Wealth Management
Dominion Securities

Wealth Management Review

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Bryan Wealth Management Group of RBC Dominion Securities

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Two steps forward, one step back?

Most major equity markets had posted new all-time highs by April 2024, China excepted. After an initial push to a new high, the equity market often checks back to the breakout point as part of its two-steps-forward, one-step-back pattern of climbing to new high ground. Such a pause has played out through April and may not be finished yet. This time, the catalyst for the market retreat was yet another huge change of mind, which arrived late in Q1, about where the U.S. Federal Reserve (the Fed) was headed next, and when. For most of Q1, investors were confidently expecting a first Fed rate cut in May as a prelude to a series of further reductions before year end. But then a few tenths of a percent rise in the March U.S. inflation data, and a stronger-than-expected jobs report kicked that scenario into the ditch.

This would mark at least the fourth 180-degree turn in investor hopes for a Fed easing cycle to get under way over the past 12 months. It's difficult to imagine just how much brain power, ink, and screen time have been marshalled over that time to report on, explain, and allegedly analyze all this. Sheets of paper covered with small print and laid end to end circling the globe come to mind. Here's what we know: The Fed has not yet cut. Monetary conditions are still tight or, in the words of the CEO of one of America's largest banks, "very tight." (The yield curve has now been inverted for 22 months and counting.) Even if the Fed were to cut in June, the impact on the economy of that cut wouldn't be fully felt before 2025, in our view.

Does that mean a U.S. recession is inevitable? No. But we think it does mean the period of vulnerability has further to run, even if rate cutting were to start next month. In eight of the past 10 recessions, the Fed had already been cutting the funds rate before the recession started.

U.S. Recession Scorecard

Indicator	Status		
	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

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Excerpts from Global Insight May 2024 - Jim Allworth

Two steps forward, one step back?
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What does this extended runway of monetary policy uncertainty mean for equities? First, we think it signifies that the pullback/consolidation that began in early April could easily have further to go. The sharp back-up in bond yields appears to have been the chief culprit behind this latest equity market retreat, and a full retest of the 10-year Treasury yield's October 2023 highs at almost 5% can't be ruled out.

We think Q1 index earnings for the S&P 500 were good enough at +4% q/q to make the consensus full-year estimate of $244 (up 10% y/y) look reasonable. At the same time, corporate guidance remained mostly positive among the large cap contingent.

If a series of Fed rate reductions were to be delivered in response to an inflation rate that was convincingly subsiding toward 2% with the U.S. economy doing no worse than temporarily slowing down, the S&P 500 and other large-cap indexes might go on setting new highs for some time punctuated by occasional corrections/consolidations. But if, as has so often been the case in past cycles, Fed cutting comes to be seen by investors as an urgent response to a more serious economic downturn, then we think stocks could enter a more challenging market phase. The fact that market breadth has been rising in sync with the broad large-cap averages persuades us to remain committed to equities for now. But new highs, fueled in part by price-to-earnings valuations rising from already rich levels, argue for a watchful, cautious approach to portfolio management.

What Novak Djokovic can teach us about investing

There are many investing lessons that can be taken from everyday life, including sports like tennis. If you are not familiar with Novak Djokovic, he is a professional tennis player who is currently ranked number one in the world, and arguably the best tennis player of all time.

In tennis, to win a match, a player must win a set. And to win a set, a player must win a game. To win a game, a player must win four points. Thus, an incredibly important component of winning a tennis match is winning points.

The percentage of points won is a statistic that shows how many points you have won relative to your opponent. Surprisingly, the top players in the world range between 52% to 54% of total points won. Even Novak Djokovic – the world's best player – is only sitting at 54% of points won, yet his overall match win percentage is an amazing 83%.

