The Financial Corner with Joanne Vesprini

Marche Region, Italy

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

Winter 2019

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My thoughts,

As we finish out the last month of the decade it's interesting to look back on the past decade. It's hard to believe that the iPad was introduced in 2010 and that same year Time magazine named Mark Zuckerberg its 'Person of the Year'. At that time Apple and Facebook were underdogs and Vancouver was readying itself for the Olympics. On the technology front Nokia and BlackBerry were the world's top smartphone makers. Siri and Alexa were not born yet and Uber and Airbnb were in their infancy. Hard to believe that at that time Netflix was largely a DVD rental business. Now a decade later Facebook, Apple, Amazon, Netflix and Google (the FAANGs) are worth $3.7 trillion.

Over this same decade the music industry lost many legends: Aretha Franklin, Prince, Amy Winehouse, David Bowie, Tom Petty, George Michael, Natalie Cole, B.B. King, Donna Summer, and Chuck Berry just to name a few. Other celebrities that passed away include Robin Williams, Anthony Bourdain, Leonard Nimoy, Carrie Fisher, Debbie Reynolds, Elizabeth Taylor, Bill Paxton, Lauren Bacall, Joan Rivers, Burt Reynolds, Philip Seymour Hoffman and Roger Moore and many others.

I find this month is always a time to look back and also a time to plan for the future.

In the year ahead there will be plenty in the news: the impeachment of President Trump, the US election, a plan for Brexit, more US & China trade negotiations, Mark Carney will leave his position as the governor of the Bank of England and join the United Nations as a special envoy for client action and hopefully less geopolitical news about China & Hong Kong and Turkey & Syria.

Many believe the next decade will be one of major transformation; with de-globalization, demographic changes and a technological revolution. By 2030 Canadians aged 65 or older are expected to make up nearly a quarter of the population (up from 12% in 2012) which will put the spotlight on healthcare and a healthy lifestyle. Of course the shift in consumer preferences and government regulation toward more sustainable products and services is just beginning, and could prove to be the most exciting growth opportunity in the next 10 years.

As you take the time to reflect and plan may you have a wonderful holiday season and a great start to the next decade!

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20/20 Vision

Frédérique Carrier – London & Kelly Bogdanova – San Francisco

With the curtain about to rise on 2020, we remain constructive on the setup for financial markets. But this bias runs parallel to a heightened need for vigilance, so we're keeping our eyes trained on the investment environment.

Our team of specialists and strategists in the U.S., Canada, Europe, and Asia recently published the Global Insight 2020 Outlook, which sets out RBC Wealth Management's views on the economy, equities, fixed income, currencies, and commodities. The report also spotlights four key topics that we believe will frame investment strategy in the coming year: We survey the global economic environment and see higher ground for equities, but we are also more cautious than at any time in the past decade The wave of game-changing innovations transforming the outlook for the Industrials sector The persistence of negative interest rates and how they might change investor behaviour and distort financial markets Whether the solution to the last debt problem is sowing the seeds of the next dilemma for investors Below are highlights from the 2020 Outlook and links to each individual article.

2020 investment stance

We believe most developed economies should continue to grow, albeit slowly, through at least 2020. And with an environment of slow growth and low, stable inflation, major central banks have signaled a willingness to safeguard the expansion by easing monetary policy further if necessary.

Against this backdrop, we expect equities will advance in 2020. We think moderate revenue and earnings growth are attainable, and that valuations in North America are not outlandish while in Europe and Asia they are cheap. Yet while we maintain a Market Weight stance, we believe investors should not be complacent.

Fixed income markets largely expect central banks to remain on hold in 2020, though with a bias towards further easing. This should anchor yields across the global landscape near historical lows. On balance, we prefer interest rate risk to credit risk, where we would focus on quality as the yields on speculative-grade corporate bonds are not commensurate with the additional risks inherent in the late phase of the economic cycle.

