Wealth Management
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Review

www.rbcds.com | October 2022

RBC estate planning survey: eight key stats

48%
of Canadians have a Will

82%
with a Will have appointed an executor

41%
created a Will because they reached a certain age

29%
have never updated their Will

20%
reassessed their Will/estate plan due to the pandemic

68%
want a Will so their family knows their wishes

30%
have not discussed their Will with family

35%
of Canadians have appointed a Power of Attorney

See full article on page 3.

Caution called for

By Jim Allworth

Most developed-country markets rallied through July and into August. However, they have given back most of those gains over the past several weeks. Investor sentiment is once again lopsidedly negative.

The summer rally was fueled by a substantial retreat in bond yields as investors hoped softer inflation readings would allow the U.S. Federal Reserve ("Fed") and other central banks to pivot away from a path of aggressive tightening. Fed actions and rhetoric subsequently scuppered that idea: bond yields have since moved up to the highest levels in 11 years while equities have once again slumped.

It is worth putting this market retreat of the last nine months into perspective. From the pandemic low in March of 2020 to the market peak in early January of this year – a stretch of 21 months – the S&P 500 gained about 2,600 points or 118%. Over the past nine months it has given back not quite half of that advance. The TSX over the same period first rose by a more subdued 99% (if one can call it that) but has given back less than a third of the points gained. So far, in both cases, leaving aside the strident headlines, it looks a lot like a very strong bull market up-leg followed by a pretty normal period of correction and consolidation of those gains.

While markets are deeply oversold they could become even more so in the coming days and weeks, in our opinion. A sustained equity rally, one with the potential to reach or exceed the old highs, would require a powerful catalyst from here. The one conceivably strong enough, in our view, would be a decisive weakening of inflation on a broad front, putting an early 2023 end to Fed tightening back on the table and pushing bond yields lower in the process.

Such a development is not entirely wishful thinking: U.S. gasoline futures have fallen from $4.50 per gallon back down to 2021 levels around $2.30, while some agricultural commodities, including wheat, soybeans and corn, have come off the boil – as have most metals including copper, zinc, nickel and gold. Port congestion and supply chain dislocations are rapidly clearing, and shipping rates have retreated markedly, as has the cost of containers. As new car production builds, used car prices – a source of much of the 2021 inflation ramp up – have weakened and should fall further. Airfares and hotel room rates have softened.

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Looking for a sign

But the Fed and other central banks will need more than "softening." They will need to see unequivocal signs the inflation tide has turned. Such evidence is unlikely to materialize definitively before the first half of next year.

Central banks in Europe, the U.K., Canada and the U.S. have indicated they are willing to risk recession if that's what it takes to tame inflation. For the first two, this appears to be a moot point – recessions seem inevitable in both the U.K. and EU by way of the energy crisis rather than monetary policy.

For the U.S. and Canada, the probabilities of a broad-based economic contraction arriving in the coming months have risen sharply. Our Recession Scorecard shows that two of the longest lead-time, most consistently reliable predictors of U.S. recession – the Treasury yield curve and the Conference Board's Leading Economic Index – have each crossed their respective warning thresholds. Their histories suggest the U.S. economy will enter recession around the second quarter of next year. A third, less important indicator – ISM New Orders minus Inventories – is also flashing red. Other indicators in the scorecard are heading in the same direction but have not yet given outright negative readings. They may well do so in coming months.

This is not good news for equities. U.S. recessions have always been accompanied by equity bear markets in most developed-country stock markets, including Canada's. These typically get underway some months before the recession begins – on average about five to seven months before. If that average holds true, it would offer the intriguing possibility the cycle peak for the post-COVID-19 bull market still lies ahead before the coming recession and associated bear market get underway.

Recession Scorecard

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	✓		

Of course, it could also be the case the timing averages won't pertain in this case: both the recession and equity bear market could start earlier than usual – and conceivably may have already started. It's equally possible that, against all the historical odds, the Fed will pull back from its aggressive tightening agenda soon enough to engineer a "soft landing" for the economy as it has done in nine of the past 17 tightening cycles.

This leaves investors to navigate through some challenging crosscurrents. On the one hand, equity returns are likely capped by the highs of late last year/early this year for as long as central banks, especially the Fed, are not finished with raising rates. On the other hand, as each month passes, leading indicators strongly suggest we are getting that much closer to the onset of recession and, even before that, the start of the associated equity bear market that could conceivably feature even greater market downside than we have experienced year to date.

For now, a "market weight" position in global equities balances the possibility of a market retest of the old highs in the coming months against the growing risks of market weakness next year associated with a recession that has become increasingly probable.

Capped upside (for the time being) – together with the rapidly growing probability of a recession and some additional associated market downside in 2023 – presents a risk/reward profile that argues for caution.

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.

RBC survey shows three myths about estate planning

Why Canadians need to update their Wills, executor and power of attorney

After living through the COVID-19 pandemic, many Canadians are saying they need an up-to-date Will and estate plan. But, despite this, fewer than half of Canadians have a Will, according to a recent RBC Royal Trust survey. What's more, only one out of three Canadians have appointed a Power of Attorney for themselves.

