The Financial Corner with Joanne Vesprini

Sooke, BC

A quarterly newsletter filled with practical wealth management advice that covers various aspects of financial well-being

Spring 2021

- Why Investing in Bonds still Makes Sense Despite Historically Low Interest Rates
- 3 of 9 ways COVID has Changed Consumers and Business

My thoughts,

The past twelve months has had many extremes in it; from the coronavirus that resulted in the worst global pandemic in over a century to markets declining 33% in just 32days to the US market rising over 67% from it`s low on March 23, 2020. We have gone from rarely, if ever sanitizing our hands to doing this all the time at home and in stores and restaurants.

I think we have learned a lot over the past twelve months and there have been some reminders of what we already knew.

The significant impact on the markets was once again a reminder that we never know what is going to happen or what is going to be the cause for a recession. A reminder that we cannot predict but we certainly can plan and prepare for what might happen. The main way to do this is with asset allocation and geographic diversification.

I think we have learned to be resilient, to be able to withstand or even recover quickly from difficult situations. This has meant learning to use many online tools to stay in contact with family and friends or to continue taking courses or exercise classes. To do our shopping online and the importance of supporting local and Canadian companies.

Investors have been reminded that patience and belief are important in weathering a market correction and not reacting based on emotion and the need to feel in control is a good approach. That in time markets will recover and that with good diversification the impact of volatility on a portfolio can be lessened.

Of course these are all a lot easier to consider after the fact. However, it is a good reminder that we need to rely on what we know and on patience because we are not fully out of the woods yet, there is light at the end of the tunnel but there still remains some headwinds with the prospects of higher interest rates and rising inflation. So stay calm, be safe and be kind.

Happy Spring!

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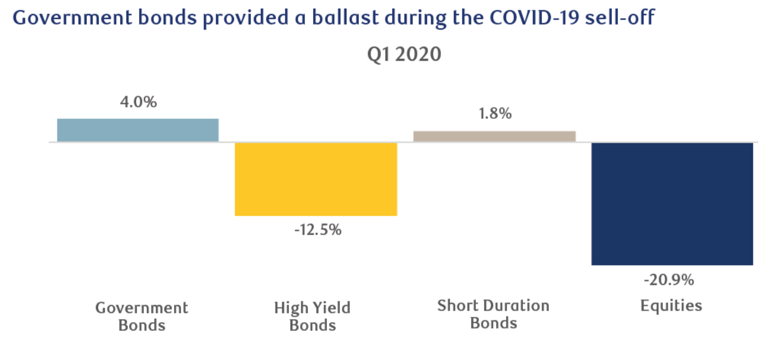
WHY INVESTING IN BONDS STILL MAKES SENSE DESPITE HISTORICALLY LOW INTEREST RATES

Three reasons to maintain bonds in your portfolio.

With the exception of a few spikes, over the last 35 years interest rates and bond yields have steadily declined. The recent efforts by central banks to spur borrowing to drive economic growth during the COVID-19 pandemic has pushed yields to their lowest levels in history, leading many investors to wonder if bonds are still effective in helping them achieve their portfolio goals.



Short duration bonds = FTSE Canada ST Bond Index, equities = S&P/TSX Composite TR, high yield bonds = ICE BofA U.S. High Yield BB-B (CAD Hedged), government bonds = FTSE WGBI Hdg CAD. Source: Morningstar Direct

THE BONDS THAT BIND

One of the three major investment asset classes (along with equities and cash), bonds have existed in one form or another for hundreds of years. With their dual income structure of fixed interest payments and the return of capital at a stated maturity date, bonds have historically been very attractive to investors seeking income and security.

Bonds are issued by a variety of entities, including corporations and various levels of government, and in a wide variety of forms (e.g., standard, high-yield, convertible). They also offer various maturity dates over different timeframes. Generally, the longer the timeframe (e.g., a 10-year bond), the higher the interest rate, but the higher the price volatility (which means the price at which you could sell a bond prior to maturity has more variance).

In addition, issuers and the various types of bonds they issue are often rated by bond rating agencies, providing investors with guidance around their riskiness, i.e., their ability to maintain their interest payments and repay principal at maturity. This allows investors to decide on the degree of risk they are willing to assume, while gauging the performance of different issuers and bond types under different market conditions.

PORTFOLIO BALLAST – THREE REASONS TO MAINTAIN BONDS IN YOUR PORTFOLIO

Despite the historically low yields bonds are offering these days to investors, there continue to be very important reasons to consider them in your portfolio, including:

1. **Stability:** With their more predictable and less volatile returns, bonds are an important ballast to an investor's portfolio during times of volatility. When trouble strikes, bonds can help to reduce the risk – or volatility – of portfolios.
2. **Diversification:** Bonds tend to have a negative return correlation to equities – when equities rise, bonds tend to fall, while they tend to rise in value when equities fall.
3. **Income:** While interest rates and yields may be low these days, there is a vast universe of bond issuers and bond types. When the risk is managed properly within a diversified portfolio, there can still be higher-yielding options for investors who need income and/or wish to generate income to offset weaker capital returns in their portfolio.

