RBC Global Asset Management

The Global Investment Outlook

RBC GAM Investment Strategy Committee

NEW YEAR 2024

The RBC GAM Investment Strategy Committee

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The RBC GAM Investment Strategy Committee consists of senior investment professionals drawn from all areas of RBC Global Asset Management. The Committee regularly receives economic and capital markets related input from internal and external sources. Important guidance is provided by the Committee's regional equity advisors (North America, Europe, Asia, Emerging Markets) and from the Global Fixed Income & Currencies sub-committee. From this, the Committee builds a detailed global investment forecast looking one year forward.

The Committee's view includes an assessment of global fiscal and monetary conditions, projected economic growth and inflation, as well as the expected course of interest rates, major currencies, corporate profits and stock prices.

From this global forecast, the RBC GAM Investment Strategy Committee develops specific guidelines that can be used to manage portfolios.

These include:

The recommended mix of cash, fixed income instruments, and equities.

The recommended global exposure of fixed income and equity portfolios.

The optimal term structure for fixed income investments.

The suggested sector and geographic make-up within equity portfolios.

The preferred exposure to major currencies.

Results of the Committee's deliberations are published quarterly in *The Global Investment Outlook*.

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Executive summary

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Progress against inflation has ignited both bonds and stocks as the need for additional tightening of monetary policy is removed. While the threat of recession in early 2024 remains as the full force of prior rate hikes feeds through, the next cycle is moving into view. We believe that capital markets are transitioning to reflect a return to optimal inflation and firming growth later next year, and doing so with a backdrop of generally attractive valuation levels.

Economy avoids recession in 2023, but challenges still lie ahead for first half of 2024

While a recession has been avoided so far in 2023, the economy will likely slow through the first half of 2024 before recovering later in the year. Savings that were built up during the pandemic are being depleted, government spending is set to slow and geopolitical frictions are intense. The main headwind to the global economy, though, is that interest rates surged to their highest level in 16 years by mid-2023 and, if they remain elevated, higher borrowing costs could discourage business and consumer spending while making debt-servicing more difficult. There are signs that economic data is now feeling the pressure of higher interest rates. Global trade is contracting, business expectations are soft, housing activity has plummeted and the labour market is starting to lose momentum, albeit gradually. Although pathways to an economic soft landing are evident and the odds of such an outcome are improving as inflation moderates, we continue to look for mild contraction in the U.S., Canada, the UK and eurozone during the first half of 2024.

We expect inflation to continue moderating

Inflation has fallen sharply from its multi-decade peak in the middle of 2022, and we see further scope for decline. The four original drivers of the inflation spike have all turned meaningfully. The commodity shock has faded, supply-chain bottlenecks have eased, central banks have pivoted from massive ease to restraint, and fiscal stimulus is significantly diminished. At its worst, high inflation was broad-based, with the majority of the spending basket rising at an unusual clip, but that breadth is now fading quickly. Goods inflation has vanished. Service-sector inflation remains elevated, but it too is past its peak and a weaker economy should provide further relief. Shelter costs, the biggest remaining inflation driver, are likely to soften, in part because home prices are forecast to decline and because the shelter component of CPI is lagged in a way that should capture weakness over the coming months. For all these reasons, we think that inflation can continue moving back toward the central bank's 2% target, although it may not reach that level by the end of next year. Our inflation forecasts are modestly below the consensus.

U.S. dollar has been resilient, but tailwinds are fading

The U.S. dollar has remained elevated for longer than we had expected. Elements that were supportive of the greenback are starting to fade, however, and there are signs that fiscal concerns and a slowing economy have started to weigh on the currency, which sits more than 20% above fair value. As this process unfolds, we forecast that the dollar will weaken against major currencies such as the euro and Japanese yen. We are relatively more cautious on emerging-market currencies in the short term, although as a group they are likely to benefit over the longer term from a persistent decline in the U.S. dollar.

Short-term interest rates may be peaking

Policy rates in developed markets have stabilized at an elevated level in the range of 5% following a rapid and unusually large response to the inflation shock. Further rate increases are not impossible if inflation were to be sustained at levels above 3%. That said, the data increasingly tilts toward rate cuts in 2024 – likely sooner rather than later, and more cuts rather than fewer. Policy rates are now restrictive, and they are unlikely to be maintained at current levels if the economy enters a downturn and/or inflation remains on its current path toward the 2% target.

Sovereign bonds stage impressive rally, starting from attractive valuations, as investors anticipate end of tightening

With yields surging over the past couple of years, the bulk of the adjustment needed to restore a proper level of compensation for fixed-income investors is largely complete. The scope for lower yields opened up with yields on 10-year Treasury bonds rising toward 5% during the fall, setting up one of the most attractive entry points for bond investors in a long time. Bond markets rallied in November as investors entertained the potential end of tightening and possible easing next year. The U.S. 10-year yield fell to 4.33% in November and then pierced 4.00% in December from a high of 5.02% in October, and sovereign bonds in Canada and Europe rallied by similar degrees. The rally began with yields generally positioned at undervalued levels relative to our equilibrium models, a situation that has appeared only a handful of times over the past 40 years including the global financial crisis and a brief spike in 2013. Looking ahead, our models indicated yields on 10-year Treasury bonds could settle between 3.50% and 4.00%, or perhaps even lower, over the longer term assuming an inflation premium around 2.0%-2.5%, real rates of 0% to 1% and a term premium of around 100-150 basis points. Such an outcome would deliver mid-to-high single digit total returns over the year ahead as investors receive attractive coupon income in addition to capital gains as yields continue to move lower.

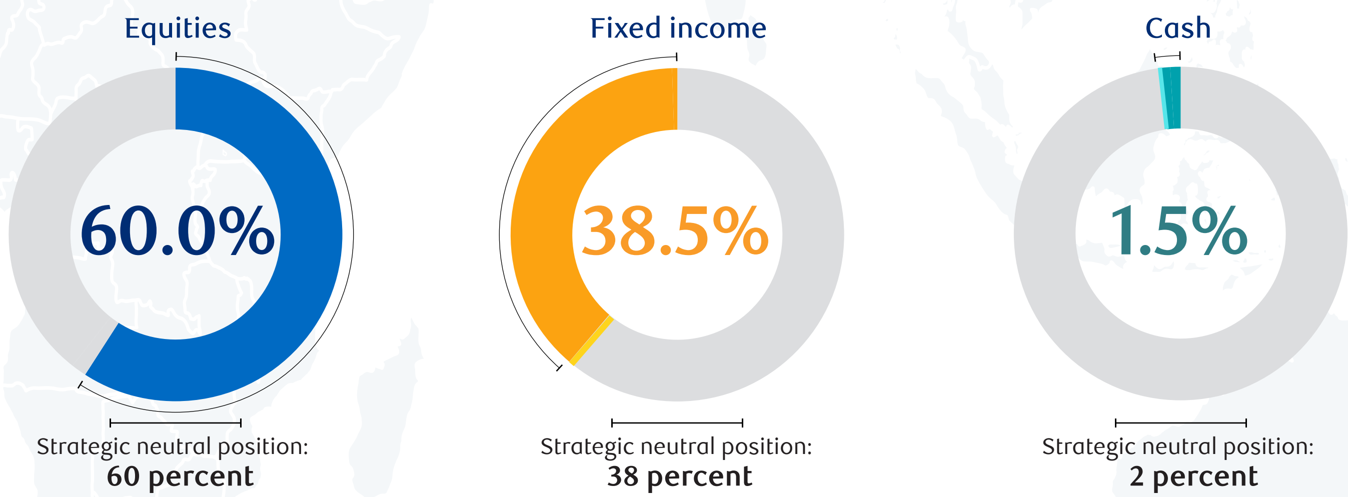
Equity valuations are reasonable outside U.S. mega caps, but earnings growth will be critical to sustaining the rally

A distinguishing characteristic of the 2023 stock-market rally was the narrowness of the advance as investors priced in a challenging economic backdrop for the bulk of listed companies. In this environment, the “Magnificent 7,” the seven largest stocks in the S&P 500 by market value and characterized as high-quality growth stocks, were up 76% as of November 30, pulling the technology-laden Nasdaq up 36% and the S&P 500 up 18%, accounting for fully 29% and 15% of these gains, respectively. Most stocks lagged the capitalization-weighted index returns significantly. The Equal Weight S&P 500 Index, a better reflection of the average stock’s performance, was up only 5% during this period, and many other global indexes such as the UK’s FTSE 100, Canada’s S&P/TSX Composite, the emerging-markets benchmark and even U.S. small-cap indexes produced only low single digits returns over the period. As a result, apart from the capitalization-weighted and Magnificent 7-dominated S&P 500, global equities are not all that expensive, with regions outside the U.S. trading at particularly attractive discounts to their fair value. Given that valuations are generally reasonable, the biggest risk to the stock market, in our view, is the near-term path for corporate profits. Analysts’ estimates reflect a re-acceleration in earnings growth to 11% for the S&P 500 in 2024, up from 2% this year. But in our view, these expectations would be vulnerable if the U.S. and global economies fell into at least a mild recession. To the extent that a soft landing for the U.S. and global economy has increasing visibility, stocks could extend their gains. Should the outlook for growth improve and the threat of earnings shortfalls diminish, the rally could broaden out and leadership could shift to non-U.S. regions, value stocks and small/mid-caps as investors look to the most attractive valuations in an environment of a broad-based increase in corporate profits beyond the first half of 2024.

Asset mix – raised fixed-income allocation above neutral setting

We acknowledge that uncertainty remains as the prior tightening of monetary policy feeds through the global economy. While our base case is that economies slip into recession over the next several quarters, we recognize there are also pathways to a positive outcome for the economy and risk assets and that these are now rising in probability. With inflation on a favourable trajectory, central banks are unlikely to raise rates any further, and cuts in policy rates will be appropriate at some point over the next year. For sovereign bonds, the risk/reward is particularly appealing given that, at higher yields, safe-haven fixed-income assets can provide ballast against a downturn in equities, and with a diminished risk of significant losses. Although we continue to expect stocks to outperform bonds over the longer term, the premium associated with holding equities, relative to fixed income, is lower than it was at earlier points in the cycle and perhaps not adequately compensating investors for the risk of an economic downturn. We would become more constructive on the outlook for stocks if we saw increasing stock-market breadth, an improvement in economic leading indicators and/or an easing of monetary conditions. Given the balance of risks and opportunities against both short-term and long-term investment horizons, we added to our fixed-income allocation over the past quarter, boosting our bond weight above neutral for the first time in two decades. The 50-basis-point increase in our fixed-income weight was sourced from cash as yields on 10-year Treasuries climbed near 5%. For a balanced global investor, we currently recommend an asset mix of 60.0 percent equities (strategic neutral position: 60.0 percent) and 38.5 percent fixed income (strategic neutral position: 38.0 percent), with the balance in cash. Actual fund or client portfolio positioning may differ depending on individual investment policies.

Recommended asset mix
RBC GAM Investment Strategy Committee



Note: As of November 30, 2023. Source: RBC GAM

Economic & capital markets forecasts

Economic forecast (RBC GAM Investment Strategy Committee)

	United States		Canada		Europe		United Kingdom		Japan		China		Emerging markets*	
	New Year 2024	Change from Fall 2023	New Year 2024	Change from Fall 2023	New Year 2024	Change from Fall 2023	New Year 2024	Change from Fall 2023	New Year 2024	Change from Fall 2023	New Year 2024	Change from Fall 2023	New Year 2024	Change from Fall 2023
Real GDP														
2022A	1.94%		3.44%		3.43%		4.35%		1.02%		2.98%		3.49%	
2023E	2.40%	0.50	1.10%	(0.20)	0.60%	0.10	0.50%	0.20	1.70%	(0.30)	5.60%	0.70	5.30%	0.60
2024E	0.30%	N/C	(0.40%)	(0.60)	(0.30%)	(0.50)	(0.50%)	(0.70)	0.40%	(0.30)	4.50%	0.10	4.10%	0.10
CPI														
2022A	8.00%		6.80%		8.38%		9.05%		2.52%		1.85%		4.85%	
2023E	4.10%	0.10	3.90%	0.20	5.60%	0.20	7.50%	0.10	3.10%	N/C	0.40%	(0.10)	2.60%	(0.20)
2024E	2.50%	0.30	2.40%	0.10	2.70%	0.60	2.90%	0.50	1.40%	(0.10)	1.20%	(0.40)	2.60%	(0.50)

A = Actual E = Estimate *GDP Weighted Average of China, India, South Korea, Brazil, Mexico and Russia.

Targets (RBC GAM Investment Strategy Committee)

	November 2023	Forecast November 2024	Change from Fall 2023	1-year total return estimate* (%)
Currency markets against USD				
CAD (USD–CAD)	1.36	1.27	0.03	6.5
EUR (EUR–USD)	1.09	1.21	N/C	9.4
JPY (USD–JPY)	148.19	130.00	10.00	8.2
GBP (GBP–USD)	1.26	1.31	(0.02)	3.7
Fixed income markets				
U.S. Fed Funds Rate (upper bound)	5.50	4.75	0.25	
U.S. 10-Year Bond	4.33	4.00	0.50	7.0
Canada Overnight Rate	5.00	4.00	(0.25)	
Canada 10-Year Bond	3.55	3.00	N/C	8.3
Eurozone Deposit Facility Rate	4.00	3.00	(0.25)	
Germany 10-Year Bund	2.45	2.50	(0.10)	2.0
U.K. Base Rate	5.25	4.50	(0.75)	
U.K. 10-Year Gilt	4.18	4.00	(0.25)	5.7
Japan Overnight Call Rate	(0.02)	0.10	N/C	
Japan 10-Year Bond	0.67	1.00	0.25	(2.4)
Equity markets				
S&P 500	4568	4500	100	0.1
S&P/TSX Composite	20236	20550	(150)	5.0
MSCI Europe	153	158	4	6.6
FTSE 100	7454	7550	50	5.3
Nikkei	33487	34750	1650	5.7
MSCI Emerging Markets	987	1015	15	6.0

*Total returns are expressed in local currencies with the exception of MSCI Emerging Markets whose return is expressed in USD. Source: RBC GAM

Recommended asset mix

Asset mix – the allocation within portfolios to stocks, bonds and cash – should include both strategic and tactical elements. Strategic asset mix addresses the blend of the major asset classes offering the risk/return tradeoff best suited to an investor's profile. It can be considered to be the benchmark investment plan that anchors a portfolio through many business and investment cycles, independent of a near-term view of the prospects for the economy and related expectations for capital markets. Tactical asset allocation refers to fine tuning around the strategic setting in an effort to add value by taking advantage of shorter-term fluctuations in markets.

Every individual has differing return expectations and tolerances for volatility, so there is no "one size fits all" strategic asset mix. Based on a 40-year study of historical returns[1] and the volatility[2] of returns (the range around the average return within which shorter-term results tend to fall), we have developed five broad profiles and assigned a benchmark strategic asset mix for each. These profiles range from very conservative through balanced to aggressive growth. It goes without saying that as investors accept increasing levels of volatility, and therefore greater risk that the actual experience will depart from the longer-term norm, the potential for returns rises. The five profiles presented below may assist investors in selecting a strategic asset mix best aligned to their investment goals.

Each quarter, the RBC GAM Investment Strategy Committee publishes a recommended asset mix based on our current view of the economy and return expectations for the major asset classes. These weights are further divided into recommended exposures to the variety of global fixed income and equity markets. Our recommendation is targeted at the Balanced profile where the benchmark (strategic neutral) setting is 60% equities, 38% fixed income, and 2% cash.

A tactical range of +/- 15% around the benchmark position allows us to raise or lower exposure to specific asset classes with a goal of tilting portfolios toward those markets that offer comparatively attractive near-term prospects.

This tactical recommendation for the Balanced profile can serve as a guide for movement within the ranges allowed for all other profiles.

The value-added of tactical strategies is, of course, dependent on the degree to which the expected scenario unfolds.

Regular reviews of portfolio weights are essential to the ultimate success of an investment plan as they ensure current exposures are aligned with levels of long-term returns and risk tolerances best suited to individual investors.

Anchoring portfolios with a suitable strategic asset mix, and placing boundaries defining the allowed range for tactical positioning, imposes discipline that can limit damage caused by swings in emotion that inevitably accompany both bull and bear markets.

[1]**Average return**: The average total return produced by the asset class over the period 1983 – 2023, based on monthly results.
[2]**Volatility**: The standard deviation of returns. Standard deviation is a statistical measure that indicates the range around the average return within which 2/3 of results will fall into, assuming a normal distribution around the long-term average.

Global asset mix

	Benchmark policy	Allowable range	New Year 2023	Spring 2023	Summer 2023	Fall 2023	**New Year 2024**
Cash	**2.0%**	0.0% – 15.0%	1.0%	1.5%	2.0%	2.0%	**1.5%**
Bonds	**38.0%**	23.0% – 53.0%	37.0%	37.5%	38.0%	38.0%	**38.5%**
Stocks	**60.0%**	45.0% – 75.0%	62.0%	61.0%	60.0%	60.0%	**60.0%**

Note: Effective June 1, 2020, we reset our strategic neutral positions to reflect long-lasting changes in economy and capital markets' dynamics. Boosting strategic neutral equity exposure by 5% and reducing fixed income by same amount in our reference balanced portfolio.

Regional allocation

Global bonds	**WGBI* November 2023**	Allowable range	New Year 2023	Spring 2023	Summer 2023	Fall 2023	**New Year 2024**
North America	**45.2%**	35.2% – 55.2%	51.8%	49.0%	42.7%	40.3%	**47.7%**
Europe	**34.4%**	24.4% – 44.4%	30.7%	31.2%	37.1%	39.8%	**34.4%**
Asia	**20.5%**	10.5% – 30.5%	17.6%	19.8%	20.3%	20.0%	**18.0%**

Global equities	**MSCI** November 2023**	Allowable range	New Year 2023	Spring 2023	Summer 2023	Fall 2023	**New Year 2024**
North America	**70.3%**	60.3% – 80.3%	71.0%	68.0%	67.7%	69.3%	**69.8%**
Europe	**14.1%**	4.1% – 24.1%	13.6%	15.5%	15.8%	14.5%	**14.1%**
Asia	**7.3%**	0.0% – 17.3%	7.4%	8.2%	8.4%	8.2%	**8.1%**
Emerging markets	**8.3%**	0.0% – 18.3%	8.1%	8.4%	8.1%	8.1%	**8.1%**

Our asset mix is reported as at the end of each quarter. The mix is fluid and may be adjusted within each quarter, although we do not always report on shifts as they occur. The weights in the table should be considered a snapshot of our asset mix at the date of release of the Global Investment Outlook.

Global equity sector allocation

	MSCI November 2023**	RBC GAM ISC Fall 2023	RBC GAM ISC New Year 2024	Change from Fall 2023	**Weight vs. benchmark**
Energy	5.02%	5.12%	6.72%	1.60	133.8%
Materials	4.08%	5.17%	2.48%	(2.70)	60.8%
Industrials	10.71%	12.97%	12.11%	(0.86)	113.1%
Consumer discretionary	10.83%	11.02%	10.83%	(0.19)	100.0%
Consumer staples	7.17%	7.33%	5.67%	(1.66)	79.1%
Health care	12.42%	12.58%	12.42%	(0.16)	100.0%
Financials	14.96%	13.58%	14.96%	1.39	100.0%
Information technology	22.45%	23.89%	24.45%	0.56	108.9%
Communication services	7.28%	7.21%	8.28%	1.07	113.7%
Utilities	2.71%	0.74%	0.71%	(0.03)	26.2%
Real estate	2.38%	0.40%	1.38%	0.97	57.9%

*FTSE World Government Bond Index. **MSCI World Index. Source: RBC GAM Investment Strategy Committee

At RBC GAM, we have a team dedicated to setting and reviewing the strategic asset mix for all of our multi-asset solutions. With an emphasis on consistency of returns, risk management and capital preservation, we have developed a strategic asset allocation framework for five client risk profiles that correspond to broad investor objectives and risk preferences. These five profiles range from Very Conservative through Balanced to Aggressive Growth.

Very Conservative

Asset class	Bench-mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	2.0%	1.5%
Fixed Income	73%	68-88%	73.0%	73.5%
Total Cash & Fixed Income	75%	60-90%	75.0%	75.0%
Canadian Equities	10%	0-20%	9.9%	9.9%
U.S. Equities	8%	0-18%	7.9%	7.9%
International Equities	7%	0-17%	7.2%	7.2%
Emerging Markets	0%	0%	0.0%	0.0%
Total Equities	25%	10-40%	25.0%	25.0%

	Return	Volatility
40-year average	7.4%	4.9%
Last 12 months	3.4%	7.9%

Very Conservative investors will seek income with maximum capital preservation and the potential for modest capital growth, and be comfortable with small fluctuations in the value of their investments. This portfolio will invest primarily in fixed-income securities, and a small amount of equities, to generate income while providing some protection against inflation. Investors who fit this profile generally plan to hold their investment for the medium to long term.

