Wealth Management
Dominion Securities

Wealth Management
Review

Winter 2024

Bryan Wealth Management Group of RBC Dominion Securities

Robert Bryan, B.Comm, FMA, CIM, FCSI
Branch Director, Senior Portfolio Manager & Investment Advisor
robert.bryan@rbc.com

Dean McKelvie, PFP
Associate Advisor
dean.mckelvie@rbc.com

Brittany Leppington
Associate
brittany.leppington@rbc.com

Extended wealth management team

Steve Wiffen, CLU, CFP, CH.F.C
Estate Planning Specialist
RBC Wealth Management Financial Services

Shannon Row-Ewing, BA, LL.B
Will & Estate Consultant
RBC Wealth Management Services

Scott VanEngen
Financial Planning Specialist
RBC Wealth Management Services

Susan MacDonald, TEP, MTI
Senior Trust Advisor
RBC Royal Trust

RBC Dominion Securities
187 Ontario St.
Stratford, ON N5A 3H3

Phone: 519-271-4611
Toll-free: 1-800-265-4596
robertbryan.ca

eStatements

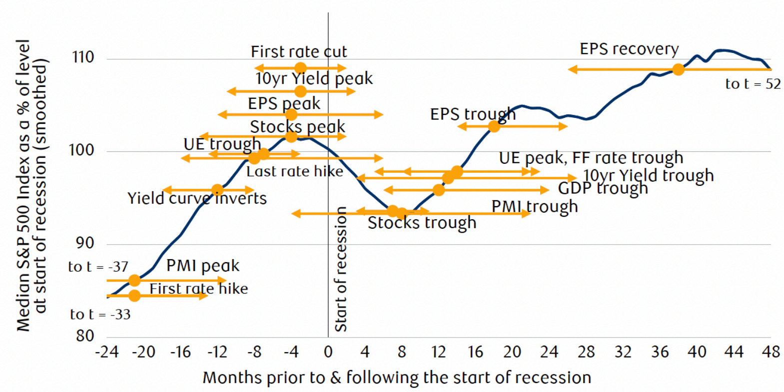
There is now an alternative

After 20 months of aggressive monetary tightening, short-term interest rates are near their highest levels in decades and investors now have a wide array of investment options with attractive return potential from which to select. Positive real (after-inflation) interest rates on bonds have been restored, and the acute valuation risk that existed in the sovereign-bond market during and following the pandemic has been largely erased. It may be time to retire the investment term "there is no alternative" or TINA, as it is known. TINA became popular during the post-financial-crisis era when interest rates were situated at rock-bottom levels for nearly 15 years, and stocks seemed to offer one of few avenues to investment gains. Today's higher interest rates mean there is now an alternative, and we think markets could be nearing an interesting transition period where fixed income pulls greater weight in the returns of a balanced portfolio.

Cycle road maps suggest markets may be nearing inflection point

We could be nearing the phase of the cycle where both bond yields and stock prices encounter volatility given the amount of time it takes monetary tightening to affect the economy. The chart below plots a road map representing the median experience for the S&P 500, leading up to and following the start of a recession. A variety of key milestones are noted by the markers overlaid on the graph. Notice that the first hike occurs a median of **21 months** prior to recession and that the first fed hike of this cycle was in March 2022, which would be consistent with a recession starting in December 2023. While there are wide ranges in the timing from cycle to cycle, as indicated by the horizontal arrows on the milestone markers, our analysis suggests the window for recession is now opening up rather than closing.

Median of 29 recessions since 1882



Note: Markers represent median timing and ranges are one standard deviation from the mean. Source: Bloomberg, RBC GAM

Continued on page 2

There is now an alternative
Cont'd from page 1

A few other observations are worth highlighting. Rate hikes tend to stop about **eight months** before a recession begins, followed **four months** later by rate cuts. With July potentially being the date of the last hike, we have already gone beyond this typical timing in the current cycle as central banks likely want to err on the side of keeping rates higher for longer rather than cutting too early. That said, if we are right in our forecast that recession will occur at some point over the next few quarters, and if these road maps hold true in the current cycle, then rate cuts could begin early 2024. We may also be near the crests on these charts just ahead of recession where we see a peak in bond yields, corporate profits and stock prices all roughly around the same time. Note also that **any decline in stocks associated with a recession tends to also be relatively short-lived.** These charts indicate that even if economic weakness materializes, we could expect a low in stocks by the middle of 2024.

