Wealth Management
Dominion Securities

Wealth Management Review

FAll 2023

Bryan Wealth Management Group of RBC Dominion Securities

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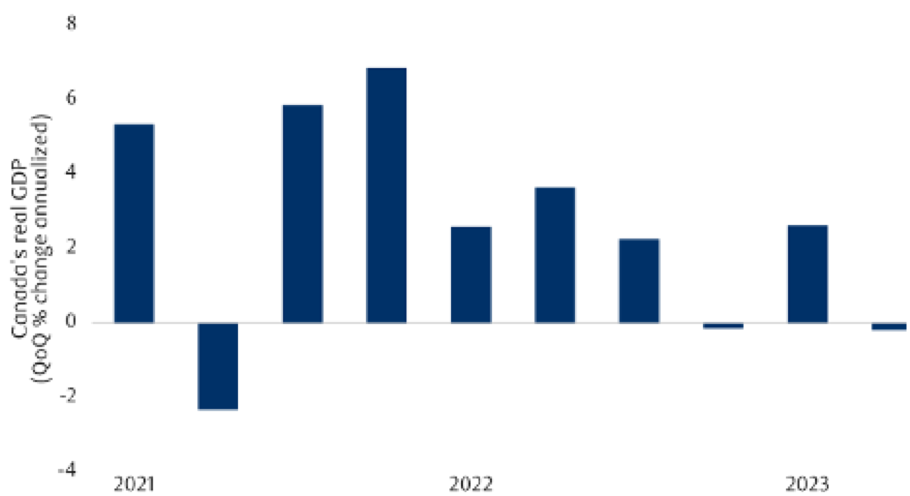
eStatements

North American wobbles

The Canadian economy reported a decline in Q2 real GDP – the second quarterly decline out of the past three (see Chart 1). This points to an economy not performing well, though the level of concern should be tempered by the fact that GDP rose nicely in the one quarter that did manage a gain.

Canadian economy contracted in latest quarter



As of Q2 2023. Source: Statistics Canada, Macrobond, RBC GAM

Historical recessions have included broadly based economic suffering, substantial job losses and acute financial market discontent. None of that happened in recent quarters. All those things are unlikely to go unnoticed in real time. We may not know the day a proper recession begins, but we should have a clear sense that all is not well while it is happening, as opposed to learning about it months later.

After an optimistic start to the third quarter, stock markets reversed course in September, concerned by the steep rise in 10-year yields, which have hit a new high since 2007 in both Canada and the United States. Yet according to the Federal Reserve's latest projections, there's no need to worry too much, as the Central Bank seems to be counting on a "soft landing" scenario. In addition, through the differences specific to each economic cycle, one constant emerges. Whether in 1973, 1979, 1989, 2000, or 2007, we found a period in which hopes for a "soft landing" were front and center in the media. And yet, the main quality of these New York Times articles is probably their ability to signal the moment when the Fed's reference rate peaked, not because a soft landing was taking shape, but because the economy was about to weaken more than expected with, in particular, a rise in the unemployment rate.

Excerpt from Macro Memo (Sept 12-Oct 2)
Eric Lascelles

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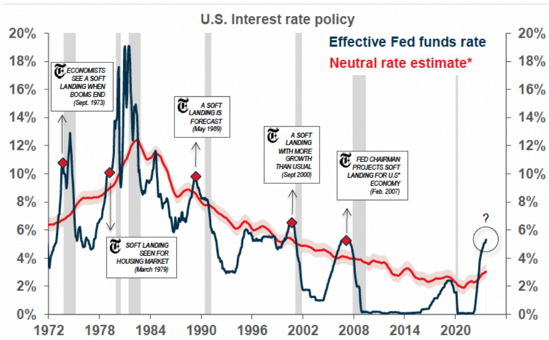
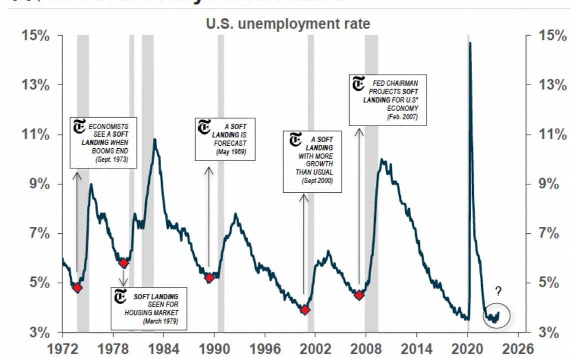
13 | Hope for a "soft landing"...



CIO Office (data via Refinitiv). *Average of FOMC long-run policy rate projection and 5y5y forward Treasury yields .News articles are from the New York Times.

14 | ... never really materialized



CIO Office (data via Refinitiv). News articles are from the New York Times.

Time: An investor's secret weapon

We often talk to the benefits of maintaining a long-term mindset. Many agree it's one of the best approaches to take in any area of life where compounding can come into play. This is perhaps most true with investing. It's the magic of time – an investor's secret weapon.

Using time to your advantage

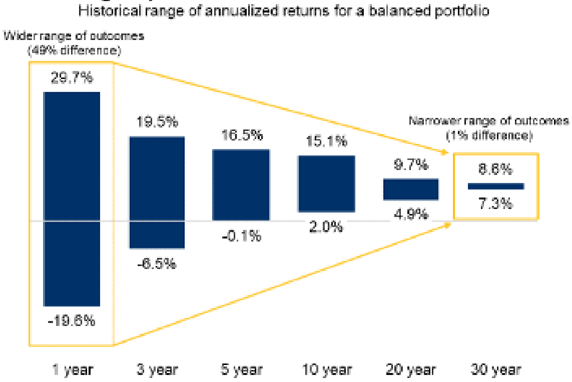
Just because an investor is saving toward a long-term goal doesn't mean they're exempt from short-term market uncertainty. Investors of all time horizons endure the same recessions, bear markets, and surprises that will inevitably occur along their saving journeys.

