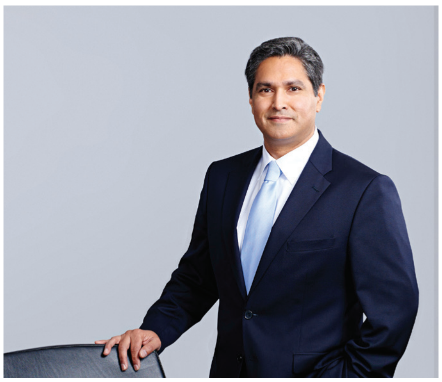
Counsellor Quarterly

Winter 2023

Wealth Management
PH&N Investment Counsel

President's message



2022 was a challenging year, with most leading economies experiencing significant increases in inflation, while also suffering the dual negative impact of the rising interest rates designed to quell it. Key central banks, from the U.S. Federal Reserve to the Bank of Canada to the European Central Bank, were forced into action to contain inflation. That's because their historically accommodative monetary policies, designed to spur borrowing, investment and growth in the aftermath of the negative shock of pandemic health measures, sparked a historically large surge in demand and prices for goods and services. A third shock to the global system came with Russia's invasion of Ukraine, which caused energy prices to soar.

The combined effects of inflation, rising interest rates and energy price volatility are likely to drive the economy into recession in the first half of 2023, although our forecast is that it will be fairly mild and short, giving way to a stronger second half.

Despite the clear challenges ahead, the economic outlook continues to support the view that these difficult times have an end in sight. While the last year has understandably tested investors' patience and perseverance, we believe that disciplined investors will continue to enjoy long-term rewards.

As stewards of your wealth, we remain unswerving in our commitment to your success and well-being, through all economic and market conditions. Long-term investment success largely depends on the effectiveness of your overall wealth plan to help ensure you achieve your goals – and not on the short-term gyrations of markets. The New Year is a great time to assess your goals together with your Investment Counsellor so you can feel confident and secure in your future.

Happy New Year to you and yours, and we look forward to seeing you in 2023!

Regards,

Vijay Parmar

Vijay Parmar, CPA, CA
President
RBC PH&N Investment Counsel

Economic and capital markets forecast

Around the world in 80 seconds

Canada

While employment numbers continue to defy expectations with their strength, the economy is clearly slowing. Aimed at combatting stubbornly high inflation, historically fast and large increases in interest rates by the Bank of Canada over 2022 have significantly driven up borrowing costs for both consumers and businesses. In turn, this has stalled the housing market and slowed overall spending and economic activity. With few exceptions, equity markets have provided little room to hide from the continuing downturn in stock prices, and rising bond yields have sideswiped prices. A relatively shallow recession is anticipated for 2023, and hopes are rising that the latter half of the year will turn more positive as inflation abates, interest rates moderate and the economy begins to regain its footing.

United States

Efforts by the Federal Reserve (the Fed) to rein in inflation from decades-high levels continues apace, as the economy remains too vibrant to ensure a return to the Fed's inflation target of 2%. The Fed's determination to slay inflation with higher interest rates has undermined stock valuations, while raising expectations that the economy will eventually succumb under the weight of sharply higher borrowing costs, in turn reducing employment and spending by consumers and businesses. This is likely to continue to affect stock prices as companies are expected to see profits fall over the coming months. However, these adverse conditions are likely to begin to ease as the year progresses, providing some hope for a recovery in the latter half of the year.

Europe

Russia's invasion of Ukraine has led to an energy crisis in Europe, as oil and natural gas supplies have been drastically reduced. The surge in energy prices has significantly contributed to overall inflation in the region, and has sent a chill through the housing market, while significantly reducing business borrowing and investment activity. Europe's bourses have continued to slip as the European Central Bank raises interest rates to combat inflation, while also depressing bond prices in the process. With the global economy showing signs of sliding into recession in the first half of 2023, tourism is not expected to be the growth driver it was over the last two years, but hope still remains that the situation will ease in the latter half of the year.

Emerging Markets

2022 brought with it an exceptionally strong U.S. dollar, which drove up the cost of Emerging Markets (EM) countries' products and services in the world's largest economy, while hurting borrowers financed in U.S. dollars. China's COVID zero-tolerance policy has damaged the economy's productivity and growth and contributed to the region's and the global economy's slowdown. With most EM nations' leading indicators flashing warning signs of a sharp slowdown in production, borrowing and housing, and a likely recession the forecast for most of its key North American and European markets, the first half of the year looks to be challenging for EM, before giving way to a more positive outlook for the rest of 2023.

