Wealth Management
Dominion Securities

Wealth Management
Review

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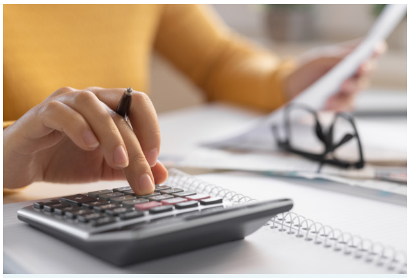

## Making tax time less taxing

The Client Guide to 2024 Tax Reporting provides key dates and a handy checklist of tax slips you may receive from RBC Dominion Securities (depending on your investment holdings and account activity).

View it online at: https://www.rbcwealthmanagement.com/en-ca/dominion-securities/tax-reporting-guide

## Get your tax slips online

Simply sign into your secure client website to view and download your tax documents. Go to www.rbcds.com, select "Sign in" from the top right, and sign in as usual. If you need access, please contact your Investment Advisor.

### Key dates

- **March 3, 2025** – last day for 2024 RRSP contributions
- **April 30, 2025** – last day to file your 2024 tax return without penalty
- **June 16, 2025** – last day to file your 2024 tax return without penalty if you are self-employed

# Equity balancing act

By Jim Allworth, Investment Strategist - RBC Dominion Securities

**In 2025, global equity markets may be able to add to the remarkable gains of the past two years. That will require economic and earnings pictures that don't falter. Already-stretched valuations and recent frothy investor sentiment readings argue for a cautious, considered approach to equity selection.**

## How we got here

The last washed-out low for equity markets occurred in the fall of 2022. Investor sentiment had swung from enthusiastic optimism in January of that year to concerned pessimism by October. From that point, markets turned abruptly higher and never looked back.

All the major equity averages advanced sharply over the intervening 25 months (China's aside until recently), led by the S&P 500, up a remarkable 75 percent.

This steep path higher for the S&P was, to a great degree, forged by the performance of a handful of high-profile mega-cap technology stocks – the so-called Magnificent 7 – whose substantial spending commitments to the development of artificial intelligence (AI) raised the prospects of those companies delivering outsized sales and earnings growth in the years ahead.

More broadly, enthusiasm for AI fostered optimism about future economic growth, which, bolstered by interest rate cuts in Canada and the U.S., pushed the majority of stocks to a succession of new highs. That can be seen more clearly in the performance of the "unweighted" version of the S&P 500, which removes much of the distortion introduced by the high-flying Magnificent 7. This equally-weighted index was up a less remarkable, but still surprising, 45 percent, the same very healthy gain as delivered by Canada's S&P/TSX Composite.

## New index highs possible

Valuations have changed materially as markets have moved higher over the past two years: the S&P 500 rose by 75 percent, but the index earnings-per-share was up by a comparatively meagre 12 percent. That has left the price-to-earnings (P/E) multiple at around 25x (trailing 12 months), up by more than half from the 16.4x that prevailed back at the October 2022 low.

There is no convincing line in the sand beyond which equity valuations cannot venture.

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With consensus earnings forecast to rise by 13 percent to $275 in 2025, we don't think it would be unreasonable to look for new index highs again next year, nor would it be out of the question for the P/E multiple to move beyond the 25x touched this year. Canada's TSX, trading at a much less demanding 17.7x this year's earnings, does not look to be threatened by worries over excessive valuations.

That said, corrections and pullbacks are a normal part of equity investing. Equity markets tend to keep moving in the prevailing direction until something (interest rates, policy changes, geopolitics, etc.) forces a turn. Corrections come and go unpredictably and usually don't last long, with markets recovering any lost ground quickly. Bear markets, on the other hand, take longer to play out and entail deeper (albeit temporary) price declines. For more than a century, these deeper downturns have always been associated with a U.S. recession.