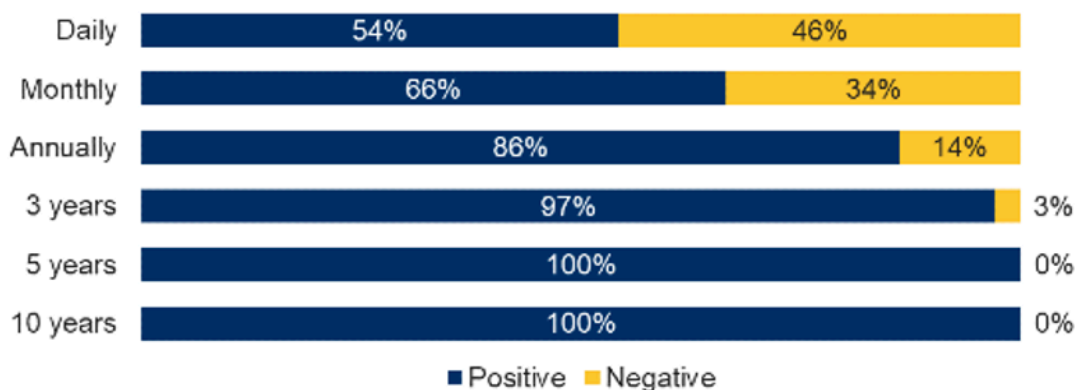
Roughly 130 points are played per match, which means tennis is a game of long-term numbers. Perhaps 54% of total points won sounds low, but when scaled over the course of an entire match, consistently beating your opponent over the long-term is the key to success.

Coincidentally, when looking at investing in a diversified portfolio, an investor's odds of positive returns on any given day is 54%:

Key takeaways:

- Trying to time the market on an average day can be risky, with a 46% probability of a negative return when investing for only one day.

The daily "win" rate of 54% compounded over time can eventually win the "match" if played for enough points. Take advantage of the win rate compounding over time. You may not win every day, but the longer you play, the greater your chances of success.



Source: Morningstar, RBC GAM. RBC Select Balanced Portfolio, Series A. Daily returns are based on time period of January 01, 2000 to December 31, 2023. All other periods are based on monthly data from January 01, 1987 to December 31, 2023.

Excerpts from Daily Market Update by Kevin Deckert, RBC GAM - Jan. 19, 2024

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Two steps forward, one step back?
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And the polls show...

Betting markets fluctuate considerably but, recently, Trump has been gaining ground on most betting markets. Ultimately, it's a close race that has swung back and forth.

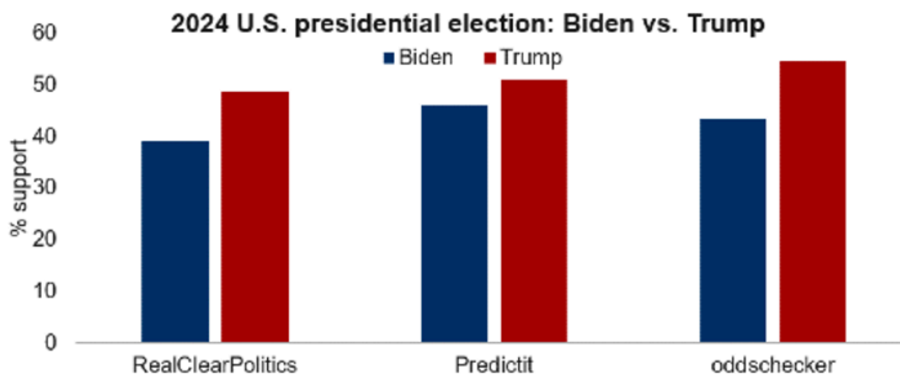
Investments grow under both political parties

