RBC Global Asset Management

INVESTOR **INSIGHTS**

One year from the bottom

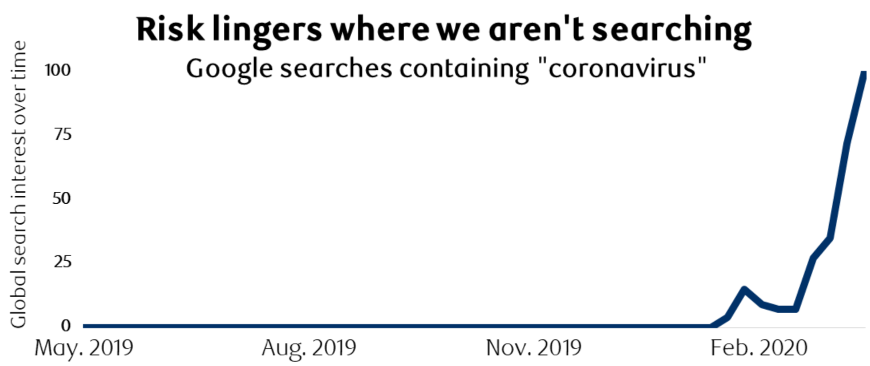
On March 23, 2020, financial markets bottomed following the COVID-19 selloff. On that day, nobody rang a bell to signal the all clear for investors. Rather, the collective actions of central banks, government policymakers, and the business community provided the required support for markets to begin looking over the valley – envisioning a solution to the uncertainty that had taken hold over an unforgettable 32 days.

To mark the occasion, we wanted to look back at some of the important lessons investors can take away from the historic events.

Lesson #1: We must be prepared for the risks we don't see coming

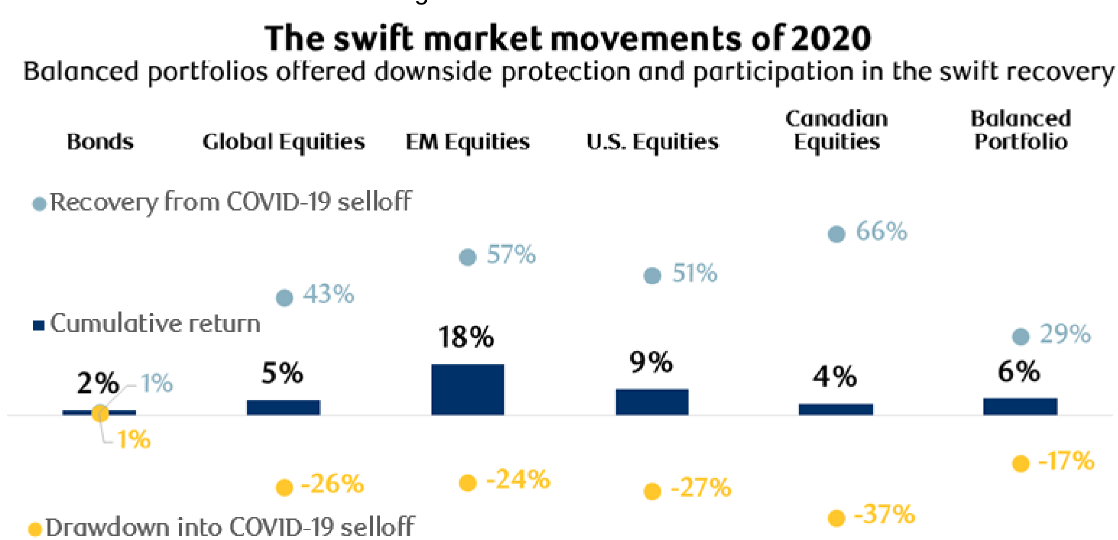
Heading into the crisis, investors were presented with a favourable macroeconomic backdrop. The global economy was on solid footing. Corporate earnings were growing and a recession seemed unlikely. However, things changed quickly. The narrative that has driven markets over the past year was on nobody's radar screen.

Important takeaway. With the help of a financial plan and a well-diversified portfolio, investors were well-equipped for uncertainty – before knowing what the real risk was.



Source: RBC GAM, Google. Global search interest over time represents search interest relative to the highest point for the time period shown (100=peak interest). As of May 1, 2019 to March 15, 2020.

