RBC Dominion Securities Inc.

Wealth for Life

Wealth Management
Dominion Securities

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A recovery with multiple fronts

COVID-19

As summer set in, financial markets ushered in continued upward momentum, albeit at a slower rate than in the second quarter. An escalation in new COVID-19 cases in the southern U.S. heightened concern for renewed economic closing. Equity markets took note of the potential uncertainty, but were quickly supported by better-than-expected earnings from leading U.S. and multinational corporations. By August, new COVID-19 cases in the southern U.S. were under control and declining. Equity markets reacted favourably, but stepped back in September as increasing COVID-19 cases reappeared on a broader basis in other locales.

The uncertainty of COVID-19 cases, the economy and equity markets are clearly and inextricably linked. The progress of economic opening through the summer and September, along with the usual back-to-school inertia, brought more people closer together in short order – challenging our social distancing protocol. Not surprisingly, new COVID-19 cases accelerated, economic opening rules were tightened and equity markets softened. The silver lining was the successful management of COVID-19 cases in the southern U.S.

COVID-19 is the single most important uncertainty facing financial markets in 2020. As time has passed, governments and consumers have become better managing the virus, health care treatments and experience have improved and potential remedies are progressing. But economic and school reopenings will bring people closer together again, likely increasing the risk for new COVID-19 cases. The difference now is that we are no longer seeing the same acceleration in hospitalizations and mortality rates as we are in new cases. Although financial markets don't like uncertainty, they are learning to focus on the longer term, as progress is made on our understanding of COVID-19 management and treatment.

It seems likely that a vaccine or treatment will be the key to unlock a broader economic recovery. With multiple vaccines and antibodies in later-stage testing, October and November could bring some welcome news. At the time of this writing, two treatments demonstrating early success with COVID-19 patients have applied for "fast-track" approval. Remember, financial markets move before (and faster than) investor emotion.

ECONOMY

Buried in COVID-19 news are the underpinnings of an economic recovery. The economy continued to recover in the third quarter. Services and manufacturing data continue to support an expansionary economy. Most importantly, the consumer has remained resilient. We have yet to replace all the jobs lost as a result of closing the economy, but significant progress is being made. Household net worth is at an all-time high in the U.S. and household debt service as a percent of income has declined by

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A recovery with multiple fronts

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10%-15% in Canada and the U.S. during the pandemic. Consumer savings rates have also increased, so it appears the consumer is in better financial shape than before the pandemic.

Millennials, the largest demographic cohort ever, have now reached the prime household formation stage. Household formations in the U.S. have now reached twice the peak level attained since 2000. Home sales are now outstripping supply and prices are following suit. COVID-19 has accelerated the millennial move to the suburbs and spurred sales of all things home-related, leading to shortages and backlogs in lumber, appliances, etc.

In Canada, consumer spending has increased to levels exceeding those prior to the pandemic, and the story is similar in the U.S. Without entertainment and travel, the consumer has redirected their spending. With consumer sentiment at the strongest levels since March and having the best financial underpinning in years, the consumer is well-positioned for future spending. At 70% of economic growth, consumer spending is a critical element for continued economic momentum and a primary reason why a broader economic recovery is expected.

U.S. ELECTION

If the COVID-19 pandemic and a forced economic closing/recession weren't enough of a challenge for financial markets and the economy, there is the added U.S. election to worry about. The drama of the U.S. election has not disappointed – or has it? The uncertainty of an election coupled with the unknowns of COVID-19 and the economy are all impacting financial markets in the short term, however, we know markets will be driven by longer-term trends that only become evident months down the road.

Historical data on elections is limited and varied, making it difficult, if not impossible to support short-term investment strategies. Through history, back to 1933, equity markets have been indifferent to which party controls the White House. Consequently, equity investing through elections or in times of multiple uncertainties should be based on longer-term fundamentals of the economic landscape and expected future outcomes. Short-term turbulence will be sure to buffet the portfolio, but the long-term goal of moving "up and to the right," consistent with one's personal objectives, is still achieveable.

The circumstances of the pandemic and economic recovery will similarly handcuff the election winner regardless of the party. I thinks it's reasonable to assume that:

1. COVID-19 will be contained by 2021.
2. Both parties will seek to pass stimulus.
3. The White House will focus on further economic stimulus.
4. The economy will react favourably.
5. Interest rates will increase but stay low.
6. Inflation risk will rise.

The difference between the parties will be their respective tax approach. President Trump's policy favours further tax cuts – an economic positive – while Biden will look to raise taxes, which looks less favourable. The impact of tax increases will be very much dictated by the extent of the increase as well as by economic circumstances, as neither candidate will want to "risk" a full and broad economic recovery. With Trump or Biden, it would appear future conditions are still supportive of equities.

Equity markets have enjoyed a "V"-shaped recovery since the March low but have flattened out somewhat through the summer. The third quarter saw the TSX gain 4.7% while the U.S. S&P 500 returned 8.9% and set an all-time new high. The TSX remains nearly 9% off its pre-pandemic high due largely to the weakness in the financial and energy sectors.

Equity markets and returns were characterized by barbell performance. Companies with resilient business models based on strong digital / internet platforms (technology, top-tier core consumer retailers) drove equity market returns. On the other side of the barbell were companies with business models more dependent on a broader economic recovery. Financials like banks, many industrials and some consumer companies requiring greater economic activity lagged the outsized gains of technology.

