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Portfolio Advisor

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Around the world in 80 seconds

Canada

With inflation now largely contained and within their target range of 1% to 3%, the Bank of Canada has moved steadily, if cautiously, over the summer and early fall to bring down their trend-setting overnight rate from 5.00% to 3.75% with four sequential rate cuts. This in turn has helped to reduce Canadians' borrowing rates and bond yields, providing some relief to harried mortgagors and borrowers, as well as lowering financing costs for businesses. The economy's tepid performance and the rising unemployment rate over the last several quarters suggest that the relief is needed, and has also raised expectations of more rate cuts to come. Canadian stocks have begun to show signs of life after trailing their U.S. counterparts for most of the year, and despite recent U.S.-election- and geopolitical-driven volatility, the country's benchmark S&P/TSX Composite has achieved new all-time highs.

United States

With increasing signs of moderating growth and cooling inflation, the U.S. Federal Reserve (the Fed, the U.S. central bank) at long last cut their trend-setting overnight rate on September 18, and surprised many with their aggressiveness in cutting by 0.50% versus the 0.25% expected. This sends an important message of relief to borrowers, consumers, businesses, and markets, while signalling the beginning of what is expected to be a significant and material reduction in interest rates and bond yields over the coming months. Worries that the economy was failing around mid-summer led to a swoon in stock prices, but investors quickly re-assessed their dark outlook and gradually embraced the view that the economy is likely to achieve a "soft landing" over the coming months. This, in turn, led to a sharp bounce back and strong rally through to the summer's end. The broadening of stocks participating in the rally beyond large-cap technology shares has also buoyed investor sentiment, while leading key indices to all-time highs.

Europe

With the region's inflation rates falling sharply in August, the European Central Bank moved for a second time this year to lower their key deposit facility rate by a quarter-percentage point to help ease the economic strain that has caused GDP to suffer over the last two-plus years. Despite the positive news on the interest rate side, Europe's major economies are still struggling to accelerate, buoyed by strong tourism but missing strength in private consumption and critically important global demand for its goods and services from key markets, particularly China. After narrowly avoiding a recession in 2023, eurozone growth projections for 2024 continue to fall, and is now expected to land at around 0.8% (from the previously predicted 0.9%). Despite the dark outlook, European bourses have largely delivered positive, if varying returns across the region.

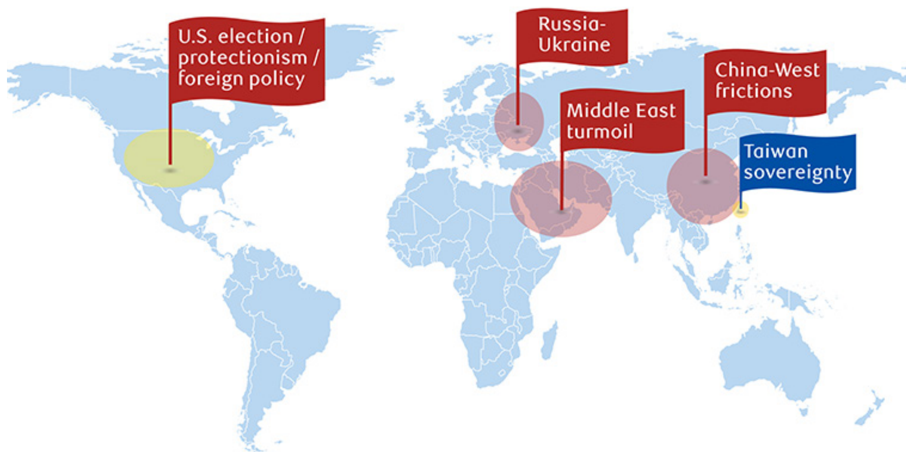
To learn more, please ask us for the latest issue of *Global Insight*.

Emerging markets

While economic growth has been varied by country and region, overall, the EM appear to be on track to post positive and solid growth in 2024 and beyond. After generating over 4% GDP growth in 2023, EM economies are expected to moderate slightly this year, as the long-standing headwind of the strong U.S. dollar fades and potentially becomes a tailwind for these U.S. dollar-sensitive countries. Interest rate cuts by the Fed are also expected to help reduce borrowing costs for debt-laden EM countries, freeing up capital for growth and adding to domestic consumption. China continues to lag expectations but is still poised to generate 5% GDP growth in 2024 (and 4.5% in 2025), according to the International Monetary Fund (IMF). India also remains a bright spot for the EM, with the IMF anticipating 7% growth for 2024 (and 6.5% for 2025). Conversely, Russia and Latin American EM are likely to see continued slowing growth through the end of 2024 and into 2025.

