The Greg Upson Wealth Management Team | RBC Dominion Securities

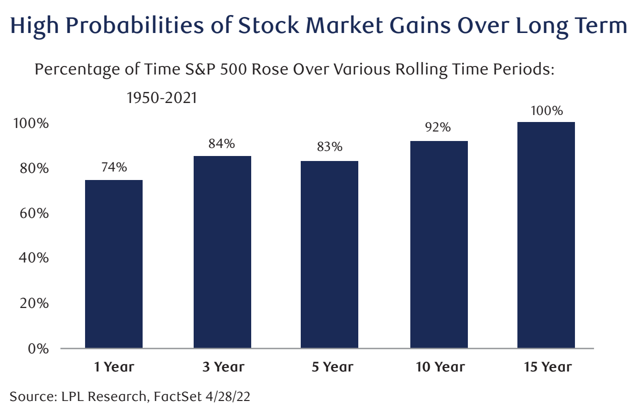
Upson's Update

Spring 2022

Greg's Market Review

Staying the course in today's volatile markets.

2022 has gotten off to a bumpy start for investors after a smooth ride upwards since the end of the "COVID Crash" of February-March 2020. Between that time and the start of 2022, equity markets in particular have soared. But these days, markets have been experiencing some critical "tectonic shifts":



1. The end of accommodative monetary policy: To help stimulate economic growth, central banks have kept interest rates low. Expectations of an end to this "accommodative" monetary policy as economies recovered from the downturn grew in the latter half of 2021. And they continued growing at the beginning of 2022 thanks to rising prices. Central banks raised their benchmark interest rates in the first quarter of 2022, and have warned of several more hikes to come, in order to fight increasing inflation.

Impact: Higher rates ripple through money and bond markets, raising the cost of borrowing (e.g., the cost of financing the purchase of a home or expanding a business), as well as negatively impacting equities and bonds by discounting the current value of the expected future cash flows generated from earnings, dividends and interest payments.

2. Inflation: Until recently, inflation has been well behaved, hovering around most developed-world central banks' targets. But now it's climbing dramatically as global economies rapidly recover from the pandemic. This higher economic growth is spurring greater demand, which increases prices. Disruptions to energy supplies and ongoing supply chain issues are also adding to inflationary pressures.

Impact: Inflation drives up the cost of living, often resulting in reduced spending by consumers and businesses. It also elicits higher interest rates from central banks (see #1 above), which can affect the real (after inflation) returns of investors and savers.

3. Fixed income: The bond market has been battered as a result of expectations of and the actual increasing of interest rates, as well as inflation. This has driven yields higher than they have been since before the COVID Crash of 2020.

Cont...

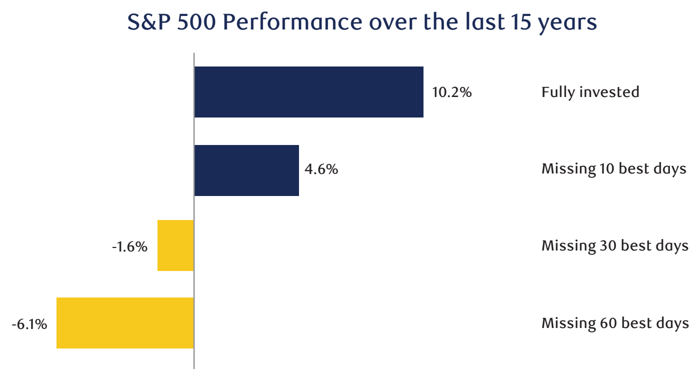
Special points of interest:

- *Until recently, inflation has hovered around most developed-world central banks' targets, but now it's climbing as global economies recover from the pandemic.*
- *If history has taught us anything, it's that these sideways market moments pass, and in retrospect, are often seen as an opportunity rather than risk for investors.*
- *Our U.S. recession scorecard continues to give the economy a green light, although some of our seven indicators are now "less green" than others.*

Inside this issue:

Impact: Sharply rising yields have resulted in the first negative returns for bond investors in quite some time, as bond yields (which rise and fall inversely to bond prices) have been on a downward trend for almost 40 years. Higher rates reduce the attractiveness of outstanding bonds, while inflation reduces the actual net (i.e., after-inflation) returns for investors. After markets have delivered outstanding returns over the last two years, it's not surprising that the latest volatility might be jarring. But it's important to keep in mind that many of the headwinds facing markets today are likely to normalize over the next 12 months, and do not in and of themselves represent a reason to change your investment plan. In fact, trying to time the market – attempting to anticipate downturns and then selling and moving to the sidelines to wait for the right time to jump back in – is a losing game. As the following chart shows, guessing wrong and missing the best days in the market can hurt your long-term returns: Remaining on course to your investment plan takes discipline at times like these. But if history has taught us anything, it is that these moments pass, and in retrospect, are often seen as an opportunity rather than risk for investors. If you have any questions or concerns about today's markets, please contact us.

