



One-minute market update

Economy

- After enjoying solid and accelerating global growth in 2017 and the first half of 2018, momentum has waned and we expect this trend to continue into 2019.
- Protectionism, European politics, rising interest rates, firming inflation and troubles besetting specific emerging-market countries are among the risks to our outlook.
- We budget for slower growth moving forward as financial conditions have worsened and the boost from the U.S. fiscal stimulus program begins to fade.
- We have lowered our global growth expectations slightly, but they are still near the upper end of the range of the past seven years.

Fixed income

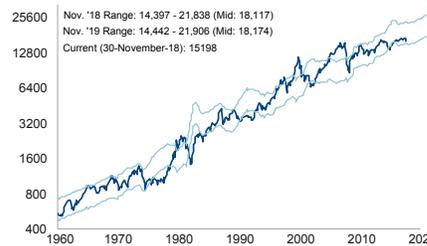
- Central banks have been tightening monetary policy in response to diminishing economic slack and above-average inflation.
- Our models suggest North American 10-year sovereign-bond yields are near equilibrium, but that unsustainably low yields in other regions represent significant valuation risk.
- We continue to believe that yields will rise over the long term, driven by an increase in real interest rates to historical norms, but slowing economic growth could limit how far yields rise in the shorter term.
- We remain underweight bonds as even a modest rise in rates will be a headwind for fixed-income investments. However, recognizing that bonds can provide a cushion in an economic downturn, we took advantage of the increase in yields earlier this quarter to add to our fixed-income allocation.

Equity markets

- Equities have experienced steep declines in most regions in 2018, especially in emerging markets.
- While valuation risk has been reduced, rising interest rates and firming inflation may restrain multiple expansion. Moreover, earnings growth is expected to slow as tailwinds from tax cuts fade, economic growth decelerates and profit margins come under pressure.
- Stocks still offer superior return potential versus bonds under reasonable assumptions, as long as earnings continue to grow as analysts expect.
- We remain overweight equities, but our tactical weight is well below our peak exposure from earlier in the cycle.

CANADIAN EQUITIES – Fair value range

S&P/TSX Composite Index

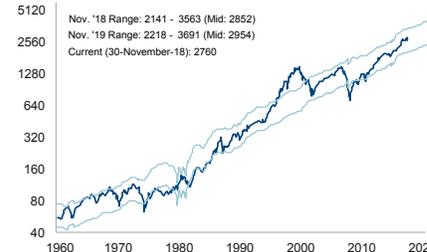


Over the three-month period ended Nov. 30, the index decreased by 5.8%. Valuations remain below the midpoint of the fair value band.

Source: RBC GAM

U.S. EQUITIES – Fair value range

S&P 500 Index

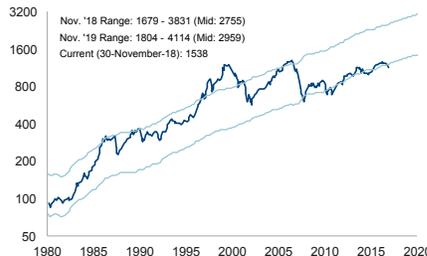


The U.S. stock market declined by 2.6% in local currency terms over the three-month period ended Nov. 30. Valuations are now slightly below equilibrium.

Source: RBC GAM

EUROPEAN EQUITIES – Fair value range

Eurozone Datastream Index



European equities declined by 8.1% in USD terms for the three month period ended Nov. 30 2018. Negative performance since the start of the year has caused valuations to fall below the lower limit of the fair value band.

Source: Datastream, Consensus Economics, RBC GAM

EMERGING MARKETS – Fair value range

Emerging Markets Datastream Index



Emerging-market equities declined by 5.7% in USD terms in the three month period ended Nov. 30 2018. At current levels, emerging market equities are nearing their most attractive valuations since the great financial crisis.

Source: Datastream, RBC GAM

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

This report has been provided by RBC Global Asset Management (RBC GAM) for informational purposes only and may not be reproduced, distributed or published without the written consent of RBC Global Asset Management Inc. (RBC GAM Inc.). In Canada, this report is provided by RBC GAM Inc. (including Phillips, Hager & North Investment Management). In the United States, this report is provided by RBC Global Asset Management (U.S.) Inc., a federally registered investment adviser. In Europe, this report is provided by RBC Global Asset Management (UK) Limited, which is authorised and regulated by the UK Financial Conduct Authority. In Asia, this document is provided by RBC Investment Management (Asia) Limited, which is registered with the Securities and Futures Commission (SFC) in Hong Kong.

RBC GAM is the asset management division of Royal Bank of Canada (RBC) which includes RBC GAM Inc., RBC Global Asset Management (U.S.) Inc., RBC Global Asset Management (UK) Limited, RBC Investment Management (Asia) Limited, and BlueBay Asset Management LLP, which are separate, but affiliated subsidiaries of RBC.

This report has not been reviewed by, and is not registered with any securities or other regulatory authority, and may, where appropriate, be distributed by the above-listed entities in their respective jurisdictions. Additional information about RBC GAM may be found at www.rbcgam.com. This report is not intended to provide legal, accounting, tax, investment, financial or other advice and such information should not be relied upon for providing such advice. The investment process as described in this report may change over time. The characteristics set forth in this report are intended as a general illustration of some of the criteria considered in selecting securities for client portfolios. Not all investments in a client portfolio will meet such criteria. RBC GAM takes reasonable steps to provide up-to-date, accurate and reliable information, and believes the information to be so when printed. RBC GAM reserves the right at any time and without notice to change, amend or cease publication of the information.

Any investment and economic outlook information contained in this report has been compiled by RBC GAM from various sources. Information obtained from third parties is believed to be reliable, but no representation or warranty, express or implied, is made by RBC GAM, its affiliates or any other person as to its accuracy, completeness or correctness. RBC GAM and its affiliates assume no responsibility for any errors or omissions.

All opinions and estimates contained in this report constitute RBC GAM's judgment as of the indicated date of the information, are subject to change without notice and are provided in good faith but without legal responsibility. Interest rates and market conditions are subject to change. Return estimates are for illustrative purposes only and are not a prediction of returns. Actual returns may be higher or lower than those shown and may vary substantially over shorter time periods. It is not possible to invest directly in an unmanaged index.

A note on forward-looking statements

This report may contain forward-looking statements about future performance, strategies or prospects, and possible future action. The words “may,” “could,” “should,” “would,” “suspect,” “outlook,” “believe,” “plan,” “anticipate,” “estimate,” “expect,” “intend,” “forecast,” “objective” and similar expressions are intended to identify forward-looking statements. Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties about general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events. The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

® / ™ Trademark(s) of Royal Bank of Canada. Used under licence.
© RBC Global Asset Management Inc. 2018