Navigating turbulent waters: Staying the course through geopolitical volatility

When the world seems chaotic, it is natural to worry about your investments. Wars, political upheaval, and global events can deliver major volatility shocks to investment markets. During these troubled periods, some investors might think "Should I change course?" But history has shown that staying invested and on track with your investment plan during these volatile times is very likely the best choice. In a world that often feels uncertain, staying calm and navigating through the storm is often the most certain path to success.



Seeing through the storm: Event-specific view

It has long been said that investment markets abhor uncertainty. As much of the value of financial assets is predicated on future expectations of the performance of a company and the economy in which it operates, geopolitical events create uncertainty that undermines confidence in the outlook for the future.

When major global events happen, stock and bond markets often react quickly, immediately assuming the worst. Once the worst fails to materialize, markets typically rebound and carry on along the path they had previously been on. Here are three historical examples to illustrate the point:

- After the September 11 attacks in 2001, the S&P 500 fell by 11.6%. But within a month, it had recovered all its losses.[1]
- During the 1962 Cuban Missile Crisis, the S&P 500 dropped 6.3% over eight days. Just 5 months later, the market was up 36.7%.[2]
- When Russia invaded Ukraine in February 2022, the S&P 500 initially fell 2.6%. By mid-March, it had already regained those losses.[3]

These examples serve to demonstrate that, despite the initial pullbacks, markets have historically bounced back within a relatively brief period of time, regaining their losses and in fact moving higher.

Seeing through the storm: Big picture view

Looking at the longer-term picture, we see further evidence that markets tend to advance over time, despite the many serious issues the world periodically faces:

- From 1927 to 2013, geopolitical events only caused about 1% of the S&P 500's big price changes.[4]
- Since World War II, the S&P 500 has gone up by about 11% per year on average, despite many global crises.[5]
- The Canadian S&P/TSX Composite has shown similar resilience. For example, it dropped 12% after the start of the Iraq War in 2003 but recovered within three months.[6]

Canaries in the coal mine

Beyond broader markets, it is interesting to note that short-term volatility generated by geopolitical and other major global events can impact some areas of the market more than others. These "canaries in the coal mine" are often the first indicators that volatility is hitting markets—with some providing "safe harbour" through the storm, while others bear the brunt of the volatility:

- **Commodities:** The prices of commodities, especially oil, are highly sensitive to geopolitical events. For instance, conflicts in oil-producing regions can lead to supply disruptions, causing oil prices to spike.[7]
- **Gold:** Gold is often seen as a safe haven asset during times of uncertainty,[8] and consequently often sees a surge in demand during times of trouble.
- **Currencies:** Geopolitical instability often shows up in the value of currencies. Those that are seen as safe havens tend to soar as investors seek "safe harbour" in times of trouble. The

most popular of these are the U.S. dollar and the Swiss franc.[9] Conversely, the currencies of countries directly involved in conflicts may fall.

In the moment, the many geopolitical events we face over a lifetime of investing can seem worrisome and perplexing for investors. But, it helps to keep in mind that companies are resilient and adaptable, and are generally able to find ways to overcome short-term challenges and continue to grow. As well, governments and central banks often step in to assist and support the economy during crises. And once they have had a chance to absorb and assess geopolitical and major events, investors are able to re-focus on the future, allowing cooler heads to prevail and markets to get back to being driven by company and economic fundamentals.

Staying on course to your plan

It can be hard to remain calm when it seems like so many of those around you have their hand hovering the panic button. But keep in mind what your long-term investment goals are, and how short-term volatility driven by world events have historically had little to no effect on long-term returns. This can help you avoid making quick decisions based on short-term events that could actually hurt your long-term investment returns. A well-diversified portfolio that supports your personalized investment plan can help you through geopolitical storms and on track to achieving what matters to you.

Sources:

- [1] Ned Davis Research, 2001.
- [2] LPL Research, S&P 500 Index, 2022.
- [3] S&P Dow Jones Indices, 2022.
- [4] Vanguard, "Global macro matters: Geopolitical turmoil affects markets, but long-term impact is limited," 2014.
- [5] J.P. Morgan Asset Management, "Guide to the Markets," 2023.
- [6] TMX Group, Historical Data, 2023.
- [7] Morgan Stanley, “What Global Turmoil Could Mean for Investors” (2024).
- [8] J.P. Morgan, “How do geopolitical shocks impact markets?” (2024).
- [9] CFA Institute, Geo-Economics: "The Interplay between Geopolitics, Economics, and Investments - Chapter 1: How Geopolitics Can Influence Markets" (2022).