Market insights: Year in review and 2023 outlook

Looking back

"Unprecedented" was a word many of us added to our vocabulary at the start of 2020 as COVID-19 spread around the world, resulting in lockdowns and other changes to our "normal" lives. Just as we all thought we'd heard the end of the word with pandemic restrictions easing, inflation continued to creep higher throughout 2022, in turn forcing global central banks to raise interest rates at an "unprecedented" pace and size. In addition, the war in Ukraine, a strong U.S. dollar, rolling COVID lockdowns in China, and a pension crisis in the UK certainly made 2022 a year to remember. Market volatility was elevated through much of the year for every asset class – commodities, bonds, stocks, cash and currencies - with really no places to "hide" in the short term.

In challenging times, we believe that it's important for investors to maintain perspective and recall that the previous five years generated higher-than-expected returns for almost all asset classes. With the exception of calendar year 2018, global equity markets returned between 14.1% and 24.7% in Canadian dollars from 2017-2021.

High volatility was the theme in Commodity asset classes during 2022. Some key drivers of this center around recession fears, the ongoing war in Ukraine and a strong U.S. dollar. Oil prices have continued to fall through the latter part of 2022 as a result of recession fears (i.e., reduced demand), while natural gas prices remain elevated from the beginning of the year as a result of the war in Ukraine (i.e., reduced supply). While gold historically has been thought of as an inflation hedge, in 2022, this wasn't the case, as gold was negatively impacted by higher real interest rates and a rising U.S. dollar.

Equities declined globally, largely due to higher interest rates impacting the valuation of most stocks. While the U.S. and emerging markets, measuring in Canadian dollar returns, entered an official "bear market" in 2022, Canadian equities outperformed other major indices as a result of higher commodity exposure. And finally in 2022, it was certainly an unusual year for Fixed

Income. Unrealized losses, due to market values of existing fixed income investments going down as interest rates on new fixed income investments went up, were at “unprecedented” levels normally associated with stocks during a bear market.

Looking forward

We believe that global growth will continue to slow into 2023 as a consequence of the cumulative monetary policy tightening by global central banks. A recession in Canada and the U.S. may indeed be in the cards for the coming year. Prominent indicators of a recession have been flashing “yellow” and “red” since the midpoint of 2022. More recently, the U.S. Conference Board Leading Economic Index, a prominent signal for economic forecasting, hit eight straight months of declines to the end of October 2022. Moreover, further evidence of slowing growth can been seen across the global manufacturing sector. Since the beginning of the year, various leading indicators for manufacturing activity have also signaled a forthcoming slowdown.

On the positive side, more recent data shows signs of slowing inflation. While the macroeconomic environment remains highly uncertain, as we look out over 2023 there are signs that inflation could continue to fall. These include falling or stagnant commodity prices, slowing rent increases, easing global supply chain pressures and declining manufacturing input prices. With growth running at a modest pace, central banks may begin to normalize monetary policy in mid-2023, laying the groundwork for an extended global expansion. However, it’s also quite possible that some of the above near-term signals of slowing inflation may reverse at some point, giving the central banks reasons to continue raising interest rates above market expectations; or, at the very least, keeping interest rates higher for longer than expected.