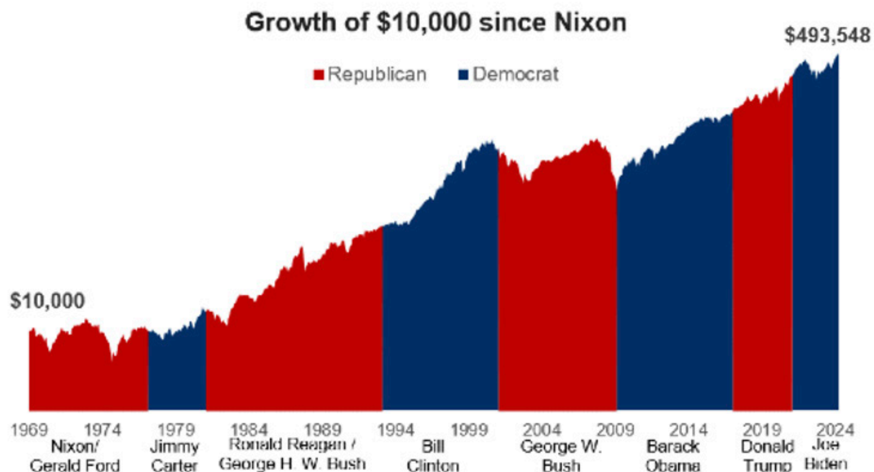
As opposed to focusing on interim election results, the most important narrative should always be on long-term results. As you can see below, since 1969, the U.S. has had many eras under both Democratic and Republican leadership. Yet, both parties have provided impressive growth.

Democratic terms have returned an average of 11.1%, compared with Republican terms of 5.8%. Democratic terms have also historically had smaller max drawdowns compared with Republican terms.

However, the differences in returns have more to do with business cycles and consequential timing, and less to do with the presidents in charge. For example, George W. Bush experienced one of the largest market corrections near the end of his term – the Global Financial Crisis. This significantly skews the Republican party's results.

More notably, presidential terms have exhibited an average drawdown of 28.2% yet provided an average annualized return of 7.9% since 1969. This highlights the intermittent volatility near-term markets can exhibit, yet the consistent positive returns long-term markets can exhibit – regardless of president.





Source: Morningstar, RBC GAM. Returns based on S&P 500 index, calculated monthly. Period ranges from January 1, 1969 to April 30, 2024.

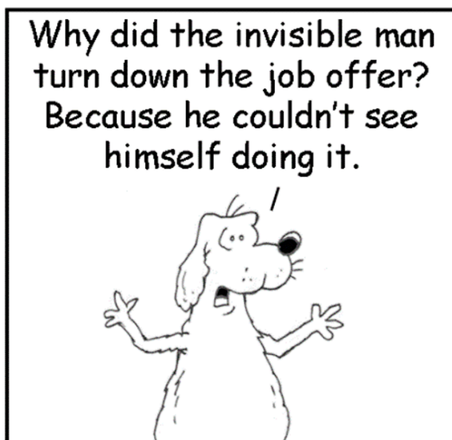
Excerpt from Daily Market Update - Kevin Deckert May 23, 2024

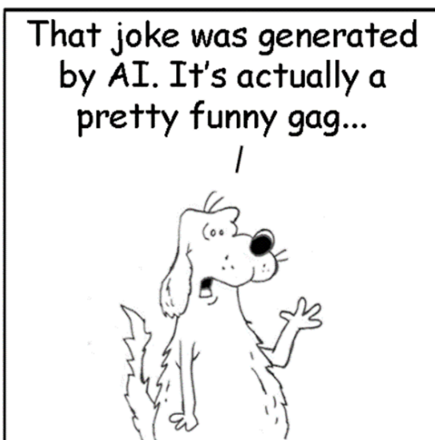
Euchre with Emily fundraiser

The Emily Murphy Centre is a 20-unit apartment complex in Stratford, Ontario. It is a second-stage residence for women who have experienced violence in Stratford or Perth County. Second-stage housing provides a safe alternative to living with violence. The Centre also operates as a supervised access program for Huron and Perth counties.

Bryan Wealth Management Group's sponsorship of this event, and the annual donation of $2,500 from RBC Dominion Securities, will help to support critical projects. This support helps ensure women and children are safe in the program and obtain the benefits of supervised play, counselling, programs, supports, clothing, supplies, and proper nutrition through meal assistance.

Below is a picture of a few of the event's winners.





(Photo by Minas Panagiotakis/Getty Images)

"Robert MacIntyre, with his Father Dougie as his caddie, held on to win the RBC Canadian Open on Sunday for his first PGA Tour title. Congratulations!"

https://www.rbccanadianopen.com/2024/06/02/scotlands-robert-macintyre-holds-off-griffin-wins-rbc-canadian-open

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