

# Investment UPDATE

Fall 2024 edition



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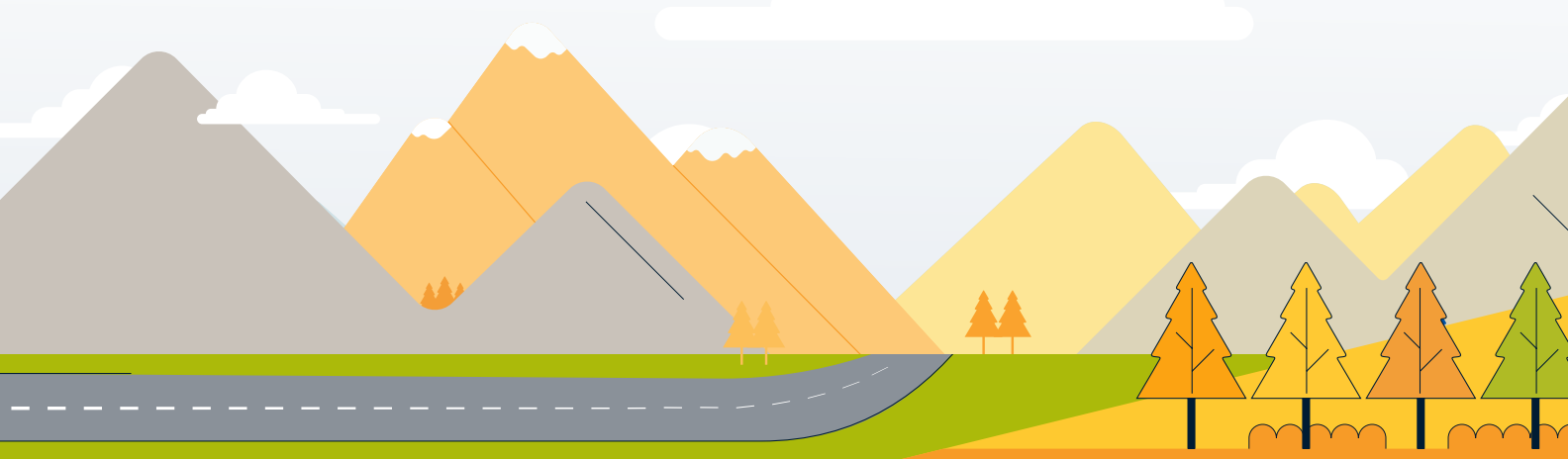


## The road to successful investing

Over the last couple of years, investors have faced a wide variety of market events. We've seen decades-high interest rates, above average inflation, all-time highs in equity markets and even a turbulent bond market. You might be wondering what could possibly be next?

While nobody has a crystal ball for the future, the roadmap to your goals doesn't have to change – no matter what markets do next. If you have a plan, you'll be ready.

In this edition of Investment Update, we will explore four ways to be a successful investor.



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# Four habits of successful long-term investors

Working with your RBC advisor to incorporate these four strategies into your portfolio may help position you for success across all market conditions.

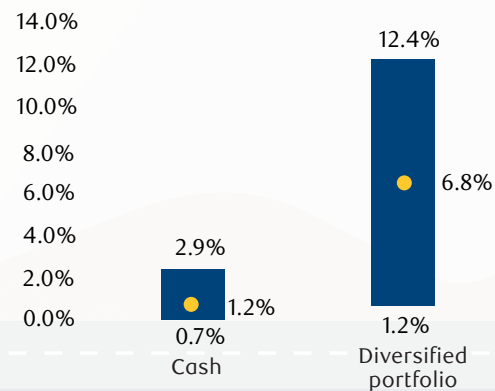
## #1 Have a plan

Before you invest, it's important to figure out what you are saving for, how much you need to save to achieve your goals and when you'll need it. The right portfolio for you depends on your time horizon and how comfortable you are with investments that may grow faster but run a higher risk of losses. If you are investing over many years, you will need enough growth in your portfolio to outpace the rate of inflation.

## #2 Take a diversified approach

If one of your goals is in the distant future, just saving cash may not be enough. You need to get your money working for you. With the help of diversification, you can work towards getting the right balance between security and growth. Equities in your portfolio provide growth opportunities while fixed income can help mitigate the fluctuations that come with holding equities. This balance helps to create a smoother investment experience. The chart below illustrates this further.

The blue bars represent the historical range of rolling returns, and the yellow dot shows the average of rolling returns. Over the last 20 years, a diversified portfolio has outperformed cash by a large margin due to the growth in equity markets.