Peak performance pressure – Navigating the market's high altitude with confidence

In the world of investing, the phrase "all-time high" often triggers a mix of excitement and apprehension. As prominent indices like the S&P 500 and the S&P/TSX Composite continue to set new record highs, many investors find themselves wondering: Is this the right time to invest, or should I wait for a pullback? While it's natural to feel cautious, historical data and market insights suggest that investing at all-time highs isn't always as risky as you might think. In fact, it can be a smart move for long-term investors.

The Power of Market Momentum

First, it's important to understand that new all-time highs are not anomalies; they're a natural part of a healthy, growing market. Markets such as the S&P 500 and the S&P/TSX Composite Indices have consistently reached new peaks throughout their history, each of which once being considered “uncharted territory.” Here's why this can matter:

- Clustering effect: All-time highs tend to cluster together. In 2024 alone, the S&P 500 has hit new record highs over 40 times. This is not unusual – there have been 12 other years since 1955 with a similar frequency of new highs.[1] This clustering suggests that when markets are strong, they often continue to show strength.
- Positive returns after peaks: Contrary to what you might expect, investing at market peaks has historically led to positive returns. According to research from J.P. Morgan, since 1970, investing in the S&P 500 on days when it hit an all-time high resulted in an average annual return of 9.4% after 12 months, and 20.2% after two years. These returns actually outpaced those from investing on random days.[2]
- Bulls easily outrun bears: Since 1926, bull markets have lasted an average of 6.6 years, while bear markets averaged 1.3 years.[3]

Seeing over the peak – taking a long-term perspective

When considering investing at all-time highs, it's important to maintain a long-term perspective to achieve your long-term goals. Typically, focusing on short-term developments in the market often leads to poor investment decisions. Here are three points to consider to help you stay focused on the long-term:

1. **Market resilience:** The stock market has shown remarkable resilience over time. Despite numerous crises and corrections, the overall trend has been upward. Over the past 20 years (2004-2024), the S&P 500 has returned 664%, which equates to 10.6% annually, and this period included major events like the 2008 financial crisis and the 2020 pandemic crash.[4]
2. **Timing the market rarely works:** Waiting for a pullback might seem prudent, but it comes with its own risks. You could miss out on potential gains while waiting for a dip in the market that may not come or that might be less significant than anticipated. Remember: history has shown that it is time IN the market, not TIMING the market, that pays off over the long-term. In fact, studies show that missing just the 10 best market days over 20 years would drop annualized returns from 9.9% to 6.1%.[5]

3 **Dollar-cost averaging (DCA):** If you're nervous about investing a lump sum with markets at all-time highs, you could consider dollar-cost averaging, or DCA. This strategy involves investing a fixed amount regularly, regardless of market conditions, and can help mitigate the impact of market volatility by buying more when markets are down, and less when they are high.[6]

Reasons to keep calm and climbing on: the current market context

As of late 2024, several factors are contributing to market optimism that may provide skittish investors with reasons to remain on track to their plans:

- Economic resilience: Despite earlier recession fears, the U.S. economy has shown remarkable strength, with GDP growth clocking in at a robust 3% in the last quarter. While Canadian growth has lagged, it has still shown recent signs that the economy has avoided a recession and is poised to grow stronger over 2025 and beyond.
- Earnings growth: Corporate earnings have been solid, with S&P 500 firms estimated to see earnings growth of around 4.6% in the third quarter of 2024, and Canadian companies are also showing similar results.
- Technological Advancements: The excitement around Artificial Intelligence (AI) and other technological innovations is driving growth in key sectors, contributing significantly to market gains.

Keep your eyes on the horizon

While history is on your side and the market outlook is generally positive, it's important to approach investing at all-time highs with a balanced perspective. Here are five pointers that can help:

1 **Stay diversified:** As the old saying goes, “Don't put all your eggs in one basket.” Spreading your investments across different sectors and asset classes (i.e., cash, bonds, equities) can help manage risk and avoid unnecessary volatility. And consider diversifying geographically – while U.S. and Canadian markets may be at all-time highs, other global markets might also offer value. Diversification can smooth your investment journey, and a smoother journey tends to help investors stay on track to their investment plans.

