty of headlines about the rising yield of US Treasury notes (the 5 and 10 year, in particular), and how they affect the stock market. In the short term, we have seen some weakness in equity markets, as the roughly 1.5% yield offered on a 10-year note becomes a little more attractive to some investors. For reference, this note was paying as low as 0.50% back in August.

The question that comes up often here: What does this mean for stocks if interest rates should continue to rise?

For that, we'd like to refer to the attached Macro Perspectives document put together by our Canadian Investment Committee at RBC. There are several interesting charts on this report, but we'd like to point to a couple in particular:

First off, page 3 shows that we are pretty clearly in the early cycle of an economic recovery (coming off the COVID-related recession of 2020). The continued easy monetary policy of the Federal Reserve, along with the US government's determination to provide trillions of dollars to boost the economy and consumer are clear signs that they don't want this economic recovery to take as long as it did after the Financial Crisis of 2008-09. As the economy recovers, it is natural for bond yields to start to rise to try and catch up a bit with the growth of the economy (as can be seen in the chart on page 6).

These increases in yield are not necessarily negative for equities, in fact they can be quite the opposite. Going back over the last 60 years, there have been several periods when the 10-year treasury yield has increased by at least 100 basis points (1%). On average during those periods, the S&P 500 gained almost 12% from the beginning of that rising rate period until the rate peaked. Most recently we saw this happen from July 2016 to October 2018, when the 10 year treasury yield rose from 1.45% to 3.14%. The S&P 500 went up 25% during that same time.

Using 2009 as another example (since this includes the end of another major recession): The 10 year treasury yield rose from 2.21% to 3.84% between December 2008 and December 2009. Over that time, the S&P 500 rose 23.5%, which includes the drop to the lowest point of that market crash in March 2009.

One other chart we'd like to point out is on page 8, as it displays the committee's current portfolio strategy, which favours equities over fixed income in this environment. We fully agree with that assessment, although one difference is that we have maintained our neutral weight on equities since the start of the year, and haven't gone overweight.

We continue to have a positive view on the equity markets going forward, and wanted to give some historical context to go along with that assessment. Volatility is not something that can be avoided, but can lead to opportunities for investing in quality companies at a bit of a discount to previous levels. Short term moves are often unpredictable, but they will occur with some regularity over an investor's lifetime.

Time in the market is always preferable to timing the market.

Please feel free to contact us directly if you have any questions.

Best regards,

Ord Private Wealth Management
John, Tim, Liam & Kristen