Investment UPDATE

Winter 2024 edition

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Getting to your long-term financial goals

One of the loudest and liveliest parts of a curling game is the sweeping. As a stone glides toward the target spot on the ice, shouts of “hurry,” “get on it,” or “whoa” fill the rink, guiding the sweepers to apply just the right amount of muscle so the rock travels farther and straighter toward the goal.

Investors can learn a lot from curling sweepers. In this issue of Investment Update we explore one of the most important lessons of all: the power of persistence. For investors, it’s about staying invested through all market conditions, until you reach your financial goals.

A winning combination: persistence and an investment plan

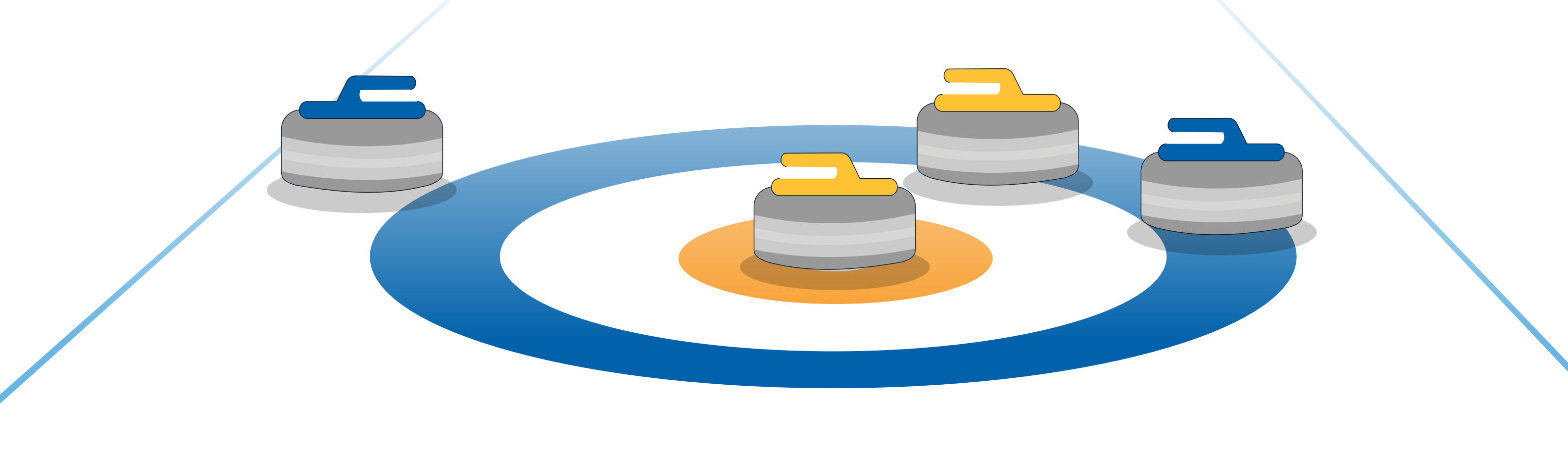
When markets turn choppy, it can be difficult to stick to your investment plan. In these moments your goals may seem unattainable. Selling out of the market may seem like the best option. However, if you choose to sell, you can quickly get off course.

First, you “lock in” your losses. They’re no longer just on paper.

Second, you may miss the bounce back in the markets, which could help you get back on track.

Third, you may be wary about investing again in the future – which will likely make it harder to reach your long-term investment goals.

Long-term investors approach tough markets very differently. They know their investment plan helps prepare them to invest in all market conditions. When markets drop, they stay invested and stick to their plan.



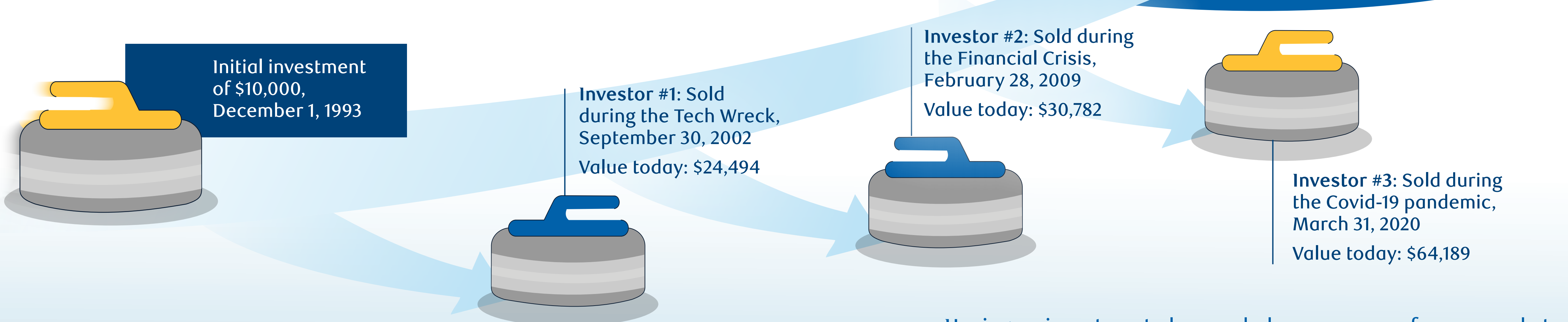
Getting through tough markets

In curling, there's fast ice and slow ice. Stones sometimes move slower or curve more than expected. Likewise, bumpy markets and other unforeseen obstacles can threaten to stall your progress as an investor. However, if you have a well-designed investment plan, you could be better prepared to get through uncertain times and achieve your long-term goals.

