Wealth Management
Dominion Securities

Wealth Management
Review

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Navigating the gap

By Jim Allworth

U.S. recessions have always been associated with challenging periods for stock markets around the world. And those recessions, with one or perhaps two exceptions in the past century, have been triggered by restrictive monetary conditions where borrowing became too expensive and loans were hard to get.

A delayed effect

Monetary policy changes operate with a lag of about a year. The Fed (and the Bank of Canada) was still raising its policy rate into the late summer of last year and the full effect of those increases has yet to be felt. But already, signs of a weaker economy are growing. And any rate cuts implemented in the coming months may take many months to produce positive effects in the economy.

It's the time lag between interest rate increases and their resultant economic impact that makes it hard for equity investors to confidently navigate through the long interval between the two.

Indicator	Status		
	Expansion	*Neutral*	*Recessionary*
Yield curve (10-year to 1-year Treasuries)			✓
Unemployment claims		✓	
Unemployment rate	✓ *		
Conference Board Leading Index			✓
Non-financial corporate cash flows	✓		
ISM new orders versus inventories		✓	
Fed funds rate vs. nominal GDP growth			✓

Source: RBC Dominion Securities Inc.

Keeping track

To that end, we publish a Recession Scorecard designed to keep investors in touch with changes in credit conditions and the impact they may be having on key determinants of U.S. recessions.

Just two years ago, our Scorecard was flashing nothing but green lights for the U.S. economy. That unequivocally unanimous rating began to deteriorate in the summer of 2022. In July of 2022, the Treasury yield curve inverted when the 1-year Treasury yield rose above the 10-year yield, signaling that credit conditions were tightening in a serious way. Every recession in more than 100 years has been preceded by such a yield shift.

A redder tilt

A couple of months later another of our seven indicators – the Conference Board's Leading Economic Index – went red by falling below where it had been a year earlier. This has occurred before the onset of every U.S. recession since the late 1950s, or for as long as this indicator has been around. In the months that followed, three more Scorecard indicators shifted out of the positive green zone and into cautionary yellow territory.

Now, a third Scorecard indicator has been re-rated to the recessionary red column: as of Q1, the growth rate of U.S. nominal GDP has fallen below the federal funds rate. Such a crossing point has occurred either before or just after the start of every recession going back to the 1950s.

The notional economic linkage for this indicator is with categories of spending – primarily residential construction, business capital investment, and consumer spending on durables – for which the cost of borrowing is an important determinant. While not the largest component of GDP, at about 25%, spending on fixed assets and durables is highly cyclical. It is often a major contributing factor to recessions, usually going into outright decline under pressure from high interest rates, restricted availability of credit, and falling consumer demand.

One other Scorecard indicator – the unemployment rate – could be poised to flip into the red column, perhaps as early as next month. U.S. unemployment has risen in three of the past four months and now sits at 4.0%, its

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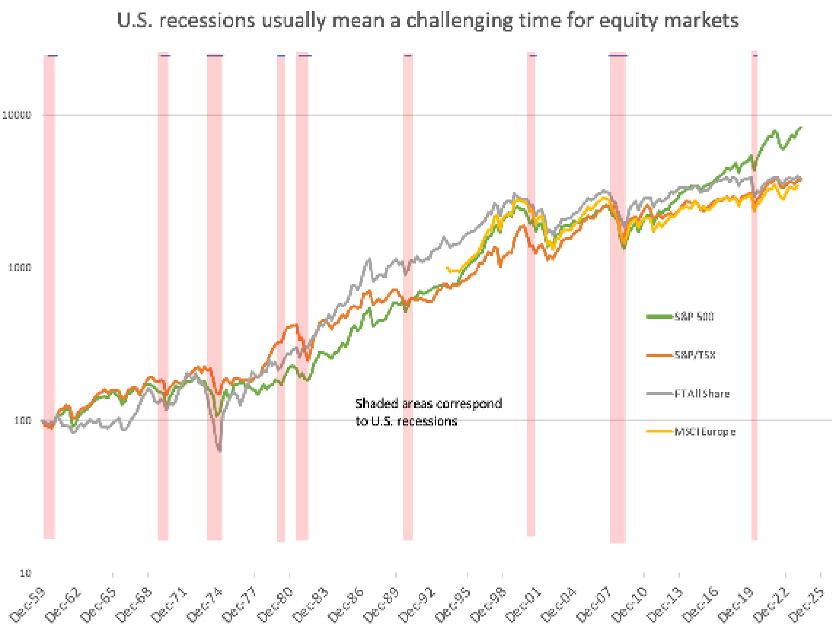
highest reading in almost two-and-a-half years. That has been enough to turn our trend-smoothing line for this data series upward for the first time since the onset of the COVID-19 pandemic.