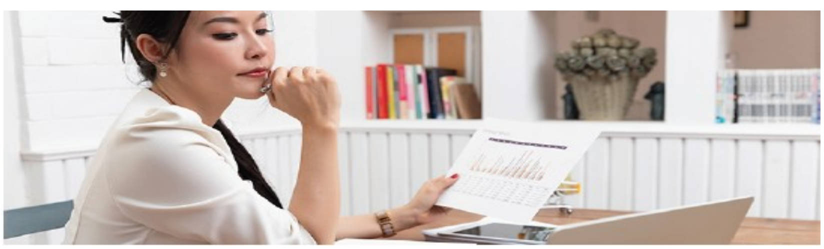
- Greg



Source: RBC GAM, Morningstar. Returns for the S&P 500 TR Index USD as January 31, 2022.

WHAT ARE ALTERNATIVE INVESTMENTS?

Today, alternative investments are more accessible to the average investor, opening up a new universe of potential investment opportunities. As with any investment, it's important to understand what they are – and the pros and cons.



The alternative facts

Alternative investments are sometimes defined by what they are not, i.e. not the conventional asset classes of stocks, bonds and cash. So, what are they then? Here are some of the more common alternative investments:

- **Private equity** – Commonly refers to a fund or group of investors that invest in and/or purchase companies to restructure and then sell them.
- **Venture capital** – A form of private equity and/or financing that invests in start-up or small– and therefore highly speculative– businesses.
- **Hedge funds** – Pooled investment funds that use complex trading techniques, including short-selling, the use of derivatives and investing in esoteric markets or assets, and deploy leverage to boost returns.
- **Real estate** – Direct purchasing and selling of real properties, including commercial, industrial and retail, for the purposes of income generation and/or capital appreciation.
- **Commodities** – Through futures contracts, the purchase and selling of commodities such as oil, gold, wheat and minerals.

Pros

1. **Diversification:** Alternative investments tend to have a "low correlation" to other asset classes such as stocks and bonds. This means they tend to perform in different ways, i.e. when stocks are going down, alternatives may be going up. This provides investors with diversification benefits to help reduce risk.
2. **Inflation hedge:** Alternative assets such as some commodities (e.g., oil and gold) and real estate

Source: RBC GAM, Morningstar. Returns for the S&P 500 TR Index USD as January 31, 2022. An investment cannot be made directly into an index. The above does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower. Past performance is not a guarantee of future results.
Source for chart of page 1: LPL Research, FactSet 4/28/22. Index are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results. S&P500 Index performance before 1957 is based on the predecessor index, the S&P90.

can also perform well when inflation is rising.

3. **Short selling:** Hedge funds are able to "short sell" assets, which means they profit from downturns in those assets, providing another way to diversify.
4. **Derivatives and leverage:** Private equity investors can benefit from high-risk strategies like "leverage" (which boosts the purchasing power of invested capital) and "derivatives" (which can provide access to unique markets with often zero-sum outcomes, i.e., one side of a trade or position "wins" while the other "loses").
5. **Long-term lock-in periods:** Many alternative investments require a long-term lock-in period, allowing a fund manager to access longer-term investments that would otherwise be unavailable (e.g., land purchases).

Cons

1. **Accessibility:** Alternatives tend to have high minimum investment thresholds (generally $200,000 or more), and restrictive qualifiers for investors such as significant net worth and high income levels.
2. **Lack of transparency:** Conventional assets have easily accessible information upon which to base investment decisions; alternative investments can be more opaque, and more difficult to assess as to risk.
3. **Illiquidity:** Long-term lockup periods can prevent investors from accessing their capital, and some investments, such as real estate, can take years to realize a payoff.
4. **Less regulation:** With less oversight by regulators, there's less transparency for investors as to the risks.
5. **Fees:** Generally, alternative investments have significantly higher fees. Many "alternative" investments are high risk and complex, and therefore may not be appropriate for investors with limited investment knowledge or experience, or with a low risk capacity or appetite.

This report is intended to be educational only about alternative investments as a general asset class. Should you have any questions or wish to discuss specific investments, please speak with us.

