THE GREG UPSON WEALTH MANAGEMENT TEAM | RBC DOMINION SECURITIES

UPSON'S UPDATE

SUMMER 2020

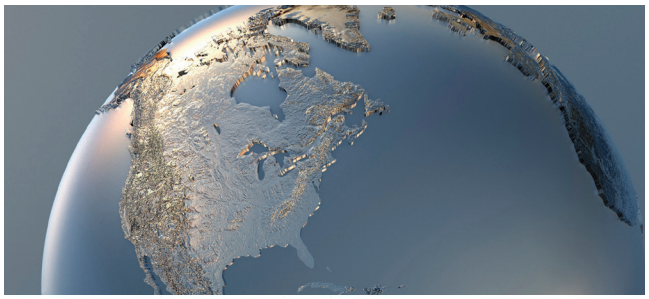
MARKET COMMENTARY

Despite concerning virus trends, particularly in the U.S., the markets have been rather resilient. Please find my following market updates discussing this positive momentum amidst the Coronavirus.

Coronavirus update

Some parts of the world – Canada, large parts of Western Europe, and China for example – continue to see generally stable or lower numbers of new daily cases. Governments in these regions have to this point successfully adjusted to living and functioning with a virus that is still present but under control.

Elsewhere, the story remains much more challenging. Trends continue to be troubling in parts of Central and South America, the Middle East, parts of Africa, and large swaths of South and Southeast Asia. But the region that has seen the most disconcerting deterioration is the U.S. Just two weeks ago, the country was averaging close to 35,000 new daily cases, nearly double the level of about a month ago. That figure has risen yet again, to well more than 50,000 new daily cases per week. It has forced a number of states to scale back their reopening



plans, with some reintroducing restrictive measures and mandating the wearing of masks. We expect more may be needed in the weeks to come.

Positive Momentum…. for now

One would expect global markets to have responded poorly in the face of the concerning virus trends of late. But, that has not necessarily been the case. It has been much more resilient compared to when the virus first emerged earlier this year. The question is why?

There may be a host of reasons, ranging from the virus being less of a surprise, to the extensive work and progress on vaccines and therapeutics, better preparedness to help the more vulnerable population, lower odds of full scale lockdowns in the future, and the very significant amount of government aid that is in place, helping businesses and consumers, at least to some extent. But, we believe one of the most important factors at play is the positive economic momentum that continues to be on display. Last week, the U.S. announced it added more than 4.7 million jobs in June, adding to the 2.7 million jobs gained in May.

Cont…

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SPECIAL POINTS OF INTEREST:

- *The markets have been rather resilient of late, compared to when the coronavirus first emerged and brought extreme volatility.*
- *The arrival of COVID-19 has also brought scams and frauds related to the virus. You can stay on top of many of the latest scams through the Scams Alert page on RBC's Cyber security site, at: rbc.com/cybersecurity*
- *Historically low interest rates and yields have ushered in a new and unprecedented phenomenon– negative interest rates and yields.*
- *Commitment, quality and calibration are all key factors to help investors weather the storm better through the recession phase of the economic cycle.*

INSIDE THIS ISSUE:

Cont…

U.S. employment remains well below the pre-pandemic level as there were more than 20 million jobs lost between March and April. Nevertheless, it's a meaningful change in trend from earlier this year. Furthermore, last week's readings of manufacturing activity for the month of June across the U.S., Canada, Europe, and China add additional evidence that suggest the worst may have passed for now.

The question is whether this recovery can be self-sustaining? We think it is too early to make this case, particularly given the resurgence of the virus in the U.S. Furthermore, we are not sure it matters just yet given the unprecedented actions being undertaken by governments around the world. The U.S. government is expected to negotiate and deliver another round of stimulus that may extend some of the aid programs for businesses and the unemployed, just as the Canadian government did a few weeks ago. These programs continue to buy more time for economies to heal, and should serve to reassure investors.

While we recognize the need for such aid at this juncture, we look forward to the time when such assistance is no longer needed and the basic drivers of long-term sustainable economic growth – a healthy population, businesses that are free to open, and consumers that are willing to spend - are more firmly in place.

Should you have any questions or concerns, please feel free to reach out.