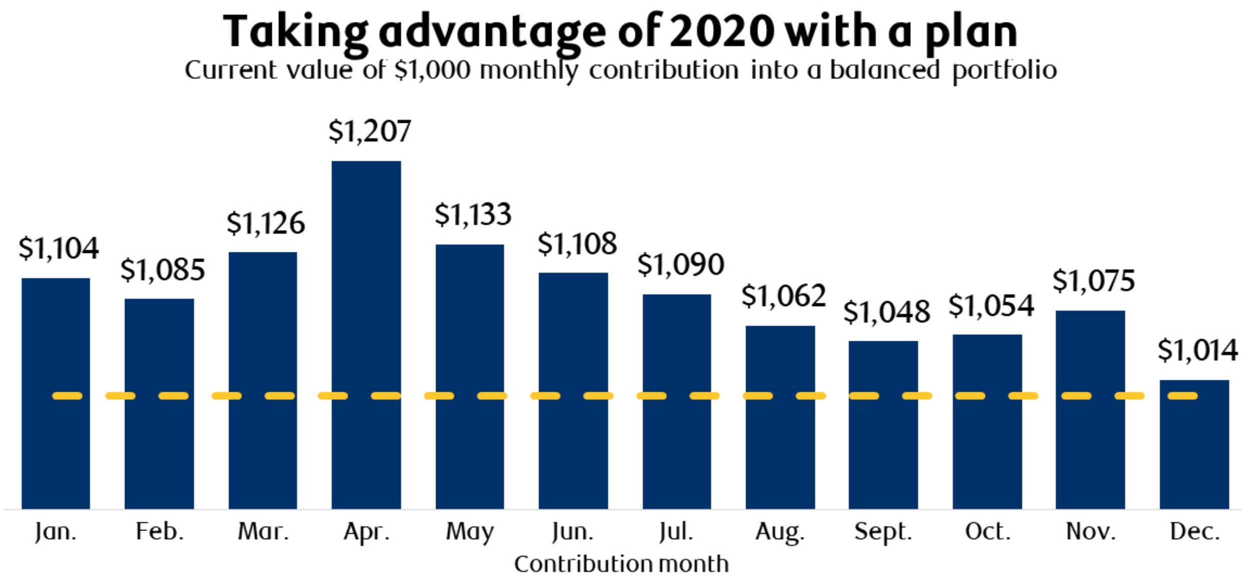
As financial markets reacted sharply to economic implications of COVID-19, bonds added stability to balanced portfolios. This made it easier for investors holding a diversified portfolio to stay the course and take advantage of the extraordinary results markets have delivered on their march higher.



Source: RBC GAM, Morningstar. Data as of February 20, 2020 to February 28, 2021. Bonds represented by FTSE Canada Universe Bond, Global Equities represented by MSCI EAFE GR CAD, EM Equities represented by MSCI EM GR CAD, U.S. equities represented by S&P 500 TR CAD, Canadian Equities represented by S&P?TSX Composite TR. Balanced portfolio comprised of 2% cash (FTSE Canada Cdn Trsy Bill 30 Day), 38% Bonds, 15% Global Equities, 5% Emerging Market Equities, 25% U.S. Equities, and 15% Canadian Equities.

Lesson #2: Dollar-cost averaging (DCA) is undefeated

Investors are presented with the best opportunities when they feel least certain about what the outcome might be. Yet, because emotions are typically elevated during these times, investors often find it difficult to put new money to work. This is where a DCA approach comes in. It shifts an investor's focus away from the aspects they can't control (short-term market movements), and towards the aspects they can (their behaviour). To see how this played out over the past year, consider the chart below that plots the current value of monthly contributions made into a balanced portfolio over the course of 2020.



Source: RBC GAM, Morningstar. Values as of February 28, 2021. Balanced portfolio comprised of 2% cash (FTSE Canada Cdn Trsy Bill 30 Day), 38% bonds (FTSE Canada Universe Bond), 15% International Equities (MSCI EAFE GR CAD), 5% Emerging Market Equities (MSCI EM GR CAD), 25% U.S. Equities (S&P 500 TR CAD), and 15% Canadian Equities (S&P/TSX Composite TR).

Important takeaway. The best time to put new money to work was in March to May – at the depth of the market pullback. Ironically, these would have also been the hardest contributions to make. Through an uncertain time, a regular investment plan provided the ability to overcome obstacles that often prevent investors from taking advantage of bargain opportunities. That's what builds over time.

The importance of a plan

For investors, a well-structured plan acts as a guiding force when things go off script. It allows you to see past day-to-day fluctuations and continue to take meaningful steps towards your long-term goals. Perhaps this will be the lasting lesson from the past year – specifically, the importance of staying the course. And that's something that can only be accomplished if you have a course to stay on.

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An investment cannot be made directly into an index. The above graphs do 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.

Balanced portfolio comprised of 2% cash (FTSE Canada Cdn Trsy Bill 30 Day), 38% bonds (FTSE Canada Universe Bond), 15% Global Equities (MSCI EAFE GR CAD), 5% Emerging Market Equities (MSCI EM GR CAD), 25% U.S. Equities (S&P 500 TR CAD), and 15% Canadian Equities (S&P/TSX Composite TR). Performance as of February 28, 2021: 1-year 12.7%, 3-years 7.8%, 5-years 8.8%, 10-years 8.4%.

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Publication date: March 25, 2021.