As things stand, three of the seven indicators are rated "recessionary," and two are set at "cautionary," while two remain at "expansionary" green. If the unemployment rate shifts to red next month, the count will become 4, 2, and 1. There is no score even all red that would make a recession unquestionably inevitable. There can always be a "first time." But even at today's levels, the Scorecard portrays a decidedly different risk profile for the U.S. economy than the wall of green that prevailed in the decade following the global financial crisis and which was restored within a few months after the short-lived pandemic-induced plunge.

A path forward

U.S. recessions and equity bear markets in the developed world's stock markets tend to go hand in hand. In our view, a redder tilt in our Scorecard should keep investors alert to a riskier, more challenging environment for equities that might arrive in the coming quarters.

But for now, at least, the way looks to be open for the U.S. and Canadian equity markets to make further gains. Although the S&P 500 looks somewhat richly valued at almost 23x this year's estimated earnings, when that market's dominant, so-called "magnificent seven" (Apple, Amazon, NVIDIA, Microsoft, Alphabet, Tesla, and Meta) are taken out of the



Source: RBC Dominion Securities Inc.

calculation, the price-to-earnings multiple shrinks to a much more palatable 17X earnings. Canada's TSX is even cheaper at less than 15X.

The U.S. mega-cap tech and tech related stocks are powering higher on the promise of huge potential profit gains from developments in artificial intelligence. NVIDIA's latest reported quarterly year-over-year revenue gain of better than 230% suggest such hopes may not be entirely misplaced.

The problem for much of the rest of the market is that no such catalyst seems anywhere in sight. Many are hoping Fed rate cutting when it finally appears will provide the stimulus the non-tech, non-AI parts of the market need to keep advancing. Leaning against those hopes is the weakening backdrop revealed in our Recession Scorecard which suggests the U.S. economy may be approaching a point where rate cuts won't be enough to fend off an economic and profit slow down.

The combination argues for a cautious, watchful approach on the part of investors.

For a more detailed discussion of our outlook for financial markets, ask for a copy of our current issue of *Global Insight*.

Jim Allworth is co-chair of the RBC Global Portfolio Advisory Committee.

The value of having a strategic charitable giving plan in place

Planned philanthropic giving can help create a beautiful legacy.

By Leanne Kaufman, President and CEO, RBC Royal Trust

"Do whatever you think is right with it." That was the instruction David "Sandy" Gottesman left for his wife, Dr. Ruth Gottesman, along with a stock portfolio worth billions.

Initially overwhelmed by her late husband's bequest, Dr. Gottesman did nothing with her newfound wealth for two years, but at the urging of her children she finally made a decision.

In 2024, she gifted US$1 billion to the Albert Einstein College of Medicine in the Bronx, New York—an institution she's been involved with since 1968, first as faculty, then on the board of trustees and currently as chair. The Gottesmans' gift will cover tuition for all students in perpetuity.

There is a lot that's "right" about this story of giving. Indeed, it's an example of philanthropy doing exactly what it should: contributing to an institution important to the benefactors and the greater community. The United States needs doctors, and free medical school tuition offers significant opportunity while reducing the debt burden on students in the Bronx. It's a beautiful legacy. Still, it left me thinking about the value of having a strategic giving plan.

A case for planned giving

Planned giving[1] is exactly what it sounds like: making a plan now for a monetary gift in the future—often, but not always, after death.

A study commissioned by the Will Power campaign[2] found the number of Canadians naming a charity in their Will increased from five to eight percent between 2019 and 2022; a jump of 1.2 million people. And, according to a survey conducted by Ipsos for RBC Royal Trust, younger Canadians are more philanthropic when it comes to estate planning:[3] among those with a Will, more than half (53 percent) of Canadians ages 18-34, and one quarter of 35-54-year-olds, have requested to include charitable giving compared to just 13 percent of those 55 and older.

There is no question that planned giving has benefits for the recipient charities, including stability of revenue and the ability to plan programming around that revenue. But there are also many advantages to donors, and their families.