Conservative

Asset class	Bench-mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	2.0%	1.5%
Fixed Income	58%	43-83%	58.0%	58.5%
Total Cash & Fixed Income	60%	45-75%	60.0%	60.0%
Canadian Equities	13%	3-23%	12.9%	12.9%
U.S. Equities	15%	5-25%	14.9%	14.9%
International Equities	12%	2-22%	12.2%	12.2%
Emerging Markets	0%	0%	0.0%	0.0%
Total Equities	40%	25-55%	40.0%	40.0%

	Return	Volatility
40-year average	7.9%	6.2%
Last 12 months	4.9%	8.4%

Conservative investors will pursue modest income and capital growth with reasonable capital preservation, and be comfortable with moderate fluctuations in the value of their investments. The portfolio will invest primarily in fixed-income securities, with some equities, to achieve more consistent performance and provide a reasonable amount of safety. The profile is suitable for investors who plan to hold their investment over the medium to long term.

Balanced

Asset class	Bench-mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	2.0%	1.5%
Fixed Income	38%	23-53%	38.0%	38.5%
Total Cash & Fixed Income	40%	25-55%	40.0%	40.0%
Canadian Equities	15%	5-25%	14.8%	14.8%
U.S. Equities	25%	15-35%	24.8%	24.8%
International Equities	15%	5-25%	15.5%	15.5%
Emerging Markets	5%	0-15%	4.9%	4.9%
Total Equities	60%	45-75%	60.0%	60.0%

	Return	Volatility
40-year average	8.4%	7.7%
Last 12 months	6.7%	9.2%

The **Balanced** portfolio is appropriate for investors seeking balance between long-term capital growth and capital preservation, with a secondary focus on modest income, and who are comfortable with moderate fluctuations in the value of their investments. More than half the portfolio will usually be invested in a diversified mix of Canadian, U.S. and global equities. This profile is suitable for investors who plan to hold their investment for the medium to long term.

Growth

Asset class	Bench-mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	2.0%	1.5%
Fixed Income	23%	8-38%	23.0%	23.5%
Total Cash & Fixed Income	25%	10-40%	25.0%	25.0%
Canadian Equities	18%	8-28%	17.8%	17.8%
U.S. Equities	30%	20-40%	29.8%	29.8%
International Equities	19%	9-29%	19.6%	19.6%
Emerging Markets	8%	0-18%	7.8%	7.8%
Total Equities	75%	60-90%	75.0%	75.0%

	Return	Volatility
40-year average	8.6%	9.6%
Last 12 months	7.9%	9.9%

Investors who fit the **Growth** profile will seek long-term growth over capital preservation and regular income, and be comfortable with considerable fluctuations in the value of their investments. This portfolio primarily holds a diversified mix of Canadian, U.S. and global equities and is suitable for investors who plan to invest for the long term.

Aggressive Growth

Asset class	Bench-mark	Range	Last quarter	Current recommendation
Cash & Cash Equivalents	2%	0-15%	2.0%	2.0%
Fixed Income	0%	0-15%	0.0%	0.0%
Total Cash & Fixed Income	2%	0-17%	2.0%	2.0%
Canadian Equities	29%	19-39%	28.8%	28.8%
U.S. Equities	38%	28-48%	37.8%	37.8%
International Equities	20%	10-30%	20.7%	20.7%
Emerging Markets	11%	1-21%	10.7%	10.7%
Total Equities	98%	83-100%	98.0%	98.0%

	Return	Volatility
40-year average	8.8%	12.0%
Last 12 months	9.2%	11.3%

Aggressive Growth investors seek maximum long-term growth over capital preservation and regular income, and are comfortable with significant fluctuations in the value of their investments. The portfolio is almost entirely invested in stocks and emphasizes exposure to global equities. This investment profile is suitable only for investors with a high risk tolerance and who plan to hold their investments for the long term.

Capital markets performance

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The U.S. dollar appreciated against the Japanese yen and was essentially flat against the Canadian dollar, British pound and euro in the quarter ended November 30, 2023. The greenback fluctuated during the period as it rose with sharply higher Treasury-bond yields, and then retreated as inflation declined more than expected and concerns grew about the slowing economy and worsening fiscal situation. The U.S. dollar appreciated 1.9% against the yen as the Bank of Japan stood pat with its policy rate near zero and investors continued to shift funds from Japan in favour of markets offering better returns. The Canadian dollar has long-term appeal but the Canadian economy has stumbled with lower demand for energy and households pulling back on spending amid higher interest rates. Across the pond, the British and European economies also experienced weakness, pressuring their currencies, but there are now signs that the worst may be over for Europe's struggling economy. Over the one-year period, the U.S. dollar was up 7.4% against the yen and 0.9% against the loonie but down 4.5% against sterling and 4.4% against the euro.

Global bond-market performance was mixed in the latest quarter in U.S.-dollar terms as sovereign-bond yields surged to 15-year highs into late October then fell rapidly to end the period. The U.S. 10-year yield jumped 91 basis points to as high as 5.02% on surprisingly strong economic data and an increase in the term premium, which is the compensation for holding bonds of longer duration. Bonds recovered by the end of November with the 10-year yield dropping back to 4.33% as soft inflation data fueled speculation that the U.S. Federal Reserve was done with rate hikes and that rate cuts would begin sometime next year. The FTSE Canada Universe Bond Index outperformed with a 1.5% return while the FTSE European Government Bond Index and FTSE Japanese Government Bond Index recorded losses of 1.9% and 2.3%, respectively. Over the 12-month period, the FTSE World Government Bond Index was the top performer, up 2.1%, while declines of 12.1% for the FTSE European Government Bond Index and 8.4% for the FTSE Japanese Government Bond Index were the worst.

Global stocks were volatile in the quarter, tumbling over 10% from the summer high as bond yields soared, geopolitical tensions flared and the economy showed signs of wobbling. A powerful rally ensued in November, almost completely erasing prior losses, as yields fell quickly following softer-than-expected inflation and the likelihood of an economic soft landing increased. Returns for the broad market indexes in U.S. dollars fell within a narrow range of a 0.2% loss for the MSCI France Index to a 1.9% gain for the MSCI Germany Index. The tight spread in performance across markets in the latest quarter could be explained by equity investors' focus on the level and path for interest rates. This focus is unsurprising given that interest rates have already risen considerably over the past year and have an important effect on corporate profits and the discount rate used to calculate the present value of future income. Over the one-year period, the S&P/TSX Composite Index was the worst with a 1.4% gain and MSCI Germany was the best with a 17.7% return, both in U.S.-dollar terms.

Stocks of larger U.S. companies with strong balance sheets and longer-term debt maturities were preferred, with the S&P 500 Index's 1.7% gain in the latest quarter beating the 4.1% decline in the S&P 600 Small Cap Index. Investors favoured growth stocks over value stocks as economic growth is expected to slow in the coming year. The Russell 3000 Growth Index rose 2.9% while the Russell 3000 Value Index fell 0.4%. Seven of the 11 global equity sectors posted gains in the quarter with the 5.0% gain in the growth-oriented Information Technology sector being the best and the 2.5% loss for the defensive Consumer Staples sector ranking last. This relative sector performance is consistent with the consensus view of a slowing economy that skirts recession next year. Over the 12-month time frame, Information Technology was the best performing sector with a 35.2% return, while Utilities was the worst with a 2.4% loss.

Exchange rates
Periods ending November 30, 2023

	Current USD	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)
USD–CAD	1.3570	0.43	0.22	0.88	1.47	0.42
USD–EUR	0.9187	(0.38)	(1.66)	(4.40)	3.10	0.79
USD–GBP	0.7921	0.34	(4.24)	(4.53)	1.83	0.19
USD–JPY	148.2600	1.90	12.97	7.36	12.40	5.49

Note: all changes above are expressed in US dollar terms

Canada fixed income markets
Periods ending November 30, 2023

	USD					CAD		
Fixed income markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
FTSE Canada Univ. Bond Index TR	1.51	2.93	0.57	(5.17)	0.46	1.94	1.45	(3.77)

U.S. fixed income markets
Periods ending November 30, 2023

	USD					CAD		
Fixed income markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
FTSE U.S. Government TR	0.27	1.69	1.14	(4.57)	0.72	0.70	2.03	(3.16)
BBg U.S. Agg. Bond Index TR[1]	0.26	1.64	1.18	(4.47)	0.71	0.69	2.07	(3.07)

Global fixed income markets
Periods ending November 30, 2023

	USD					CAD		
Fixed income markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
FTSE WGBI TR	0.65	2.15	2.07	(6.76)	(0.91)	1.08	2.97	(5.39)
FTSE European Government TR	(1.92)	(10.81)	(12.12)	(14.76)	(5.79)	(1.51)	(10.02)	(14.52)
FTSE Japanese Government TR	(2.27)	(11.54)	(8.44)	(13.76)	(6.59)	(1.85)	(7.64)	(13.55)

Canada equity markets
Periods ending November 30, 2023

	USD					CAD		
Equity markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
S&P/TSX Composite	0.14	7.31	1.39	7.24	8.77	0.56	2.28	8.82
S&P/TSX 60	0.75	7.45	0.99	7.85	9.00	1.18	1.88	9.44
S&P/TSX Small Cap	(3.63)	0.78	(1.72)	3.72	6.36	(3.22)	(0.86)	5.24

U.S. equity markets
Periods ending November 30, 2023

	USD					CAD		
Equity markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
S&P 500 TR	1.74	20.80	13.84	9.76	12.51	2.18	14.84	11.37
S&P 400 TR	(2.68)	7.10	1.17	7.36	8.12	(2.27)	2.00	8.92
S&P 600 TR	(4.06)	2.89	(4.02)	5.85	5.63	(3.65)	(3.18)	5.61
Russell 3000 Value TR	(0.40)	5.41	1.00	8.17	7.34	0.02	1.83	9.75
Russell 3000 Growth TR	2.91	34.78	24.56	8.12	15.59	3.35	25.59	9.69
NASDAQ Composite Index TR	1.57	37.00	25.13	6.08	15.17	2.00	26.22	7.64

Note: All rates of return presented for periods longer than 1 year are annualized. [1] Bloomberg U.S. Agg. Bond Index TR. Source: RBC GAM

Global equity markets
Periods ending November 30, 2023

	USD					CAD		
Equity markets: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
MSCI World TR *	1.62	17.99	12.98	7.04	9.97	1.84	13.00	8.67
MSCI EAFE TR *	1.27	12.27	12.36	3.80	5.99	1.49	12.38	5.38
MSCI Europe TR *	1.56	14.19	14.20	5.70	7.01	1.78	14.21	7.31
MSCI Pacific TR *	0.69	8.86	9.21	0.50	4.23	0.90	9.23	2.03
MSCI UK TR *	1.39	9.16	8.73	9.09	5.12	1.60	8.74	10.74
MSCI France TR *	(0.17)	16.01	15.81	7.31	8.45	0.04	15.83	8.94
MSCI Germany TR *	1.88	17.79	17.74	0.72	4.11	2.10	17.75	2.25
MSCI Japan TR *	1.49	15.29	15.59	0.59	4.55	1.71	15.61	2.11
MSCI Emerging Markets TR *	1.09	5.70	4.21	(4.04)	2.34	1.31	4.22	(2.58)

Global equity sectors
Periods ending November 30, 2023

	USD					CAD		
Sector: Total return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
Energy TR *	(1.47)	2.58	(0.96)	29.58	7.68	(1.26)	(0.95)	31.55
Materials TR *	1.29	7.36	4.55	5.67	9.61	1.51	4.56	7.27
Industrials TR *	0.42	14.49	12.16	5.87	8.65	0.63	12.17	7.48
Consumer discretionary TR *	(0.23)	28.24	17.25	2.06	10.15	(0.01)	17.26	3.62
Consumer staples TR *	(2.53)	(0.37)	(2.03)	2.74	5.47	(2.32)	(2.02)	4.30
Health care TR *	(1.91)	(0.64)	(1.82)	5.09	7.69	(1.70)	(1.80)	6.69
Financials TR *	4.60	9.66	6.88	9.83	6.90	4.82	6.89	11.50
Information technology TR *	5.03	46.98	35.20	11.78	20.84	5.26	35.22	13.47
Communication services TR*	2.58	38.94	30.09	1.29	7.87	2.80	30.11	2.83
Utilities TR *	1.32	(2.61)	(2.45)	1.29	5.06	1.54	(2.44)	2.83
Real estate TR *	0.78	1.13	(2.19)	(0.13)	1.51	0.99	(2.18)	1.39

* Net of taxes. Note: all rates of return presented for periods longer than 1 year are annualized. Source: Bloomberg/MSCI

Economic outlook

Economic underperformance ahead

Eric Lascelles
Chief Economist
RBC Global Asset Management Inc.

The arguments for a period of economic weakness remain intact. Despite their recent rally, interest rates are radically beyond the levels that prevailed several years ago (Exhibit 1). Higher rates impede the economy with a considerable lag, meaning the economic pain should continue to mount from here. The business cycle is in its late stages, economic growth is slowing (Exhibit 2) and a variety of recession signals are now blinking red. We accordingly forecast a mild recession in the quarters ahead (Exhibit 3), though a soft landing is not impossible.

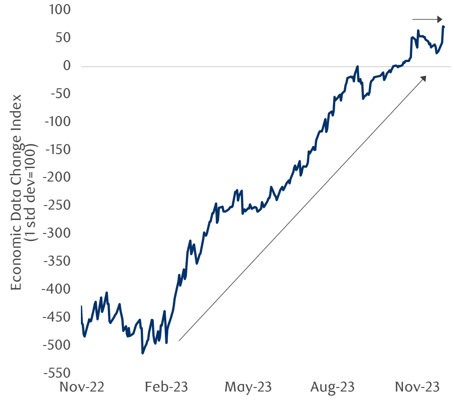
Our inflation forecasts are for a further decline to below-consensus levels, in part because the original catalysts for high inflation have reversed and in part because of the economic weakness anticipated.

This combination of higher bond yields and an anticipated recession make the case for holding more bonds and fewer equities than the norm over the past decade. The arrival of that economic weakness should then provide an opportunity to pivot back to stocks and other risk assets while they are on sale.

Exhibit 1: U.S. yields soared but now reversing as end of rate hikes looms

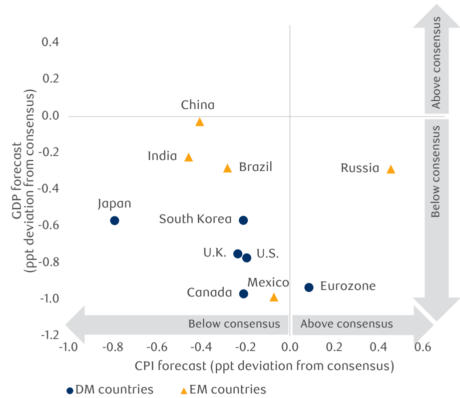
Note: As of 11/30/2023. Shaded area represents recession. Source: U.S. Treasury, Macrobond, RBC GAM

Exhibit 2: U.S. economic data starting to waver



Note: As of 11/30/2023. Source: Citigroup, Bloomberg, RBC GAM

Exhibit 3: RBC GAM forecasts vs. consensus for 2024



Note: Deviation measured as difference between RBC GAM forecast (11/03/2023) and consensus forecast (Nov 2023). Source: Consensus Economics, RBC GAM

All of that said, this is a time of higher-than-normal uncertainty about the future (Exhibit 4). While the aforementioned base-case forecast represents the most likely scenario going forward, there are other possibilities. One negative scenario is that inflation becomes stuck at elevated levels, necessitating even higher rates. The result would likely be a deep recession and underperformance in both stocks and bonds. Conversely, and a scenario that is becoming more probable, if the economy remains resilient and inflation falls more quickly than anticipated, central banks could be in a position to sharply reduce interest rates, unleashing a period of robust growth and a rally in both equity and fixed income.

Economic headwinds resolved

Lost amid the clatter of economic developments, a number of powerful headwinds that menaced growth at various points over the past few years have significantly faded. High inflation is no longer having the same corrosive effect on the economy as it did 18 months ago. The war in Ukraine continues, but the energy shock associated with it has greatly faded. Supply-chain problems have largely been resolved. China is no longer locked down. U.S. regional banks are no longer experiencing quite the same distress as they did last spring.

In large part because these problems went away, most developed-world economies were able to avoid a widely feared economic contraction in 2023. In fairness, the resultant growth wasn't much to write home about for many countries, with only sputtering gains or even stagnation over the past year. But the point is that a full-fledged recession was avoided. In all of this, the U.S. was a happy outlier, its economy moving forward with ease thanks to fiscal stimulus that was more powerful than expected and consumer spending that refused to quit.

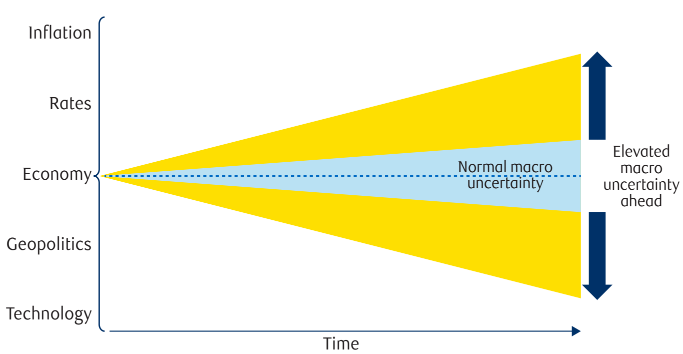
Winds of change

That brings us to the present. Unfortunately, even with the aforementioned challenges behind us, the macroeconomic picture is not encouraging for the first half of 2024.

From a U.S. perspective, households have already deployed a large fraction of their accumulated pandemic savings, reducing the scope for resilient spending in the future. Simultaneously, the large fiscal boost experienced in 2023 is set to become a drag in 2024 (Exhibit 5).

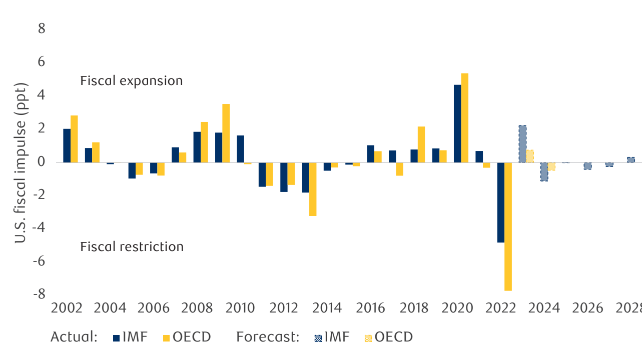
From a global standpoint, geopolitical events are challenging and the risk of a further deterioration in the global order is greater than of an improvement. The war in Ukraine and the conflict in the Middle East are not presently weighing on the global economy to a significant degree, but there is a chance that they intensify in ways that become problematic for the economy. The ongoing friction between the U.S. and China is already exerting a mild drag as trade patterns are reconfigured.

Exhibit 4: Still fairly high macro uncertainty



Note: As at 09/21/2023. Source: RBC GAM

Exhibit 5: U.S. fiscal policy to become a drag on growth in 2024



Note: Fiscal impulse is defined as the change in general government structural balance as percentage of potential GDP from the previous year multiplied by minus one. Source: IMF WEO October 2023, OECD Global Economic Outlook, June 2023, Macrobond, RBC GAM

Drag from interest rates mounts

But the main global headwind ahead is that interest rates are still quite elevated by modern standards, recently reaching the highest reading in 16 years.

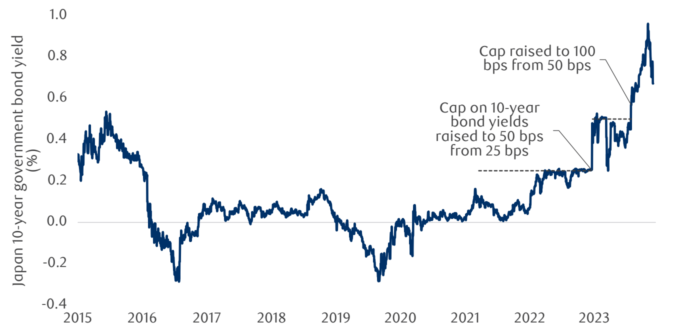
This increase in interest rates is the result of several developments. Central banks have been the primary driver, lifting their policy rates to tame inflation and cool economies. But higher yields also reflect still-elevated inflation and contain a risk premium that accommodates enormous fiscal deficits that must be funded, the shift from central banks buying bonds to disposing of them, and greater competition from rising yields in previously low-yielding markets such as Japan and the eurozone (Exhibit 6).