For currencies, as long as economic growth persists, the U.S. dollar should continue to find support. The Canadian dollar will likely trend moderately lower in the absence of rate cuts, while the pound will remain hostage to Brexit developments.

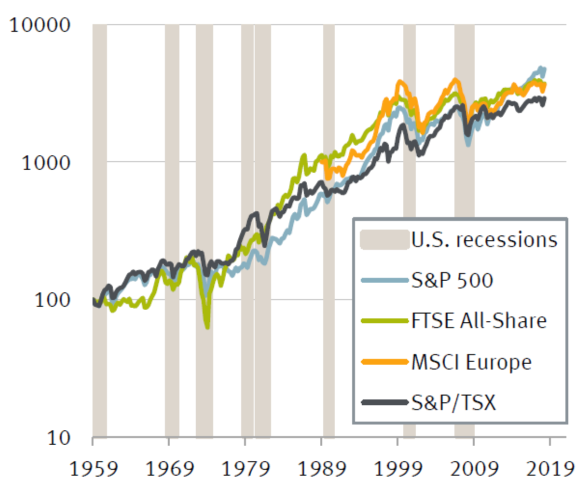
Finally, regarding commodities, RBC Capital Markets sees the price of WTI crude oil between $50 and $60 over the next 12–18 months, while gold will be driven by the vagaries of the U.S.- China trade dispute and Brexit.

Eyes wide open: Equities and the economy

As we look out to 2020, we see three reasons to bullish: (1) the start of the next U.S. recession looks to us to be a year or more away, with accommodative monetary conditions remaining the order of the day; (2) the dominant U.S. consumer can sustain spending as unemployment is at a 50-year low, the savings rate is high, and home prices are back to pre-financial crisis levels; and (3) the "internals" of the stock market look good to us; earnings estimates have stabilized at a reasonable level, the breadth readings of the market are healthy—i.e., indexes are moving higher on the back of a majority of stocks advancing, not a select few—and

Beware of U.S. recessions

Bull markets don't die of old age, they are killed off by U.S. recessions



Source - RBC Wealth Management, U.S. Department of Commerce, Federal Reserve; monthly data through April 2019, indexed to Jan. 1960 = 100 (S&P 500, S&P/TSX, FTSE All-Share), Jan. 1970 = 1000 (MSCI Europe) valuations are not overstretched in North America while they are inexpensive in Japan and Europe.

Nevertheless, there are also three reasons to be cautious: (1) the yield curve has inverted; (2) recession probabilities are increasing; and (3) slow growth makes for a challenging investment environment. Occasional very low or negative quarters of growth can't be ruled out. Importantly, bull markets usually peak before a recession starts—sometimes as much as a year before, so markets could conceivably peak in 2020.

All of this leaves us constructive but more vigilant than we have been in the last 10 years.

A new industrial revolution

Cutting-edge innovations, such as "lights out" manufacturing plants, smart water systems, and 3D printing, will completely transform the industrial landscape within the next 5–10 years. We believe now is an opportune time to seek out the companies likely to establish competitive advantages as these "change forces" take hold, given the heavily discounted valuations in the Industrials sector from tariff pressure and poor earnings results. The sector is less vulnerable to fears of a potential Democratic sweep in the 2020 U.S. elections than other cyclical sectors, and it could benefit from any trade war détente ahead of the November vote.

Upside down: The impact of negative yields

Very low and negative interest rates reflect a slow real growth environment, and low, relatively stable inflation. Moreover, greater demand from emerging market countries for the scarce "safe" debt in developed world debt markets is adding pressure.

This climate can nudge investors in search of yield out of their comfort zones and into higher-risk assets, making them more vulnerable to market corrections. Companies may be enticed to borrow money for low-return investments that may hinder a country's long-term productivity. The environment also squeezes bank margins, weakening the banking system, and deprives central banks of a precious tool to rescue economies entering recession as interest rates are already at such a low level.

So while central banks may have extended the business cycle by loosening monetary policy, paradoxically, they may have also contributed to making it marginally more fragile. This is all the more reason for investors to be vigilant.