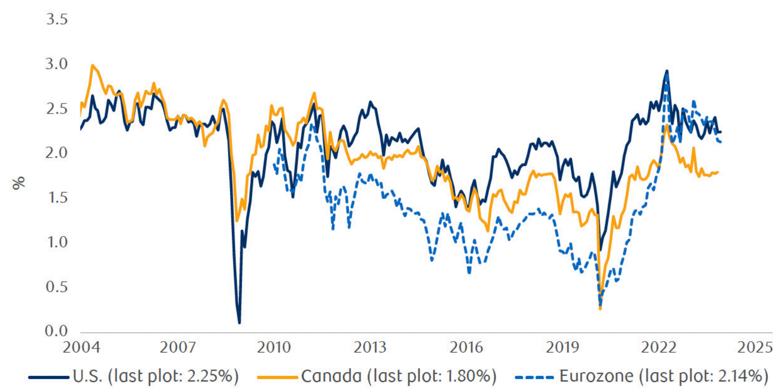
Inflation is back on track

Against the backdrop of a slowing economy, price pressures are moderating, and forecasters are becoming increasingly confident that inflation is headed toward the 2% level targeted by most major central banks. Moreover, market-based measures of inflation expectations in the U.S., Canada and Europe appear well anchored around 2%, reflecting investors' belief that central banks have delivered the appropriate tightening required to bring inflation back to target. Our view that inflation will continue to cool is further supported by a variety of leading indicators. Other indicators that were key contributors to high-inflation readings of the past couple years – residential rents and used-car prices – have retreated to pre-pandemic levels. It appears that the pandemic-related distortions have largely faded.

Equity gains in 2023 featured narrow leadership

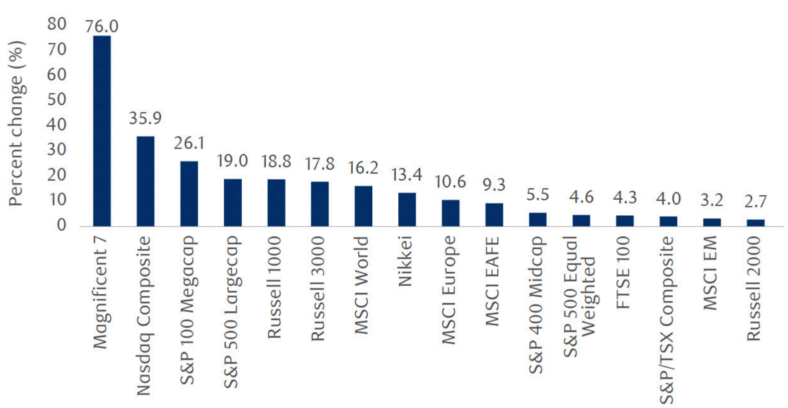
A distinguishing characteristic of the 2023 stock-market rally was the narrowness of the advance, particularly following the U.S. regional-banking crisis in the spring. The combination of a tighter lending environment, higher interest rates and concerns about economic growth have posed a headwind for the bulk of listed companies. But a small

Breakeven inflation rate: nominal vs 10-year real-return bond



Note: As of December 2023. Eurozone represents GDP-weighted breakeven inflation of Germany, France and Italy. Source: Bloomberg, RBC CM, RBC GAM

December 30, 2022 to November 30, 2023



Note: Magnificent 7 includes Apple, Microsoft, Alphabet, Amazon, Nvidia, and Tesla. Source: Bloomberg, RBC GAM

group of mega-cap technology stocks, flush with cash and a proven ability to grow earnings, shined amid this challenging macroeconomic backdrop and they further benefited from trends in artificial intelligence. The **"Magnificent 7"** was up 76% as of November 30, pulling the Nasdaq up 36% and the S&P 500 up 18%, accounting for fully 29% and 15% of these gains, respectively. Most stocks lagged the capitalization-weighted index returns significantly. The Equal Weight S&P 500 Index, a better reflection of the average stock's performance, was up only 5% during this period, and many other global indexes such as the UK's FTSE 100, Canada's TSX Composite, the emerging-markets benchmark and even U.S. small-cap indexes produced only low single digit returns over the period. The average balanced portfolio was up single digits to the end of November.