Higher interest rates hurt the economy in a variety of ways. Most obviously, they raise the cost of servicing debt, but they also discourage the sort of large business investments and consumer outlays that traditionally rely upon debt financing. The impact of higher rates also manifests via a reduction in the quantity of loans available as lending standards tighten. This is most certainly happening, even if the pace of tightening recently slowed (Exhibit 7).

> "Economic data is now clearly weakening."

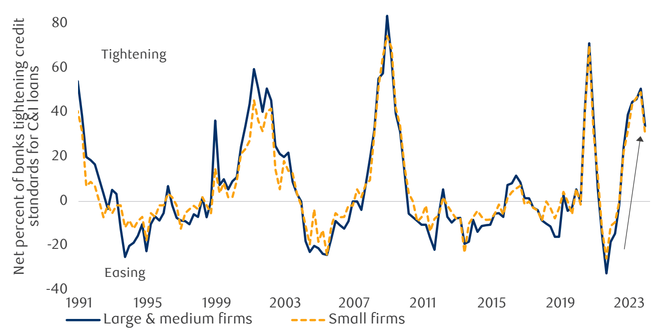
The U.S. economy is theoretically less rate-sensitive than its peers due to lower levels of household debt and longer mortgage terms. This advantage is, however, partially undermined by a sharper tightening of lending standards there – an arguably logical development given that the financial institutions that made those cheap long-dated U.S. loans now suffer especially reduced profits (Exhibit 8).

Exhibit 6 : BOJ tweaks yield-curve-control policy as inflation rises



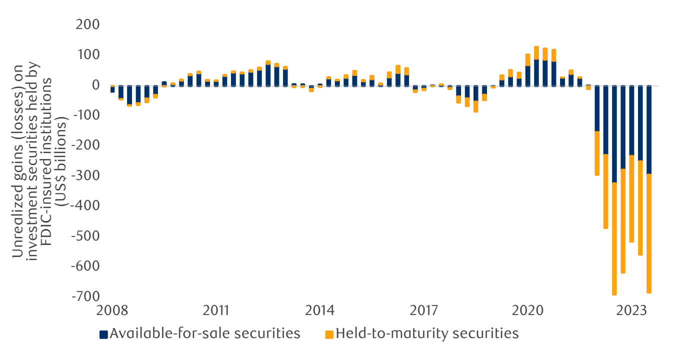
Note: As of 11/30/2023. Source: Bloomberg, RBC GAM

Exhibit 7: U.S. business-lending standards have tightened



Note: October 2023 Senior Loan Officer Opinion Survey on Bank Lending Practices. Source: Federal Reserve Board, Macrobond, RBC GAM

Exhibit 8 : U.S. banks carry significant investment losses



Note: As of Q3 2023. Source: FDIC, Macrobond, RBC GAM

With the cost of servicing debt rising, pockets of distress are becoming visible, including in the U.S. credit-card market (Exhibit 9).

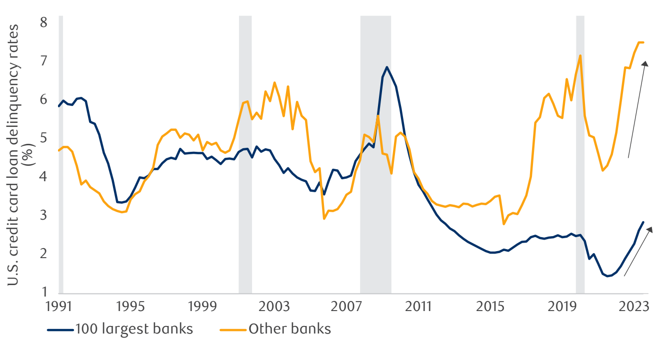
Higher interest rates affect the economy with a significant lag. It takes time for loans to reset at higher rates, and economic actors do not immediately adjust their spending behaviour. Historically, the average gap between the first rate hike in a U.S. tightening cycle and the onset of a recession has been 27 months. This historical progression suggests that the window for rate-induced economic weakness remains very much open in 2024.

Weakening economic data

Economic data is now clearly weakening. Global trade is contracting, and at a rate that is consistent with a coming recession (Exhibit 10).

The weakness is more obvious outside of the U.S. (Exhibit 11) but is also starting to become apparent within the U.S., where business expectations are distinctly soft (Exhibit 12). Consumer spending had been a bright spot in the economy for several years, but inflation-adjusted spending growth is now clearly slowing, credit-card delinquency rates are rising, and student-loan payments recently resumed after a pandemic-era pause.

Exhibit 9: Credit-card delinquency rates surge

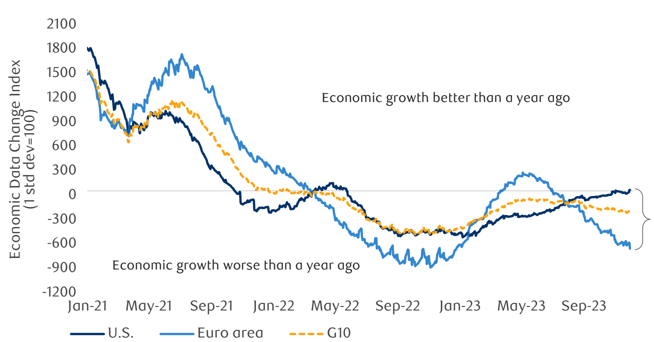


Note: As of Q3 2023. Shaded area represents recession. Source: Federal Reserve Board, Macrobond, RBC GAM

Exhibit 10: Global trade is contracting

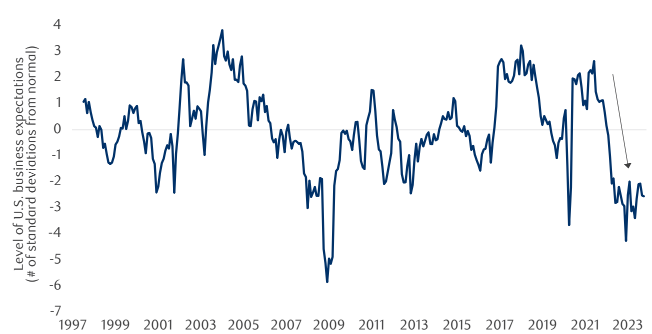
Note: As of Sep 2023. Shaded area represents U.S. recession. Source: CPB Netherlands Bureau for Economic Policy Analysis, Macrobond, RBC GAM

Exhibit 11: Economic growth in eurozone and U.S. diverging



Note: As of 11/30/2023. Source: Citigroup, Bloomberg, RBC GAM

Exhibit 12: U.S. business expectations remain weak



Note: As of Oct 2023. Principal component analysis using NFIB optimism and business conditions outlook, ISM Manufacturing and Services new orders, and The Conference Board CEO expectations for economy. Source: The Conference Board, ISM, NFIB, Macrobond, RBC GAM

The housing market has gyrated – first weakening in 2022, then rebounding in early 2023 – and is now softening again (Exhibit 13). This makes sense given the rate sensitivity of the sector. We anticipate an extended period of softness in home prices given poor affordability and high mortgage rates.

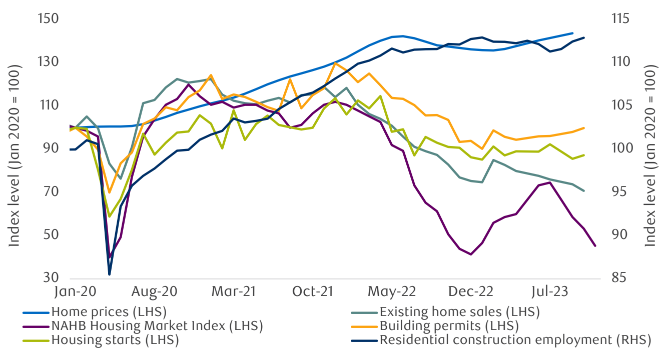
The labour market has generally been more resilient, but is now also turning. The rate of hiring has decelerated (Exhibit 14). Certain secondary indicators that have historically presaged further weakness are already triggering, including a decline in temporary employment (Exhibit 15) and a rising unemployment rate (Exhibit 16).

Recession call

We continue to forecast a recession arriving sometime in the first half of 2024. This view is informed by six things:

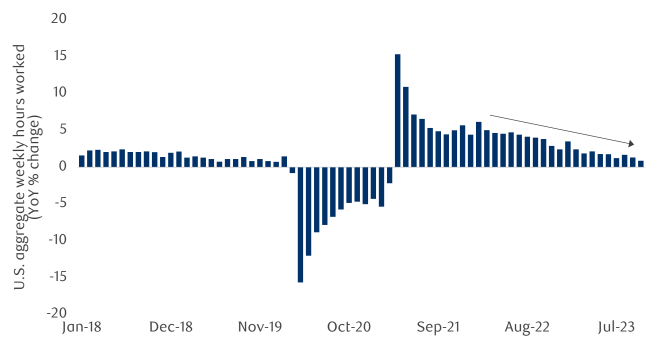
- The increase in interest rates has been sufficient to trigger a recession.
- Economic data is beginning to sour in a way that suggests greater weakness ahead.
- Our recession scorecard continues to identify an elevated probability of recession as a variety of recession precursors sound their alarms (Exhibit 17).

Exhibit 13: U.S. housing metrics show signs of softening



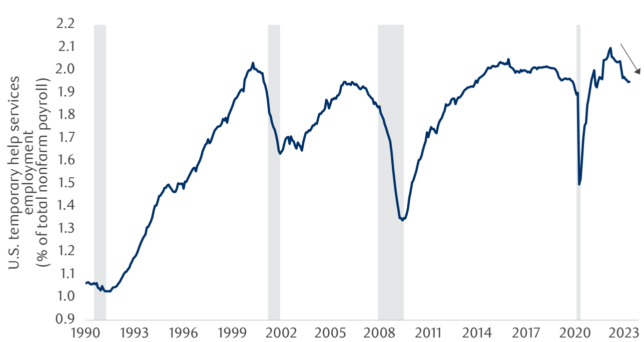
Note: S&P CoreLogic Case-Shiller Home Price Index as of Sep 2023; building permits, employment, housing starts, and existing home sales as of Oct 2023; NAHB HMI as of Nov 2023. Source: BLS, Census Bureau, NAHB, NAR, S&P, Macrobond, RBC GAM

Exhibit 14: Growth in hours worked in U.S. has slowed significantly



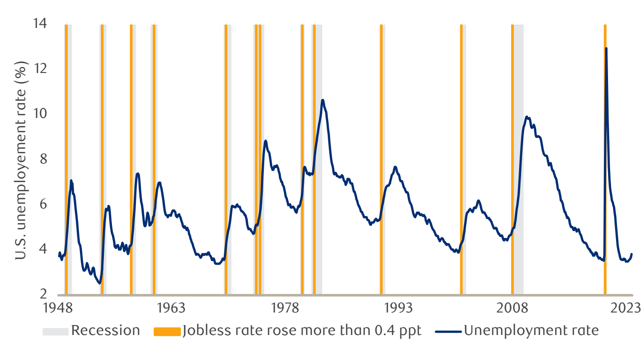
Note: As of Oct 2023. Aggregate weekly hours worked for all employees on private nonfarm payrolls. Source: BLS, Macrobond, RBC GAM

Exhibit 15: Falling U.S. temporary employment usually leads recession



Note: As of Oct 2023. Shaded area represents recession. Source: BLS, Macrobond, RBC GAM

Exhibit 16: Not much room for cooling the economy without triggering a recession



Note: As of Oct 2023. Unemployment rate is 3-month moving average. Source: Bureau of Labor Statistics, NBER, Macrobond, RBC GAM

- Our business-cycle model indicates that it is quite late in the cycle, and that the economy is therefore vulnerable to a downturn (Exhibit 18).
- Economies are operating somewhat beyond their sustainable level of output (Exhibit 19), meaning that a period of sub-par activity is needed to cool things down.
- Central banks are focused on fully bringing inflation down to pre-pandemic levels, and achieving this goal will likely require a period of economic weakness to slow wage growth and curb the power of businesses to raise prices.

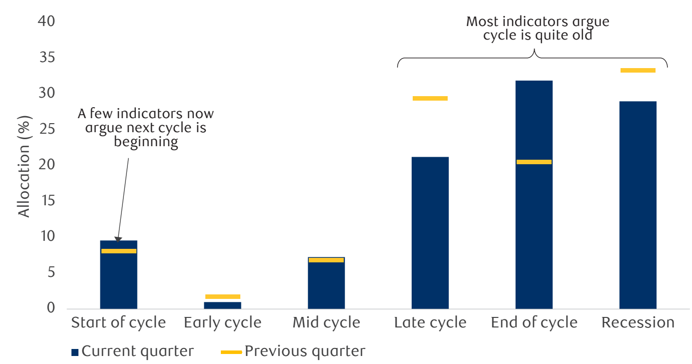
We therefore assign a 70% probability of recession over the next year in the U.S. The probability is slightly higher for Canada, the UK and the eurozone. But any recession is likely to be reasonably mild and fairly short, with fewer job losses than normal (Exhibit 20). Still, a recession can be expected to inflict very real pain on businesses and households, and cascade into financial markets as well. Furthermore, that leaves a material 30% chance of a soft landing.

Exhibit 17: Recession signals point mostly to "yes" or "maybe": we estimate 70% chance over the next year

Signal	Indicating U.S. recession?
2yr-10yr curve inverts	Yes
3m-10yr curve inverts	Yes
Fed short-term curve inverts	Yes
Inflation spike	Yes
Duncan leading indicator falls	Yes
Financial conditions tighten	Yes
Lending standards tighten	Yes
Monetary tightening cycle	Likely
Google "recession" news trend	Maybe
RBC GAM recession model	Maybe
Oil price spike	Maybe
Unemployment increase	Maybe
Jobless claims jump	No

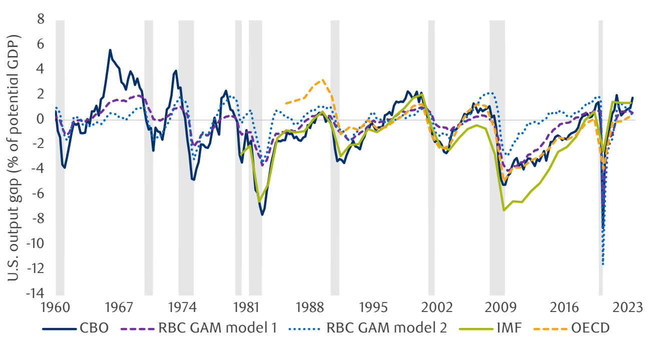
Note: As at 10/29/2023. Analysis for U.S. economy. Source: RBC GAM

Exhibit 18: U.S. business-cycle score



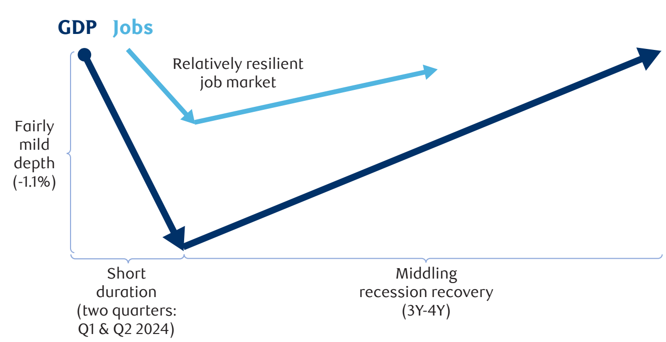
Note: As at 11/03/2023. Calculated via scorecard technique by RBC GAM. Source: RBC GAM

Exhibit 19: U.S. economy is running above full capacity



Note: Congressional Budget Office (CBO), GAM model 1 and 2 estimates as of Q3 2023, IMF estimates as of Oct 2023, OECD estimates as of June 2023. GAM model 1 estimated using CBO natural rate of unemployment; GAM model 2 estimated using HP filter trends. Shaded area represents recession. Source: Macrobond, RBC GAM

Exhibit 20: Recession scenario assumptions: mild and short



Note: As at 11/23/2023. Source: RBC GAM

Below-consensus forecasts

Consistent with our view that a recession is probable, our economic forecasts are largely below consensus for 2024, and weaker than those presented a quarter ago (Exhibit 21).

Our emerging-market growth forecasts for 2024 also tend to be below the consensus, though China may come closer to meeting expectations than most (Exhibit 22).

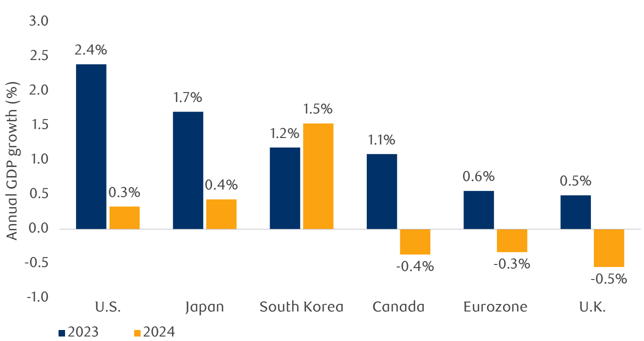
Much as geopolitical risks constitute a prominent downside risk, the possibility of faster productivity growth resulting from recent technological innovations in artificial intelligence is a key upside risk.

Inflation to improve further

Inflation has declined sharply since its multi-decade peak in the middle of 2022 (Exhibit 23). There was a moment in the late summer of 2023 when prices started to re-accelerate, prompting concern, but this surge was due merely to a brief leap higher in the price of oil , and the trend has since reversed (Exhibit 24). Inflation has accordingly resumed its downward decline.

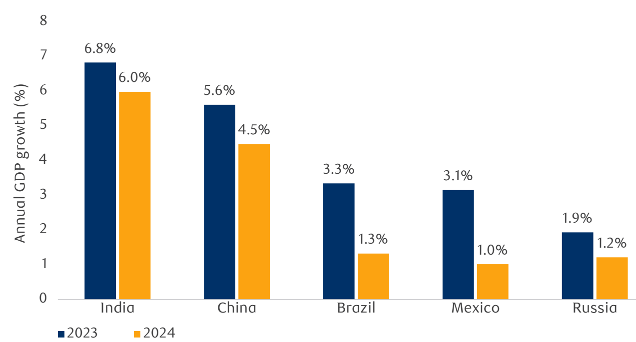
We see further scope for inflation to decelerate. The four original drivers of the inflation spike have all turned profoundly. The commodity shock has faded, supply-chain problems have eased, central banks have pivoted from

Exhibit 21: RBC GAM GDP forecast for developed markets



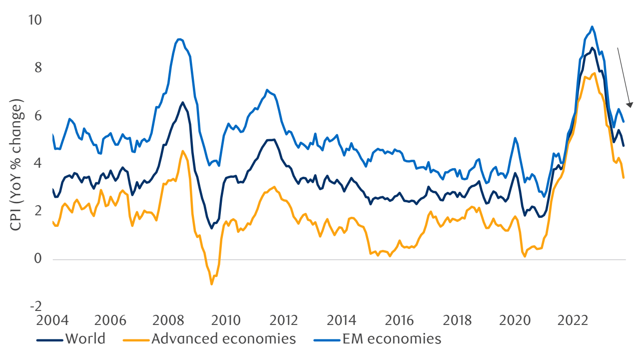
Note: As of 11/03/2023. Source: RBC GAM

Exhibit 22: RBC GAM GDP forecast for emerging markets



Note: As of 11/03/2023. Source: RBC GAM

Exhibit 23: Global inflation has declined but remains elevated



Note: As of Oct 2023. Source: Haver Analytics, Macrobond, RBC GAM

Exhibit 24: Crude-oil prices rose and have now declined

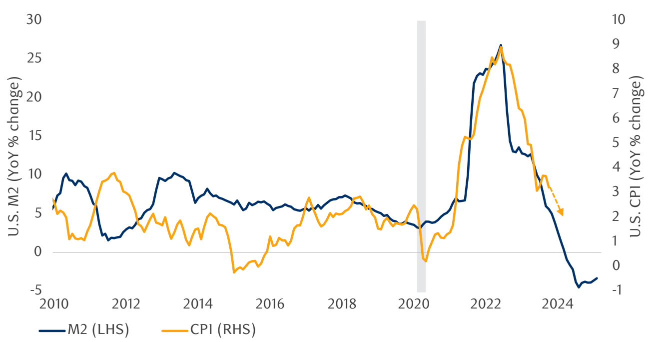
Note: As of 11/30/2023. Source: Macrobond, RBC GAM stimulus to restraint and fiscal stimulus is significantly diminished. Our "nowcasting" models also point to further improvement in the near term.