With interest rates at all-time low levels, central banks are leaving equities as the only asset class to provide income or the opportunity for "real wealth" creation. The science and health professions seem to be closing in on COVID-19 solutions, which we are learning more about quickly. Virus management/prevention techniques are being more widely adopted, accepted and generally supportive of economic opening. Virtually all major governments globally are committed to providing the economic stimulus necessary to ensure an economic recovery in their respective countries. Notwithstanding the short-term uncertainties that may create concern, there is no shortage of firepower to ignite a full-blown economic recovery, so stay tuned and stick with equities.

As Teddy Roosevelt, the 26th U.S. President famously said ….

"In any moment of decision, the best thing to do is the right thing; the next best thing is the wrong thing; and the worst thing is nothing."

We salute all our heath care professionals, first responders and essential workers for the sacrifices they and their families are making for all of us!

Steve Lester

Get your goals in sight with professional wealth management

With a high-calibre wealth plan, you can address all aspects of your financial affairs, including cash and debt management, tax and risk exposures, investment management, retirement planning and estate planning.

As a client of RBC Dominion Securities, you're familiar with the investment management services we can provide. But there's another side to the story: professional wealth management service that can help to minimize overall taxes, safeguard your assets against undue risk or ensure you leave a legacy for your family and charity.

As your wealth grows, so too do the complexities associated with wealth. This is often the case for successful business owners, executives, large families and those enjoying or approaching retirement.

Your personal and financial goals are the baseline for wealth management. We will work with you to understand your personal goals, and collaborate with professionals from throughout RBC to present strategies that can help you reach those goals. We then build on these strategies with potential solutions to be implemented and coordinated with your own tax and legal professionals.

Financial planning: Clarifying your overall financial situation

The wealth management process normally starts with a comprehensive, professionally prepared financial plan. With this caliber of financial plan, you can address all aspects of your financial affairs, including cash and debt management, tax and risk exposures, investment management, retirement planning and estate planning.

Retirement planning: Ensuring your retirement lifestyle

With your retirement goals in mind, we look at strategies above and beyond maximizing your Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF), including enhanced retirement plans such as Individual Pension Plans (IPPs) and Retirement Compensation Arrangements (RCAs), or tax-advantaged investment vehicles such as Tax-Free Savings Accounts (TFSAs). We may also consider insurance-based strategies utilizing tax-exempt life insurance, insured annuities and segregated funds, and ways to structure your retirement income to enhance your after-tax retirement paycheque.

Taxation: Minimizing your tax exposures

In consultation with your tax and legal advisors, we consider strategies to manage or reduce your tax liabilities. These considerations include restructuring your personal and business assets, legal ownership, holding companies, trusts and other strategies. It may also include income-splitting strategies to reduce your family's overall taxes, or tax-loss harvesting, tax-efficient asset allocation and tax-exempt investment vehicles.

Estate planning: Leaving your affairs neat and tidy

A major focus of wealth management is on protecting your legacy for your family, while making it easier for them to settle your estate. Working with your tax, legal, insurance and trust experts, we look at your overall estate plan, including major documents such as your Will, powers of attorney and trusts. We then consider insurance-based strategies to enhance and protect your estate value, and estate settlement services, which can especially useful when you have a more complex estate.

Insurance: Protecting everything you've built

Insurance is an indispensible and very flexible wealth-planning tool that not only covers the major "what-ifs" in life but can also help build and protect wealth during your lifetime and when your estate is settled. With our extended team of RBC experts, we look at how you can maximize insurance to provide financial security for you and your family in case the unexpected happens, shelter your investment and estate assets from taxes and provide tax-free retirement income and tax-free death benefits.

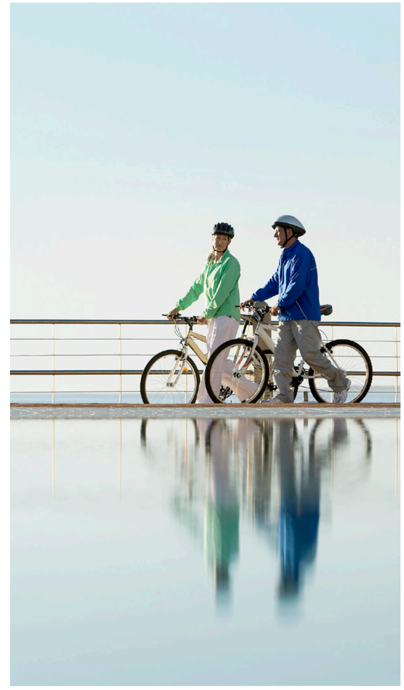
Credit and lending: Using debt wisely

Working with an RBC credit specialist, we assess your credit and lending needs to reduce or eliminate unnecessary debt, restructure your existing debt so that the interest is tax-deductible wherever possible and consider the use of "good debt," such as a spousal loan strategy or non-recourse mortgage to potentially reduce taxation.

Charitable giving: Giving back and creating a legacy

To help you make the most of your charitable giving, we can help with tax-effective giving strategies such as donating stocks in-kind and establishing family foundations.

If you have not already taken advantage of our extensive wealth management services, please contact us today to learn more.



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