## #3 Save regularly

To be wealthy in the future doesn't require significant sums up front. Time in the market and regularly investing goes a long way. With the help of a pre-authorized contribution (PAC), you can set how much and how frequent you would like to save. This can be monthly, bi-weekly or even weekly. Call it paying yourself first – before you spend it.

As your income increases during the life of your goals, you could also increase your PAC to boost your savings. This can help you reach your goals faster. Adding \$10 or \$20 to your monthly contributions each year adds up. Let's explore how powerful these extra contributions can be.

Below, we show you three investors. They each begin investing in a diversified portfolio 20 years ago, contributing \$100 each month.

Monthly contribution: **\$100**



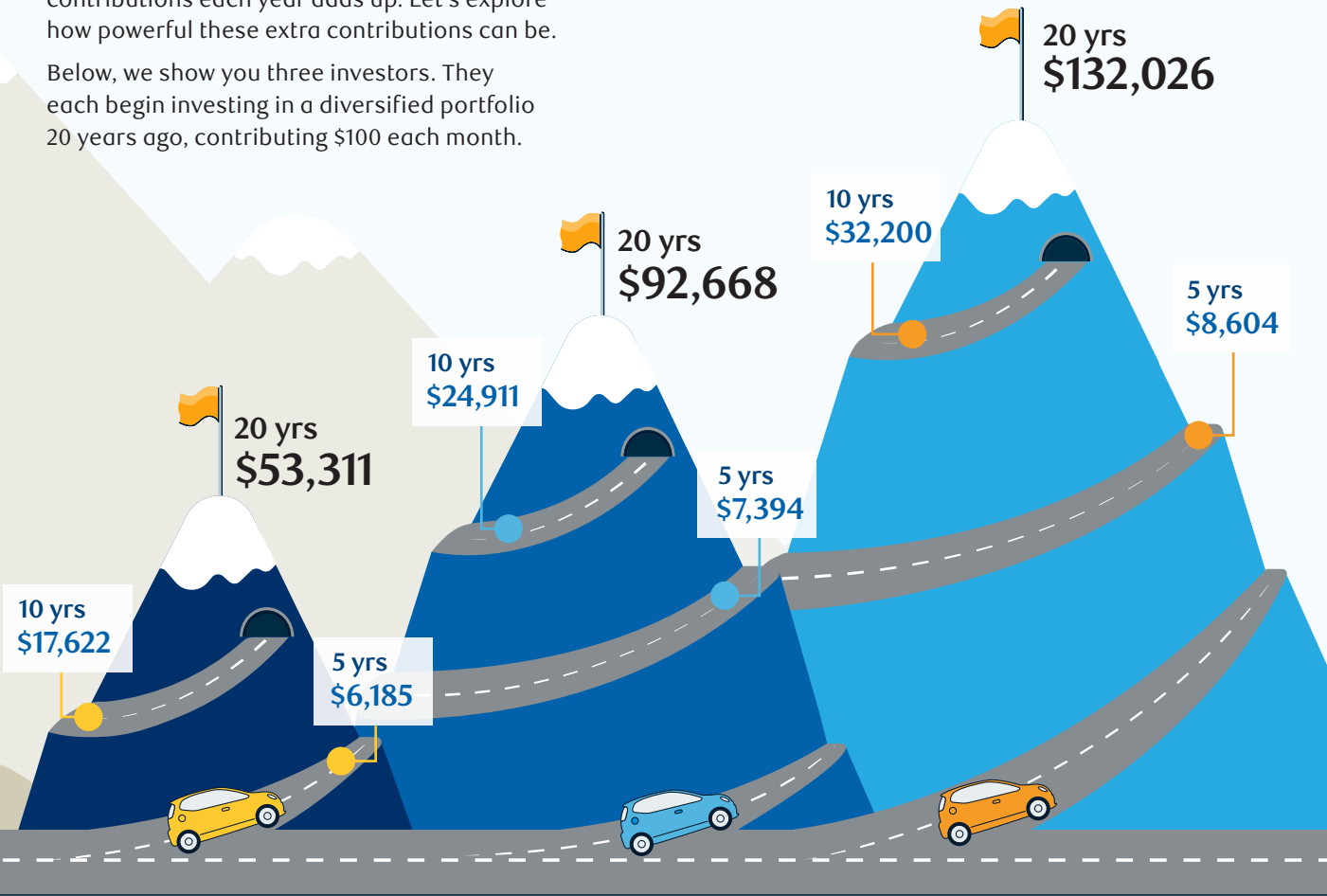
**Investor 1**  
Increase in monthly contributions per year: **+\$0**



