Wealth Management
Dominion Securities

RBC Dominion Securities Inc.
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Update On Your Discretionary Portfolio

Current Thoughts – June 2021

Dear clients,

As part of our disciplined process, we completed the semi-annual rebalancing of your discretionary portfolio just over a week ago on May 20th and 21st. Usually we perform our second rebalance in early July (after the initial rebalance in January). However, we have done it slightly earlier this year so it would correspond with our decision to increase Canadian equity, while slightly lowering US equity (see below for more details). By setting it up this way, all positions have been set at our desired weightings as soon as this shift took place.

When we sent out the last portfolio update in March, the 10-year treasury yield in the US was trading around 1.60%-1.70%. As of today, it continues to trade in that range (currently 1.63% as of writing, after going as low as 1.5% in early May). Our expectation in March was that we would not see interest rates or inflation continue to jump higher at the same rate they had since last summer, but would begin a slow grind to higher levels over the short to medium term. Based on that assumption, we were not making drastic changes to the portfolio, but

were using opportunities to add more cyclical exposure. That expectation remains the same, and we have continued to shift to more interest rate/inflation-friendly positions in the portfolio, without selling many of the growth companies that we think will be long-term structural winners.

Shifting to more Canadian Equity

As mentioned above, we made the decision to move roughly 5% of our US equity exposure to Canadian equity (*your personal portfolio changes may have been slightly different based on individual factors*). Last year, we had increased our US exposure by this same 5%, so we are now removing that overweight. As US equity far outperformed Canada last year, that decision paid off well in the portfolio.

In general, this means our current preferred equity allocation is:

-40% Canadian equity (+5 from 35%)
-45% US equity (-5% from 50%)
-15% Global equity (no change)
*equity portion of portfolio only

With the expectation that we will continue to see steadily rising rates and potential inflation over the next several months or longer, we increased our exposure to companies and sectors that will benefit more from that environment. Our Canadian equity model contains more of these types of sectors (ie. financials and energy). The TSX is also trading at an attractive relative valuation compared to the S&P 500, which historically has led to its outperformance during reflationary environments. For these reasons, we wanted to ensure that we positioned the portfolio appropriately to take advantage of this setup.

On an individual stock basis, we have continued to increase our overweight in Canadian financials by allocating more to CIBC (CM), Royal Bank (RY) & Toronto-Dominion Bank (TD). We have maintained our positions in National Bank (NA) as well, but are more constructive on the other 3 banks at this time. We also increased the position size of Canadian Natural Resources that we first bought in

March. Other increases include: Brookfield Asset Management (BAM.A); Magna (MG); and Restaurant Brands (QSR)

In the US, we trimmed positions across the board to generate the cash for this rebalance, but did not sell any of the companies in their entirety. At the same time, we initiated new positions in Starbucks (SBUX); Palo Alto Networks (PANW); and increased the weighting of Walt Disney (DIS). This is again a reflection of our desire for more cyclical exposure with SBUX and DIS, and to add a position in the cybersecurity space with PANW.

We remain positive on the markets in general, and feel that there is a strong setup for equities going forward. This does not mean that there will not be potential corrections, as that is always a part of any healthy bull market. Volatility levels have actually come down a fair amount recently, but we would expect that short-term market gyrations will continue to occur throughout the year.

With the combination of a reopening economy; accommodative central banks; and lots of excess cash on the sidelines, there are plenty of indicators that point to market strength through the end of the year and into 2022.

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

Best regards,

Ord Private Wealth Management
John, Tim, Liam & Kristen