Global Asset Management

For more on our current view and outlook, consult **The Global Investment Outlook**.

SPRING 2019

One-minute market update

Economy

- Headwinds from protectionism, fading fiscal stimulus and less favourable financial conditions continue to weigh on global growth trajectory.
- While growth is indeed slowing, we expect only a mild deceleration in growth to rates that remain quite good by post-crisis standards.
- The three main risks to our outlook are possible escalation in trade tariffs, China's slowdown and the aging U.S. business cycle.
- Globally we look for 3.50 percent growth in 2019 and 3.25 percent growth in 2020, down from nearly 4.00 percent from the past two years.

Fixed income

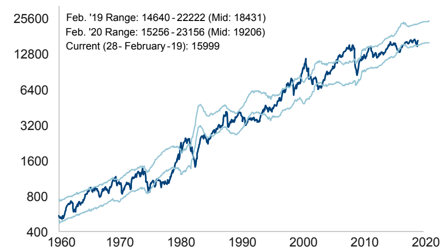
- Against a backdrop of slowing growth, less inflation and increased financial-market volatility, central banks are no longer actively tightening monetary policy and global sovereign bonds rallied in the past quarter.
- Yields on 10-year government bonds are now below our estimates of equilibrium in all major regions, particularly in markets outside of North America.
- Our models suggest yields are likely to rise over the longer term, but we recognize that slowing economic growth and tame inflation could limit upside pressure in the near term.
- We maintain underweights to fixed income because, in our view, total returns for sovereign bonds are likely to be low or even slightly negative for an extended period.

Equity markets

- The world's major stock markets suffered double-digit declines in 2018 and our composite of global market valuations had fallen to its lowest level in seven years, boosting total return potential and setting up the preconditions for the subsequent rally.
- Although stocks have had a good run so far this year, our models suggest that the rally can persist as long as earnings grow at a moderate pace as analysts expect.
- The profit outlook for 2019 is less rosy than last year, but against a backdrop of low inflation and accommodative monetary policy, there is room for stocks to move up.
- Balancing the risks and opportunities and given superior return expectations for stocks versus bonds, we feel that maintaining slight overweight exposure to equities is appropriate.

CANADIAN EQUITIES – Fair value range

S&P/TSX Composite Index

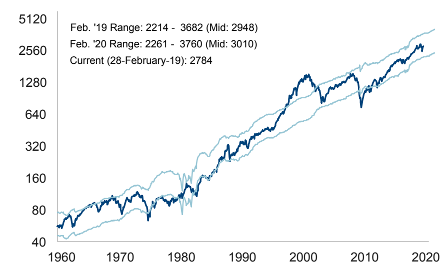


Canadian equities increased by 6.1% over the three-month period ended Feb. 28. Valuations remain close to the lower limit of the fair value band.

Source: RBC GAM

U.S. EQUITIES – Fair value range

S&P 500 Index

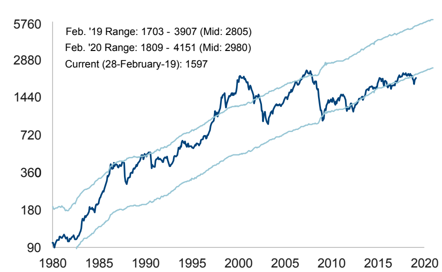


The U.S. stock market increased by 1.4% in local currency terms over the three-month period ended Feb. 28. Valuations remain slightly below equilibrium.

Source: RBC GAM

EUROPEAN EQUITIES – Fair value range

MSCI Europe Net Index

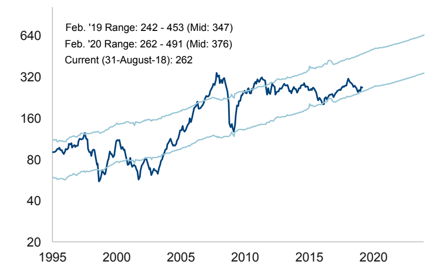


European equities increased by 5.1% in USD terms for the three month period ended Feb. 28. However, valuations remain below the lower limit of the fair value band.

Source: Datastream, Consensus Economics, RBC GAM

EMERGING MARKETS – Fair value range

MSCI Emerging Markets Net Index



Emerging market equities increased by 6.1% in USD terms in the three month period ended Feb. 28. Valuations remain close to the lower limit of the fair value band.

Source: Datastream, RBC GAM

* Fair value estimates are for illustrative purposes only.
It is not possible to invest directly in an unmanaged index.

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