As policymakers have stopped printing money and begun to curtail their spending, the money supply has reversed its extraordinary growth and is now shrinking (Exhibit 25). A decline in money-supply growth is quite unusual, and should drive inflation lower.

At its worst, high inflation was a broadly-based phenomenon: it wasn't just one thing becoming more expensive, but rather the majority of the spending basket rising at an unusual clip. That breadth is now rapidly fading, a further sign that inflation's reach is starting to diminish (Exhibit 26). In the U.S., the fraction of the price basket rising by 10% per year or more has collapsed from approximately one-third to just 1% today. Wage growth can also probably slow from here as the labour market softens.

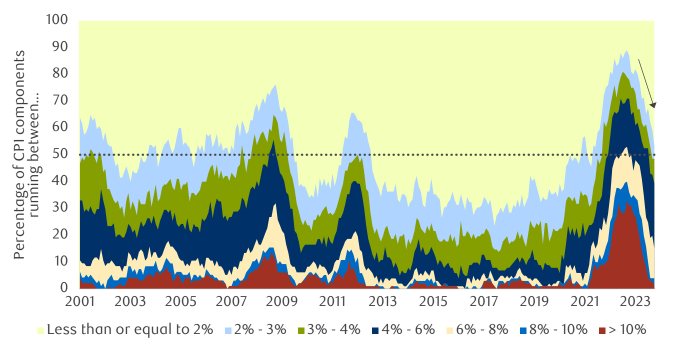
Goods inflation has already vanished, whereas service-sector inflation remains elevated (Exhibit 27). Fortunately, service-sector inflation is now manifestly decelerating, and a weaker economy should help to tame it further. Shelter costs, the biggest remaining inflation driver at this juncture (Exhibit 28), can soften from here, in part because of our weak home-price forecast and in part because the shelter component of CPI is lagged in a way that should capture earlier weakness over the coming months.

Exhibit 25: U.S. money supply has collapsed; inflation has dropped substantially



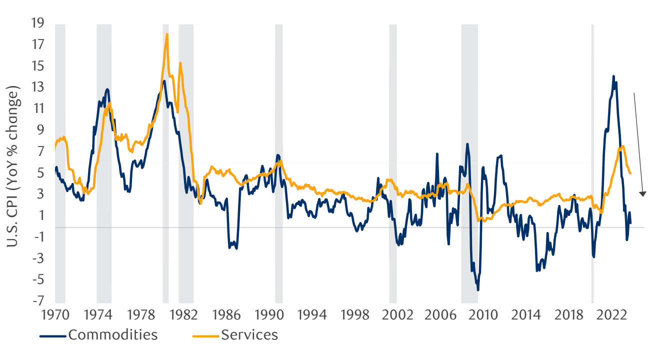
Note: As of Oct 2023. M2 year-over-year % change leads by 16 months. Shaded area represents U.S. recession. Source: Macrobond, RBC GAM

Exhibit 26: High inflation in the U.S. has become much less broad



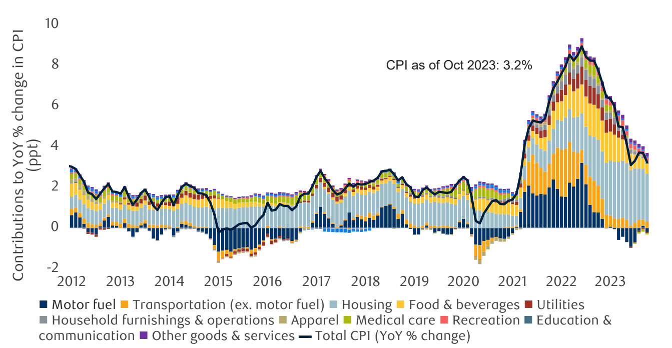
Note: As of Oct 2023. Share of CPI components with year-over-year % change falling within the ranges specified. Source: Haver Analytics, RBC GAM

Exhibit 27: U.S. goods inflation has declined sharply, and services inflation is now retreating as well



Note: As of Oct 2023. Shaded area represents recession. Source: BLS, Macrobond, RBC GAM

Exhibit 28: Housing is now the biggest driver of U.S. inflation



Note: As of Oct 2023. Source: U.S. BLS, Macrobond, RBC GAM

All of this is to say that inflation can fall further from here and likely land modestly below the consensus (Exhibit 29). However, we stop short of anticipating entirely normal inflation within the next year on the assumption that the trauma of spiking inflation has created sufficient scarring to slow the downward journey.

Peaking central-bank rates

After hoisting policy rates at a rapid pace and by an unusually large amount in response to the inflation shock (Exhibit 30), most developed-world central banks have stabilized rates at an elevated level in the range of 5% (Exhibit 31). Japan constitutes an exception, as it began its tightening efforts later than other countries and is likely to continue tightening into next year.

In keeping with the theme of elevated uncertainty, there are a number of ways central banks could go from here. Further rate increases are not impossible if the economy were to keep chugging along and/or inflation were to become stuck in the 3%-plus range.

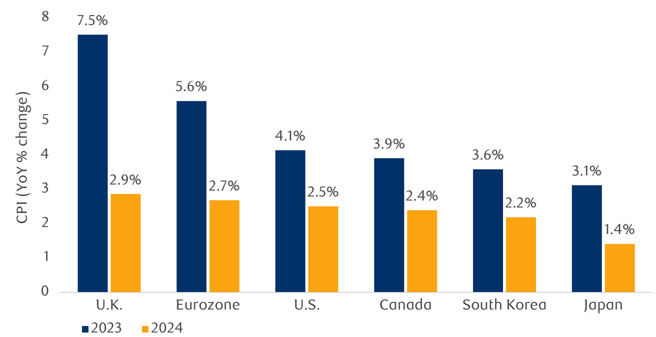
Despite that, the odds increasingly tilt toward rate cuts in 2024 – conceivably sooner rather than later, and more cuts rather than fewer. The Federal Reserve has clearly signalled that it now anticipates turning to rate cutting in the coming quarters. Current policy rates are deeply in restrictive territory, a stance that may cease to be appropriate if the economy succumbs to recession and/or as inflation continues its descent. Emerging-market central banks often act as a leading indicator, and many have already begun their journey back downward.

Fiscal issues wait in the wings

At the moment, investors are focused on macroeconomic questions such as whether a recession will occur, where inflation will settle and what constitutes a normal interest rate. As these issues are resolved over the next year, there is a good chance that at least a portion of that attention pivots toward fiscal matters.

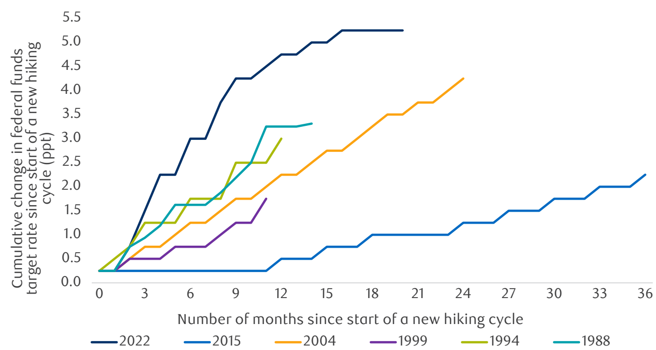
Problematically, many countries are operating with enormous fiscal deficits at a time when balanced budgets or even surpluses would be the norm in the context of low unemployment rates and positive output gaps (Exhibit 32).

Exhibit 29: RBC GAM CPI forecast for developed markets



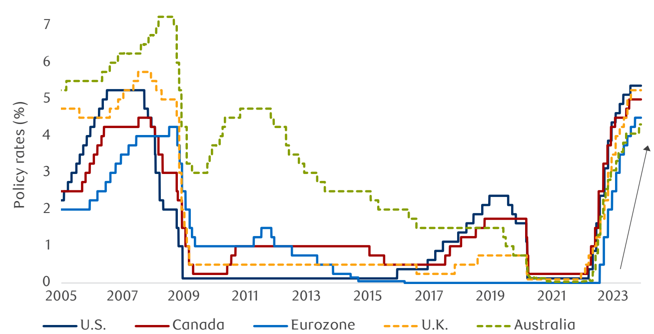
Note: As of 11/03/2023. Source: RBC GAM

Exhibit 30: Current U.S. hiking cycle is the most aggressive in decades



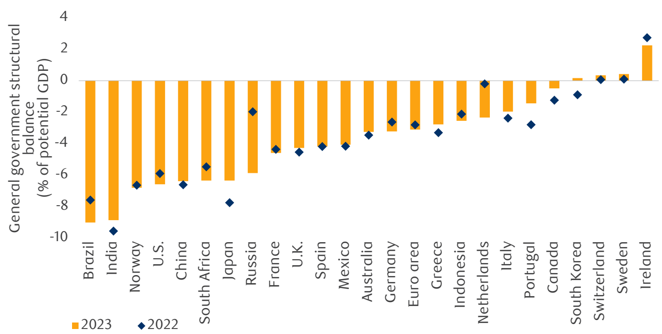
Note: As of Nov 2023. Source: Federal Reserve Board, Macrobond, RBC GAM

Exhibit 31: Central bankers raised policy rates to fight inflation



Note: As of 11/30/2023. Source: Haver Analytics, RBC GAM

Exhibit 32: Significant structural fiscal deficits persist



Note: IMF projections for year 2023. Source: IMF WEO, October 2023, Macrobond, RBC GAM

Exhibit 33: China's stimulus measures have started to lift economic activities

Note: As of 11/30/2023. Source: Citigroup, Bloomberg, RBC GAM

The bond market is becoming less indulgent to such excesses, debt-servicing costs are mounting and governments are finding it hard to scale back their spending given aging populations, pressures to increase defense outlays at a time of geopolitical turmoil, climate-change mitigation efforts and expensive industrial policies.

The takeaway is that the most profligate countries will probably face greater economic headwinds over the next five to 10 years, in part as the bond market tags them with higher borrowing costs, and in part as they are forced to engage in fiscal austerity to right the ship.

Pivoting from budgets to the adjacent subject of politics, 2023 was one of the quietest years in decades with regard to national-level elections, whereas 2024 is set to be the busiest in modern history. Among the upcoming elections of note is the U.S. presidential race, which threatens to be a rematch of the 2020 Biden-Trump contest, with similarly high stakes. The UK, India, South Africa, South Korea, Russia, Indonesia and Taiwan also have important elections in the coming year.

China's modest recovery

China matters enormously to the global economy, generating about a quarter of all growth in an average year. It may prove especially critical in 2024, as the country appears capable of sustaining its modest post-lockdown recovery at a time when other economies are set to struggle.

After stumbling over the summer, Chinese economic data rebounded moderately in the fall, with economic surprises moving higher (Exhibit 33). While the stimulus announced by the Chinese government has disappointed many investors, we believe it nevertheless adds up to a significant boost, with a larger fiscal deficit explicitly targeted for the year ahead, some important housing stimulus, and tentative support for private-sector businesses.

To be sure, China's economy is unlikely to rocket forward at a time when global demand is weakening, and nor can its high youth-unemployment rate and ongoing housing turmoil be ignored. But some form of economic recovery is still achievable, in our view.

Over the long run, we believe China's sustainable growth rate has continued to decelerate, from the 6%-10% annual growth rates that prevailed over the past two decades, to more like 3%-4%. This deceleration makes sense for several reasons:

- Economies generally grow more slowly as countries become wealthier, as China has.
- Housing is unlikely to return as a central driver of Chinese growth now that the sector's excesses have become apparent.
- The country's infrastructure boom may be naturally ending now that the country has constructed sufficient transit, ports, factories and housing.
- The government still favours the state over the private sector, potentially limiting productivity growth.
- China's demographics are quite poor, with the population now in permanent decline.

- Geopolitical frictions with the West seem likely to persist, limiting China's access to high-end computer chips and motivating multinationals to expand their international production outside of China.

Even at a more leisurely rate of economic growth, China is still set to be the largest single driver of global growth over the next five years, and by a wide margin (Exhibit 34).

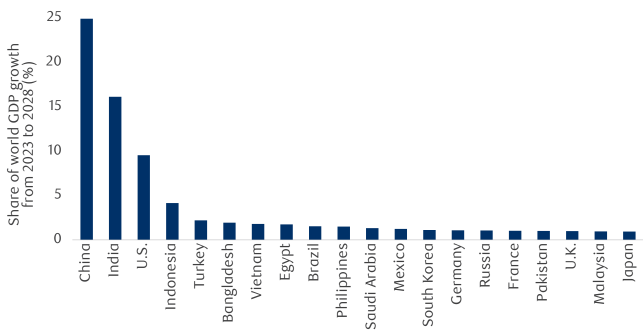
Incidentally, India is set to surpass the U.S. as the second-biggest contributor to global growth over the next five years, and indeed to sustainably expand at a faster percentage growth rate than China (Exhibit 35).

Canadian headwinds

The Canadian economy is decelerating, with multiple quarters of outright decline interspersed with quarters of growth over the past year, and with a proper recession still potentially ahead (Exhibit 36).

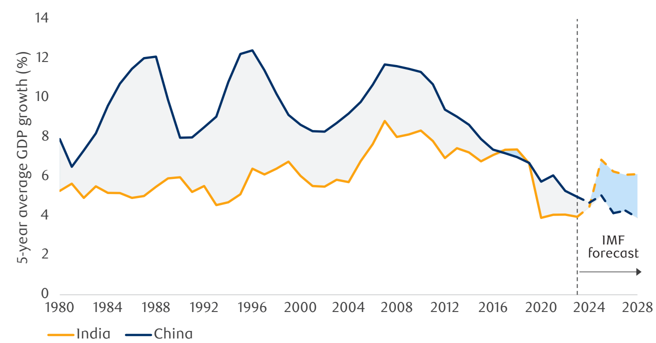
Business expectations are not just weak but deteriorating (Exhibit 37).

Exhibit 34: China to remain the top driver of world growth



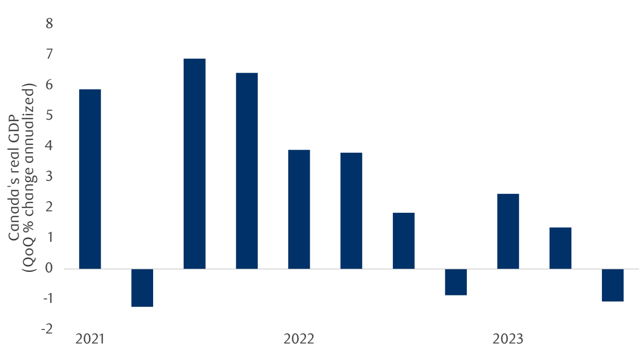
Note: Based on IMF forecast from 2023 to 2028. Source: IMF World Economic Outlook, Oct 2023, Macrobond, RBC GAM

Exhibit 35: Economic growth: India vs. China



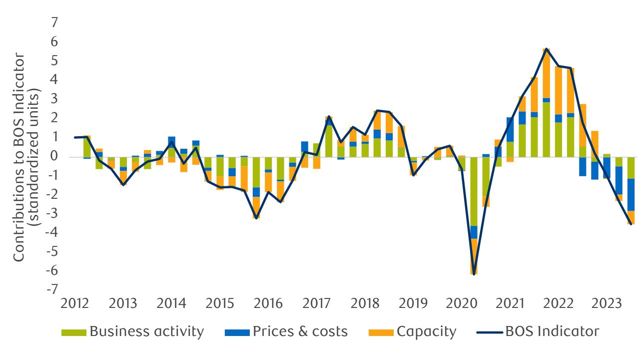
Source: IMF World Economic Outlook, Oct 2023, Macrobond, RBC GAM

Exhibit 36: Canadian economy contracted in latest quarter



Note: As of Q3 2023. Source: Statistics Canada, Macrobond, RBC GAM

Exhibit 37: Business Outlook Survey Indicator falling further



Note: As of Q3 2023. Source: Bank of Canada Business Outlook Survey, Macrobond, RBC GAM

Consumer spending – long a source of strength – is wavering as higher interest rates weigh on Canada's elevated household-debt loads. Real retail sales on a per-capita basis are lower than they were a year ago (Exhibit 38).

Canada's housing market is softening again as interest rates bite. The combination of poor affordability and higher mortgage rates suggests further home-price weakness, with a malaise that potentially lasts several years (Exhibit 39).

Canadian immigration has been extraordinary, with the country's population expanding at a blistering 3% rate that translates into more than 1 million new Canadians annually. This provides an important support for the economy, but it is unlikely to be sufficient to fully offset the effect of higher interest rates, particularly given the country's awful productivity performance in recent years (Exhibit 40).

> "Inflation is in a much improved position but needs to decline further before victory can be declared."

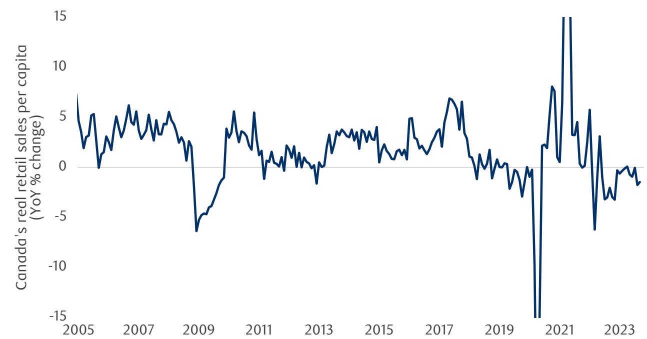
Bottom line

While some of the problems that plagued the global economy a year ago have been resolved, including gnarled supply chains, an energy shock and Chinese lockdowns, interest rates have risen to an extent that is more than sufficient to trigger a mild recession or economic underperformance in the quarters ahead.

Inflation is in a much improved position but needs to decline further before victory can be declared. Fortunately, we expect such improvement, within reason, and have a below-consensus inflation forecast.

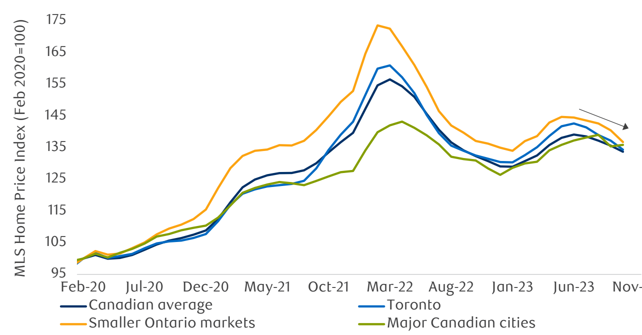
The combination of elevated bond yields, a cautious economic forecast and high uncertainty provides an argument for elevated fixed-income holdings against a somewhat diminished equity allocation. The arrival of an economic weakness should then provide an opportunity to pivot back into risk assets at discounted valuations.

Exhibit 38: Canada's real retail sales per capita has been declining



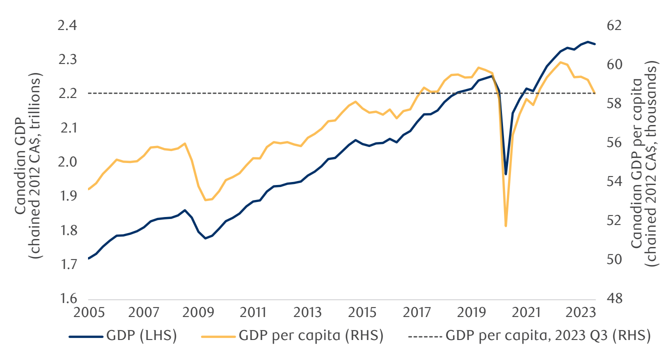
Note: As of Sep 2023. Source: Statistics Canada, Haver Analytics, RBC GAM

Exhibit 39: Canadian home prices are weakening again



Note: As of Oct 2023. Source: CREA, Macrobond, RBC GAM

Exhibit 40: Canadian GDP per capita has been shrinking



Note: As of Q3 2023. Source: Statistics Canada, Macrobond, RBC GAM

Market outlook
There is now an alternative

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RBC Global Asset Management Inc.

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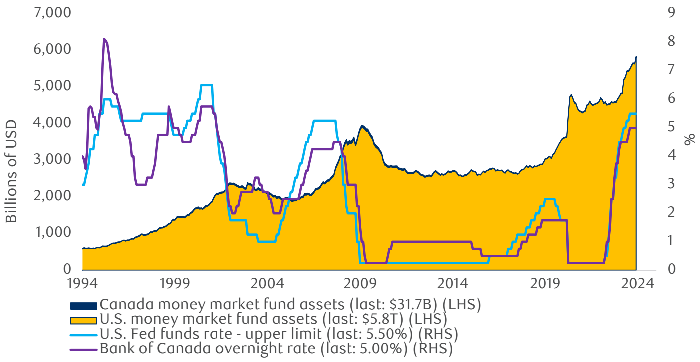
Chief Investment Officer
RBC Global Asset Management Inc.