- Greg

PROTECTING YOURSELF FROM COVID-19 SCAMS

With the arrival of the COVID-19 pandemic, protecting your health has become the #1 priority. Unfortunately, protecting your property and your privacy from criminals has also become increasingly important as scams and frauds soar during these trying times.

The COVID-19 pandemic is an unprecedented event, and we're all concerned about the health and safety of our loved ones. If that weren't enough, the pandemic has also brought in its wake criminals, fraudsters and scammers, who are feeding off the uncertainty brought on by the pandemic to deceive and steal.

As anxiety spreads, so do the scammers

According to law enforcement and cyber security experts, fraudsters have exponentially ramped up their criminal activities with the arrival of COVID-19. The pandemic has made people particularly vulnerable to online scams for two reasons. One, the heightened emotions that it has generated make us vulnerable to these criminals' manipulations and deceptions. Two, the physical distancing necessary to help reduce the spread of the virus has left many of us isolated. This helps criminals to confuse and beguile their victims to more easily manipulate them into doing what they want.

Stay cyber safe

The arrival of the coronavirus did not mark the beginning of phone and cyber (or online) crime and information theft. Fraudsters and thieves existed long before the arrival of the Internet. They existed before there were terms like *phishing* – where criminals send emails falsely purporting to be from real companies in an effort to induce you to provide them with key personal information, such as passwords and credit card numbers. But the pandemic has introduced a raft of specific COVID-19-related scams:

• ***Texts*:** Messages that appear to be from upstanding organizations like the Red Cross asking you to click a link to receive a free face mask or other PPE (personal protective equipment) are very likely false. Delete the text, and head to the organization's actual website to get the facts.

• ***Emails*:** Be on the lookout for COVID-19 emails pretending to be from a charity raising money to help in the fight against the virus, or from a government department to provide an "urgent" update or financial refund – they are phishing emails. Delete them and reach out directly to the charity or government agency.

• ***Phone*:** Beware of anyone claiming to be from an official government health organization. With one recent scam, fake officials falsely claim that you have tested positive for COVID-19, and ask you to provide them with your personal and financial information so you can receive a prescription for treatment. Don't provide any information, and instead just hang up. Ideally, don't answer calls from numbers you don't recognize.

Visit rbc.com/cybersecurity for more info.

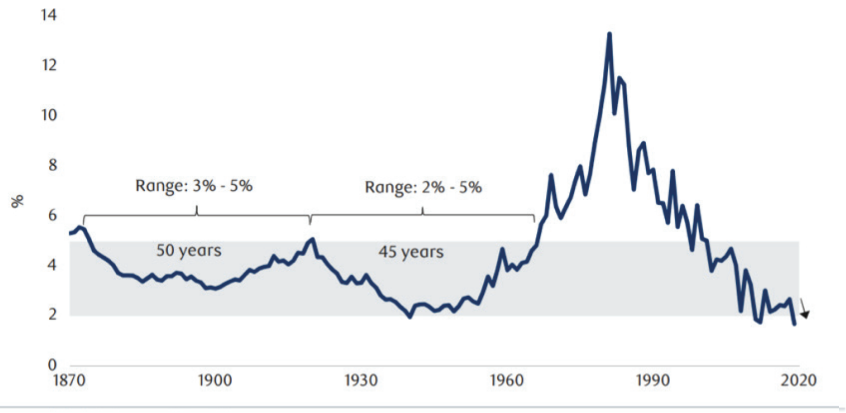
*The information in this article on pages is derived from RBC Dominion Securities Portfolio Advisory Group's Weekly client newsletter .

Less Than Zero

A closer look at low and negative interest rates and yields

Many of us well remember the early 1980s, when central banks jacked up interest rates to combat soaring inflation. But since the mid-80s, interest rates and bond yields, with only a few exceptional spikes along the way, have tumbled, bringing them to the lowest levels in modern history. And historically low rates and yields have also ushered in a new and unprecedented phenomenon: negative interest rates and yields.

Historial 10-year U.S. Treasury yields



Note: As of 10/31/2019. Source: RBC CM, RBC GAM

Today, over US $17 trillion of global debt is trading at nominal (before inflation) negative yields – which is almost 25% of all outstanding global debt*. Add to that the fixed-income products that have real (after-inflation) negative yields, and that number soars even higher.

