Investment UPDATE

Fall 2021 edition

28263 (10/2021)

Striking the right balance

As we move into autumn, stock markets around the world have performed strongly for more than a year now. Some have even reached all-time highs more than once in 2021. On the other hand, bond market returns have been mixed. When different parts of the market vary in performance, it can raise important questions to discuss with your advisor:

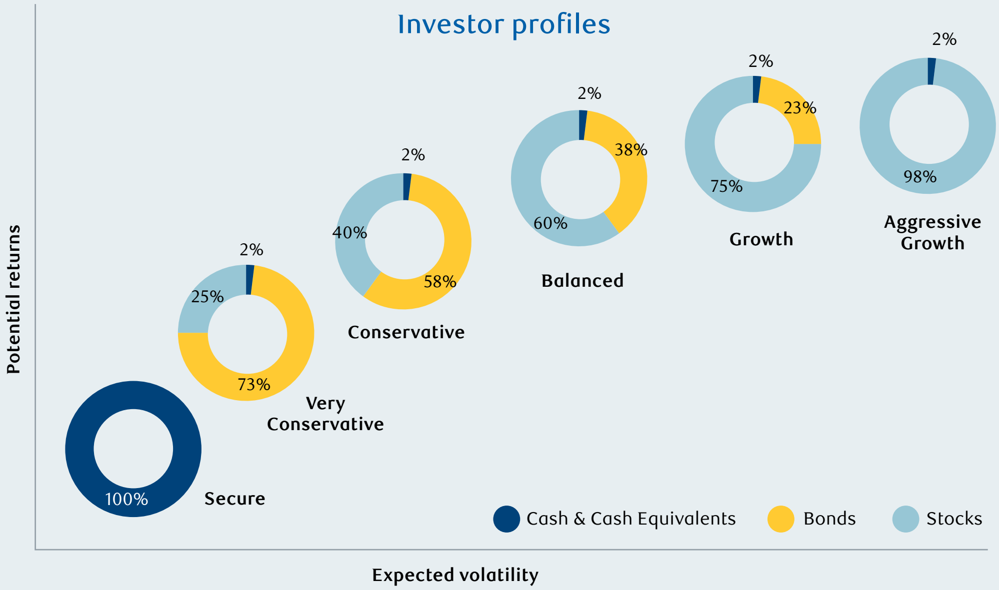
- **Has my portfolio's asset mix changed? If so, how?**
- **Does my asset mix still align with my investment goals, time horizon and risk profile?**
- **Is my portfolio well-positioned for any future market ups or downs?**

Answers to these questions can help determine if it's time to rebalance your portfolio holdings. This quarter we look at the importance of asset mix and how to maintain the right balance in your portfolio.

What's your asset mix?

A portfolio's asset mix is its allocation to stock, bonds, and cash. The right asset mix for you will take into account your investment goals, risk tolerance, return expectations and time horizon.

At RBC, we have six broad investor profiles with a set target asset mix. Your advisor can help you determine which investor profile is best suited to help meet your investment goals.

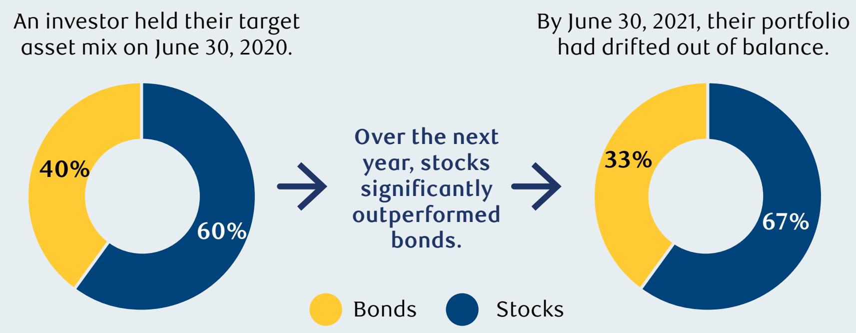


Why does rebalancing matter?

Maintaining the right asset mix helps keep your investment plan on track. However, left unmonitored, market movements can drive your asset mix off target. This is commonly referred to as portfolio drift. Rebalancing is how you correct drift when it occurs.

How could portfolio drift affect your asset mix?

Let's look at a portfolio of Canadian stocks and bonds held from June 30, 2020 to June 30, 2021.[1]



Due to the strength in Canadian stocks over this period, the portfolio drifted to 7% overweight stocks and 7% underweight bonds relative to their target asset mix. Without rebalancing, the investor would be more exposed to future stock market fluctuations.

How could portfolio drift affect your goals?

If you drift to too many stocks:

- You may have higher risk in your portfolio, along with higher growth potential.
- This may increase the severity of your portfolio's ups and downs.
- You may be more exposed to stock market declines, which can throw off your progress toward your financial goals.

