RBC Dominion Securities Inc.

Wealth for Life

Wealth Management
Dominion Securities

September 2021

The Lester Wealth Management Group of RBC Dominion Securities

Steve R. Lester, P.Eng., MBA, CIM
Vice-President & Director,
Portfolio Manager & Wealth Advisor
416-842-7036 | steve.lester@rbc.com

Linda Novis
Wealth Advisor
416-842-7248 | linda.novis@rbc.com

Patty Arsenault, CIM
Associate Wealth Advisor
416-842-7132 | patricia.arsenault@rbc.com

David Coyle, FMA
Associate Advisor
416-842-3185 | david.r.coyle@rbc.com

Extended wealth management services team

Ariel C. Guigui, BBA, LL.B, TEP
Will & Estate Consultant

Joel Cuperfain, BA, LL.B, LL.M, CLU, TEP
Vice-President
& Estate Planning Specialist

Website: www.stevelester.com

RBC Dominion Securities
Brookfield Place, Bay-Wellington Tower
181 Bay St., Suite 2200
Toronto, ON M5J 2T3
416-842-7036 | 1-800-561-4468
Fax: 416-842-7210

The third quarter ushered in a continuation of positive second quarter momentum, which ultimately proved short lived. On balance, the third quarter remained mildly positive in both Canada (TSX) and the U.S. (S&P 500), with returns of 0.2% and 0.6% respectively. As the quarter progressed, equity markets made new highs, but lost steam into quarter end. The optimism early in the quarter gradually gave way to multiple concerns impacting the economic outlook.

As the COVID-19 Delta variant persisted, new case peaks weighed on equity markets just as the U.S. government was starting to debate the debt ceiling. Import and manufacturing bottlenecks also reverberated throughout the economy, offering yet another source of concern for equity markets and prospects for economic reopening. Although economic data remained positive, bottlenecks and the resulting supply shortages resulted in some weaker-than-expected manufacturing data, as well as lower-than-expected employment growth. However, by the end of the quarter, Canada had reported strong-enough job growth to regain all the jobs lost in the pandemic and post a lower unemployment rate of 6.9%. The U.S. similarly posted a lower unemployment rate in September of 4.8%, but has yet to recover the 5 million jobs (23%) lost to the pandemic – and while still reporting over 10 million job openings.

After 18 months of the pandemic, a recovery characterized as one of fits and starts could be expected.

After all, the Great Recession recovery – unique in its own way – was anemic at best, so by comparison, our present recovery is without precedent. Job growth recovery has been remarkable. Job creation, as illustrated by job openings, is equally remarkable, and wage growth in the U.S. in September was robust at 4.6%. As government safety nets roll off, job openings and economic growth suggest that the prospects for continued job growth remain strong.

As the recovery has picked up steam with increasing job growth, many have turned their attention to inflation.

The debate on inflation is whether it is transitory or whether it will stick. Commodity price increases have been noted – particularly in oil, as well as in many consumer goods and services. As mentioned above, wage increases are also registering notable levels and have the potential to embed future upward inflationary pressures. Not surprisingly, central banks are discussing easing pandemic stimulus. Not raising interest rates, but reducing the amount of bonds they purchase in the markets that reinforce lower interest rates. As we have seen in the past, any central bank discussions targeted at easing stimulus will likely exacerbate market volatility, so we can expect the same in the near term.

Continued on page 2

Continued from page 1

Financial markets are always dealing with uncertainty, and multiple market headwinds are common at any time. Inflation is one of several pegs in the "wall of worry" that financial markets are presently climbing. Yes, inflation has been running ahead of expectations for the past six months, but remember, inflation is a by-product of economic growth and investment, which is what is needed for the recovery. Current inflation is lower than what we experienced in the Great Recession, and less than half of that experienced in the late '70s. Meanwhile, technological advancements are increasing productivity and reducing pricing pressures. In short, we don't think present inflation is of the same concern as what was experienced in the late '70s, but it warrants attention.

One could argue that the difference this time is the consumer.