Putting it together

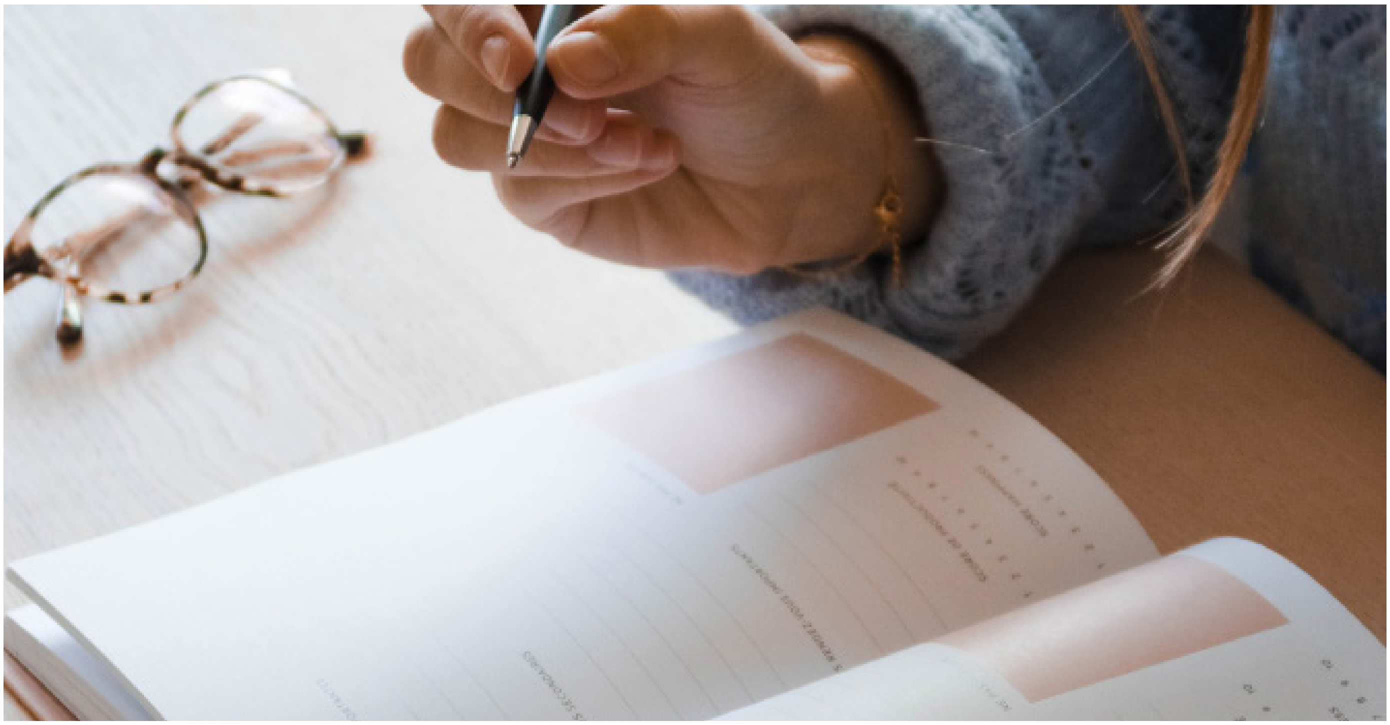
In terms of portfolio asset mix, at today’s higher interest rates, we see fixed income investments offering more attractive forward-looking returns than in recent history. In addition to providing investors with higher yield today without taking on undue portfolio risk, bonds have typically been a portfolio ballast in the event of a recession or economic slowdown. As such, we would be reducing any portfolio underweight in fixed income today, looking to government and investment-grade investments, while considering additional portfolio weight in high-yield fixed income as credit spreads widen out into 2023.

Over the long term, we expect equities will outperform bonds, however we are recommending that investors remain closer to strategic neutral targets in portfolios over the near term. The risk of a declining corporate profit outlook in U.S. and Canadian equities remains a near-term risk to the equity markets for those with a shortened time horizon. Long-term investors should continue to take advantage of systematic dollar-cost-averaging to add equity weight in their portfolios as prices fluctuate.

For additional perspective and details on our outlook for 2023, please refer to our Special Report (https://www.rbcwealthmanagement.com/_assets/documents/rbcphnic/phn-counsel-views-dec-2022.pdf), or reach out to your Investment Counsellor to receive a copy.

New Year's resolutions

A new year is a great time to refresh, reset and reinvigorate your goals, setting you on course to building or enriching your wealth plan.



A new year often brings with it a sense of renewal, a fresh page onto which we can set new goals or refresh existing ones. That newfound sense of promise can be an inspiration, lifting our energy and focusing our attention on a new pursuits, often centering on our own self-improvement or future success in life, health, business and finances.

The difference between a dream and a goal is a plan

Alas, there's usually one problem with these New Year's resolutions: we rarely see them through, with our initial enthusiasm fading when the reality of the effort required to achieve them hits us. According to research from the popular running app Strava*, 80% of resolutions are dropped by January 19, lasting only slightly longer than the champagne bubbles on New Year's Eve that likely inspired them.

However, the same research showed that those who established a plan significantly boosted their chances of achieving their goals. Important to a plan's success is ensuring that it has clear, measurable and achievable goals, and that it is periodically revisited to make sure it is still working for you.

C.A.R.E.: Goal-setting and planning

As stewards of your wealth, we care about you and your journey to achieving your new, existing or refreshed goals. An important first step in the process begins by engaging with your Investment Counsellor to establish or refresh your wealth plan, ensuring that your goals are clearly articulated, measurable and achievable.