**Investor 2**  
Increase in monthly contributions per year: **+\$10**



**Investor 3**  
Increase in monthly contributions per year: **+\$20**



## #4 Use your tax-sheltered accounts

Having the right investment account for your goals ensures you can save in a tax-efficient manner. A registered investment account offers tax advantages that can help you save for the future whether it is retirement, your child's education, your first home, and so on. Below, we compare a Registered Retirement Savings Plan (RRSP), a Tax Free Savings Account (TFSA), a Registered Education Savings Plan (RESP), a Registered Disability Savings Plan (RDSP) and, a First Home Savings Account (FHSA).

|             | What's the annual contribution?   | Are contributions tax deductible?          | Tax free or tax deferred?                               |
|-------------|---|--|---|
| <b>RRSP</b> | 18% of previous year's earned income up to \$31,560   | Yes (up to your personal deduction limit)  | Tax deferred  |
| <b>TFSA</b> | \$7,000 plus any unused contribution room and any previously withdrawn amounts                | No   | Tax free  |
| <b>RESP</b> | Subject to a lifetime contribution limit of \$50,000 per beneficiary                          | No*  | Tax deferred  |
| <b>RDSP</b> | Subject to a lifetime contribution limit of \$200,000 per beneficiary.                        | No*  | Tax deferred  |
| <b>FHSA</b> | \$8,000 annual tax-deductible contribution limit, with a \$40,000 lifetime contribution limit | Yes (up to the annual and lifetime limits) | Tax free, if funds are used for a qualifying first home |

\*May be eligible for additional government grants

For more detailed information about the various registered plans available, please speak with your advisor or visit [rbc.com/investmentaccounts](https://rbc.com/investmentaccounts).

As markets change course, so can your goals. Reviewing your investment plan from time-to-time can help you better prepare for the road ahead. Speak to an RBC advisor today to help you navigate towards successfully achieving your investment goals.

Diversified portfolio in both examples represented by 2% Cash, 38% Fixed Income, 15% Canadian Equities, 25% U.S. Equities, 15% International Equities and 5% Emerging Market Equities. Cash represented by FTSE Canada 30 Day T-Bill Index; Fixed Income represented by FTSE Canada Universe Bond Index; Canadian Equities represented by S&P/TSX Composite Index; U.S. Equities represented by S&P 500 Index; International Equities represented by MSCI EAFE Index; Emerging Markets Equities represented by MSCI Emerging Markets Index. All returns are total returns in Canadian dollars. Index returns do not reflect deduction of expenses associated with investments. If such expenses were reflected, returns would be lower. An investment cannot be made directly in an index. Past performance is not a guarantee of future results.

Chart on left: Cash represented by FTSE Canada 30 Day T-Bill Index. Five-year annualized rolling returns for the 20-year period September 1, 2004 - August 31, 2024. Range of rolling returns shown represent highest and lowest rolling returns in the period. Five-year rolling returns refer to periods of 60 consecutive months with new periods beginning on the first day of each month. The risk profile for these investments are different. Cash has no material risk. A diversified portfolio has material risks as its value can fluctuate and there is a chance of losing a part or full invested capital. Source: RBC Global Asset Management (RBC GAM).

Image in middle: Returns for the 20-year period September 2004 - August 2024 based on the diversified portfolio for the three investors. Source: RBC GAM, Morningstar.



## Economy

- The global economy continues to decelerate and, while a mild recession is possible given deterioration in labour markets, we think the most likely scenario is that economies continue to expand over our forecast horizon.
- Our base case is one where world economies grow at a modest pace over the next few quarters, accelerating slightly into 2025 helped by the lagged benefit of interest-rate cuts.
- Our benign outlook is subject to a variety of risks, and the key sources of uncertainty include geopolitical tensions in the Middle East, Ukraine and China, as well as the U.S. election in November.

## Fixed income

- In the context of our forecast for modest economic growth and cooling inflation, it is reasonable to expect steady global monetary easing over the remainder of 2024 and into 2025.
- With the U.S. 10-year yield falling below 4% in August to its lowest level in the past year, we think that sovereign bonds are now reasonably priced.
- Our models suggest there is scope for yields to continue falling, but only slightly so over the medium to longer term.
- Returns in sovereign bonds are likely to moderate to the mid to low single digits over the next 12 months in the U.S. and probably less in regions outside the U.S.

## Equity markets

- Mega-cap technology stocks have greatly benefited from optimism regarding the productivity improvements that artificial intelligence could bring, but the enthusiasm for these stocks may be getting tested.
- Should the economy experience a soft landing, appealing opportunities exist in sectors that haven't fully participated in global stock gains since the start of the year, such as in small caps, international equities and value stocks, where gains have accelerated since July.
- Overall, we look for equities to deliver mid to high single-digit returns over the year ahead, and we favour segments of the market where valuations are less demanding.

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