If you drift to too many bonds or hold too much cash:

- You may have lower risk in your portfolio, along with lower growth potential.
- This may reduce the severity of your portfolio's ups and downs.
- You may have less exposure to stock market upside, which can slow your progress toward your financial goals.

How can you maintain balance?

To rebalance your portfolio, the first step often involves selling a portion of an asset that is overweight. You then use the proceeds to top up an underweight asset. Here are different ways to rebalance.

Invest regularly: Direct your regular contributions or new investment dollars to holdings that are underweight.

Rebalance on a set timeline: For example, quarterly, semi-annually or annually.

Set a portfolio drift threshold: Rebalance whenever your asset mix drifts off target by a certain amount. For example, rebalance when your asset mix is 3% off target.

If you are already holding an RBC Portfolio Solution to reach your goals.

Your portfolio is actively monitored and regularly rebalanced by a team of investment professionals. This helps ensure your investment remains well-positioned through all market conditions, leaving you free to focus on your savings goal.

Make it easier to catch the drift

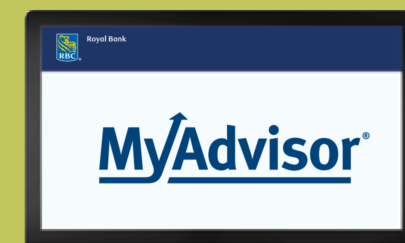
NEW! Access portfolio monitoring through MyAdvisor[2]

If you own more than one RBC mutual fund in your investment account, MyAdvisor can now help you monitor your asset mix and maintain the right balance in your portfolio.

To monitor your portfolio, MyAdvisor can send you email notifications when your portfolio drifts off target.

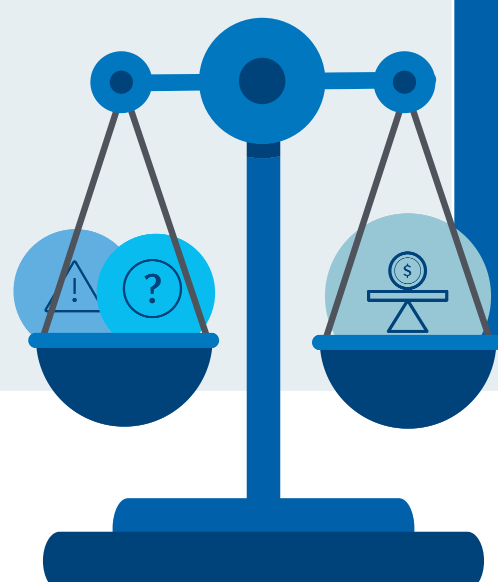
To rebalance your portfolio, you can choose automatic rebalancing through MyAdvisor, or you can connect with your advisor to make changes.

Talk to your advisor to learn more.



Portfolio rebalancing is an important pillar of successful investing. Be sure to meet with your advisor:

- At least once a year
- If market conditions change
- Any time your financial situation, investment goals, time horizon or risk tolerance change



[1]Stocks represented by S&P/TSX Composite Index. Bonds represented by FTSE Canada Universe Bond Index. An investment cannot be made directly into an index. The above does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, the results would be different. Past performance is not a guarantee of future results.

[2]Portfolio monitoring may not be available for all investment accounts and is subject to terms and conditions.

One-minute market update

Economy

- The virus remains a key risk to the economy as the rapid spread of the delta variant is causing a rise in infections throughout the world and challenging economies.
- Tremendous fiscal and monetary stimulus was delivered during the pandemic but the need for this support is less obvious and a reversal would be a headwind for growth in 2022.
- We have dialed down our growth forecasts for 2022 and are now slightly below the consensus.
- Even with our slightly less cheerful view, economic growth is still expected to be quite good and countries that suffered deeper recessions have the potential for even stronger growth.

Fixed Income

- Global bond yields fell significantly in the past quarter amid slowing growth and the expectation that central banks would maintain accommodative monetary policies.
- Our models show significant valuation risk exists in the sovereign-bond market and the odds, in our view, are tilted in favour of yields moving higher.
- Real, or after-inflation, rates of interest are deeply negative, suggesting that savers are subsidizing spenders, a situation that we don't think can persist.
- We expect the U.S. 10-year yield to climb to 1.75% from 1.31% over our one-year forecast horizon, which would result in a slightly negative return.

Equity Markets

- Global equities continued to march higher, rising to records on elevated investor confidence and surging profits.
- The rapid increase in stocks has pushed our composite of global valuations to its most expensive reading since the late 1990s technology bubble, but it remains considerably below the all-time peak.
- Although valuations are elevated, we think stocks can still deliver modest returns given low interest rates, transitory inflation and sustained corporate-profit growth.
- We look for mid-single-digit gains in North American equities, with slightly better return potential elsewhere over the year ahead.

For more investment insights please visit: rbcgam.com/insights

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