The importance of clear instructions

Few will inherit the billions Dr. Gottesman did, but trying to identify the final wishes of a loved one can be distressing no matter the size of a bequest. Dr. Gottesman spent two years on this very question. If she had also passed away, the decision would have fallen to their children[4].

When instructions for philanthropic giving are included in a wealth distribution plan, it relieves the inheritors of a significant burden. They don't have to question what the deceased would have wanted or worry that they got it wrong. They're free to simply remember their loved one.

It's worth noting that this is an issue on the rise. Over the coming years there will be one of the largest wealth transfers in history[5], involving trillions of dollars in assets across Canada, the United States and the United Kingdom.

In Canada, women outlive men by a slight margin, so it's likely they'll bear more than their share of the burden. Managing family wealth is an enormous responsibility made even more challenging without clear directions. A careful, documented plan can also prevent unnecessary discord

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Making the most of family wealth

Planned philanthropic giving is also a pragmatic decision. With strategic preparation, people can identify the best outcomes for their families and the causes they support.

Sometimes, concerns about charitable giving arise from misconceptions. Some worry that their contributions are too modest or that they can't afford to donate and take care of their family. Understandably, people don't want to spend their children's inheritance[6].

Including philanthropic planning strategically as part of a donor's overall financial and estate plan[7] creates opportunities for tax efficiencies, sometimes specifically timed to be most advantageous, that may otherwise be missed.

A legacy that will last years

Of all the reasons for philanthropic giving, creating a legacy[8] may be the most personal. Leaving a gift to an organization or cause makes a statement about the benefactor's values and it's a way to provide concrete, actionable support to ensure the work carries on.

You might not be able to take it with you, as they say, but proactive planning will help ensure a donor's charitable intentions will be carried through.

A meaningful gift that makes an impact

When Dr. Gottesman took the podium at the Albert Einstein College of Medicine in late February to reveal the bequest, the announcement caused an eruption of excitement and joy. "You can't ask for a better gift than this," one teary-eyed student said. "What this gift means to medical students and the future population that this is going to serve is outstanding." It's easy to imagine the pride Sandy Gottesman might have felt to witness the bequest.

Gottesman's instructions to his wife regarding the money were to do what she felt was right, so that's what she did. Her gift is so important, so appropriate, so profound, that's it's almost impossible to imagine anything better. Still, she wonders about it. "I hope he's smiling and not frowning," she told the *New York Times*, adding, "I think he would be happy—I hope so."

And that is the power of planned giving. It clarifies, empowers and removes those nagging doubts that pester us all—even those fortunate enough to enjoy the kind of trust that Sandy and Ruth so obviously shared.

A version of this article first appeared in Foundation Magazine[9].

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[1] https://www.rbcwealthmanagement.com/en-ca/insights/creating-a-lasting-impact
[2] https://nationalpost.com/sponsored/life-sponsored/leaving-their-legacy-more-canadians-donating-to-charity-in-their-will
[3] https://www.rbcwealthmanagement.com/en-ca/newsroom/2022-07-18/more-than-half-of-younger-canadians-are-including-charitable-giving-in-wills-rbc-royal-trust-survey
[4] https://www.rbcwealthmanagement.com/en-ca/insights/preparing-your-family-for-inheritance
[5] https://www.rbcwealthmanagement.com/en-ca/insights/women-are-the-predominant-benefactor-in-the-great-wealth-transfer-what-comes-next
[6] https://www.rbcwealthmanagement.com/en-ca/insights/preparing-your-family-for-inheritance
[7] https://www.rbcwealthmanagement.com/en-ca/insights/making-a-will-six-things-to-help-you-leave-a-lasting-legacy
[8] https://www.rbcwealthmanagement.com/en-ca/insights/three-ways-to-leave-a-legacy-through-charitable-giving
[9] https://foundationmag.ca/do-whatever-you-think-is-right-with-it/

About the RBC Royal Trust Survey
These are some of the findings of an Ipsos survey conducted April 22 - April 25, 2022 on behalf of RBC Royal Trust. For this survey, a sample of 2001 Canadians ages 18+ was surveyed online. Quotas and weighting were employed to ensure that the sample's composition reflects that of the Canadian population according to census parameters. The precision of Ipsos online polls is measured using a credibility interval. In this case, the poll is accurate to within ± 2.5 percentage points, 19 times out of 20, of what the results would have been had all Canadians working adults been surveyed.

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