Using the structure of C.A.R.E. is an easy tool to guide you through the goal-setting and planning process (and may even inspire you to consider other goals and aspects to your planning):

C **Consider**

- What are the things in my life that really matter to me? What are my goals and priorities?
- What does achievement or success in life and/or through my legacy look like to me?
- When do I want to achieve my goals? Which of my goals are short, medium or long term?

A **Assess**

- Where do I currently stand relative to my goals?
- Are my goals specific, attainable and realistic?
- Where do my family and loved ones fit into my plan? Am I prepared for any obligations and commitments I may have to their care and well-being, today or in the future?

R **Review**

- What are my existing goals, and do they need to be refreshed, revised or eliminated?
- Do my existing career or business circumstances and goals align with my other goals, such as retirement?
- Given my desired timelines to achieve my goals, do my existing circumstances support those timelines?

E **Engage**

- Which of my goals might necessitate engaging my Investment Counsellor to help implement and achieve successfully?
- What documents and information will my Investment Counsellor need to help me achieve my goals?
- When do I need to meet with my Investment Counsellor to discuss my C.A.R.E. review?

While the list of questions above provides a broad guide to help you review your goals and priorities, you may choose instead to meet with your Investment Counsellor to start the process with them. Either way, taking time to establish what matters to you and reviewing how you might achieve those things is always an important investment in your success.

We can help

Your Investment Counsellor has access to RBC Wealth Management's Family Office Services team. With over 200 professionals to call upon in such areas as financial, tax, business succession and Will and estate planning, as well as life care planning, aging and caregiving guidance, your Investment Counsellor can help you achieve your life resolutions and goals with the care and consideration you deserve.

* Quitters' Day: Why Strava thinks you're about to give up your resolution, Madeleine Kelly, Canadian Running Magazine (January 2020).

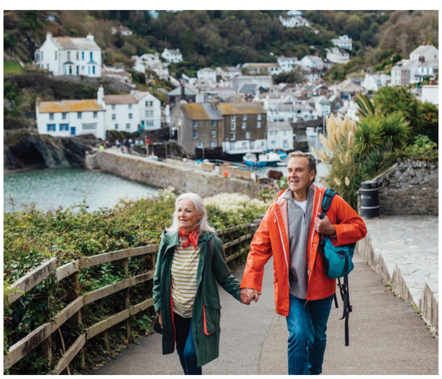
Getting busy – Five activities to help live a fulfilling life in retirement

"Retirement is not a permanent vacation!" is a common refrain of retirees who are succeeding in life after work, and it reflects the need to be active – and actively engaged in – meaningful pursuits during this important life stage. With their work life behind them, retirees often must deal with the challenge of finding activities that can provide them with the fulfillment and social interactions that their careers or businesses once did. And, with Canadians living longer than ever, our "golden years" can potentially stretch over 30 or 40-plus years.

That's a lot of time to fill and, unfortunately, many retirees who enter retirement with little or no planning around what they will do find themselves eventually without a purpose or mission in life. This can lead to a sense of emptiness, malaise and isolation. "The trick to a fulfilling retirement is staying engaged and energized with activities that bring you a sense of fulfillment, meaning and social engagement," says life care planning, aging and caregiving issues expert Audrey Miller, founder and managing partner of Elder Caring Inc.

To help, here are five activities that Audrey suggests you can do to "get busy" and help ensure you are enjoying a fulfilling, connected and meaningful retirement:

1. **Learn a new skill:** From cooking to learning to play a musical instrument, learning a new skill engages your mind and body, while providing joy through the creative and education process. Importantly, it also creates opportunities to interact and engage with others socially, both through the learning process (e.g., art classes) and through group engagements where you practice or display your skills (e.g., a choir or band).



2. **Combine a passion with a business pursuit:** Love travel? Consider becoming a foreign travel guide, or help others enjoy your own city, location or specific activity. Love cooking? Consider giving cooking classes or guiding others to the best places to enjoy local cuisine. The combination of passion and business – or even doing so on a volunteer basis – allows retirees to do something they love, share that passion, but also to be productive and socially engaged.

3. **Purpose-driven travel:** Travel is a wonderful thing, but it can also be expensive and arduous over time. On the other hand, purpose-driven travel focuses on actually doing something more substantive while you are travelling, for example teaching English or French in a foreign country, or physically contributing to a charitable effort, like building housing or a school, in an underdeveloped country.