SOME BONDS SHOULD NEVER BE BROKEN

Regardless of today's historically low interest rate environment, bonds can continue to play a critically important and effective part in protecting, diversifying and growing investors' wealth. Contact us today for more information about the role bonds play in your portfolio.

"The way I see it, if you want the rainbow, you gotta put up with the rain"
Dolly Parton

AND NOW THE RESET: 3 OF 9 WAYS COVID HAS CHANGED CONSUMERS, AND BUSINESS, FOR THE DECADE AHEAD

As the pandemic crosses the one-year mark, its early lessons are proving to have remarkable staying power.

The global recovery is now firmly underway, and growth in Canada and elsewhere has picked up sooner than expected. Outside of the hard-hit sectors like retail, travel and hospitality, activity is picking up, and jobs are returning. The economic scars may be less deep than we first feared. But it's now clear that, even as the economy opens up, and we return to main street or travel further afield, we won't be going back to the old ways.

1. THE HOME WILL BE THE NEW ECONOMIC HEARTH

We'll spend more time at home—for work, fitness and leisure—and seek to make our nests more digitally connected than ever.

What We're Seeing

- We're kitting out our homes for the digital future.
  - The number of Americans remodelling their homes grew 20% in 2020.
  - Consumer electronics revenues rose 7% worldwide to $360 billion. Sales of home computers and tablets jumped more than 10%.
- More nesting.
  - Cooking was the third most selected video category in the U.S. in 2020, behind music and comedy. 4 in 5 say they'll continue to cook more at home.
  - North American pool vendors saw sales rise up to threefold. Patio-heater sales were red-hot.
  - Canadian pet ownership and spending rose 5% to almost C$6 billion.
- More play in the great outdoors.
  - U.S. snowmobile sales hit their highest level since 1995.
  - U.S. ski-equipment sales jumped more than 50%, backcountry ski equipment even more.
  - Golf equipment sales in the U.S. rose more than 10%, topping $2.8 billion in 2020.

What's Needed

- Higher real estate prices will encourage more investment in home layouts and furnishings.
  - Home offices will be a critical component of real estate listings.
- "Last mile" competition will expand to services.
  - High-value service providers (vets, fitness instructors, tech support) will blend virtual visits with house calls.
- Online browsing will be critical.
  - 3 in 4 Americans research home goods and furnishing online before making a major purchase.
- $2 trillion in North American household savings could finance our reimagining of the home.
- Professionals (doctors, lawyers and accountants) will need to deliver services differently, to a dispersed client base.
- Communities can reposition themselves as "work/live" hubs.
  - Rural communities will need more digital connectivity and distribution networks.
  - Suburbs and surrounding towns will need to attract high-end service providers.

Continued…

AND NOW THE RESET: 3 OF 9 WAYS COVID HAS CHANGED CONSUMERS, AND BUSINESS, FOR THE DECADE AHEAD – Continued…

2. SELF-CARE WILL BE THE NEW HEALTH CARE

The recovery could spark a return in healthy living, with more physical fitness and mental health awareness.

What We're Seeing

- 1 in 3 people around the world gained weight during the pandemic.
  - 45% say they're trying to lose weight.
  - Peloton subscriptions more than doubled, to 2 million paying users.
- Mental wellness is a new frontier of fitness.
  - Fitbit saw a 2,900% spike in people logging "meditation" as an exercise.
  - 29% of American psychologists saw more patients—mainly for anxiety disorders.
- Virtual healthcare has been normalized.
  - 70% of Canadian ambulatory care in June 2020 was done virtually.
  - 76% of clinical leaders say the pandemic has led to a significant or moderate shift in their virtual strategy.

What this Means

- We'll see more apps that enable people to exercise at home and away, including in gyms.
- Health plans will need to invest more in data to monitor and measure all aspects of individual health, and reward progress.
- Health and wellness practitioners will adopt collaborative models.

What's Needed

- More public health dollars could be devoted to promoting self-care.
- A greater focus on virtual treatment would improve costs and enhance the patient experience.
- More mental health monitoring is needed to support those who've been disrupted and feel disconnected.

3. MICRO-GIVING WILL TRANSFORM CHARITY

The same digital forces that are changing the way we work, shop and dine can revitalize philanthropy, which declined in the pandemic.

What We're Seeing

- We're giving less. Some 42% of organizations that received donations in 2019 got less in 2020.
- We're giving to very local and very distant causes. Food banks saw a surge of donations. So, too, did the Australian bushfires, which drew more than $500 million in support.
- We're looking for social good. Benevity, a Canadian donation-management platform, saw a 70%+ increase in donations, largely through corporate portals.

  What it means
- Traditional fundraising events will transform themselves as virtual experiences.
- Social organizations will look to embed themselves in consumer experiences, from "rounding up" options to virtual fundraisers on exercise apps.
- Charities will evolve as content organizations, promoting themselves through augmented reality in video, music and gaming experiences.

What's Needed

- Pools of tech talent could support smaller charities and community organizations.
- Social organizations could benefit from platform-driven strategies.
- Technology companies and social organizations could partner to innovate in fundraising and volunteering

If you would like to read the full article feel free to contact Joanne at joanne.vesprini@rbc.com, 250-356-4847.