That said, the volatility that comes from taking on risk in your portfolio tends to decrease over time. Especially if you are invested in a well-diversified portfolio. The chart shows that while short-term returns can range widely, the level of uncertainty investors face tends to narrow with time.

Key takeaways:

- The long-term view. The further out we expand our time horizon, the less near-term uncertainty influences investment outcomes. Over 30-year periods, the difference between the best and worst annualized return on our representative balanced portfolio is little more than 1%.

The range of potential outcomes tends to narrow with time
Historical range of annualized returns for a balanced portfolio



Rolling 1-, 3-, 5-, 10-, 20- and 30-year annualized returns from January 1988 to May 2023. All returns are total returns in Canadian dollars. Diversified Portfolio represented by 2% Cash, 38% Fixed Income, 15% Canadian Equities, 25% U.S. Equities, 15% International Equities and 5% Emerging Markets Equities. Cash represented by FTSE Canada 30 Day TBill Index; Fixed Income represented by FTSE Canada Universe Bond Index; Canadian Equities represented by S&P/TSX Composite Index; U.S. Equities represented by S&P 500 Index; International Equities represented by MSCI EAFE Index; Emerging Markets represented by MSCI Emerging Markets Index. Source: Morningstar, RBC GAM.

Excerpts from Daily Market Update- June 19, 2023 (Alex Fowler)

The U.S. dollar's descent

After more than a decade of prevailing strength in the U.S. dollar (USD), evidence increasingly suggests the currency is weakening. Long-term cyclical shifts in the dollar's value tend to be well-defined and can last for upwards of a decade. So what's causing the USD to weaken now? What's the outlook and what does it mean to investors?

First, some context. Currency values are largely driven by capital flows. Trillions of dollars' worth of currency are traded every day in the massive foreign-exchange markets. Money tends to gravitate into currencies where economic prospects are brightest, where equity markets are most attractive and where bonds offer the most yield.

The prior USD cycle lasted for 12 years, from 2011 to 2022 (see Chart). It involved a dollar rally that took the currency from **20% below to 30% above its fair value based on purchasing power parity.** This USD strength was extended first by economic uncertainty during the pandemic and then by rising inflation that prompted the U.S. Federal Reserve's (the Fed's) aggressive rate-hiking cycle.

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The U.S. dollar's descent
Cont'd from page 2

The U.S. dollar tends to move in long-term cycles

Source: RBC GAM, Macrobond. Data as of June 30, 2023.

What's behind the USD's decline?

A few major factors explain the USD's weakness over the past nine months, and underpin our view that it will weaken further:

- **Trade and budget deficits.** The U.S. has run budget deficits for decades, spending more than it earns to fund huge social security expenses (US$2.8 trillion per year), Medicare programs (US$1.5 trillion per year) and military spending (US$0.8 trillion per year).
- **How the path of interest rates may evolve in the future.** The Fed raised interest rates rapidly in 2022 in response to persistently high inflation and expectations that risked becoming unanchored. Other developed central banks, like the European Central Bank (ECB) and Bank of England (BofE), are further behind.
- **De-dollarization.** This term refers to the gradual move away from the USD as the main currency for global trade and investment. This has prompted discussions on whether the USD will continue to be the world's primary reserve currency – the currency that other countries and international businesses most often hold and use for trade.

Over many decades, currency shifts tend to even out. But those with an investment horizon of only a few years may want to plan for all the ways in which their portfolio may be impacted.

Source: "The US dollar's descent" - Krystyne Manzer RBC GAM Insights - Current Perspectives

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Anthony Scilipoti, FCPA, FCA, CPA (Illinois), President & CEO, Veritas Investment Research Corporation, after the Ben Graham Centre for Value Investing - Ivey Business School Conference. For 30 years, Anthony and his team have provided leading research exposing accounting truths, and helping our clients beat their benchmarks. Anthony went through the Veritas forensic accounting process for identifying risks and opportunities and how they look for "flammable items." Past notable alerts issued by Veritas include Nortel, Bombardier and Valeant Pharma.

Here are Veritas "flammable items" watch list:

- Changes in financial communication
- Changes in non-generally accepted accounting principles (GAAP) metrics
- Changes in accounting assumptions/estimates
- Changes in economic or competitive dynamics
- Unusual divergence between financial and operational performance

None of these red or yellow flags mean anything on their own until there is a spark. You never know where that spark is going to come from, but I have a feeling the current economic shift created by stubborn inflation, high interest rates and de-globalization is creating some sparks.

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I want to introduce Brittany Leppington, the newest addition to the Bryan Wealth Management Group. She has been with RBC for four years, starting out at the branch as a Client Advisor.

After her first full year at RBC, Brittany earned an RBC Conference Award, where she was able to set sail in January 2023 (thanks to COVID-19!) with all the 2021 recipients and a meet and greet with the CEO Dave McKay.

In her spare time, Brittany loves to travel, attend concerts of all genres, read and spend time with her family. Brittany has a large family of five siblings, four nephews, three nieces, and one great nephew. She has two cats at home named Miles and Tony, and a family dog named Tucker.