Investment UPDATE

Spring 2025 edition

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In the know: Investing edition

Knowledge is power. So in the spirit of expanding your insights on investing and the markets, we present our quiz: **In the know**. Test your knowledge of key investment facts and understanding of how markets behave in this quarter's Investment Update.

True or False?

Over the past 20 years, the average annual return of the Canadian stock market has been 8.1%.[1]

True

Investing solely in Canadian equities would result in a decent average return over the long term. But a portfolio of 100% equities could result in a bumpy ride. To reduce the impact of market swings on your portfolio, invest in a diversified portfolio that includes fixed income and other types of investments as well.

The average annual rate of inflation is 6.4%.

False

Inflation has been high lately, but if we average it out since 2005, the rate is about 2.2%[2]. Keep in mind: As prices rise, you need more money to buy the same things. To get ahead, you need to invest in a way that your savings grow faster than inflation, after fees.

The average life expectancy in Canada for a woman is 84, and a male is 79.[3]

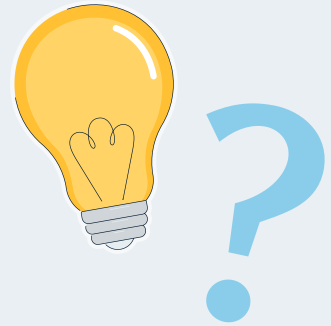
True

Canadians are living longer, which means they need more money in retirement. Between 2000 and 2023, Canada's population of people in their 90s rose 175%[3]. Will you have enough money saved for a longer life?

[1] Source: Morningstar. Represents the annualized return for the 20-year period January 1, 2005– December 31, 2024 of the S&P/TSX Index.
[2] Based on Consumer Price Index, Statistics Canada. Annualized rate for 20-year period January 1, 2005 – December 31, 2024.
[3] Source: Statistics Canada

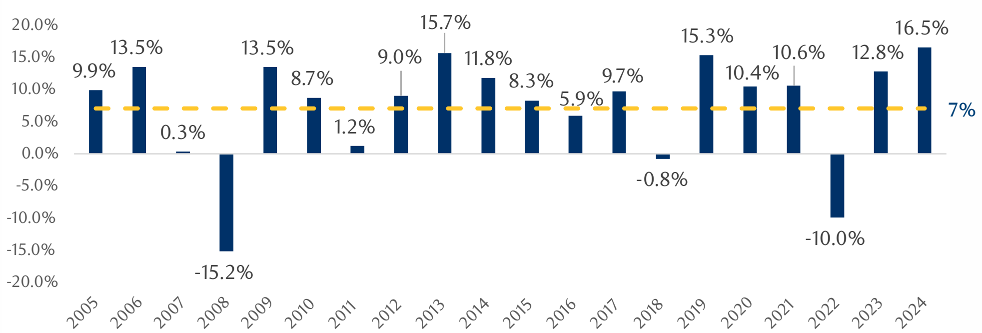
Are you in the know?

Markets are always in flux, but as the following facts below demonstrate, remaining invested and a diversified portfolio can set you up for success.



1 What's the average annual return for a diversified portfolio over the last 20 years?

7% Plus, you'll experience a smoother ride in the markets than if you invested in only equities. Keep in mind, that doesn't mean 7% every year. As you'll see in the chart below, sometimes it's more, sometimes it's less. These shifts are normal for markets. Remember, sustained periods of bear (or bull) markets do not last forever. Remaining invested and a diversified portfolio can help set you up for long-term success.

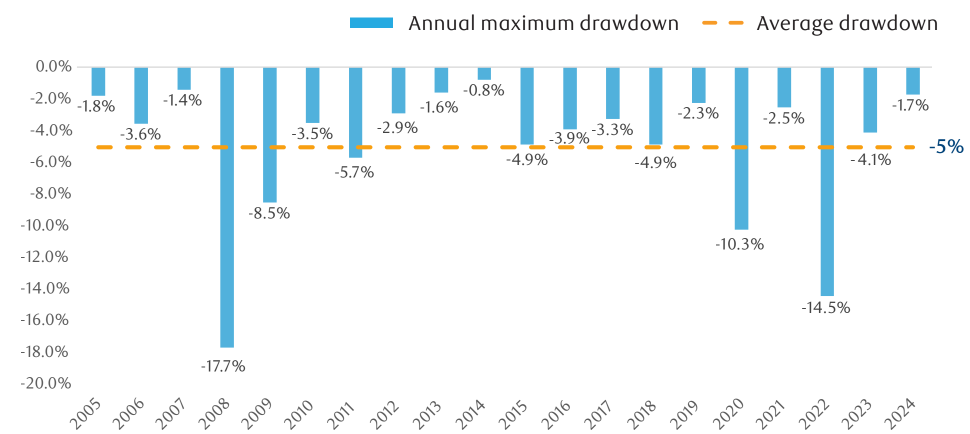


Your returns aren't always the average.

Source: RBC GAM. Morningstar. For the 20-year period January 1, 2005 - December 31, 2024. Returns are annualized. See below for explanation of a diversified portfolio and returns shown.

2 How much of a drop can a diversified portfolio experience on average in a given year?

5% Drawdowns can be defined as a measure of downside risk over a specified period, often measured as a percentage, showing the change from the peak value of the portfolio to the trough. Over a 20-year period, a diversified portfolio may experience a 5% drawdown on average, in a given year. The size of a drawdown varies each year depending on what is happening in the markets. In the moment these drawdowns at times can feel uncomfortable. Remember, market downturns are common.



