Kelly-Gorham Private Wealth Strategy Update

Wealth Management
Dominion Securities

Spring 2021

Kelly-Gorham Private Wealth

RBC Dominion Securities Inc.

Daniel Kelly, MBA, CIM, FCSI
Senior Portfolio Manager
Daniel.kelly@rbc.com
519-675-2528

Gary Gorham
Senior Associate Investment Advisor
Gary.gorham@rbc.com
519-661-2510

Chris Alexander, HBComm
Associate Investment Advisor
Chris.alexander@rbc.com
519-675-2667

Jessi da Silva-Couto
Associate
Jessi.dasilva-couto@rbc.com
519-675-2664

Suite 1900-148 Fullarton Street
London, ON, N6A 5P3
www.danielfkelly.com

1-800-265-5911

Our obligation is to use our tools to support the economy and that's what we will continue to do.
Jerome Powell, US Federal Reserve Chairman

We have just entered third Covid's wave. We are, however, beginning to see the light at the distant end of the Covid tunnel as our vaccinations begin. From an economic, social and market perspective, Jerome Powell's quote, stated again during his April 11th *60 minutes* TV interview, confirms the US will continue to do what needs to be done. Canada, by extension, will benefit, albeit slightly delayed.

Strategy Update Highlights

1) As Covid vaccine rollouts continue, we have increased equity exposure while keeping alternative investments and portfolio protection about the same and have slightly reduced fixed income exposure. We do expect a pullback and consolidation at some point before the markets move higher.
2) The US Federal Reserve again stated its commitment to lower interest rates. However, the Q1 2021 bond market volatility is likely to continue as the markets assess the inflationary pressures that may or may not appear.
3) The additional stimulus and potential infrastructure spending will likely continue helping the equity markets this year.

Fixed Income:

We still expect Canadian, US and global central banks to keep their rates at their current levels with continued bond buybacks as a backstop giving businesses liquidity and the ability to access loans.

Our fixed income holdings performed extremely well over the past year. Even after this past quarter's bond market drop, our fixed-income portfolios added to our portfolio returns. While the Dex Canadian bond Index had a negative quarterly return, the Bloomberg Barclays Long Treasuries Index had its worst quarterly return in 41 years. For this reason, we still have exposure to shorter term bond indexes and floating rate bonds and zero exposure to longer-term bonds. Our preferred share exposure rallied again this past quarter. We also have exposure to alternative fixed income strategies that can profit from rising interest rates. Remember: As interest rates rise, it can cause bond prices to drop.

We will still hold preferred shares, although we may take profits on some of our positions, such as Horizons Preferred Share ETF (HPR) and Dynamic Preferred Share ETF (DXP).

Equities:

The Canadian, US and international equity markets had another positive quarter and we kept the current safety net/put protection around its current levels.

This past quarter's bond market volatility had a spillover effect on equities in the growth-oriented technology sector, as they are negatively impacted not only by rising interest rates but by the *fear* of rising rates in the future. After the tech rally of 2020, it is not surprising to see a pullback and it would also not surprise us to see a significant market correction. We do, however, expect a continued economic recovery, which should be supportive to markets rebounding in the near term in the event of a correction.

Several sectors continue experiencing a pandemic rally, while others see negative money flows. We continue to assess how certain sectors, including technology, materials, resources, industrials, communications and consumer discretionary react to vaccine rollouts.

In Canada, while some of us have received vaccinations, many others are waiting to get theirs. Given Canada is behind the US on vaccinations, we will also continue to lag economically, but our equity market may catch up quickly as investors anticipate our economy opening up later this year.

With the US recovery in full swing, we have either expanded or added to our exposure in resources (SPDR Global Metals and Mining, iShares Energy ETF, Free Port McMoran), Forestry (Louisiana Pacific), financials, (TD, RY, BMO, Intact Financial) and consumer cyclical (Home Depot and LBrands).

Conclusion:

With the expanded US stimulus program, along with their infrastructure spending bill, continued Canadian and global government and central bank support programs, we still expect a post-Covid economic and market rebound. The path to recovery is there, though it might be a bumpy ride.

Always, but especially during these volatile times, we appreciate and value your trust. Stay well, stay safe, and please do not hesitate to contact us. We are available to meet by phone or a Webex meeting.

**** Here's the fine print and there's a lot of it**…

Currency can add return when the Canadian dollar goes down but reduce returns when the Canadian dollar goes up for non-currency hedged US and international investments. Also, please remember that your US accounts report values in US dollars.

Securities or investment strategies mentioned in this newsletter may not be suitable for all investors or portfolios. The information contained in this strategy update is not intended as a recommendation directed to a particular investor or class of investors and is not intended as a recommendation in view of the particular circumstances of a specific investor, class of investors or a specific portfolio. Options, and other strategies mentioned, may not be suitable for all investors. You should not take any action with respect to any securities or investment strategy mentioned in this newsletter without first consulting your own Portfolio Manager or in order to ascertain whether the securities or investment strategy mentioned are suitable in your particular circumstances. This information is not a substitute for obtaining professional advice from your Portfolio Manager. The commentary, opinions and conclusions, if any, included in this newsletter represent the personal and subjective view of Daniel Kelly who is not employed as an analyst and do not purport to represent the views of RBC Dominion Securities Inc. The information contained herein has been obtained from sources believed to be reliable at the time obtained but neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers can guarantee its accuracy or completeness. This report is not and under no circumstances is to be construed as an offer to sell or the solicitation of an offer to buy any securities. This report is furnished on the basis and understanding that neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers is to be under any responsibility or liability whatsoever in respect thereof. The inventories of RBC Dominion Securities Inc. may from time to time include securities mentioned herein. Investment Trust Units are sold by RBC Dominion Securities Inc. There may be commissions, trailing commissions, management fees and expenses associated with Investment Trust investments. Please read the prospectus before investing. Investment Trusts are not guaranteed, their values change frequently, and past performance may not be repeated. (*Keep reading, there's only 7 more sentences to go.)* This commentary is based on information that is believed to be accurate at the time of writing and is subject to change. All opinions and estimates contained in this report constitute RBC Dominion Securities Inc.'s judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Interest rates, market conditions and other investment factors are subject to change. Past performance may not be repeated. The information provided is intended only to illustrate certain historical returns and is not intended to reflect future values or returns. RBC Dominion Securities Inc.* and Royal Bank of Canada are separate corporate entities which are affiliated. *Member-Canadian Investor Protection Fund. RBC Dominion Securities Inc. is a member company of RBC Wealth Management, a business segment of Royal Bank of Canada. ®Registered trademarks of Royal Bank of Canada. Used under licence. ©2021 Royal Bank of Canada. All rights reserved.

Investment portfolios are not guaranteed, and past performance is no indication of future returns. In addition to these portfolios not being a guaranteed investment, there can also be significant fluctuations in the value of the portfolio. *Did anyone read this far?*

Wealth Management
Dominion Securities