After 20 months of aggressive monetary tightening, short-term interest rates are at their highest levels in decades and investors now have a wide array of investment options with attractive return potential from which to select. Positive real (after-inflation) interest rates on cash and bonds have been restored and the acute valuation risk that existed in the sovereign-bond market during and following the pandemic has been largely erased. It may be time to retire the investment term "there is no alternative" or TINA, as it is known. TINA became popular during the post-financial-crisis era when interest rates were situated at rock-bottom levels for nearly 15 years, and stocks seemed to offer one of few avenues to investment gains. Today's higher interest rates mean there is now an alternative, and we think markets could be nearing an interesting transition period where fixed income pulls greater weight in the returns of a balanced portfolio. For equities, the course will largely depend on investors' willingness to look beyond a near-term period of economic weakness toward a re-acceleration in the economy and corporate profits in the latter part of 2024 and beyond.

Exhibit 1: Money-market fund assets in the U.S. and Canada



Note: As of November 30, 2023. Source: ICI, Bank of Canada, RBC GAM

Some of the topics that will be discussed in this article reiterate views highlighted in our recent paper *"Rate Cycle Maturing"* published on November 23, 2023. A key observation in that report is that a mountain of cash approaching US$6 trillion has accumulated in money-market accounts, much of which sits passively awaiting deployment (Exhibit 1). While it makes sense that cash savings would surge as short-term interest rates climbed to their highest levels since 2000, our sense is that central banks are likely finished or very close to being done raising interest rates, and that the today's more attractive short-term rates are unlikely to be sustained.

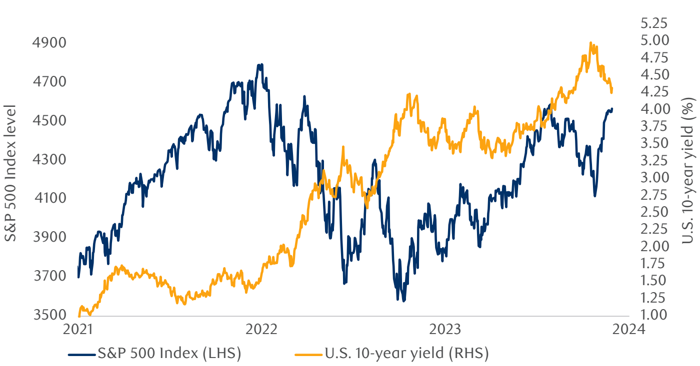
When interest rates rise as rapidly as they have, economic growth is prone to contraction. That prompts central banks to re-calibrate rates to lower levels. Many investors seem to have concluded that the absence so far of a recession in the face of more than a year of monetary tightening means that we have managed to avoid one, at least for the foreseeable future. But our work suggests long lags tend to exist between tightening and the onset of softening in the economy, and the window may therefore just be opening for recession to take place sometime in the next several quarters. As a result, the cycle could be setting up for a period of falling rates going into the New Year, potentially creating significant activity in capital markets as investors seek to re-deploy excess cash.

Investors' optimism soared in November as they become increasingly confident that interest rates had likely peaked and that the economy would experience a soft landing. Bond yields reversed the bulk of their rise from earlier in the quarter and stock markets recaptured most of their loses since the summer – moves that came after a period during which fixed-income and stock valuations improved (Exhibit 2). Recall that the motivation for interest-rate hikes and quantitative tightening – central-bank sales of bond holdings – was to restore inflation to what central banks consider to be the optimal level of 2%. More and more signals indicate that sufficient monetary tightening has been delivered to bring inflation back down to the 2% target through 2024 and into 2025, and a variety of inflation measures have already moderated from multi-decade highs (Exhibit 3). We recognize our base case is for the economy to experience a mild contraction over the next year, though we also acknowledge that the 2% inflation target could be achieved without encountering a recession.

In this environment, we believe that sovereign bonds offer an especially appealing risk/reward, along with increased utility in portfolio construction. Yields on 10-year Treasury bonds started their rapid ascent in 2020, eventually rising above our modelled estimate of equilibrium in early/mid 2023. We began gradually boosting our bond exposure from historically low levels several quarters ago, as our concern with extreme valuation risk diminished alongside rising yields. Yields climbed further in the fall to levels where fixed-income valuations became attractive and, at that point we boosted our fixed-income allocation once again. Our latest move to increase our bond allocation by 50 basis points pushed it above neutral for the first time in the RBC GAM Investment Strategy Committee's two-decade history. This shift was sourced from cash.

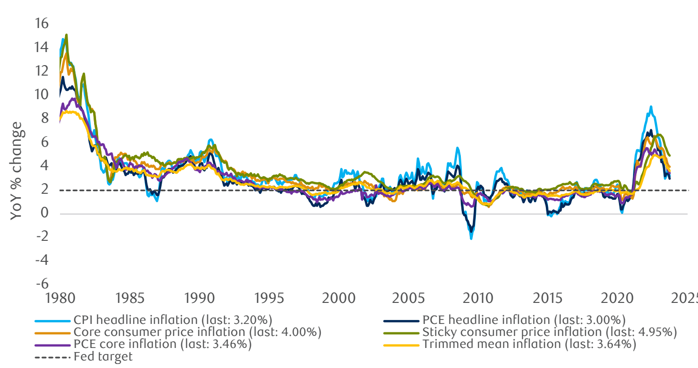
With respect to stocks, we are maintaining our exposure in line with our strategic neutral weighting of 60%. We are less inclined at this time to above-benchmark risk in stocks given that the economic cycle is mature and the risk of recession elevated. While equity valuations are relatively attractive almost everywhere except for the seven largest stocks in the S&P 500 (i.e. the "Magnificent 7"), we recognize if recession materializes as we expect, corporate profits will likely come under pressure and stock gains will be limited. This year's

Exhibit 2: S&P 500 and U.S. 10-year yield
Daily data



Note: As of November 30, 2023. Source: Bloomberg, RBC GAM

Exhibit 3: U.S. inflation measures



Note: As of November 30, 2023. Source: Bloomberg, RBC GAM stock-market performance has, in fact, suggested that investors were hesitant to buy equities given that, aside from the Magnificent 7, returns were less impressive, in the low-to-mid single digits through to the end of November (Exhibit 4). However, if a soft landing is achieved, earnings would likely continue to march higher, dragging stocks along. For a global balanced investor, our current recommended asset mix is 60.0% equities (strategic: “neutral”: 60.0%), 38.5% bonds (strategic “neutral”: 38.0%) and 1.5% cash. Actual fund or client portfolio positioning may differ depending on individual investment policies.

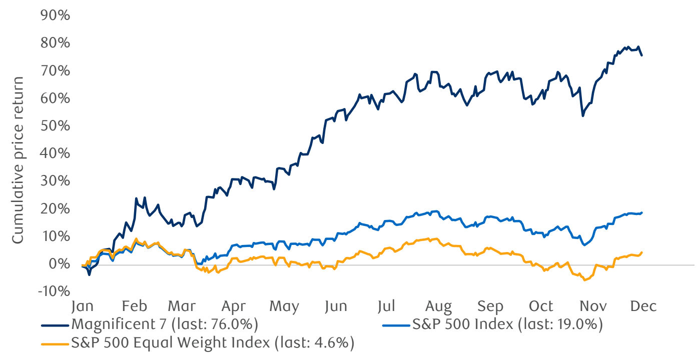
Cycle road maps suggest markets may be nearing inflection point

We could be nearing the phase of the cycle where both bond yields and stock prices encounter volatility given the amount of time it takes monetary tightening to affect the economy. Exhibits 5 and 6 plot road maps representing the median experience for the 10-year Treasury yield and the S&P 500, respectively, leading up to and following the start of a recession. T=0 on the horizontal axis of each chart represents the date at which recessions began, and a variety of key milestones are noted by the markers overlaid on the graph. Notice that the first hike occurs a median of 21 months prior to recession and that the first fed hike of this cycle was in March 2022, which would be consistent with a recession starting in December 2023. While there are wide ranges in the timing from cycle to cycle, as indicated by the horizontal arrows on the milestone markers, our analysis suggests the window for recession is now just opening up rather than closing.

A few other observations are worth highlighting. Rate hikes tend to stop about eight months before a recession begins, followed four months later by rate cuts. With July potentially being the date of the last hike, we have already gone beyond this typical timing in the current cycle as central banks likely want to err on the side of keeping rates higher for longer rather than cutting too early. That said, if we are right in our forecast that recession will occur at some point over the next few quarters, and if these road maps hold true in the current cycle, then rate cuts could begin early next year. We may also be near the crests on these charts just ahead of recession where we see a peak in bond yields, corporate profits and stock prices all roughly around the same time. Note also that

Exhibit 4: U.S. equity cumulative return indices

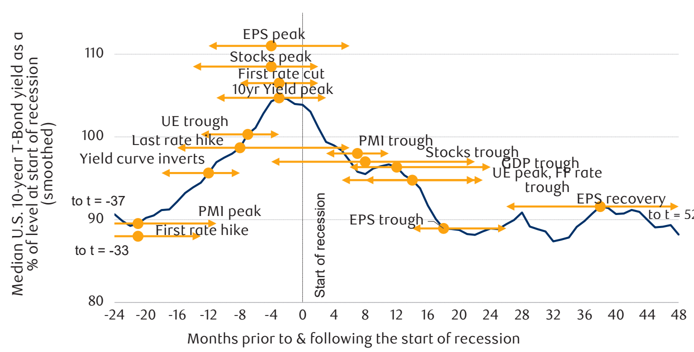
Indexed at 0% since the start of 2023



Note: As of November 30, 2023. Magnificent 7 includes Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta and Tesla. Source: Bloomberg, RBC GAM

Exhibit 5: U.S. 10-year yield and recessions

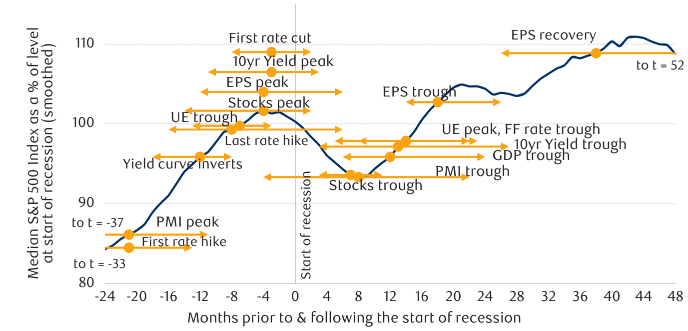
Median of 10 recessions since 1957



Note: Markers represent median timing and ranges are one standard deviation from the mean. Source: Bloomberg, RBC GAM

Exhibit 6: S&P 500 and recessions

Median of 29 recessions since 1882



Note: Markers represent median timing and ranges are one standard deviation from the mean. Source: Bloomberg, RBC GAM any decline in stocks associated with a recession tends to also be relatively short-lived. These charts indicate that even if economic weakness materializes, we could expect a low in stocks by the middle of next year.

Inflation is back on track

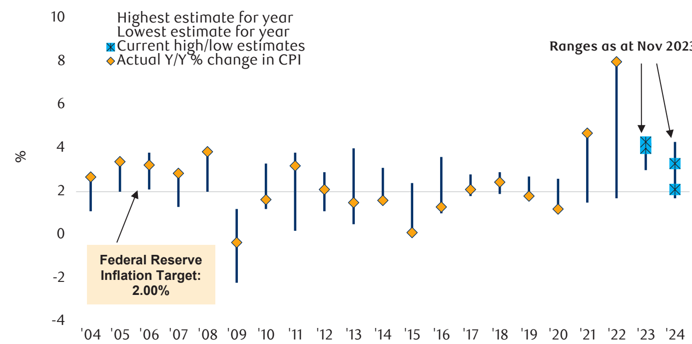
Against the backdrop of a slowing economy, price pressures are moderating, and forecasters are becoming increasingly confident that inflation is headed toward the 2% level targeted by most major central banks. U.S. headline consumer-price inflation has already fallen to around 3% after last year's surge to just over 9% (Exhibit 7). Importantly, the range of forecasts for 2024 spans a narrow range, representing diminished uncertainty about the expected outcome, especially since forecasters were proven exceptionally wrong in 2022. Moreover, market-based measures of inflation expectations in the U.S., Canada and Europe appear well anchored around 2% (Exhibit 8), reflecting investors' belief that central banks have delivered the appropriate tightening required to bring inflation back to target.

> "... the roots of inflation have been addressed with the aggressive tightening of monetary conditions. As a result, inflation is coming down."

Our view that inflation will continue to cool is further supported by a variety of leading indicators. Money-supply growth has been an effective sign post so far this cycle to where inflation is headed with a 16-month lead (Exhibit 9). The two lines on the chart have been moving almost in lockstep, indicating that the massive expansion in the money supply during the early days of the pandemic perfectly foreshadowed inflationary pressures beginning in 2021 and the subsequent reversal as central banks curtailed stimulus and eventually began shrinking their balance sheets. The contraction in the money supply today suggests that inflation is likely to continue moderating over the coming 16 months. Other indicators that were key contributors to high-inflation

Exhibit 7: United States

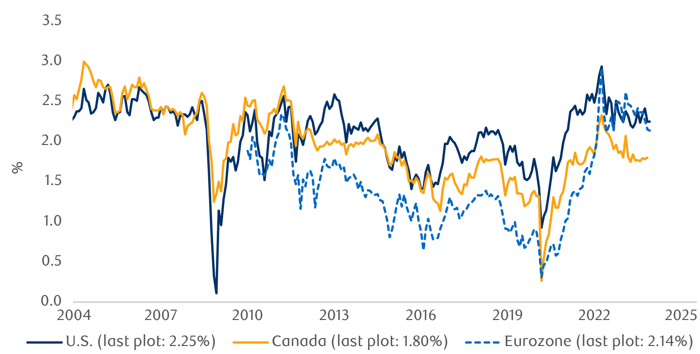
Inflation estimate dispersion



Source: Consensus Economics, RBC GAM

Exhibit 8: Implied long-term inflation premium

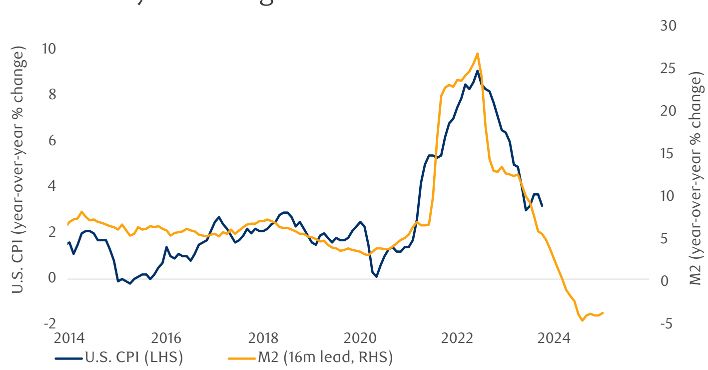
Breakeven inflation rate: nominal vs 10-year real-return bond



Note: As of December 2023. Eurozone represents GDP-weighted breakeven inflation of Germany, France and Italy. Source: Bloomberg, RBC CM, RBC GAM

Exhibit 9: U.S. inflation and money supply

Year-over-year changes in CPI and M2



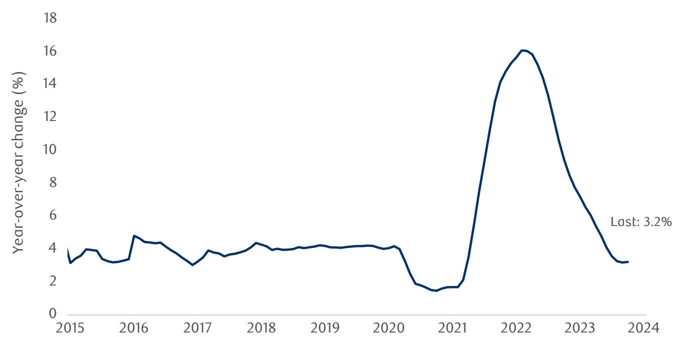
Note: As of October 31, 2023. Source: Bloomberg, RBC GAM readings of the past couple years – residential rents and used-car prices – have retreated to pre-pandemic levels (exhibits 10 and 11). It appears that the pandemic-related distortions have largely faded and that the roots of inflation have been addressed with the aggressive tightening of monetary conditions. As a result, inflation is coming down.

Short-term interest rates may be peaking...

Central banks could soon be in position to provide interest-rate relief as long as the threat of inflation continues abating. Our model now indicates that interest rates have moved to restrictive levels with fed funds rate at 5.25%-5.50% situated above the upper boundary of our equilibrium band (Exhibit 12). Crucially, this band, which estimates an appropriate range for the fed funds rate, is projected to fall over the year ahead as long as inflation stays subdued. As a result, the punitive interest rates we see today are likely only temporary and could soon begin to decline. Projections by the Federal Open Market Committee point to moderation in short-term interest rates over the year ahead and futures markets are pricing in four to five 25-basis-point rate cuts by the end of 2024 (Exhibit 13). While that feels aggressive to us, at least the direction and timing of rate movement is consistent with our expectation for the economy.

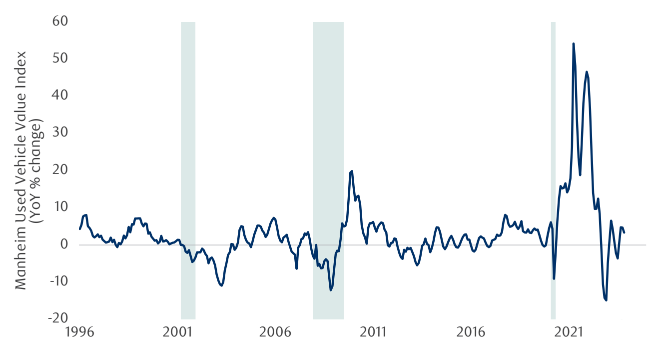
Exhibit 10: U.S. Zillow Rent Index

All homes year-over-year % change



Note: As of October 31, 2023. Source: Zillow Inc., Bloomberg, RBC GAM

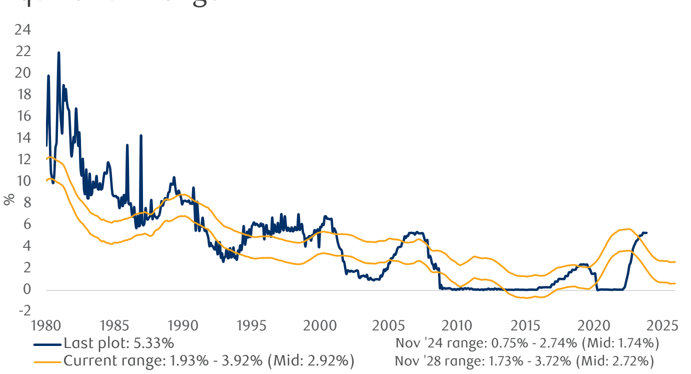
Exhibit 11: Manheim Used Vehicle Value YoY Index



Note: As of November 2023. Shaded area represents recession. Source: Manheim Consulting, Bloomberg, RBC GAM

Exhibit 12: U.S. fed funds rate

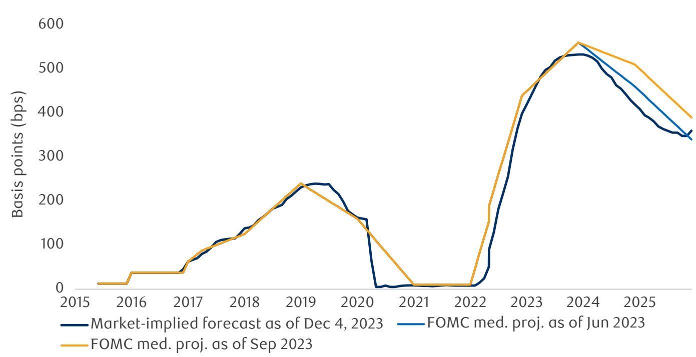
Equilibrium range



Note: As of December 6, 2023. Source: Federal Reserve, RBC GAM

Exhibit 13: Implied fed funds rate

12-months futures contracts



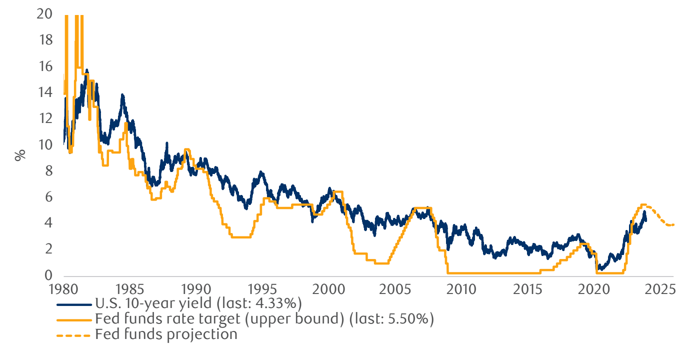
Source: Bloomberg, U.S. Federal Reserve, RBC GAM

...and sovereign-bond yields too

During the fall, government-bond valuations reached their most attractive positions in decades, and the fact that central banks might be done raising rates makes sovereign fixed-income assets even more appealing. Bond yields tend to peak at the same level and at the same time as short-term interest rates (Exhibit 14), and many bond markets rallied in November from levels not far below short rates as investors entertained the potential end of tightening and possible easing into next year. The U.S. 10-year yield fell to 4.33% in November and then pierced 4.00% in December from a high of 5.02% in October and sovereign bonds in Canada and Europe experienced rallies of similar magnitude. The rally began with yields generally positioned at undervalued levels relative to our equilibrium models, a situation that has appeared only a handful of times over the past 40 years including the global financial crisis and a brief spike in 2013 (Exhibit 15). Aside from Japan, where future prospects largely depend on how the Bank of Japan deals with yield-curve control and negative-interest-rate policy, our models suggest that the appropriate level of yields in most major bond regions is lower over the years ahead (page 40).