4. **Volunteer your time and skills to a worthy cause:** Whether through a charity or not-for-profit, a religious organization or a board or community project, providing your time and skills to help others can be a very fulfilling and purpose-driven way of living in retirement. It can also lead to meaningful social interactions that bring mental and even spiritual stimulation and fulfillment, while also providing an opportunity to leave behind a meaningful legacy.

5. **A physical, mental and/or spiritual journey:** Building a life around your physical and psychological well-being is a meaningful investment in your happiness. It may include physical pursuits that augment the body (but also the mind!), including yoga, cycling, walking and hiking; or, it could include more spiritual pursuits. No matter what the end purpose, physical well-being is critical to one's mental well-being, and vice versa.

While this list is not exhaustive, it is important to consider how you want to spend your time in retirement to ensure that you remain engaged, active and socialized. And activities can remain part-time or manageable and flexible, allowing a retiree to enjoy the benefits they offer, while still leaving time to engage with family and friends – or, to just truly enjoy one's well-earned time in retirement, writing your next chapter when and how you see fit.

The Last Word

New year, new inspiration, new resolution

A new year can often inspire a desire to change something important in our lives. Making it a priority to help others, and goal in your wealth plan, can not only inspire us, but can inspire the lives of those who receive our kindness. And there may never be a better time than now.

Canadians are a generous bunch, often leading the OECD nations – the 36 top richest countries in the world – in donations and size of donations per capita. However, more recently charities have begun to see a steady and concerning drop-off in the number of donations and overall dollars given. A recent report[1] from the Fraser Institute looked at charitable contributions across the country, and found that giving has dropped steadily and dramatically, hitting their lowest level in 20 years in 2020. In 2010, nearly one-in-four of us contributed at least once to a registered charity, and gave around 0.7% of our income; by 2020, those numbers had fallen to 19% and 0.5%, respectively.

The need is real and rising

Unfortunately, the last few years have not been easy ones, and more Canadians than ever are relying on charities for basic needs such as food, clothing and shelter. According to a recent Ipsos poll[2], 22% of Canadians will need to use charitable services this year, fully 8% over a similar poll from January of 2022. And the need is greatest for those between 18 and 34, of which more than one-third are expected to avail themselves of essential charitable services in the coming months.

Sometimes it's about more than money

For many Canadians, helping others is best done by the giving their time and "elbow grease" versus giving financial support – especially for retirees who have the time and desire to do so in their golden years. This is also incredibly important, and can sometimes make a far greater impact on the lives of those who need the assistance. Whether that's in the form of education, training or coaching, the need is also great, especially for who are new to Canada or economically and socially challenged.

Unfortunately, this increasingly means women are too often the first ones to be harmed by an economic downturn and the last to benefit from any upturn.[3] Many of those in need of help are looking for a way forward to a better life, not a handout, and would rather be taught how to fish than eat fish for a day.

Empowering and inspiring those in need can make all the difference. One example of charity that is focused on lifting the spirits of women and girls is Look Good, Feel Better (LGFB), which RBC PH&N Investment Counsel has recently sponsored. LGFB helps women and teen girls facing the difficult cancer journey feel more like themselves again. Their mission is to ensure that those we love have the tools and a community to help optimize their health and wellness.

We can help you help

Fortunately, it is easier than ever to give, and to give in a way that properly reflects the intention and desires of givers. If charitable giving, philanthropy and leaving a legacy is in your life plan, talk to your Investment Counsellor about how we can help you and your family make it part of your wealth and estate plan, maximizing its impact and establishing a legacy for you and your beneficiaries. As a New Year dawns and new challenges for so many loom, this year might be the one to be inspired to make it your resolution.

Sources

[1] Generosity in Canada: The 2022 Generosity Index, Fraser Institute (December, 2022).

[2] Ipsos poll on charitable need, Ipsos Canada on behalf of CanadaHelps.org (November, 2022).

[3] Double jeopardy, Dawn Desjardins and Carrie Freestone, RBC Economics (March, 2021).

KEEPING YOU INFORMED

Our offices have now fully reopened, and we are delighted to welcome you back to our RBC PH&N Investment Counsel offices. As always, you are more than welcome to contact us by phone or email, and we remain available at your convenience to meet with you virtually, depending upon your preference. We look forward to seeing you again soon.

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