Wealth Management
Dominion Securities

Wealth Management
# Review

www.rbcds.com | July 2023

## Introducing the tax-free First Home Savings Account (FHSA)

Save for a home – or help your younger family members save for one – with the new tax-free FHSA.

- Annual contribution room is $8,000.
- Receive tax deductions for your contributions.
- Lifetime maximum contribution of $40,000 is possible.
- Carry forward up to $8,000 unused contribution room to future years.
- Earn tax-free investment income on your contributions.
- As a first-time home buyer, make tax-free withdrawals to purchase a home in Canada.
- Alternatively, transfer FHSA funds tax free to your RRSP (or RRIF) without reducing your available RRSP contribution room (effectively gaining more RRSP contribution room).

Carry forward contribution room only starts accumulating after you open a FHSA – so considering opening one this year, even if you don't contribute right away.

**To learn more, contact your Investment Advisor.**

# Keep your eyes on the road

By Jim Allworth

**Nine months ago the equity market landscape was mostly the opposite of today's: Major world stock markets had been heading lower from the beginning of last year under the pressure of intense monetary tightening.**

At the start of 2022, both the Fed and the Bank of Canada were prepared to be somewhat tolerant of a pick-up in inflation. But they changed their tune as prices rose much faster than expected early in the year. Midyear brought the opening stages of what would come to be the steepest series of Fed rate hikes ever: four successive 0.75% jumps, followed by four more totalling an additional 1.25%.

By last fall, the stock market's price-to-earnings (P/E) multiples had been pressured lower by the sharp rise in bond yields that came with this monetary tightening. The S&P 500 Index was down by 26% from its January 2022 peak. It had been heavily burdened by the big decline in P/E ratios among the previously high-flying mega-cap growth stocks. The six largest of these constituted more than 25% of the value of the S&P 500 at the peak.

This effect also helps explain why stock markets in some other developed economies—notably Canada's S&P/TSX Composite Index (down 19%), the UK's FTSE All -Share Index (down just 15%) and Japan's TOPIX (down 14%)—endured far smaller declines: none included any of these six U.S. ultra-high P/E tech stocks.

### Enter the rally

By October most equity markets were regaining their footing and embarking on a rally that is still ruling the day at time of writing. Until May, this was viewed by most as no better than a bear market rally that would eventually peter out. But as the S&P 500 moved convincingly above its trading range through June it has rekindled investor optimism. Market sentiment gauges have soared as "fear of missing out" (FOMO) has replaced caution.

For our part, we think this equity market rally may have further to run. The UK's FTSE All-Share Index, the EURO STOXX 50, and Japan's TOPIX have all posted new highs for this cycle. Before the rally is over, we expect the S&P 500 and Canada's S&P/TSX Composite will do the same.

Continued on page 2

Keep your eyes on the road ... Continued from page 1

## New bull or last gasp

However, this doesn't feel to us much like the start of a new bull market, but rather much more like the last leg of the current bull market. Whichever it is, the market is certainly in a different place than it was back at the September/October lows. At that point, most indexes had been falling steeply for nine months, some even longer. The P/E ratio for the S&P 500, extravagantly overvalued 23.1x at the peak of the market in early January 2022, had fallen to a much more palatable, slightly undervalued 15.9x by September. Over the same interval, investor sentiment followed the market lower, sinking all the way from unsustainably bullish readings at the top in January to equally unsustainable bearish ones at the bottom in late September.

Since then, everything has been turned pretty much topsy-turvy. The U.S. equity markets have gone up for nine months instead of down, and the S&P 500 is edging closer to new all-time highs. P/E multiples are back above a rich 20x. And, as noted above, sentiment readings have roared higher, getting close to (but not yet at) the unsustainable levels that last prevailed at the top of the market a year-and-a-half ago.

Canada's TSX, while well up from its October lows, has been a comparative laggard, held back by its relatively heavy exposure to banks and energy which have done no better than tread water. However, at just 13x earnings, its valuations are much less stretched than those of the S&P 500.

## U.S. recession card

| Indicator | Status | | |
|---|---|---|---|
| | Expansion | Neutral | Recessionary |
| Yield curve (10-year to 1-year Treasuries) | | | ✓ |
| Unemployment claims | | ✓ | |
| Unemployment rate | ✓ | | |
| Conference Board Leading Index | | | ✓ |
| Non-financial corporate cash flows | ✓ | | |
| ISM new orders versus inventories | | | ✓ |
| Fed funds rate vs. nominal GDP growth | | ✓ | |

Source: RBC Dominion Securities Inc.

## Don't fight the economy

This strong upswing in equity index values (mostly contributed once again by a handful of mega-cap tech and tech-related stocks as well as investor enthusiasm for anything even remotely related to artificial intelligence) is persuading some market watchers that the U.S. economy will avoid a deeper downturn.

There is nothing wrong with hoping for the best. However, planning for it is another matter. Especially when most of the reliable leading indicators of U.S. recession, which have repeatedly and consistently been right over many decades, are giving progressively more negative readings about where the U.S. economy is headed. If the U.S. is indeed headed for recession it is highly unlikely that Canada would sail through unscathed.

We expect that a U.S. recession will arrive later this year, that actual earnings will come in lower than currently estimated, and that share prices will go through a challenging period during which unrealistic optimism on the part of investors gives way eventually to unrealistic pessimism.