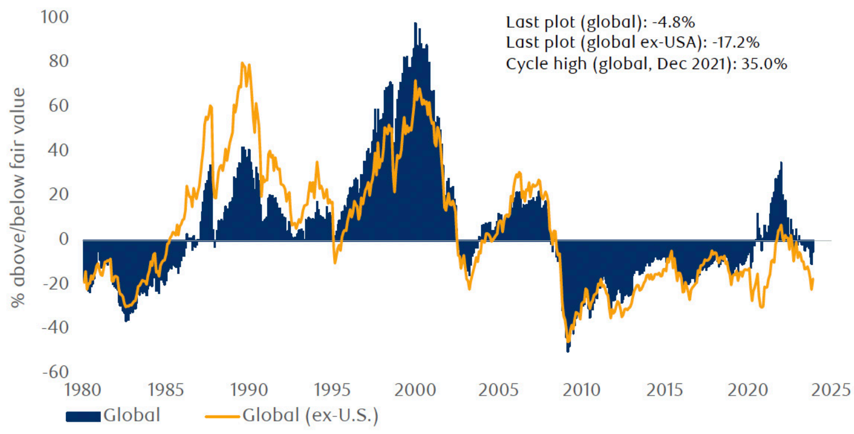
Continued on page 3

There is now an alternative
Cont'd from page 2

Global equity valuations are not unreasonable

Apart from the capitalization-weighted and Magnificent 7-dominated S&P 500, global equities are not all that expensive. Our global composite of equity market valuation has fallen to 4.8% below fair value, its lowest level since the pandemic, and if we exclude the U.S., that reading plunges to 17% below equilibrium. Within the full composite, the S&P 500 is slightly above its fair value, but other regions are trading at particularly attractive distances below theirs. As a result, global stocks currently offer decent return potential, especially if economies avoid recession.

Equity market indexes relative to equilibrium



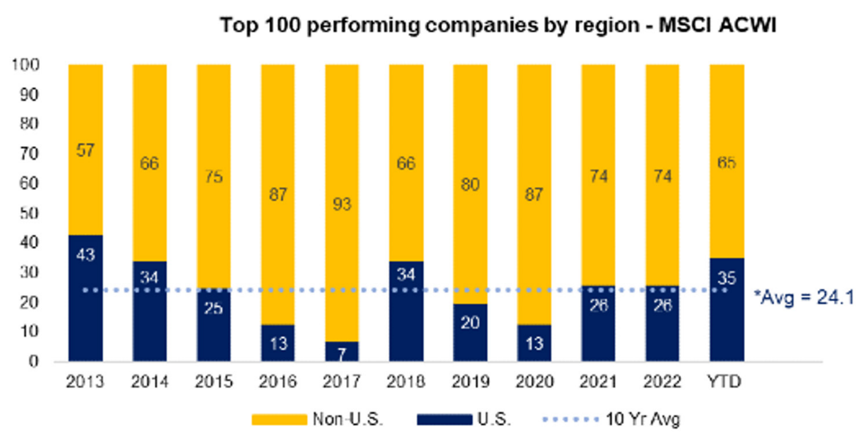
Note: As of November 30, 2023. Source: RBC GAM

Excerpt from RBC Global Asset Management, Market Outlook, New Year 2024, Eric Savoie, Daniel Chornous.

Think globally – it pays

We have seen benefits for clients that diversify internationally through equities. For those who have many of their assets tied up in North America, equity exposure to international markets can be a solution to reduce asset correlation and concentration risk. To illustrate that there are opportunities outside the U.S., the chart below shows the breakdown between U.S. and non-U.S. companies that were the top 100 performing stocks in the MSCI ACWI Index over the past 10 calendar years.

Looking back over the last 10 years, you may be surprised to see that while U.S. equity indexes dominated returns, most of the top 100 performing stocks each year were from companies outside of the U.S. On average, only 24 of the top 100 performing stocks were American companies.



Excerpt from Daily Market Update Dec. 13, 2023. by Tyler Jones.

The Super Bowl Indicator – no better than a coinflip

If you're looking for some early Super Bowl picks, perhaps you should consider rooting for an NFC team this year. According to the Super Bowl Indicator, this could indicate a rise in the stock market for the next year.

The Super Bowl Indicator was first introduced by a New York Times sportswriter, Leonard Koppett, in 1978. The idea behind it being that a win for the NFL's AFC representative will predict that the stock market will decline, and a win for the NFC team indicating a rise in the upcoming year. Temper your expectations though, recent years suggest this indicator may not have much basis in reality.

S&P 500 Performance Over Past Super Bowls

Year	Winner	Conference	S&P 500 Price Return	Prediction
2022	Los Angeles Rams	NFC	-19.44%	Wrong
2021	Tampa Bay Buccaneers	NFC	14.51%	Right
2020	Kansas City Chiefs	AFC	15.76%	Wrong
2019	New England Patriots	AFC	30.43%	Wrong
2018	Philadelphia Eagles	NFC	-6.24%	Wrong
2017	New England Patriots	AFC	21.83%	Wrong
2016	Denver Broncos	AFC	11.96%	Wrong
2015	New England Patriots	AFC	-0.73%	Right