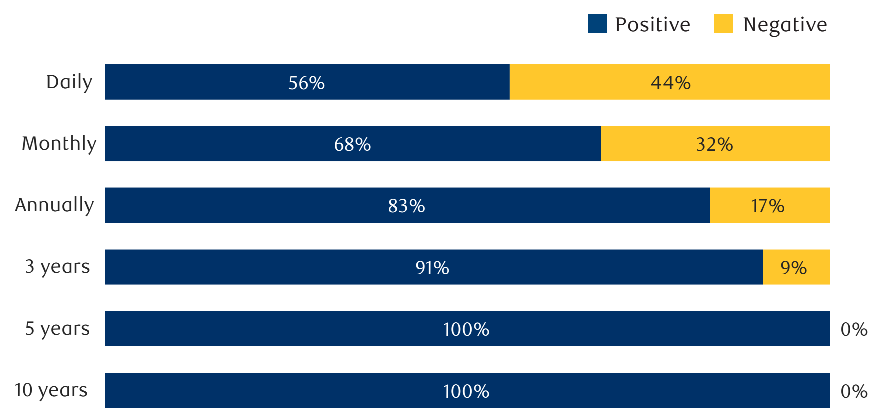
Drawdowns are common in a given year.

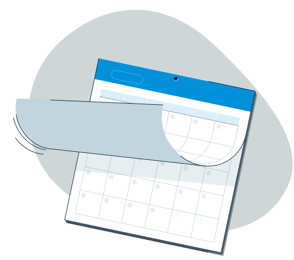
But just as swiftly as markets go down, they may also quickly rebound. As we can see from #1, the calendar year return was positive in 17 of the last 20 years.

Source: RBC GAM. Morningstar. For the 20-year period January 1, 2005 - December 31, 2024. Average drawdown is the average annual maximum drawdown for the aforementioned period. See below for explanation of a diversified portfolio and returns shown.

3 What are the odds of a positive return in any one-year period? Three-year period? Five-year period?

When you invest over longer time periods, it becomes clearer that the likelihood of a positive return improves. In fact, over a 5- and 10-year rolling period there hasn't been a negative return in the last 20 years for a diversified portfolio. While there may have been difficult times during these stretches – including the Global Financial Crisis of 2007-2008 – markets are resilient and have historically recovered.





The odds of a positive return increase the longer you are invested.

Source: RBC GAM. Morningstar. "Daily" is based on daily returns and "Monthly" is based on monthly returns. Rolling returns for the 20-year period January 1, 2005 - December 31, 2024. Rolling periods can be interpreted by the following examples: 3-year rolling periods are periods of 36 consecutive months with new periods beginning on the first day of each month. 5-year rolling periods are periods of 60 consecutive months with new periods beginning on the first day of each month. See below for explanation of a diversified portfolio and rolling periods.

Things like inflation, the number of years you stay invested and type of investments you hold all affect the results of your investments and how you achieve your financial goals. Diversifying your investments can help even out the highs and the lows of the markets, while delivering more stable returns over the long run.

Contact an RBC advisor to review your investments and put a plan in place that's right for you.

Diversified Portfolio assumes monthly rebalancing as 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, unless otherwise noted. 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. Rolling period returns are a way of viewing the performance of an investment by examining several overlapping periods. They provide a comprehensive view of how an investment has performed through various market conditions, which can be particularly informative for understanding the behavior of an investment during different economic cycles. Additionally, they help eliminate the bias that can result from only looking at the performance of an investment during a specific period.

One-minute market update

Economy

- The heightened activity and lack of clarity around U.S. policy threatens to temporarily slow economic growth as businesses and households opt to delay key decisions.
- Recession risk is now substantial for Canada and Mexico, and has mounted a bit even for the U.S. where the probability of recession has jumped to 25% or more from 15%. Our developed-world growth forecasts have been nearly universally downgraded for 2025 and now rest somewhat below the consensus.
- Risks to these growth forecasts extend in both directions, mostly related to the ultimate intensity and duration of tariffs, in conjunction with the downside risk of greater geopolitical tensions.

Fixed income

- The U.S. 10-year yield rallied to 4.21% at the end of February from a high of 4.80% earlier this year as investors sought safe-haven assets amid tariff threats and the potential negative impact on the economy.
- The key threat to fixed income investors would be an upside surprise to inflation caused by unfavourable trade policies, but that upward pressure could be offset by weaker growth conditions.
- We expect bonds to deliver at least coupon-like returns somewhere in the low-to-mid single digits over the year ahead, but with greater divergence across bond markets, reflecting their disparate economic outlooks.

Equity markets

- Stocks began to fall toward the end of February after reaching record levels earlier in the quarter as investors shied away from risk taking amid heightened uncertainty.
- The sell-off was concentrated in the most expensive U.S. stocks, whereas other markets which are more attractively priced, such as European equities, have delivered impressive gains so far this year.
- U.S. large-cap equities remain expensive and require continued strong earnings growth to support further gains. Stocks are vulnerable given their elevated starting point in the event tariffs prove long-lasting and earnings estimates get revised lower.
- Our return estimates range from mid- to high-single digit returns over the year ahead depending on the region, but large error bands exist around our central forecasts.

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