RBC Global Asset Management

One-minute market update

SUMMER 2019

Economy

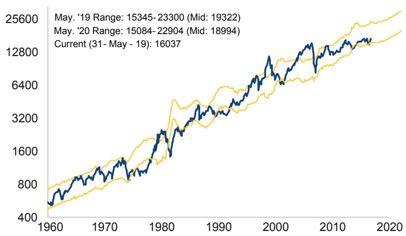
- The global economy is encountering challenges from protectionism, a maturing business cycle and fading U.S. fiscal support, but is being helped by stimulative government initiatives outside the U.S. and lower interest rates everywhere.
- The most significant risk is protectionism, but other threats stem from slowing growth in China and European politics (i.e. Brexit).
- Weighing the positives and negatives suggests that the trajectory for global GDP is not all that bad and we have raised our growth expectations slightly as a result.
- We now forecast 3.5 percent global growth for both 2019 and 2020, suggesting a stabilization in growth after two years of deceleration.

Fixed income

- Central banks have abandoned their prior tightening agendas and markets are pricing in the possibility of rate cuts. We expect no change to policy rates in most major developed markets over the coming year, but if we are wrong it's likely because rates move lower.
- Government bonds rallied in the past quarter as investors sought safe-haven assets in reaction to macroeconomic uncertainty, pushing long-term bond yields to very low levels.
- Our models suggest that the risk of fixed-income losses is elevated in all regions, and that rising yields over time could lead to low or even negative total returns.
- 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.

CANADIAN EQUITIES – Fair value range

S&P/TSX Composite Index

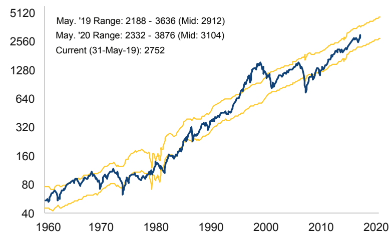


Canadian equities increased by 1.1% over the three-month period ended May 31. Valuations remain close to the lower limit of the fair value band.

Source: RBC GAM

U.S. EQUITIES – Fair value range

S&P 500 Index

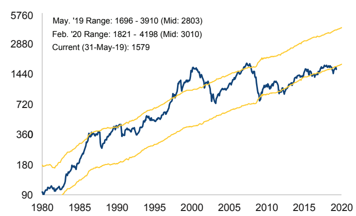


U.S. equities decreased by 0.7% in USD terms over the three month period ended May 31. Valuations are roughly at the midpoint of the fair value band.

Source: RBC GAM

EUROPEAN EQUITIES – Fair value range

MSCI Europe Net Index



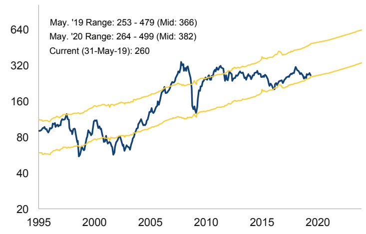
European equities decreased by 1.5% in USD terms for the three month period ended May 31. Valuations remain below the lower limit of the fair value band.

Source: Datastream, Consensus Economics, RBC GAM

Equity markets

- This year's powerful stock-market rally took a step back in May after trade tensions between the world's two largest economies intensified.
- The near-term challenge for stocks is not valuations, but the fact that earnings growth has stalled as declining margins have offset stronger revenue growth.
- Analysts expect profits to re-accelerate into the end of the year and we expect equities can deliver single- to low-double-digit gains in an environment of moderate growth, low interest rates and low inflation.
- We continue to overweight stocks because of their superior return potential relative to fixed income, but we shifted half a percentage point from our equity allocation into cash in the past quarter, moving further along the path of de-risking our portfolios as the business cycle matures.

EMERGING MARKETS – Fair value range



Source: Datastream, RBC GAM

MSCI Emerging Markets Net Index

Emerging market equities decreased by 4.5% in USD terms in the three month period ended May 31. Valuations remain close to the lower limit of the fair value band.

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

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