Just keep sweeping

Here is the story of four hypothetical investors. They all invested $10,000 into equities 30 years ago. One investor remains invested for the entire period, while the other three investors sold their investment during different market dips. Those who sold their investment kept it in cash and never re-entered the markets. In curling, it's the equivalent of giving up on a stone and not sweeping it through to the target.

- Investor #1: Sold during the 2000's Tech Wreck
- Investor #2: Sold during the 2008/2009 Financial Crisis
- Investor #3: Sold during the 2020 Covid-19 pandemic
- Investor #4: Stayed invested



Source: RBC Global Asset Management (RBC GAM). Growth of $10,000 for the 30-year period December 1, 1993 - November 30, 2023. Initial investment is made in the S&P/TSX Composite Index until it is sold at each market dip where it is then invested in cash (FTSE Canada 30 Day T-Bill Index). An investment cannot be made directly in an index. Graph does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower. Past performance is not a guarantee of future results. For illustration purposes only.

Key take-aways

While cash can play an important role in a well-diversified portfolio, escaping to cash in the markets' darkest moments can limit your potential return in the long run.

Each crisis produced varying levels of losses and financial stress. But the recoveries tend to look similar, if you look at historical data. Typically, the market rebounds swiftly after the market dips.

Having an investment plan can help prepare you for any market conditions as you work towards your long-term investing goals. If you don't have a plan, or you would like to review your plan, speak to an advisor today.

The role of cash in a portfolio

Having cash on hand can be crucial for day-to-day purchases. You want to have enough cash available so you can leave your investments alone to grow. Here are three reasons why it helps to reserve some cash alongside your investment portfolio.

Emergency fund: Life is full of surprises. One of the best reasons to hold cash is to cover unexpected bills and emergencies. These expenses could be fixing a car, replacing a home appliance or a sudden change in living expenses.

Need for liquidity: If you are living in retirement, you may need cash to fund your lifestyle. Having sufficient access to cash and cash equivalents allows your other investments to be left to grow in the background.

Saving for large purchases: Not all of your saving goals will be far off in the future. As large, planned expenses grow near, holding cash can help to protect any gains you may have accumulated. Examples include a down payment on a home or paying for home renovations.

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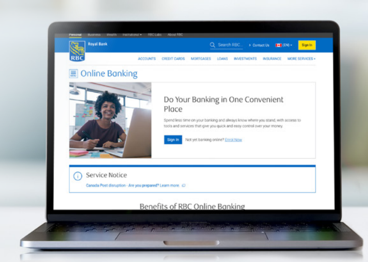

Key dates in 2024

January 1, 2024
2024 TFSA contribution limit of $7,000 applies

February 29, 2024
RRSP contribution deadline for the 2023 tax year

April 30, 2024
Filing deadline for your 2023 personal income taxes

One-minute market update

Economy

- Interest rates have surged to their highest in 16 years by mid-2023 and, if they remain elevated, higher borrowing costs could discourage business and consumer spending while making debt-servicing more difficult.
- Economic data now feeling the pressure of higher interest rates. Global trade is contracting, business expectations are soft, housing activity has plummeted and the labour market is starting to lose momentum, albeit gradually.
- Although pathways to an economic soft landing are evident and the odds of such an outcome are improving as inflation moderates, we continue to look for mild contraction in the U.S., Canada, the U.K. and the eurozone during the first half of 2024.

Fixed income

- Yields surged over the past two years, largely restoring a proper level of compensation for fixed-income investors. The scope for lower yields opened up during the fall, setting up one of the most attractive entry points for bond investors in a long time.
- Many bond markets rallied in November as investors entertained the potential end of tightening and possible easing into next year.
- Our analysis suggests yields could fall to levels that would deliver mid-to-high single digit total returns over the year ahead as investors receive attractive coupon income in addition to capital gains as yields move lower.

Equity markets

- A distinguishing characteristic of the 2023 stock-market rally was the narrowness of the advance. The "Magnificent 7," the seven largest stocks in the S&P 500 by market value, thrived but most stocks lagged the capitalization-weighted index returns significantly.
- Apart from the capitalization-weighted and Magnificent 7 dominated S&P 500, global equities are not all that expensive and regions outside the U.S. are trading at particularly attractive discounts to their fair value.
- In our view, earnings expectations for 2024 would be vulnerable if economies fell into recession. A soft landing, though, would see stocks extend their gains with the rally broadening out and potential shifts in leadership to value and small cap stocks.

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