A closer look at the components of our bond model suggests that the bulk of the adjustment needed to restore proper compensation for fixed-income investors is largely complete and that the scope for lower yields opened up. Exhibit 16, which plots the components of our model for 10-year Treasuries, reveals that significant upward pressure on bond yields over the past couple years came mostly from the rapid increase in the inflation premium as consumer prices soared at their fastest pace in 40 years. Inflation pressures have since moderated, reducing the likelihood that higher yields will be sustained. Partially offsetting the impact of falling inflation pressures is that real yields are again positive after being deeply negative in the wake of the pandemic. We have mentioned before that we thought negative real yields were unsustainable because savers should ultimately receive compensation (above the rate of inflation) for locking up money in fixed-income investments and deferring consumption into the future. Positive after-inflation returns are a good thing for fixed-income investors and we look for real rates to settle between 0% to 1% over the longer term due to a variety of structural factors such as aging populations and slowing global growth potential.

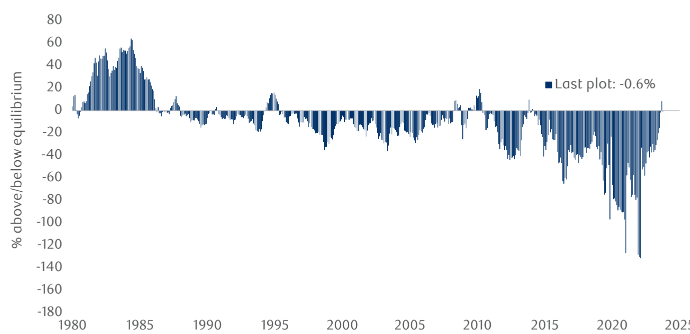
Exhibit 14: U.S. 10-year yield and fed funds rate



Note: as of November 30, 2023. Source: Bloomberg, RBC GAM

Exhibit 15: Global bond-market composite

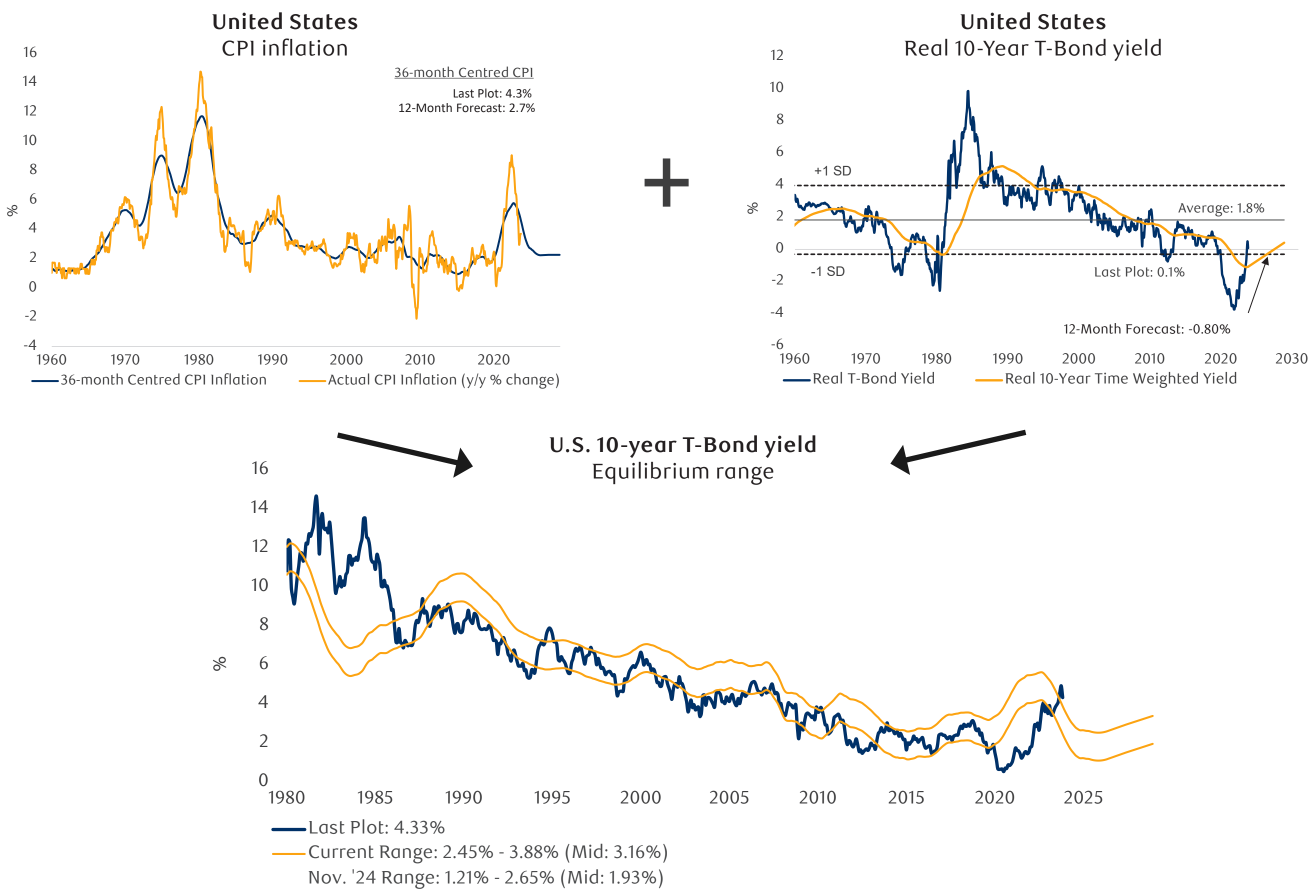
10-year government-bond yields relative to equilibrium



Note: As of November 30, 2023. Source: RBC GAM

Ten-year Treasury bonds, at a yield around 4%, offer still-attractive valuations and return potential. Our models indicate that yields could settle between 3.50% and 4.00%, or perhaps even lower, over the longer term assuming an inflation premium around 2.0%-2.5%, real rates of 0% to 1% and a term premium of around 100-150 basis points. Such an outcome would deliver to mid-to-high single digit total returns over the year ahead as investors receive attractive coupon income in addition to capital gains as yields move lower.

Exhibit 16: U.S. 10-year bond yield



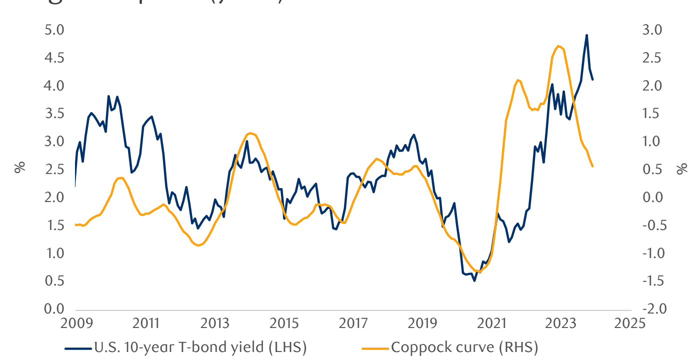
Note: As of November 30, 2023. Source: RBC GAM

Technicals suggest favourable, timely, setup for bonds

In addition to attractive valuations, a variety of technical indicators suggest now could be a good time to build positions in sovereign bonds. Long-term price momentum has rolled over, indicating that an extended period of falling yields could lie ahead (Exhibit 17). Another useful metric triggered a “buy” signal in November, when the year-over-year change in the 10-year Treasury yield fell below its key 20% threshold (Exhibit 18). Lastly, measures of bond sentiment tested their most pessimistic readings in two decades (Exhibit 19). Assets that are unloved often hold the greatest potential for future returns. The outlook for bonds may be more favourable than

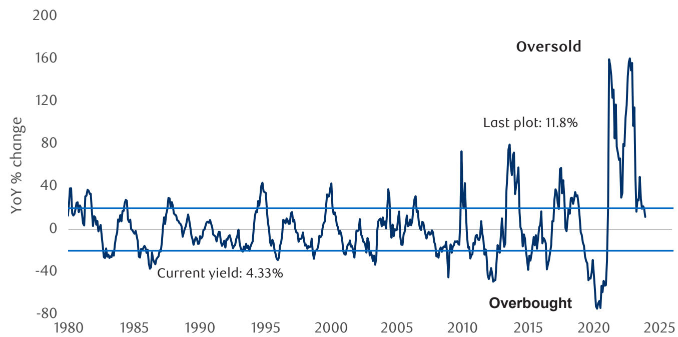
Exhibit 17: U.S. 10-year T-bond yield

Long-term price (yield) momentum



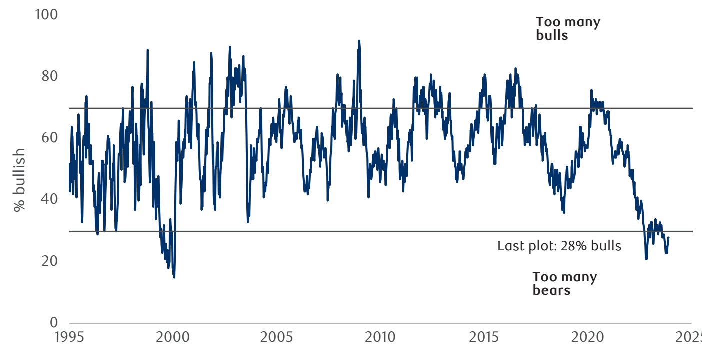
Note: Coppock curve based on monthly data. As of December 4, 2023.
Source: Bloomberg, RBC GAM

Exhibit 18: U.S. 10-year T-bond yields
Rate of change



Note: As of December 6, 2023. Source: Bloomberg, RBC GAM

Exhibit 19: U.S. 10-year T-bond bullish consensus



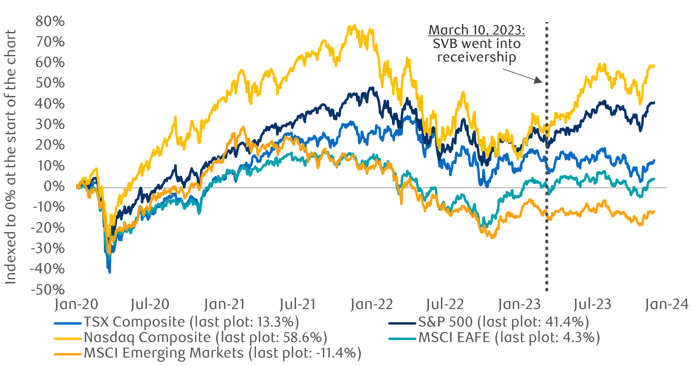
Note: As of November 26, 2023. Source: Market Vane, RBC GAM

at any time since the global financial crisis of 2008-2009 when we consider the combination of appealing valuations, the stage of the economic cycle and bullish technicals.

Equity gains in 2023 featured narrow leadership

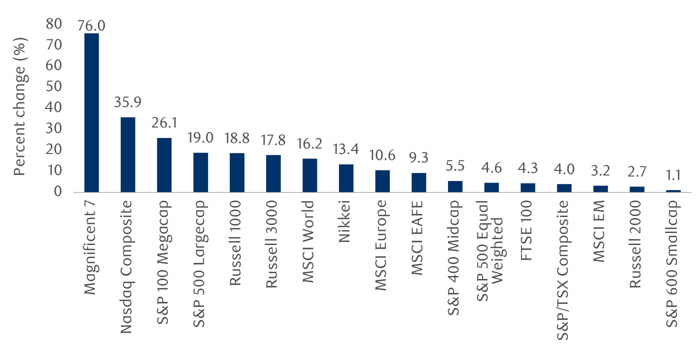
A distinguishing characteristic of the 2023 stock-market rally was the narrowness of the advance, particularly following the U.S. regional-banking crisis in the spring (Exhibit 20). The combination of a tighter lending environment, higher interest rates and concerns about economic growth have posed a headwind for the bulk of listed companies. But a small group of mega-cap technology stocks, flush with cash and a proven ability to grow earnings, shined amid this challenging macroeconomic backdrop and they further benefited from trends in artificial intelligence. The “Magnificent 7” was up 76% as of November 30, pulling the Nasdaq up 36% and the S&P 500 up 18%, accounting for fully 29% and 15% of these gains, respectively. Most stocks lagged the capitalization-weighted index returns significantly. The Equal Weight S&P 500 Index, a better reflection of the average stock’s performance, was up only 5% during this period, and many other global indexes such as the UK’s FTSE 100, Canada’s TSX Composite, the emerging-markets benchmark and even U.S. small-cap indexes produced only low single digit returns over the period (Exhibit 21).

Exhibit 20: Major equity-market indices
Cumulative price returns indices in USD



Note: As of November 30, 2023. Price returns computed in USD. Source: Bloomberg, RBC GAM

Exhibit 21: Major indices’ price change in USD
December 30, 2022 to November 30, 2023



Note: Magnificent 7 includes Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta and Tesla. Source: Bloomberg, RBC GAM

Global equity valuations are not unreasonable...

Apart from the capitalization-weighted and Magnificent 7 dominated S&P 500, global equities are not all that expensive. Our global composite of equity market valuation has fallen to 4.8% below fair value, its lowest level since the pandemic, and if we exclude the U.S., that reading plunges to 17% below equilibrium (Exhibit 22). Within the full composite, the S&P 500 is slightly above its fair value, but other regions are trading at particularly attractive distances below theirs (page 41). As a result, global stocks currently offer decent return potential, especially if economies avoid recession.

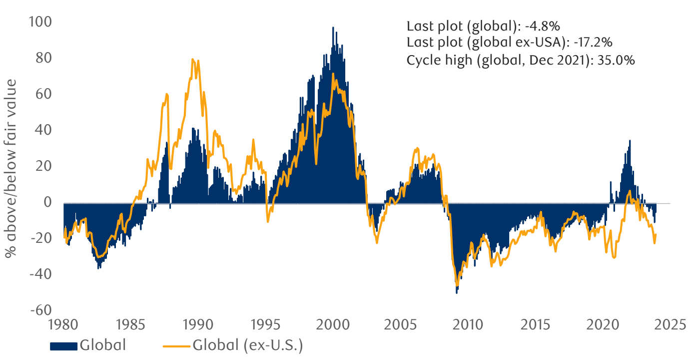
...but slowing economy will likely challenge corporate profit growth

The biggest risk to the stock market, in our view, is that earnings are unlikely to grow by much, if at all, should the economy slow as we expect. Exhibit 23 plots S&P 500 revenue growth alongside U.S. nominal GDP growth. Note that the two lines on the chart move closely together. A reduction in nominal GDP growth to our forecast of 2.8% next year would be consistent with low or even slightly negative revenue growth. In addition, profit margins are down from their record highs given rapidly rising costs and could have further to fall if revenues slow and companies are unable to reduce fixed costs fast enough (Exhibit 24). Lastly, earnings have stalled at levels that are above the long-term trend and can be expected to fall below trend in the event of an economic downturn. In that circumstance, earnings could drop at least 10% (Exhibit 25).

Earnings estimates remain fairly optimistic, which is inconsistent with the threat of the U.S. and global economies

Exhibit 22: Global stock-market composite

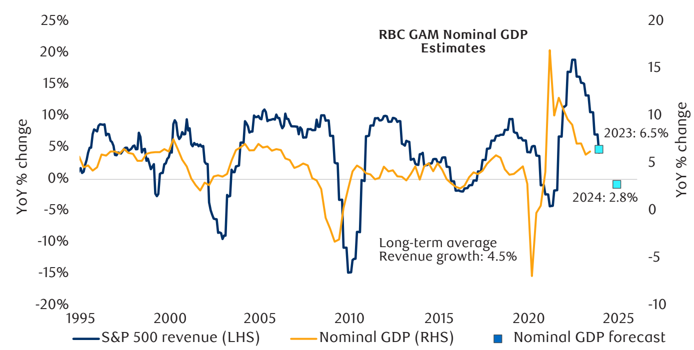
Equity market indexes relative to equilibrium



Note: As of November 30, 2023. Source: RBC GAM

Exhibit 23: United States

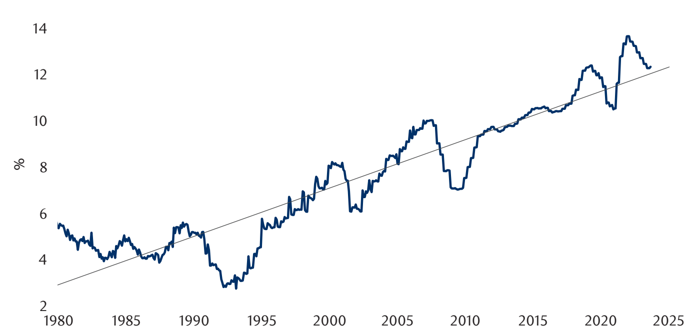
S&P 500 revenue and nominal GDP



Note: As of December 7, 2023. Source: RBC CM, RBC GAM

Exhibit 24: S&P 500

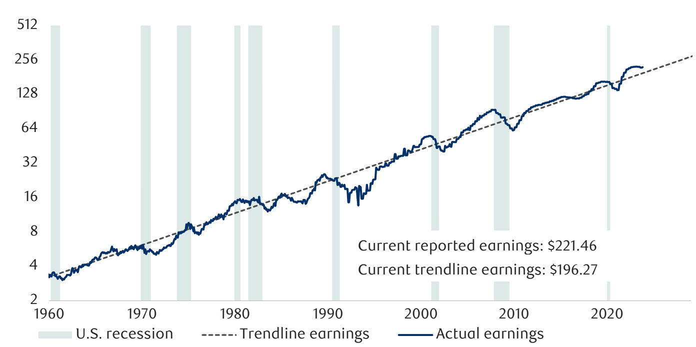
Net Margin



Note: As of November 30, 2023. Source : Bloomberg, RBC GAM

Exhibit 25: S&P 500 earnings per share

Trailing 12 months

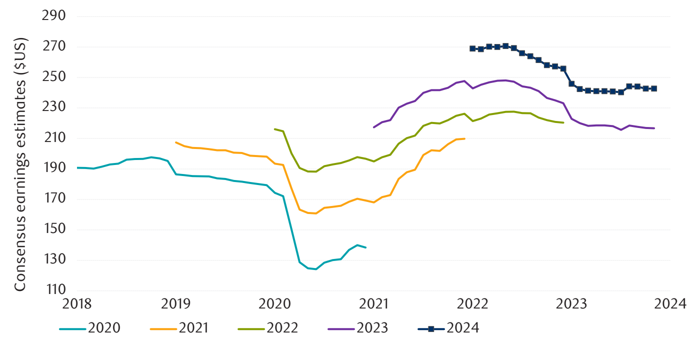


Note: As of November 30, 2023. Source: RBC GAM

falling into at least a mild recession over the next several quarters. Analysts are looking for a re-acceleration to 11% for S&P 500 earnings in 2024, up from 2% this year (Exhibit 26). In our view, these earnings estimates are vulnerable to downgrades that would likely limit gains in stocks through the first half of 2024. But any damage to corporate profits is expected to be shallow and short-lived, and investors are likely to look beyond the weakness in early 2024 and toward a potential recovery later in the year, especially if a soft landing for the U.S. and global economy gains increasing visibility.