The low rates puzzle

As central banks have once again turned to the ultralow interest rate playbook, it's fair to ask if they are sowing the seeds of future problems in the credit market and placing a strain on savers. In business cycles, the solution for one problem often becomes the source of the next.

The low rates solution for the debt problems of the last decade has created a new set of challenges for savers today, and fixed income investors have rarely been paid less to take on more risks. We urge investors not to let a low yield environment push them out of their comfort zones and into making decisions that could put portfolios and long-term investment objectives in jeopardy.

Despite lower returns, the appeal of a fixed income allocation remains the lower volatility and the preservation of capital this asset class provides.

This document is produced by the Global Portfolio Advisory Committee within RBC Wealth Management's Portfolio Advisory Group. The RBC WM Portfolio Advisory Group provides support related to asset allocation and portfolio construction for the firm's Investment Advisors / Financial Advisors who are engaged in assembling portfolios incorporating individual marketable securities. The Committee leverages the broad market outlook as developed by the RBC Investment Strategy Committee, providing additional tactical and thematic support utilizing research from the RBC Investment Strategy Committee, RBC Capital Markets, and third-party resources.

CPP retirement pension sharing

A tax planning strategy involving your retirement pension

You may be able to share your Canada Pension Plan (CPP) retirement benefits with your spouse to reduce your family's overall taxes. By applying to share your pensions, the lower-income spouse can receive a portion of the higher income spouse's retirement pension and pay tax on that pension income at their lower marginal tax rate.

Any reference to a "spouse" in this article also refers to a common-law partner

Are you eligible to share CPP?

To qualify for CPP retirement pension sharing:

- You and your spouse must both be 60 years of age or over;
- You must be living with your spouse; and
- You must have lived with your spouse during the time you, your spouse or both of you contributed to CPP.

In addition, if you both contributed to CPP, you must both be receiving your pension, or have applied to receive it. If only one of you contributed to CPP, the spouse who contributed to CPP must be receiving their pension, or have applied to receive it.

How does CPP pension sharing work?

CPP pension sharing generally doesn't result in an equal split of your CPP retirement benefits. The portion of your and your spouse's CPP retirement pension that can be shared is based on the number of months you and your spouse lived together during your "joint contributory period." Your joint contributory period generally starts when the older of you and your spouse turns 18 and ends when both of you start receiving your CPP retirement pensions. If one of you never contributed to CPP, the joint contributory period ends when the non-contributing spouse turns 70 or when you apply to share the one CPP pension. CPP pension sharing does not change the total CPP you would have otherwise received as a couple; however, it may result in an overall family tax savings. This may be the case if one spouse is receiving more CPP and is in a higher tax bracket than the other spouse. Note that CPP sharing may not benefit you in every case. For example, if the retired lower-income spouse has accumulated a larger pension entitlement than the higher income spouse during the time they've lived together, there may be no benefit to pension sharing.

An example of CPP pension sharing

Alice and Brad are married and are both receiving their CPP retirement pensions. Alice is three years older than Brad and they both decided to take their CPP starting at age 65. Without CPP pension sharing, Alice's CPP retirement pension is $900 per month while Brad's is $400 per month, a difference of $500 per month. Their qualified financial advisor urged them to consider pension sharing as a way of reducing their overall tax liability. Since the joint contributory period began when Alice turned 18 and ended when Brad turned 65, their joint contributory period is 50 years. The amount of CPP

Number of years lived together	% of joint contributory period	Monthly CPP from pension sharing	
		Alice	Brad
30	60%	$750	$550
35	70%	$725	$575
40	80%	$700	$600
45	90%	$675	$625
50	100%	$650	$650

This article may contain several strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal or tax advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax and/or legal advisor before acting on any of the information in this article.

Pet owners in China are on track to spend US$28.6 billion on their furry friends this year. Though that's less than half what Americans spend, it's a significant cultural shift: pet dogs were banned in China until 1994.

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