## Only resilient stocks need apply

We continue to recommend "market weight" equity exposure for a global balanced portfolio because we think this stock market advance has further to go into the summer months. However, we increasingly think individual stock selections should be restricted to companies that an investor would be content to own through a recession. For us, that means high-quality businesses with resilient balance sheets, sustainable dividends, and business models that are not intensely sensitive to the economic cycle.

**For a more detailed discussion of our outlook for financial markets, ask for a copy of our current issue of *Global Insight*.**

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

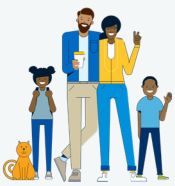
# Where there's a Will, there's a way:
## Exploring Canadian perspectives on estate planning

A new special report, authored by the National Institute on Ageing in collaboration with RBC Royal Trust, provides insights about Canadians' views on estate planning. It assesses Canadians' estate planning awareness, readiness, and challenges. And it provides key recommendations to improve the state of estate planning in Canada. Following are some key highlights. For the full report, go to: www.rbcwealthmanagement.com/_assets/documents/general/exploring-canadian-perspectives-on-estate-planning.pdf


### Four reasons why estate planning is important – now more than ever

**1. Canada's ageing population** means as much as $1 trillion could pass to the next generation over the next decade.[1] Plan ahead for a successful inheritance.

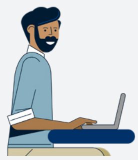
**2. Longer life expectancies** mean Canadians will live longer while dealing with age-related issues such as dementia. Think about later-in-life needs in advance.



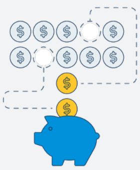
**3. Changing family dynamics** mean modern families are more complex, making distribution of estate assets increasingly complicated. Address these situations to ensure estate assets pass as intended.

**4. Fewer than half of Canadians even have a Will** which means there's a huge need for raising awareness about estate planning. Make or update a Will as part of a well-organized estate.

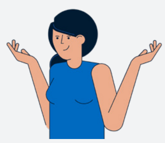
### The state of estate planning in Canada



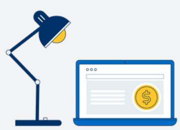
**1. Just 58% of Canadians** say they have a good understanding of estate planning fundamentals, according to an Ipsos survey.[2] Canadians need better access to education.



**2. 40% of Canadians aged 55+** without a Will and Power of Attorney say it's because they don't have any assets to leave behind or their finances just aren't complicated enough. We need to dispel the myth that Canadians only require estate planning if they reach a certain age or financial status.



**3. One-quarter of Canadians** who are without a Will or Power of Attorney don't even know where to start. Canadians need more guidance, options and assistance to create their own estate plans.



**4. 48% of Canadians** prefer to complete a Will through a lawyer, while 19% want to do it digitally and 34% want a combination of both. Digital options could help address our persistent estate planning gaps especially among Canadians with straightforward estates.

**Contact us for more information about planning your estate.**

[1]Heath, J. (2021, April 8). Canadian inheritances could hit $1 trillion over the next decade and both bequeathers and beneficiaries need to be ready. Financial Post. Retrieved March 3, 2023, from: https://financialpost.com/ personal-finance/retirement/canadian-inheritances-could-hit-1-trillion-over-the-next-decade-and-both-bequeathers-and-beneficiaries-need-to-be-ready

[2]The survey that forms the basis of this report's findings was conducted online on behalf of RBC Royal Trust by Ipsos with a nationally representative sample of 2,001 Canadians aged 18 years and older, and was completed between April 22 and 25, 2022.

# Six tips to stay cyber safe

## 1. Look out for "urgent" emails

A common tactic for cyber criminals is to send "urgent" emails appealing to your emotions. They're trying to trick you into giving them your passwords or bank information – or access to your computer to install malicious software. They may ask you to reveal personal information, click on a link, or open an attachment.

**What to do:** Don't reply – and never click on unknown links or attachments. Delete these suspicious emails.

## 2. Don't take the bait from "phishers"

"Phishing" is one of the most common email scams. Cyber criminals send you a phony email offer, telling you you've won something, like a vacation or lottery. They ask you to download a file or open an attachment, which installs malicious software on your computer that helps them gain access to your personal and financial information.

**What to do:** Before doing anything, stop and think. Is the offer too good to be true? If it is, don't take the bait.

## 3. Use secure messaging

Never include personal or confidential information in a regular email – even one you're sending to us. To discuss your personal information with us safely, send us a secure message via RBC Wealth Management Online, or contact us by phone. Please note that we will never send you a regular email that asks you to provide, confirm or verify personal, login or account information.

**What to do:** If you receive a suspicious email that appears to be from RBC, forward it to phishing@rbc.com, then delete it right away.

## 4. Be careful what you share on social media

Cyber criminals can use information like your work or business email, home address or other personal details to target you for fraud.

**What to do:** Before sharing any information, wait a minute, and consider whether it could be used by scammers. And check the privacy settings on all your social media sites to ensure you're only sharing information you're comfortable sharing in public.

## 5. Watch out for social media messages offering technical assistance

Scammers identify social media users posting about technical assistance, then send them a message posing as the help desk of a legitimate organization. They may lead you to a phony social media account or webpage, then ask you to give out personal information or even transfer money.

**What to do:** Be careful when contacting companies on social media. Ensure the username you are messaging is legitimate and use direct messaging to keep correspondence private.

## 6. Be wary of "instant friends" on social media

Once you agree to "friend" someone on social media, you could be sharing all the information you have posted on the social media site with them.

**What to do:** Carefully consider who you accept as your social media "friends."

**To learn more, visit www.rbc.com/cyber-security/index.html.**

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