Exhibit 26: S&P 500 Index

Consensus earnings estimates



Note: As of December 4, 2023. Source: Bloomberg, RBC GAM

Gauging possible scenarios for stocks

The challenging macroeconomic outlook, paired with demanding U.S. stock valuations, means a lot of things will have to go right if equity indexes are to deliver appealing returns over the next 12 months. Exhibit 27 outlines a variety of scenarios based on valuations and earnings for the S&P 500 for this year and next, and it suggests that the risk/reward for U.S. large-cap stocks is skewed to the downside. If the S&P 500 were to trade at our model's equilibrium P/E – the level consistent with current interest rates, inflation and corporate profitability – and generate earnings in line with analyst estimates, then the S&P 500 would be 20% lower by year-end 2023. But the latest rally in stocks likely reflects that investors are pricing in positive outcomes for next year. Under the assumptions that interest rates and inflation fall next year, the equilibrium P/E for the market rises to 18.0, and an appropriate level for the S&P 500 could rise as high as 4375, but that would still represent a small loss for U.S. equity investors. What these scenarios highlight is that, to generate any positive outcome for U.S. equities from here, valuations would have to trade at some level above equilibrium and that they would be highly dependent on inflation continuing to cool, interest rates to come down, and earnings to at least achieve, if not exceed, current analyst estimates. If these tailwinds fall into place and the P/E maintains half a standard deviation or even a full standard deviation above equilibrium, the potential exists for the S&P 500 to climb to the high 4000s or even low 5000s over the next 12 months, generating mid-to-high single digit returns or even low double digit returns.

Exhibit 27: Earnings estimates and alternative scenarios for valuations and outcomes for the S&P 500

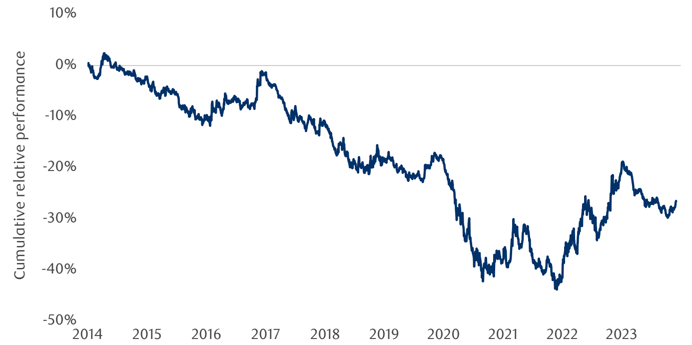
		Consensus			Consensus		
		2023 Top Down	2023 Bottom Up		2024 Top Down	2024 Bottom Up	Recessionary*
	P/E	$215.0	$216.1	P/E	$230.0	$242.7	$167.3
+1 Standard Deviation	21.5	4632.3	4655.6	22.6	5208.8	5497.1	3787.7
+0.5 Standard Deviation	19.3	4159.9	4180.8	20.3	4677.6	4936.5	3401.4
Equilibrium	17.2	3687.5	3706.0	18.0	4146.4	4375.9	3015.2
-0.5 Standard Deviation	15.0	3215.1	3231.3	15.7	3615.2	3815.3	2628.9
-1 Standard Deviation	12.8	2742.7	2756.5	13.4	3084.0	3254.7	2242.6

Note: *Trailing 12-Month Earnings to October 2023 less 25% (i.e. average decline in earnings through recession). As of November 30, 2023. Source: Bloomberg, Thomson Reuters, RBC GAM

What's in style? U.S. large-cap growth stocks with demanding valuations

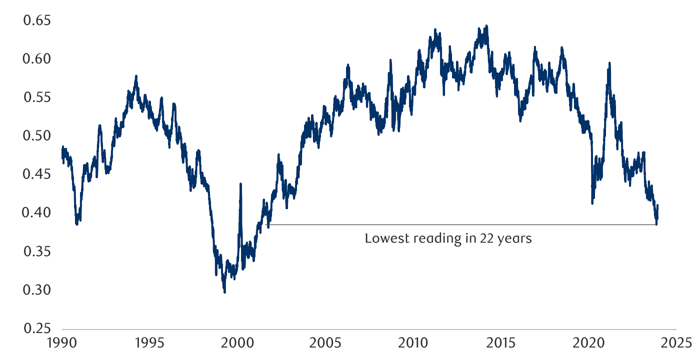
Large-cap growth stocks have benefited from sluggish economic growth and trends in artificial intelligence, but they have risen to the point where their valuations could threaten their leadership. From the start of the year to November 30, the S&P 500 Growth Stock Index has outperformed the S&P 500 Value Index by 9 percentage points (Exhibit 28). Interestingly, this year's outperformance of growth stocks represents only a partial reversal of the prior upward trend in value stocks that was established in early 2022 when central banks begin tightening interest rates aggressively. From that point to the end of November 2023, value stocks in the U.S. have outperformed by 25 percentage points. Small caps are another segment that has significantly underperformed through the past year, and their relative strength to large caps fell to their lowest reading in 22 years (Exhibit 29). The large-cap growth bucket contains the Magnificent 7, the group of highly successful mega-cap technology companies whose valuations are roughly double that of the rest of the S&P 500 companies (Exhibit 30). For these companies to continue outperforming, they'll need to sustain the strong earnings gains already reflected in their premium valuations. Should this group falter, or if economic growth re-accelerates, value stocks and small-cap stocks could claim leadership as they tend to be more sensitive to changes in the economy.

Exhibit 28: Value to growth relative performance
S&P 500 Value Index / S&P 500 Growth Index



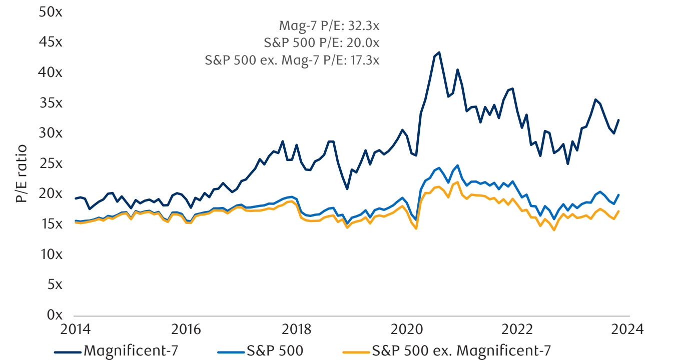
Note: As of December 4, 2023. Source: Bloomberg, RBC GAM

Exhibit 29: U.S. small caps versus large caps
Russell 2000 Index / S&P 500 Index



Note: As of December 4, 2023. Source: Bloomberg, RBC GAM

Exhibit 30: 'Magnificent-7' forward P/E ratio

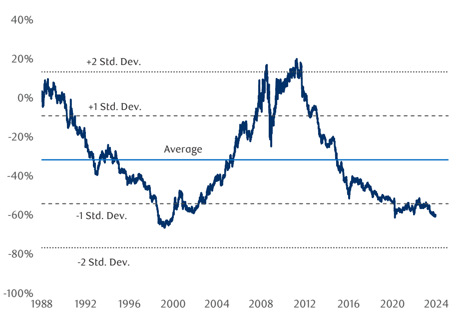


Note: Magnificent-7 includes Apple, Microsoft, Google, Amazon, Nvidia, Tesla and Meta. Tesla was added in Dec 2020 when it was included in the S&P 500. As of November 30, 2023. Source: RBC GAM

The dominating performance of U.S. equities for more than a decade could be ripe for reversal. Canada, emerging markets and Europe have all underperformed the U.S. for nearly 15 years (exhibits 31 to 33). Notice, however, that the relative-strength charts experience long cycles and are near points where shifts have happened in the past. In fact, the relative strength of the MSCI Europe Index's total returns in U.S. dollars actually bottomed in September 2022 versus the S&P 500. A broadening out in the stock rally beyond the U.S. might serve as confirmation of the sustainability of the bull market.

Exhibit 31: Relative performance

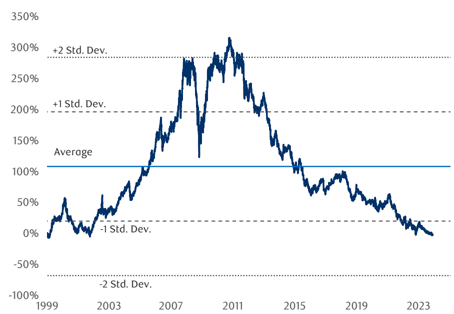
S&P/TSX Composite TR USD vs S&P 500 TR USD



Note: As of December 4, 2023. Source: Bloomberg, RBC GAM

Exhibit 32: Relative performance

MSCI Emerging Markets TR USD vs S&P 500 TR USD



Note: As of December 4, 2023. Source: Bloomberg, RBC GAM

Exhibit 33: Relative performance

MSCI Europe TR USD vs S&P 500 TR USD

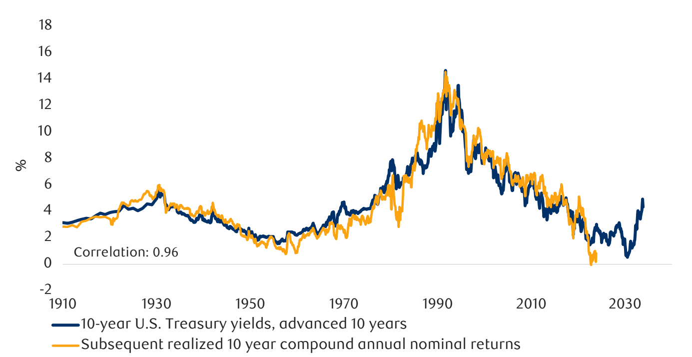
Note: As of December 4, 2023. Source: Bloomberg, RBC GAM

Asset mix – raised fixed-income allocation above neutral setting

We recognize that uncertainty remains as the prior tightening of monetary policy feeds through the global economy and a variety of risks including geopolitics, growing fiscal deficits and tighter lending standards are headwinds to growth. The significant tightening and the lags with which they typically impact the economy lead us to conclude that the economy is headed for a mild recession sometime over the next several quarters. But there are also pathways to a positive outcome and these are now rising in probability as inflation continues on its favourable trajectory.

Against this backdrop, central banks are likely to cut policy rates at some point over the next year, setting up a more positive backdrop for bond returns. A reliable, yet simple, forecast for what investors will earn on a 10-year Treasury bond is the current yield to maturity, now around 4% (Exhibit 34). Were yields to decline materially in the near term, returns would be even higher over a 12-month horizon. In fact, a 1-percentage-point drop in the yield on the 10-year Treasury bond over the next year would result in a 12.8% return (Exhibit 35). By contrast, a 1-percentage-point *increase* in yield caused by extended inflation would result in a much smaller loss of 3.3% as relatively elevated coupon income cushions any potential decline in bond prices. This risk/reward is particularly appealing given that bonds, at today's higher yields, can provide ballast against a downturn in equities, with a diminished risk of significant losses.

Exhibit 34: U.S. 10-year Treasury note and returns



Note: As of November 30, 2023. Source: Deutsche Bank, Macrobond, RBC GAM

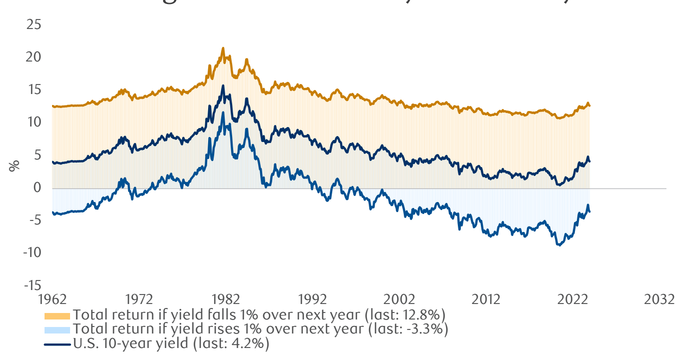
We continue to expect stocks to outperform bonds over the longer term, though we recognize that the near-term upside for equities would be limited if the economy enters a downturn. Moreover, the premium associated with holding stocks, relative to fixed income, is lower than it was at earlier points in the cycle and perhaps not adequately compensating investors for the risk of an economic downturn. We would become more constructive on the outlook for stocks if we saw increasing stock-market breadth, an improvement in economic leading indicators and/or an easing of monetary conditions.

Economist Robert Shiller's Cyclically Adjusted P/E (CAPE) ratio, a reliable indicator of what U.S. equity investors can expect to earn over the next decade, currently suggests a 7% annualized return (Exhibit 36). As economies transition through a potential period of softness in the first half of 2024, though, profit forecasts are vulnerable to downgrades and we expect stocks to experience greater volatility. If our base case for the economy materializes, stocks would likely underperform bonds. As a result, we are maintaining a neutral stance on equities versus our historic tendency to run modest overweight positions in stocks, recognizing that the cycle is mature, that the risk of recession is higher than usual and that economic contraction is generally damaging for stocks but supportive of fixed income markets. That said, we have been reluctant to reduce our equity allocation below neutral given the possibility that inflation pressures could be resolved without pushing the economy into recession, ultimately leading to a re-acceleration in corporate profits and a bolstering of valuations from relatively attractive settings.

Given the balance of risks and opportunities for both short-term and long-term investment horizons, we added to our fixed-income allocation over the past quarter, boosting our bond weight above neutral for the first time in two decades. The fixed-income weight increase of 50 basis points was sourced from cash as yields on 10-year Treasuries climbed near 5%. Our current recommended asset mix for a global balanced investor is 60.0% equities (strategic: "neutral": 60.0%), 38.5% bonds (strategic "neutral": 38.0%) and 1.5% in cash. Actual fund or client portfolio positioning may differ depending on that portfolio's investment policies.

Exhibit 35: U.S. 10-year Treasury bond

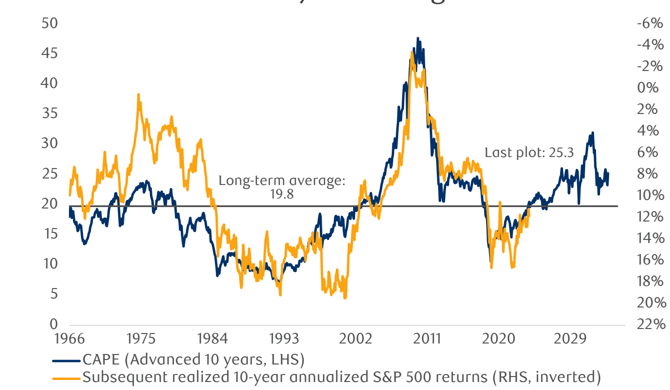
Total returns given +/- 1% shift in yields over 1 year



Note: As of November 30, 2023. Chart reflects hypothetical computation of total returns in the event that yields were either to rise or fall 100 basis points over the subsequent 12 month period. Source: Bloomberg, RBC GAM

Exhibit 36: Shiller's CAPE

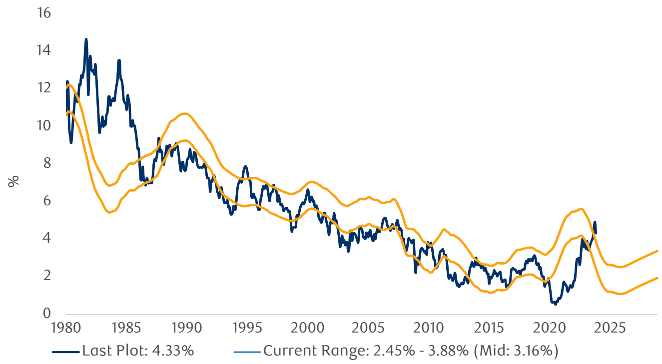
Real S&P 500 Index / 10-year average of real EPS



Note: As of December 4, 2023. Source: Macrobond, Bloomberg, RBC GAM

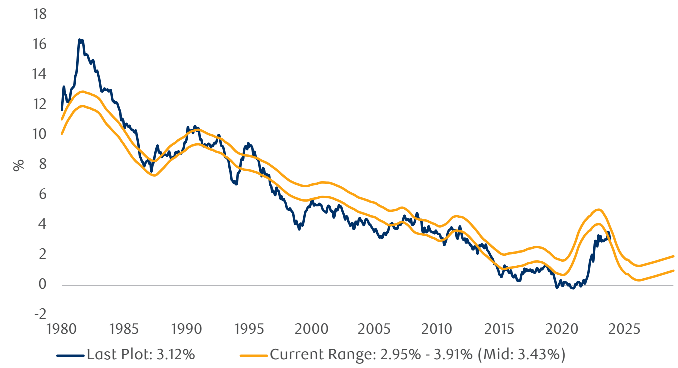
Global fixed income markets

U.S. 10-Year T-Bond Yield
Equilibrium range



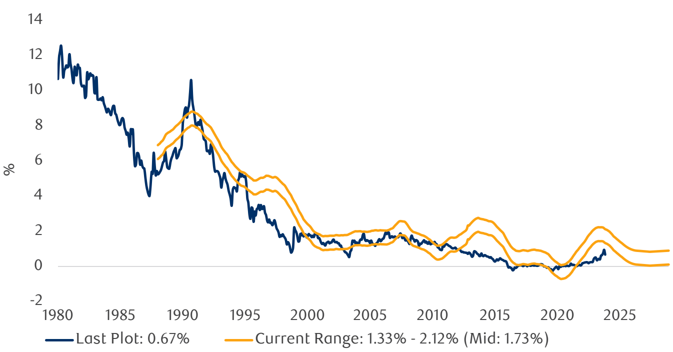
Note: As of November 30, 2023. Source: RBC GAM, RBC CM

Eurozone 10-Year Bond Yield
Equilibrium range



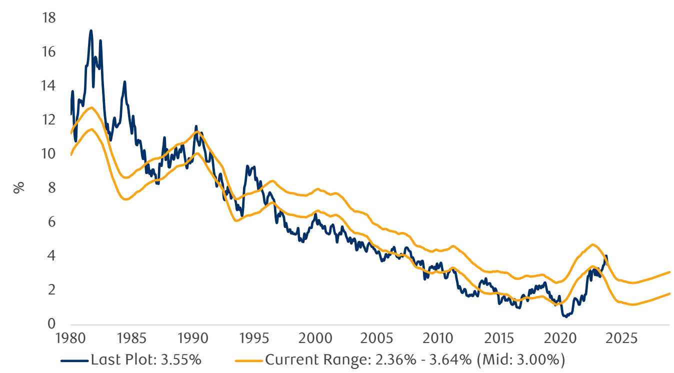
Note: As of November 30, 2023. Source: RBC GAM, RBC CM

Japan 10-Year Bond Yield
Equilibrium range



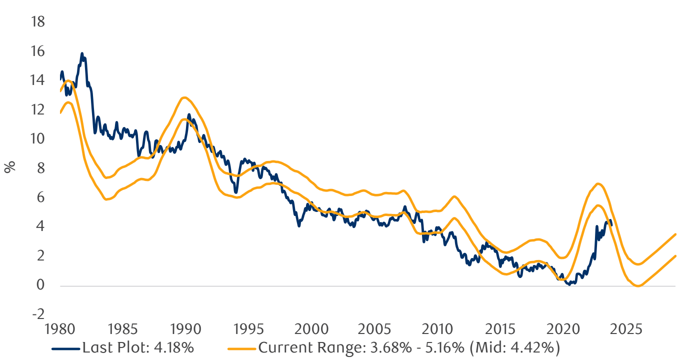
Note: As of November 30, 2023. Source: RBC GAM, RBC CM

Canada 10-Year Bond Yield
Equilibrium range



Note: As of November 30, 2023. Source: RBC GAM, RBC CM

U.K. 10-Year Gilt
Equilibrium range

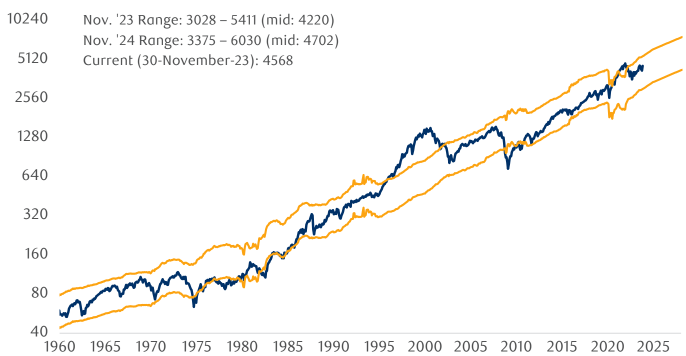


Note: As of November 30, 2023. Source: RBC GAM, RBC CM

> "...our models suggest that the appropriate level of yields in most major bond regions is lower over the years ahead."