2 **Volatility is a reality of investing:** Markets seldomly move in straight lines. Be prepared for short-term fluctuations and resist the urge to panic sell during dips. Over time, volatility has been shown to decline, and staying invested through difficult periods tends to payoff longer term.

3 **Focus on your goals, not peaks:** Align your investments with your long-term financial goals. If you're investing for a retirement that's 20-plus years away, short-term highs and lows matter far less.

4 **Beware of portfolio drift:** To help ensure your portfolio remains within your established risk profile (e.g., conservative, balanced, growth), check-in on it periodically and ensure you haven’t inadvertently “drifted” to a more aggressive (i.e., equity heavy) weighting.

5 **Keep cash on hand:** Maintain some cash reserves to take advantage of dips in the market. Conversely, it can also help prevent selling to generate cashflow when your investments are down.

Staying on top – advice and guidance can help

Investing at all-time highs doesn’t need to be feared; instead, it is best approached with informed confidence.

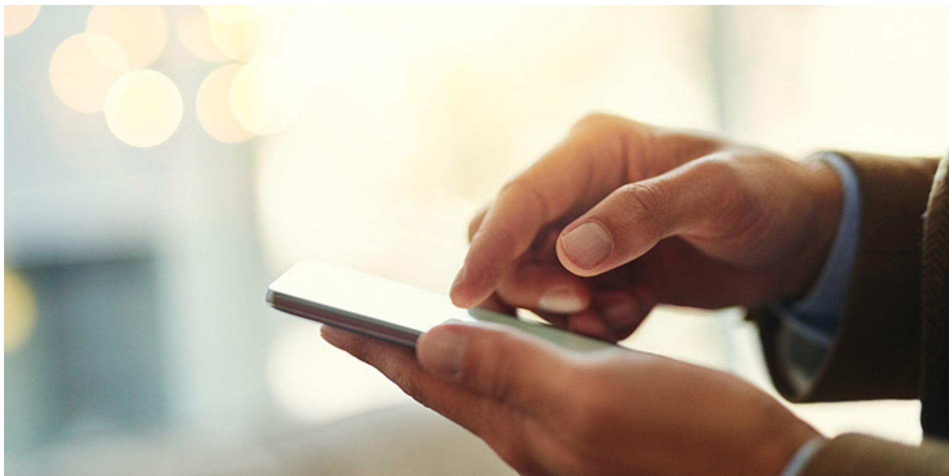
As always, it's wise to consult with your advisor to ensure your investment plan aligns with your personal financial goals and risk profile. They can help you navigate the complexities of investing in any market condition, including when indices are hitting new all-time highs.

Sources:

- [1] S&P Dow Jones Indices; Ned Davis Research.
- [2] J.P. Morgan Asset Management, “Guide to the Markets” report (2024).
- [3] Morningstar Direct.
- [4] S&P Dow Jones Indices.
- [5] J.P. Morgan Asset Management, "Guide to the Markets" report (2024).
- [6] Vanguard, "Dollar-cost averaging just means taking risk later" (2012).

Top scams of 2024: What to watch for

One of the best ways to protect yourself from fraud is to be aware of the most common scams that fraudsters are leaning into right now. Learn some of the top scams of this year and how to protect yourself against them.



The following article first appeared on **My Money Matters.**[1]

Investment and crypto scams

Get-rich-quick schemes have been around for decades, if not longer. For generations, fraudsters have tried to trick people into "investing" in something that is guaranteed to deliver a big payout – from imaginary stocks to swampland in Florida to the original Ponzi scheme of the 1920s. Today, investment scams are more sophisticated than ever as fraudsters leverage the public's interest in – and relative lack of knowledge about – cryptocurrency.

With the internet making it easy to connect with potential investors, online payment apps making it easy to transfer money, and fake trading platforms apparently easy to develop, digital crypto scams are rampant. Last year, according to INTERPOL, scammers defrauded victims around the world of upwards of $1 trillion and in 2024 the scams are still highly prevalent. Even Netflix released a true-crime documentary this year, about three fraudsters who conned millions from investors.

Fake trading platforms can be very convincing, and their promises of no-risk high returns can be hard to resist. However, the adage of "if it looks too good to be true, it probably is" certainly rings true when it comes to crypto scams.

Romance scams

Romance scams are typically carried out online through dating sites, apps or other social media channels. They start when a cybercriminal creates a fake profile and contacts an individual looking for a romantic connection. The scammer will then start to build a relationship and aim to gain trust very quickly. Once that's done, they will ask for money, typically for the purposes of airfare (to come visit) or to get themselves or a loved one out of trouble.