"During the pandemic, many Canadians talked about the need to get their estate plans in order," says Leanne Kaufman, President & CEO, RBC Royal Trust. "So we wanted to survey the general public to see if they were acting on that. What we found is that Canadians are still underprepared when it comes to estate planning, with less than half even having a Will."

The survey, conducted by Ipsos, also asked Canadians about their reasons for writing a Will, naming an executor in their Will, or appointing a Power of Attorney. It revealed that Canadians are holding onto some persistent misconceptions – or myths – about estate planning.

Myth #1. I don't need a Will unless I'm older or very wealthy.

The foundation of any estate plan is a valid, up-to-date Will that formally documents your final wishes and names your executor. According to the survey, 48% of all Canadians aged 18+ have a Will. That number drops sharply among younger Canadians, with only 34% of Canadians aged 35-54 and 30% of Canadians aged 18-34 having one.

When asked about their reasons for not having a Will, 21% of survey respondents said they don't have enough assets, 21% said they were too young, and 18% said their finances weren't complicated enough.

Among those who do have a Will, 41% said they got one because they'd reached the age where they thought it was appropriate, while 14% said they'd reached a certain asset threshold. These were the top two reasons cited by survey respondents, suggesting that many Canadians see Wills and estate planning as something that you only need if you're older or wealthier. In fact, there are many important reasons for adults of all ages to have an up-to-date Will and estate plan.

"If you die without a Will, your family may not know your wishes and there can be family disputes," says Kaufman. "Ultimately, your province or territory will determine how your estate is settled, and this often means your estate pays more tax and takes longer to settle."

By having a Will, you can ensure your family knows your final wishes for everything from how your assets are distributed and what funeral arrangements you want, to who you want to be guardian of your minor children and what happens to your pets.

Myth #2. I don't need to appoint a Power of Attorney unless I'm older or in poor health.

A Power of Attorney (or Mandatary in Quebec) is someone you appoint to be responsible for making important decisions about your finances or health care if you're unable to make these decisions yourself, for example, due to incapacity.

Yet, according to the RBC Royal Trust survey, only 35% of Canadians have appointed a Power of Attorney for themselves. "I'm too young" (16%) or "I'm in good health" (15%) were two of the top reasons why they haven't done so.

"While it's true you may need a Power of Attorney when you are older and experiencing poor health, the time to appoint your Power of Attorney is before you need one," says Kaufman.

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RBC survey ... Continued from page 3

"Things can change quickly, and you can't always predict exactly when you will need your Power of Attorney. If you don't have one in place when the time comes, your family members may need to get that authority from the courts, which can take time, add to their stress and cost money."

Though survey respondents cited young age and good health as two of the main reasons why they haven't appointed a Power of Attorney, the number one reason was simply because they don't know where to start (23%). A qualified professional estate lawyer, in addition to helping with your Will, can also help with your Power of Attorney.

One of your Power of Attorney's responsibilities is making decisions about your finances, including your investments, should you be unable to make these decisions yourself. That's why it's important for us to have the name and contact information of your Power of Attorney on file. Please keep your Investment Advisor up to date about your current Power of Attorney and how they can be contacted.

Myth #3. I can't get any help being an executor.

When creating or updating their Will, people generally name a close family member or friend as their executor. As an executor of a Will, you're legally responsible for dozens of tasks from locating the Will and valuing assets to filing final taxes and paying bequests to beneficiaries. For some, it can be overwhelming, especially if they have to travel, take time off work or balance their own family responsibilities, all at a time when they're grieving.

Yet according to the survey, relatively few Canadians are aware that they can get help from a professional executor, such as a trust company (41%). A trust company is one of your options – whether you're naming your executor or you've been named an executor – and can assist with some or all of an executor's duties.

For more information about how we can help with your estate planning, please contact your Investment Advisor.

What is ...

a Will?

A Will is a legal document that states how you want your estate to be divided among your beneficiaries after you pass away. Your estate includes your assets, such as your property, heirlooms and investments. An up-to-date Will helps your executor settle your estate according to your wishes. If you die without a Will, your province/territory will determine how your estate is settled.

an executor?

An executor is the person (or professional firm such as a trust company) who you appoint to settle your estate. They are legally responsible for over 100 duties including locating your Will, making funeral arrangements, identifying beneficiaries, valuing and safeguarding estate assets, making tax returns, paying bequests and more.

a Power of Attorney?

You can appoint someone you trust to be your Power of Attorney (or Mandatary in Quebec). They are responsible for making decisions about your finances and/or health care should you be unable to make these decisions yourself (for example, due to age-related health issues).

an estate plan?

Your overall estate plan is more than just your Will, executor named in your Will, and Power of Attorney. It also includes planning to minimize taxes, protect assets, give to charity and prepare the next generation for their inheritances.

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94618 (10/2022)