## Recession watch

The window can't yet be closed on the possibility of a U.S. recession arriving as a consequence of the Federal Reserve's tightening cycle. Recessions have started an average of 10 quarters after the first Fed rate hike. We have now just finished the 11th quarter since the Fed first raised the fed funds rate in March 2021. In more than half the recessions, the first rate-hike-to-recession gap was longer than the 10-quarter average.

Of course, it's also possible no U.S. recession arrives, which would leave the bull market with further to run.

## Markers under monitor

There are two market-related measures in particular we are monitoring to gauge whether or not the equity market advance is running out of steam.

One is market breadth—are the majority of stocks moving in sync with the broad averages? The answer to this continues to be 'yes.' New highs in the S&P 500 and the Dow Jones Industrial Average have been matched by new highs in their respective advance-decline lines, and for the associated "unweighted" versions of both indexes. Historically, market breadth has turned lower before the capitalization-weighted indexes have reached the final peak of a bull market. No such 'negative divergence' has appeared. As long as breadth measures and major market indexes remain in sync, we would expect to see more new highs for equity markets.

We are also paying attention to investor sentiment, which has been only moderately optimistic over most of the past year. Recently, however, some sentiment indicators have been giving frothier readings. For example, a measure of bullish positioning in the stock futures market, compiled by RBC Capital Markets' U.S. Equity Strategy team, recently set new all-time highs, while in The Conference Board's November Consumer Confidence Survey, 56.4 percent of respondents "expected stock prices to increase over the year ahead," by far the highest reading since the question was first asked in 1987.

Some of this elevated investor enthusiasm could be U.S. election-related and might recede in the coming months. If it doesn't, a combination of persistent excessive optimism and the one-sided bullish positioning noted above might suggest that those who want to be invested are already in. New buyers will be needed, and that often requires a period of lower prices and more compelling valuations.

Much depends on the consensus 2025 S&P 500 earnings forecast of $242 per share and 2026 forecast of $275 per share holding together. As RBC Capital Markets' Head of U.S. Equity Strategy, Lori Calvasina, notes, "there is room for market valuations (P/Es) to expand somewhat further but not a ton." It is our view that U.S. investors have already paid once, and generously, for these earnings prospects and may well balk at paying a second time.

Even if a U.S. recession can be avoided, we believe the road to higher equity prices will require some threading of the needle while leaving investors to contend with occasional pullbacks along the way.

## Watchful, cautious, but invested

We expect breadth and sentiment will help us determine which path prevails in the coming months. In our view, the appropriate positioning for the year ahead in a balanced portfolio would have equities at, but not above, the long-term target exposure. Our mantra has been and continues to be "watchful, cautious, but invested."

**For a more detailed discussion of our outlook for financial markets, ask for a copy of the full Global Insight 2025 Outlook.**

*Jim Allworth is co-chair of the RBC Global Portfolio Advisory Committee*

# The re-imagined bucket list: How to finance your dreams

**Popularized in the film *The Bucket List*, a list of dreams to fulfill before you die often is associated with retirement or the end of life. In the movie, Jack Nicholson and Morgan Freeman portray two seniors diagnosed with cancer who embark on an around-the-world trip, coming to some realizations about the meaning of life along the way.**

But bucket lists have become more than just places to see or things to do. They've evolved into life mission statements or personal manifestos of goals you want to accomplish during your lifetime—and for some, specifically during retirement. That's often because today, retirement is defined differently for many people. Some people may retire earlier than ever, while others must keep working longer. Plus, some people aren't waiting until they're retired to get started on checking items off the list.

No matter your age, everyone can benefit from having a list of goals. In a practical sense, it provides focus. On a deeper level, a bucket list or life manifesto provides hope and a sense of accomplishment that can be life-affirming and enhance our sense of happiness.

## Here are five tips to help you make your dreams become reality:

### 1. How to start

The first step is to set aside some time to think about your life and accomplishments. On a notepad, laptop or tablet, write down all of your dreams. Nothing is too big or too small.

You may want to ensure you'll have enough money in retirement to take care of yourself and your loved ones. That amount is largely dependent on individual needs, lifestyles and what you want to do in retirement.