In Canada, consumer sentiment is off its recent peak, but is still trending at an upbeat level that is consistent with growth periods over the last six years. It's also worth noting that consumers in Canada have over $300 billion in savings accounts, and when added to corporate savings, the total increases to $500 billion, or almost 25% of Canadian GDP. That is quite the nest egg that is available to be spent in the coming years!

U.S. consumer confidence is also trending at a very favourable level, and has been since 2015.

Yet it's still below the peak level attained in the late '90s. It's noteworthy that U.S. consumers have almost doubled their net worth since 2008, while net consumer debt is a little under 20% more than that of 2008, owing to consumer deleveraging that took place through the Great Recession. The consumer financial obligations ratio has also declined to a 40-year low, at less than 13% of disposable income, reflecting accelerated savings rates through the pandemic.

The economic shutdown has left consumers with substantial buying power as a result of unprecedented savings rates through the pandemic.

As the economic reopening unfolds, pent-up demand is rotating through the economy. The lockdowns left inventories depleted, creating a surge in demand to restock inventory at a time when everything is in short supply. Real estate and home renovations / upgrades were early beneficiaries. As economies continue their reopening, we expect consumer demand to rotate toward newly opened opportunities related to travel, entertainment and consumer discretionary services and products. As with the Great Recession, we expect consumers' memory of the pandemic turmoil to linger. Consequently, consumers' buying power is expected to be deployed over several years, offering staying power for the unfolding recovery. However, it will not be without hurdles.

As in the second quarter, the general positive nature of equity indexes in the third quarter has masked various equity sector weaknesses.

The Delta variant has cast uncertainty on confidence in the economic reopening, triggering weakness in industrials, consumer discretionary and some technology. Similarly, yields for 10-year bonds also sold off in the quarter, undermining confidence and valuations in the financial sector. However, midway through the quarter, 10-year bond yields reversed course, as new COVID cases peaked and then declined. At the time of this writing, 10-year bond yields had recovered over 50% of the decline from the peak of April this year. Expectations are that bond yields will trend higher over time, providing further support to financials and greater confidence in the economic reopening.

Consumer staying power, accelerating corporate investment in productivity and inventory replenishment are all expected to provide an underpinning to the continued recovery and economic reopening.

Drug-related developments targeted at COVID are continuing, with three potential booster vaccines applying for FDA approval at the time of this writing. New COVID cases related to the Delta variant have declined precipitously in the U.S. and many other developed nations, leading to more widespread economies reopening. It would be reasonable to expect economic growth to follow the growing reopening of businesses and consumer activity – and equity markets to lead.

Steve Lester

As we move through a much sought-after reopening despite COVID variants, we salute the unwavering commitment of all our healthcare professionals and first responders (including our grocery and essential workers). Thank you for the sacrifices that you and your families continue to make for all of us!

RBC Dominion Securities WealthLine

The convenient way to access your wealth

Like many private investors, you may have a high percentage of your wealth committed to fixed assets and long-term investments. This can make it inconvenient for you to get funding as quickly as you need for major expenditures or opportunities. To help you access the funds you need quickly and easily, we are pleased to offer the RBC Dominion Securities® WealthLine.

WealthLine allows you to borrow what you need when you need it, whether it's to meet unexpected expenses, take advantage of new opportunities or simply enjoy your lifestyle.

With WealthLine, you gain convenient access to funds based on the value of your non-registered investment accounts.

Rather than selling investments in your portfolio, and potentially disrupting your long-term investment goals, WealthLine enables you to easily borrow money for your personal needs against assets that you already own.

Designed for your needs

WealthLine allows you to borrow what you need when you need it, whether it's to meet unexpected expenses, take advantage of new opportunities or simply enjoy your lifestyle.

For example, you may consider using WealthLine to:

- Purchase a vacation home
- Purchase property in another country such as the U.S.
- Meet any bridge financing requirements
- Finance a start-up company
- Refinance and consolidate higher-cost debt
- Refurbish commercial real estate
- Achieve an estate planning solution
- Pay college tuition

- Add to art, wine and other collections
- Pay golf club initiation fees

Traditionally, banks don't lend to purchase these types of assets.