A FRESH LOOK AT THE U.S. RECESSION SCORECARD

Equity investors are contending with a confluence of several economically significant developments: war in Ukraine, surging energy and commodity prices, worrying inflation data, central banks intent on tightening, and bond yields rapidly climbing above pre-pandemic levels. All these, and more, have raised concerns about the potential for broad economic weakness down the road. Those concerns have already produced a pullback in equities, and although markets appear to have regained their footing for now, more events of this kind cannot be ruled out as the year progresses. With the exception of the Ukraine tragedy, these crosscurrents seem to us part and parcel of a global economy transitioning from the high growth rates that usually accompany the first year or so of recovery from recession to the less-dynamic "middle innings" of an economic expansion. In that phase, we would expect GDP growth to remain positive (although Europe looks to be headed for some challenging quarters) while corporate earnings and share prices are likely to advance further.

So long as the U.S. economy can avoid recession, we believe global investors should remain committed to equities.

Our U.S. recession scorecard continues to give the economy a green light, although some of our seven indicators are now "less green" than others.

U.S. recession scorecard

	Status		
Indicator	Expansionary	Neutral	Recessionary
Yield curve (10-year to 1-year Treasuries)	✓		
Unemployment claims	✓		
Unemployment rate	✓		
Conference Board Leading Economic Index	✓		
Free cash flow of non-financial corporate business	✓		
ISM New Orders minus Inventories	✓		
Fed funds rate vs. nominal GDP growth	✓		

Source - RBC Wealth Management

Five ways to recharge, refocus and revitalize your mind, mood and body

The last two years have brought a tremendous amount of stress and strain. But some relief can be as easy as a breath away, allowing us to recharge our bodies and minds – and lift our moods.

According to top health scientist and performance physiologist Dr. Greg Wells*, the following methods can help you recharge and refocus – whether you have a few seconds or a few weeks:

1. Seconds: Breathe

Even if you only have a few moments, taking a slow, deep breath – or even better, several – can immediately reduce stress levels and boost energy by reducing tension in the body and focusing the mind. Think of blowing out a candle on your exhales, and that's about the level of force you want to use to blow away your fatigue and worry.

2. Minutes: Shift control or take a power nap

Our experiences create emotions and feelings, which in turn create thoughts in our minds, and those thoughts often drive our actions. But as Dr. Wells notes, based on his work with Canadian Olympian athletes the best approach is what he calls "shifting control": turning the process on its head from "feeling-thinking-acting" to "acting-thinking-feeling." Positive routines (e.g., assuming a certain posture, breathing, eye focus) allow us to act in a certain way in response to circumstances, challenges or negative outside stimulus, after which we think, then feel, in turn allowing one to gain control over our emotional responses.

Power napping is another great way to re-charge and refocus, providing the mind with a period to shut down and relax, bringing the body along with it. Anywhere from three to 20 minutes, but not more, is ideal, according to Dr. Wells. "Any more and the mind slips into a deeper state of sleep that is difficult to emerge from with a clear mind."

3. An hour: Go for a walk

Walking is a great way to relax the mind while invigorating the body, and has been shown to increase BDNF (brain-derived neurotrophic factors) in the brain that stimulate the creation of neurons. These neurons help us to think more clearly and faster, as well as more creatively.

4. A day: Change your environment

Especially with so many of us spending so much time at home as a result of the pandemic, changing our environment by getting outside or into some other stimulatory environment is critically important to recharging our minds. According to Dr. Wells, getting into nature is particularly powerful, as it has been shown to stimulate the brain to move from beta mode – a state of focus, execution and hustle – to alpha mode, a state of meta-cognition, strategic thinking, and open it to a state of learning and absorption.

5. A week: Learn something new

If you have a week or more, learn something new to stimulate your mind and recharge your energy, says Dr. Wells. "From music, to painting, to learning a new language or skill, learning puts us into growth mindset, and is revitalized and energized through the process of new neuron creation."

No matter how much time you have to do so, taking the time – whether a second or a week – and following these simple steps can help you re-energize and re-focus to help tackle whatever challenges may lie ahead.

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Contact us

We are committed to providing you with the highest quality of service. If you have any questions, if there is anything we may assist you with, or if you would like to speak in greater detail about anything, please let us know.

Admin Note: Did you know that you're able to setup automatic monthly deposits into your RBC Dominion accounts? We can assist you to setup regular deposits/ contributions from your bank account into your accounts held with us, and we'd be happy to discuss a regular investment plan for the newly added funds. If you'd like to set this up or have any questions, please contact Alex McPhee at 604-257-7332 or alex.mcphee@rbc.com.

Closing Quote:

"Time in the market beats timing the market."

-*Ken Fisher, founder of Fisher invesments*