Answers to questions like "Do I want to travel?" and "What do I want my legacy to be?" might just become items on your bucket list.

### 2. Where to find inspiration

You can find inspiration all around you. Conversations with family and friends and new experiences can shape how you envision your retirement. Some other options include checking out magazines, internet "best" lists, and books with titles like *1,000 Places to See Before You Die*.

Bucket lists often are travel-heavy. They can, however, be much more than travel itineraries. Some people may want to buy a vacation home to spend more time with children and grandchildren who live in another city. Others might want to establish a charitable trust or a foundation to address their philanthropic goals.

Your list can also include professional goals, such as starting a business, and activities, such as running a marathon or learning a second language.

But remember, not all of your goals need to be lofty. Some may be smaller and more easily reachable.

### 3. Organizing your list

It can be helpful to break long lists into digestible chunks.

You can separate your goals by category: travel, professional, educational, etc. Another way is to sort the list by time—goals by year or season or goals to reach before you turn a certain age.

Next, prioritize each category. Ask yourself which goal is most important, what excites you the most or which goal you can easily accomplish. The answers may change over time, so keep your list updated.

### 4. Achieving your goals

Now you can plan how to reach your first goal. When should you do it? What are the logistics? Do you want to do it alone or with someone?

Perhaps the most important consideration is what you need to meet each bucket-list item. How much will this cost? What steps might I need to achieve first? Does my current financial plan support my goals? What do I need to be doing now to set myself up for success?

**Have the guidance you need to help make your dreams a reality. Contact your Investment Advisor to create or update your financial plan based on your goals.**

# TFSA versus RRSP versus FHSA: Which is right for you?

Whether you need to purchase a home or save for retirement, investing can help you grow your wealth and achieve your financial goals faster. Three types of Canadian registered investment accounts allow you to do just that.

While the Tax-Free Savings Account (TFSA), Registered Retirement Savings Plan (RRSP) and First Home Savings Account (FHSA) all offer tax benefits, there are some key differences that can help you choose what's right for you.

## What is it?

**TFSA:** A registered plan where your investment earnings and withdrawals are tax-free.

**RRSP:** A registered plan where your contributions are tax-deductible (up to your personal deduction limit) and investment earnings are tax-deferred (you are charged taxes when you withdraw funds).

**FHSA:** A new registered plan designed to help first-time homebuyers. Your contributions are tax-deductible and investment earnings and withdrawals are tax-free if used to purchase your first home.

## Who can open one?

**TFSA:** Canadian residents with a Social Insurance Number (SIN) who are at least 18 or 19 (age of majority in your province or territory).

**RRSP:** Canadian residents with a Social Insurance Number (SIN) who are not turning age 72 or older in the year, have earned income and file a tax return in Canada.

**FHSA:** Canadian residents with a Social Insurance Number (SIN) who are at least age 18 (and no less than the age of majority in your province or territory) and not turning age 72 or older in the year, and you and/or your spouse or common-law partner have not owned a home where you lived in the current calendar year or at any time in the preceding four calendar years.

## Are contributions tax-deductible?

**TFSA:** No.

**RRSP:** Yes (up to your personal deduction limit).

**FHSA:** Yes (up to the annual and lifetime limits).

## Do my savings grow tax-free or tax-deferred?

**TFSA:** Tax-free.

**RRSP:** Tax-deferred (added to taxable income the year you take the money out).

**FHSA:** Tax-free if you use funds for a qualifying first home.

## How much can I contribute each year?

**TFSA:** $7,000 for 2024 plus your unused contribution room and any amounts you've withdrawn from previous years.

**RRSP:** 18 percent of previous year's earned income, less any pension adjustment, up to maximum annual limit ($31,560 for 2024).

**FHSA:** $8,000 annually, plus up to $8,000 of your unused contribution room, up to a maximum lifetime limit of $40,000.

**Contact your Investment Advisor for more information.**

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