Key benefits

Easy access

With WealthLine, credit is at your convenience. Whenever you need access to your funds, simply contact your Investment Advisor to make the necessary arrangements. Once you open a WealthLine, you don't have to complete any extra paperwork, and there are no processing delays or closing costs when you need access to your funds. What's more, your credit history is not reviewed.

Increasing borrowing potential

WealthLine works much like a secured line of credit from a financial institution, but with one important difference: because your WealthLine is secured by your investment assets, the amount you can borrow will vary depending on their value and asset type. That means the greater the value of your investment assets, the more you can typically borrow.

Payment flexibility

There is no fixed repayment schedule – you set your own repayment terms.You can pay off your balance when it is best for you, or you can simply carry the balance. The choice is yours. Your balance increases as interest is charged to your account, and decreases as funds are received from dividends, interest and bond maturities. When you decide to repay the loan, or a portion of it, you can simply deposit additional funds in your investment account, or sell securities in the account.

Ongoing liquidity

As a revolving line of credit, WealthLine enables you to borrow, repay and borrow again up to your allowable limit, as your needs change.

Easier for your business

WealthLine does not require extensive disclosures about your business, complicated ongoing reporting or compliance with financial covenants and ratios.

Is WealthLine right for you?

We can help you determine whether WealthLine is right for you, and establish your allowable loan limit.

Because your investment assets are used as collateral, the maximum amount that you can borrow varies depending on both the value and characteristics of the securities in your account. Generally, the greater the value of your securities, the more you can borrow. However, it's also important to consider the types of securities you are using as collateral, as certain securities tend to fluctuate more in value than others. It's also important to factor in general market volatility.

As a result, you should always maintain a substantial cushion between the amount you borrow and the value of your securities. Typically, to provide this cushion, you can borrow up to 50% of the market value of most listed stocks, certain bonds and mutual funds held in your account. This helps protect against having to deposit funds and/or sell securities in the event of market declines.

What you need to know

WealthLine is a margin product that may not be suitable for all investors because borrowing on margin (using securities as collateral) involves certain risks. If the securities in your account decline in value, so does the value of the collateral supporting your loan. If you do not have a sufficient cushion, the firm may issue a "margin call" requiring you to deposit additional assets into your account, and/or sell securities or other assets in any of your accounts, in order to maintain the required equity in the account.

This information is not investment advice and should be used only in conjunction with a discussion with your RBC Dominion Securities Inc. Investment Advisor. This will ensure that your own circumstances have been considered properly and that action is taken on the latest available information. The strategies and advice in this report are provided for general guidance. Readers should consult their own Investment Advisor when planning to implement a strategy. Interest rates, market conditions, special offers, tax rulings, and other investment factors are subject to change. The information contained herein has been obtained from sources believed to be reliable at the time obtained but neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers can guarantee its accuracy or completeness. This report is not and under no circumstances is to be construed as an offer to sell or the solicitation of an offer to buy any securities. This report is furnished on the basis and understanding that neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers is to be under any responsibility or liability whatsoever in respect thereof. The inventories of RBC Dominion Securities Inc. may from time to time include securities mentioned herein. RBC Dominion Securities Inc.* and Royal Bank of Canada are separate corporate entities which are affiliated. WealthLine (or "Equity Credit Line") may not be suitable for all investors or portfolios. Using money borrowed from others to purchase investments involves greater risk than a purchase using your own money. Clients have a continuing obligation to repay principal and interest even if the value of the investment goes down. *Member-Canadian Investor Protection Fund. RBC Dominion Securities Inc. is a member company of RBC Wealth Management, a business segment of Royal Bank of Canada. ® / TM Trademark(s) of Royal Bank of Canada. Used under licence. © 2021 RBC Dominion Securities Inc. All rights reserved. 21_90421_J4G_004