When the yields come tumblin' down

While there are many factors – both structural and cyclical – that have brought about this long, gradual decline, here are some of the key reasons:

- **Slow real economic growth:**

Falling economic growth rates in the developed world have meant lower business investment. Lower business growth requires lower borrowing costs, as businesses will not invest in new projects unless the cost of borrowing is less than the prospective return on their projects.

- **Low – really low – inflation:**

By historical standards, inflation is extremely low and has remained so for years. The effect of this development on interest rates and yields – which are made up of an investment risk premium plus inflation – is that they will naturally fall when the inflation component declines.

- **Central bank policies and the glut of global debt:**

As developed world growth has fallen, central banks have gradually lowered interest rates to stimulate growth in spending. Key market and economic events have also spurred cuts, such as the 2008/09 Great Recession, when central banks cut rates to ward off disaster. In turn, lower interest rates and bond yields have stimulated borrowing at a sharply increasing rate, resulting in the ironic outcome that central banks need to (artificially) keep interest rates low to manage these historically high debt levels.

The bond investor conundrum

Negative interest rates and yields seem inconceivable: why would anyone want to lend money to someone only to be assured of a negative return on that transaction? But in today's world, investors are willing to concede return for security, even paying for the privilege of the (presumed) assurance that they will receive their money back in the future.

That's the conundrum for today's investor: yes, rates are low (even negative) but bonds still offer important benefits, including:

- Providing a predictable source of income
- Preserving capital
- Serving as a ballast for your portfolio during times of economic distress and risk aversion

Regardless of how long low yields persist, investors can continue to benefit from bonds to help protect their portfolios – so in a way, today's wonky math still adds up.

*As of 11/4/2019. Percentage of bonds in Bloomberg Barclays Global Aggregate Bond Index trading at negative yields. Source: Bloomberg, RBC Global Asset Management.

Recession-Ready Portfolio

Weathering the economic downturn

The decade-long economic expansion that started after the Great Recession in the latter half of 2009 entered 2020 already looking rather tired and worn, with economic indicators steadily losing steam. COVID-19 was the catalyst that brought a sudden end to one of the greatest economic expansions in modern history, and its effects will likely be felt for some time. It's a difficult time for investors, but there are things you can do (or not do), while looking forward to the inevitable recovery.

Positive signs

The U.S. S&P 500 Index reached an all-time high on February 19. Since then, markets proceeded to fall over 30%, hitting their most recent nadir on March 23.

Encouragingly, markets have since stabilized, even recovering a good portion of their steep losses. Whether this stabilization will hold in the shorter term is particularly difficult to predict, as we still know so little about the virus and, therefore, the extent of its impact on the global economy. However, one thing is certain: governments around the world have worked to control the spread of the virus through physical distancing and varying degrees of economic lockdowns. The length and severity of these measures will largely determine the extent of the impact to the economy – and that, in turn, will likely be reflected in stock values.

How investors can weather the storm

As always, the worst thing to do is to panic and unnecessarily abandon your well-constructed financial and investment plans. If your goals haven't changed, then your plans generally shouldn't either. However, there may be opportunities or adjustments you should consider.

• **Commitment:** Take time to review your goals and financial circumstances with us. If they haven't changed, your plan shouldn't either. Re-commit to your plan, knowing that, historically, markets have always recovered in time and should continue to build wealth for patient investors.

• **Calibration:** That said, you may need to make some tweaks, depending on your situation. When markets are volatile and the economy is in recession, it only makes sense to consider your risk exposure. This doesn't necessarily mean changing your plan, but simply being prudent as it relates to your equity and bond holdings.

• **Quality:** In times of uncertainty and economic stress, blue chip– high-quality, consistent-earning, well-established, and long-standing – companies and their stocks and bonds can provide relatively safe harbours in which to ride out the storm. Consistent dividend-payers (and even better, dividend-growers) can help, with the dividend income offsetting a lack of capital growth until the market situation improves.

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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.

Naveed's Note: The new Wealth Management Online site has launched and our development team is working hard to continually improve the site and provide you the best online experience. If you don't currently have access, we'd be happy to assist you with enrolling. Should you have any questions or need assistance with anything related to your online access, please contact Naveed Azad at 604-257-7653 or naveed.azad@rbc.com.

Closing Quote

"In the business world, the rearview mirror is always clearer than the windshield."

- Warren Buffett