Victims of romance scams come from all walks of life, income levels, education, age, gender and profession. The reason they are so successful is that scammers put a lot of time and effort into establishing a connection that feels real and meaningful – and once the victim has fallen in love, it's easy to miss the warning signs of the scam.

Romance scams and crypto scams have become intertwined, as would-be romantic partners convince their victims to make investments in crypto as part of their scam. Victims often don't realize until it's too late that both their romantic interest and their money have disappeared.

Employment scams

With challenging economies worldwide and many people finding it difficult to secure meaningful employment, job scams are on the rise. From unsolicited email offers to fake hiring managers promoting work on social media, these scams lure job seekers with promises of work, advancement, great pay and benefits.

There are a number of employment schemes running at the moment. Here are some of the most common:

- Fake job listings – these listings normally ask candidates to pay a fee to complete their application or get started
- Fake hiring firms – scammers will pose as an agency, institution or hiring firm and request a screening fee
- Email offers – fake job offers (often about jobs you never applied for) may ask for sensitive information such as ID and bank account numbers to get you onboarded
- Online interviews – may ask candidates to input sensitive information in order to gain access to the interview
- Work-from-home jobs – where you may be required to send money to get equipment, like a computer and monitor

To protect yourself from job scams, be sure to do your research before applying for a position. Visit the company's website and compare what you see against what's in the job listing. Also beware of offers that seem too good to be true, and don't engage in requests to transfer funds – no legitimate employer will ask you to write cheques, send gift cards or send wire transfers to "get started" on a job.

AI deepfakes

Deepfake technology is a type of artificial intelligence (AI) that's used to create convincing fake images, videos and audio recordings. A deep fake video or image, therefore, looks like a real person, but it's been digitally altered. How is this technology being used in cyberfraud?

In one of the most sensational cases of 2024[2], a Hong Kong finance worker was duped into transferring more than $30 CAD million to fraudsters who used deepfake technology to disguise themselves as the firm's chief financial officer and other senior colleagues. In other cases, scammers will clone the faces and/or voices of celebrities to try to trick people into donating to a cause or investing in stock or crypto. There are also AI chatbots that are being used to create fake conversations over dating sites, adding a new dimension to romance scams.

As deepfake technology becomes more widespread, it is being increasingly used in cyber scams.

Phishing scams

Phishing has long been one of the most common and popular types of scams. This is where victims might receive a message impersonating an individual or organization (i.e., a delivery company, financial institution, or government agency) claiming that there's an issue and immediate action is required in order to fix it. Alternatively, the message may say that you're owed a refund or that you qualify for a special prize, which you need to claim right away.

The goal of a phishing message is to either get you to click on a link that takes you to a fake website, or to share personal or financial information. Often urgent in nature and unsolicited, phishing messages are increasingly convincing and put pressure on their victims, not giving them time to think through their actions.

Grandparent scams

The grandparent scam is a highly pervasive and successful scam that preys on the emotions of family members. In this scam, a grandparent receives a phone call from a fraudster pretending to be their grandchild. The fraudster may use deepfake technology to mimic a grandchild's voice, making the call all-the-more convincing. Saying they are hurt or in trouble, the fraudster will convince the grandparent that they need money immediately.

Travel scams

Travels scams have been on the rise since the COVID-19 lockdowns, as many people have a pent-up desire to travel yet are faced with higher travel costs, including airfare and hotels. While everyone could use a great deal on travel, some offers are too good to be true, as fraudsters try to trick would-be travellers out of their vacation funds.

From special rates on accommodations to seat sales, cyber criminals successfully draw in vacationers with low prices. Often, they pose as everyday people who can no longer use the tickets they bought. This kind of fake advertising will show up on social media, as well as vacation booking platforms.

Staying safe

The top scams of 2024 are a mix of proven techniques and new technology that help fraudsters create convincing scams that trick victims out of their savings and their personal information.

The best way to protect yourself and your loved ones is to stay informed. As scams are changing all the time, visit the **RBC Scam Alerts page**[3] to learn the latest scams today.

[1] https://www.rbcroyalbank.com/en-ca/my-money-matters/money-academy/cyber-security/understanding-cyber-security/top-scams-of-2024-what-to-watch-for/

[2] https://www.cnn.com/2024/02/04/asia/deepfake-cfo-scam-hong-kong-intl-hnk/index.html

[3] https://www.rbc.com/cyber-security/alerts/index.html

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