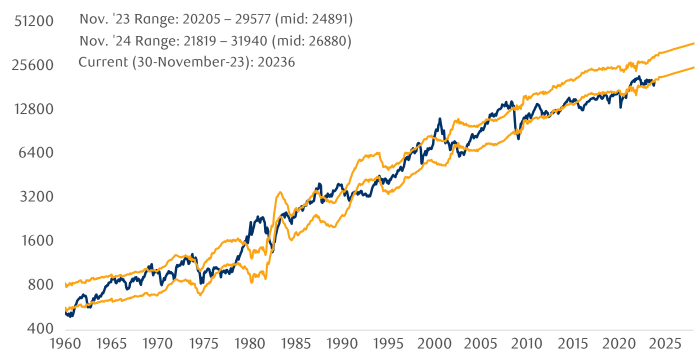
Global equity markets

S&P 500 Equilibrium
Normalized earnings and valuations



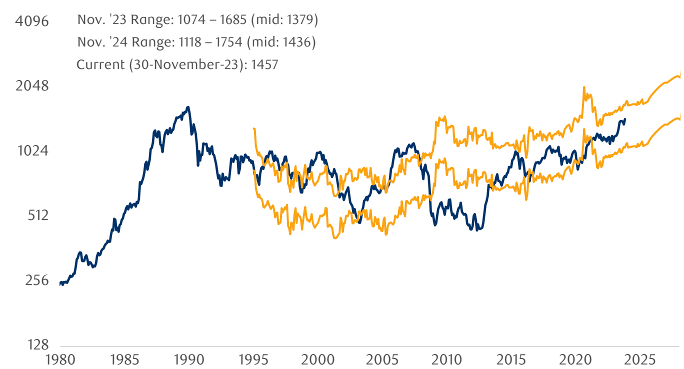
Note: As of November 30, 2023. Source: RBC GAM

S&P/TSX Composite Equilibrium
Normalized earnings and valuations



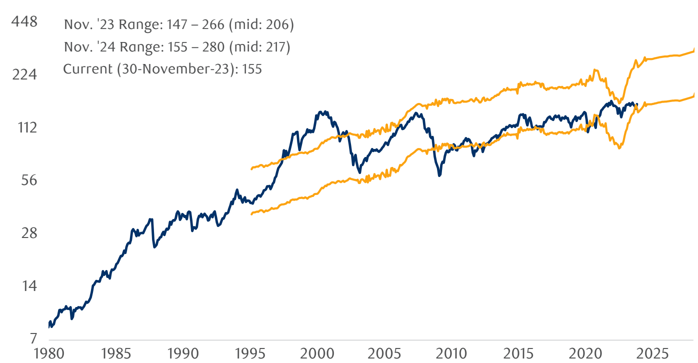
Note: As of November 30, 2023. Source: RBC GAM

MSCI Japan Index
Normalized earnings and valuations



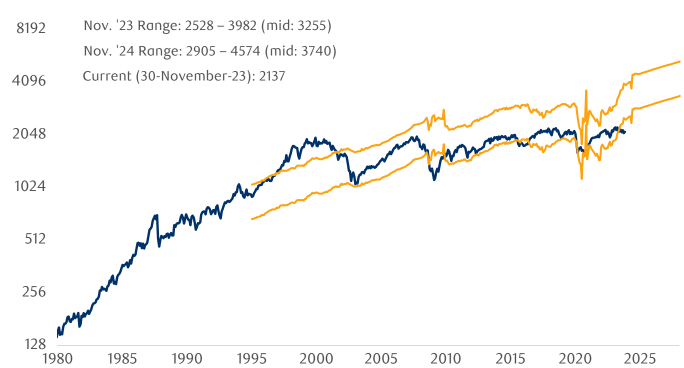
Note: As of November 30, 2023. Source: RBC GAM

MSCI Europe Index
Normalized earnings and valuations



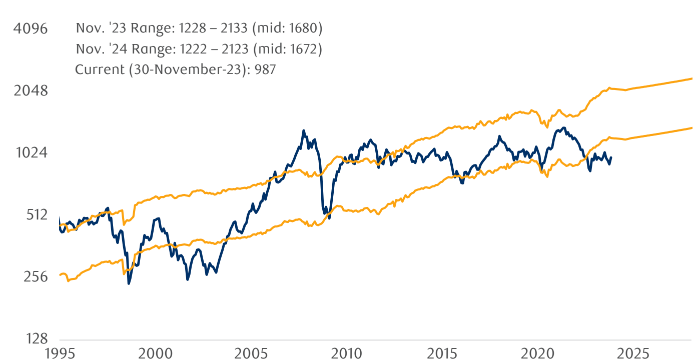
Note: As of November 30, 2023. Source: RBC GAM

MSCI U.K. Index
Normalized earnings and valuations



Note: As of November 30, 2023. Source: RBC GAM

MSCI Emerging Markets Index
Normalized earnings and valuations



Note: As of November 30, 2023. Source: RBC GAM

Global fixed income markets

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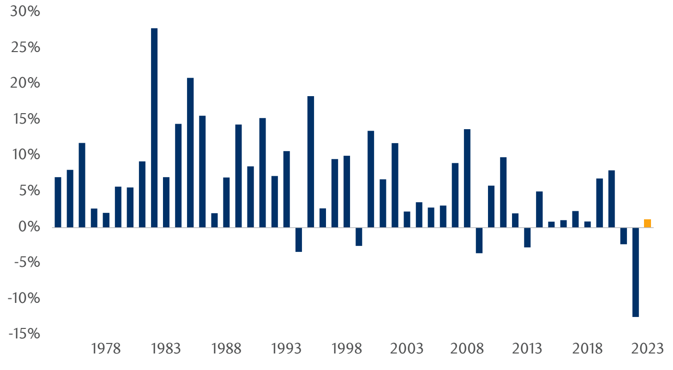
The bond market's volatile year continues in earnest. Over the past quarter, investors raised their estimates for central-bank policy rates in response to stronger-than-expected economic activity, mostly in the U.S., and still-elevated inflation. Investors are also demanding higher compensation to hold long-term bonds - a surcharge popularly referred to as the term premium – in part due to concerns about the poor state of government finances. A rising term premium and expectations for higher policy rates pushed the U.S. 10-year Treasury bond's yield to 5.02% on October 23, the highest since July 2007. As a result, investors in U.S. government bonds are flirting with an unprecedented third consecutive calendar year of losses (Exhibit 1), which would be disappointing given the low single-digit returns we had forecast a year ago.

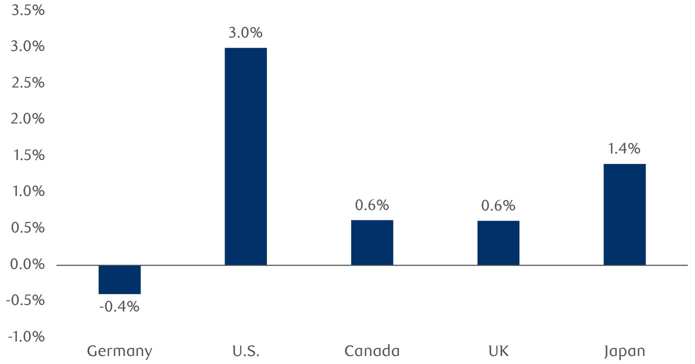
We think that investor expectations for higher yields are misplaced. Much of the world economy continues to slow, weighed down by the lagged effects of an aggressive global monetary-tightening cycle. Since the third quarter of 2022, most major economies have barely grown at all (Exhibit 2) and look likely to slow further in the year ahead. The factors

Exhibit 1: Investors might face a 3rd straight year of losses – U.S. government-bond returns



Note:Data as of December 5, 2023. Source: Bloomberg Barclays

Exhibit 2: Most countries have been growing very slowly – Economic growth since September 2022 after removing inflation



Source: National statistical offices

that have buoyed growth in the U.S., where the economy expanded by a vigorous 4.9% annualized rate between June and September, also do not appear repeatable. So, while most forecasters have withdrawn their recession forecasts over the past six months (Exhibit 3), we have increased our odds for an economic contraction.

The U.S. economy looks particularly vulnerable to a slowdown. The factors that contributed to the remarkable growth over the past 12 months - fiscal largesse, households' pandemic savings and ample banking-system liquidity - look unlikely to be repeated. Increased scrutiny of government finances and a sharply divided Congress mean we expect a modest drag from government spending over the next year. Pandemic savings also seem to be exhausted, removing an important source of consumer-spending power. Finally, liquidity in the U.S. banking system was much more ample over the past year than expected – providing a fillip to the economy. Over the next 12 months, we expect tighter monetary policy to weigh more heavily on activity as the U.S. Federal Reserve (Fed) continues to reduce its balance sheet.

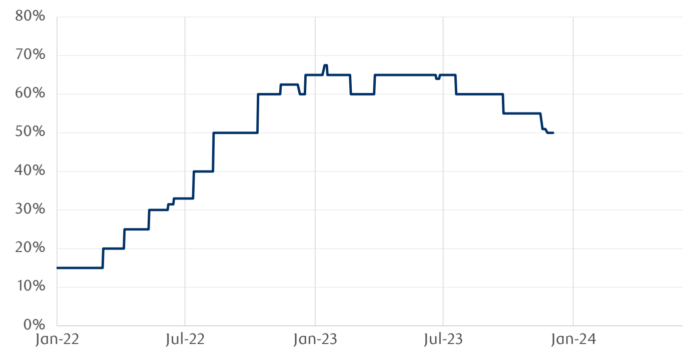
In addition to a slowing economy, we think bond returns will be supported by better valuations. The latest rise in yields, driven by higher expectations for central-bank policy rates and larger term premiums, has improved valuations considerably. Real (inflation-adjusted) yields have climbed sharply, term premiums are as large as they've been in 10 years, and inflation compensation is at cyclical highs. In our view, investor expectations for these factors affecting bond yields are now too high.

Policy-rate expectations are considerably above what we would consider appropriate over the long term. Bond-market pricing suggests the fed funds rate will stay close to 4.00% for the next 10 years. Expectations for European policy rates are similarly lofty at nearly 3.00%. In both markets, market pricing for policy rates far exceeds estimates of neutral policy rates (the rate that neither stimulates nor dampens economic growth) and does not entertain the possibility of a serious recession over the next decade.

We think real yields at current levels offer a compelling investment case for bonds. The real yield on a 10-year inflation-protected security in the U.S. is 2.5%, compared with the Congressional Budget Office's estimate of potential real GDP growth of 1.8%. Real interest rates look even more egregiously high versus projected labour-force growth, which sits at just 0.4%. Labour-force growth is a "hard-data" version of potential GDP, since all the workers who will enter the labour force over the next 10 years have already been born.

Exhibit 3: Odds of a U.S. recession have fallen

Median probability of a recession over the next year



Note: Data as of December 5, 2023. Source: Bloomberg

Bonds, in our view, are offering investors more than fair compensation through today's higher term premiums, which are consistent with historical relationships such as volatility implied by options on interest rates. We expect volatility in the bond market to eventually decline, and the term premium should fall as well.

Compared to the rise in policy-rate expectations and the term premium, inflation expectations have risen only modestly. We think this is because central banks have shown a credible commitment to keeping inflation close to 2%. We expect inflation to continue to gradually fall over the next 12 months – closer to 2% over time. There are arguments that inflation might trend higher over the long term – in part due to climate change, deglobalization, rising wages, and consumer expectations for higher prices. But those considerations should be accompanied by the admission that bond yields already imply an attractive compensation for inflation of nearly 3% over the longer term.

In this environment, what kind of returns should bond investors expect? For the year ahead, we expect mid-to-high single-digit returns, with decent odds of a low double-digit return in some markets. Part of this higher-return expectation is explained by higher starting yields. If bond yields are unchanged a year from now, a starting assumption for an investor in U.S. government bonds would be a 5% return.

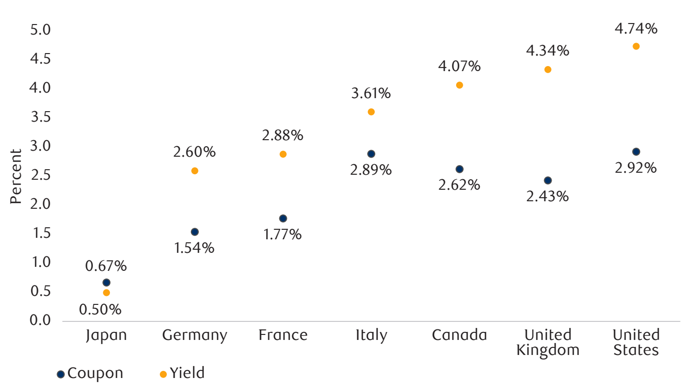
This starting yield is itself generous, but also acts as a buffer against further yield increases and as a springboard for returns should yields decline as we expect. For example, if the yield on the U.S. 10-year Treasury bond were to rise by 100 basis points over the next year, investors would show a loss of 2.3%. If yields fell by the same amount, the total return would be 13%.

For most of the past year our positive call on bonds has rested mostly on a view that a markedly slowing economy would lead to lower bond yields. But the past quarter's move higher in bond yields has also improved valuations, further supporting the case for bonds. To be sure, our belief that a recession likely looms has become more open to challenge. Most forecasters have spent the past few months ratcheting down their odds of a U.S. recession over the next 12 months, and the consensus is for no recession. Our view remains the opposite: we expect a recession and, given the passage of time since the beginning of the hiking cycle, the chances of a recession have risen. In our view, this bolsters the return potential for government bonds.

To our mind, the major risks to the bond market lie with inflation and government deficits. While investors' concerns about runaway inflation have largely abated, and inflation expectations remain within historical norms, the risk is that inflation stalls in the 3%-4% range. We believe that wages remain the biggest risk to central banks achieving their inflation targets. Moreover, we believe a recession is probably necessary to slow wage gains in a timely manner. Absent a continued slowdown in price pressures, the environment would be ripe for most central banks to resume their hiking cycles, and for bond investors to drive yields even higher. This is the type of inflation environment that drives our thinking on realistic "worst-case" scenarios for bonds.

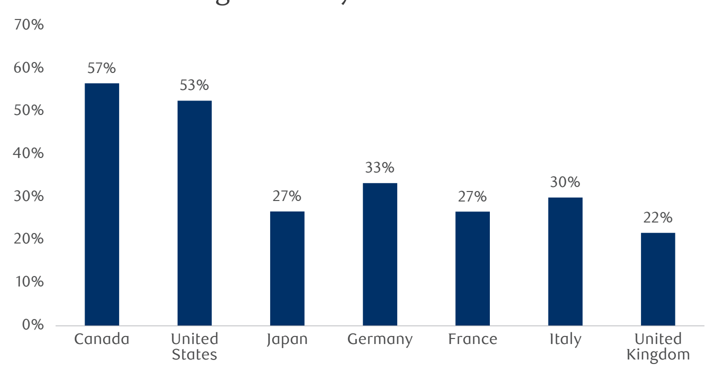
Fiscal and bond-supply concerns are also on our radar. The budget situation in most major Western countries is poor, and governments will be issuing substantial amounts of debt under current spending and revenue projections. What is peculiar about the run-up in borrowing is that it is occurring outside of an economic downturn. Moreover, market yields are now much higher than existing coupon payments, meaning that governments face rising interest costs as existing debt reaches maturity and is replaced with new, higher-cost debt. (Exhibit 4). As a result, interest costs will continue to rise over time even if there is no increase in the amount of debt outstanding. In some countries, this rise in borrowing costs will start to hit quite quickly. In the U.S. and Canada, nearly 50% of currently outstanding government debt will reset to higher rates by the end of 2025 (Exhibit 5). For now, we think these rises are manageable. The U.S. debt-to-GDP ratio will rise without significant changes to spending or taxation, but the situation is much different than that faced by the eurozone's weaker economies such as Italy and Greece in the early 2010s. These countries had deep-rooted structural growth problems that preceded concerns about debt sustainability – a factor that does not affect the U.S.

Exhibit 4: Current market yields are far above government payments due on coupons



Note: Data as of: December 5, 2023. For all publicly-held bonds and bills. Par-weighted coupon – for bills, market yields were used. Source: Bank of America

Exhibit 5: Governments need to renew lots of debt before January 1, 2026 – Share of outstanding bonds and bills maturing within 2 years



Note: Data as of December 5, 2023. Source: Bank of America

Direction of rates

We expect the fed funds rate to fall to 4.75% within the next 12 months. Our one-year forecast for the U.S. 10-year Treasury is 4.00%, about 30 basis points below yields at the time of writing.

United States

The U.S. Federal Reserve (Fed) is likely to extend the pause in its interest-rate hiking cycle after raising the target range for the fed funds rate to 5.25% to 5.50% in July. The labour market has started to show more consistent signs of weakness, with the unemployment rate rising, wage growth slowing and workers having a harder time finding new jobs. As a result, market expectations for further hikes over a 12-to-24-month horizon have been pared. The market now expects that the Fed is essentially done tightening policy and will start cutting rates by the middle of next year.

Policymakers are likely to be slow to acknowledge the possibility of significant policy easing in order to ensure that inflation does not meaningfully re-accelerate. Price pressures in some parts of the U.S. economy, particularly in service businesses, remain relatively frothy. The Fed is unlikely to meaningfully ease policy as long as wage gains remain close to 4% per year, which we estimate to be above a level consistent with 2% inflation. Moreover, while the Fed believes its current policy stance is sufficiently restrictive, it has been surprised by the resilience of economic activity.

We see the pause in policy lasting until at least May of next year, absent a much-stronger-than-expected downturn in activity. We expect the fed funds rate to fall to 4.75% within the next 12 months. Our one-year forecast for the U.S. 10-year Treasury is 4.00%, about 30 basis points below yields at the time of writing.

Eurozone

The eurozone economy is clearly struggling given higher policy rates. While Europe's economy managed to avoid a widely expected recession in the immediate aftermath of the start of the war in Ukraine, mostly thanks to enormous fiscal transfers and a fortuitously warm winter, it has since stagnated. An expected fillip from China's recovery from the pandemic has failed to materialize, and fiscal transfers and the positive impact of a resumption of supply chains have largely run their course. The European Central Bank (ECB) hiked its policy rate by 25 basis points to 4.00% in September and continues to hold rates at levels not seen since before the global financial crisis 15 years ago.

Preventing policymakers from pivoting to rate cuts to support growth is an inflation rate that continues to run uncomfortably hot in the euro area. While the worst has probably been avoided, rapid wage growth is a particular area of concern as it can create a self-sustaining cycle of above-2% price rises that the ECB is keen to avoid. We think still-high inflation will keep policymakers from considering cuts until the middle of next year, before reducing the policy rate by 100 basis points by December 2024. Bond yields in Germany already reflect a poor outlook for growth and some investors expect cuts as 10-year government bond yields sit at 2.45%, well below the current policy rate. With so much gloom already priced into long-term bonds, we don't see yields falling much further over the next 12 months. Our forecast for 10-year bund yields is 2.50%.

Our forecast for 10-year bund yields is 2.50%.

We expect the policy balance rate to rise to 0.10%, from -0.10% now. Our forecast is for the yield on the 10-year Japanese government bond to be about 1.00% within a year's time, up from 0.67% at the time of writing.

Japan

The Bank of Japan (BOJ) continued to tighten monetary policy over the past quarter, further loosening its seven-year-long grip on government-bond yields. Instead of capping 10-year government yields at 1.00% with a promise to buy unlimited amounts of bonds, this level is now simply a "reference point." The shift is perhaps happening not a moment too soon, since both inflation and inflation expectations in Japan continue to rise. While modest compared with much of the developed world, price pressures in the country are at multi-decade highs. What's more, there are stronger signs in Japan than anywhere else that public attitudes toward expected price rises are changing.

We believe that further tightening of monetary policy in Japan is warranted barring a significant slowdown in economic activity. We expect the policy rate to rise to 0.10%, from -0.10% now. Our forecast is for the yield on the 10-year Japanese government bond to be about 1.00% within a year's time, up from 0.67% at the time of writing.

We forecast the policy rate will remain at 5% until mid-2024, and that the BOC will pivot to cutting rates in the third quarter of 2024, ultimately lowering the benchmark rate to 4.00% sometime within the next year.

Canada

We believe the Bank of Canada (BOC) has finished the current round of rate hikes after increasing the policy setting by 475 basis points to 5.00% since March 2022. The Canadian economy is starting to acutely feel the lagged impact of tighter financial conditions, with growth in gross domestic product (GDP) coming in at zero over the past several months.

Given record high levels of debt and high interest rates, Canadian households are cutting back their spending. According to the BOC, approximately 60% of residential mortgages are coming due for renewal over the next three years, and the money used to make higher mortgage payments will be unavailable to support consumption. The full impact of a rate hike is generally not felt until 12 to 18 months after the fact, suggesting we are just now feeling the full brunt of last year's aggressive rate moves. With elevated interest rates, businesses are holding back investments and borrowings. Economic weakness over the next few quarters will likely further reduce inflation.

We forecast that the policy rate will remain at 5% until mid-2024, and that the BOC will pivot to cutting rates in the third quarter of 2024, ultimately lowering the benchmark rate to 4.00% sometime within the next year. We forecast that Canadian 10-year government bonds will yield 3.0% at some point over the next 12 months.

Our forecast for the 10-year gilt yield to drop to 4% a year within a year, slightly below the prevailing yield at the time of writing.

United Kingdom

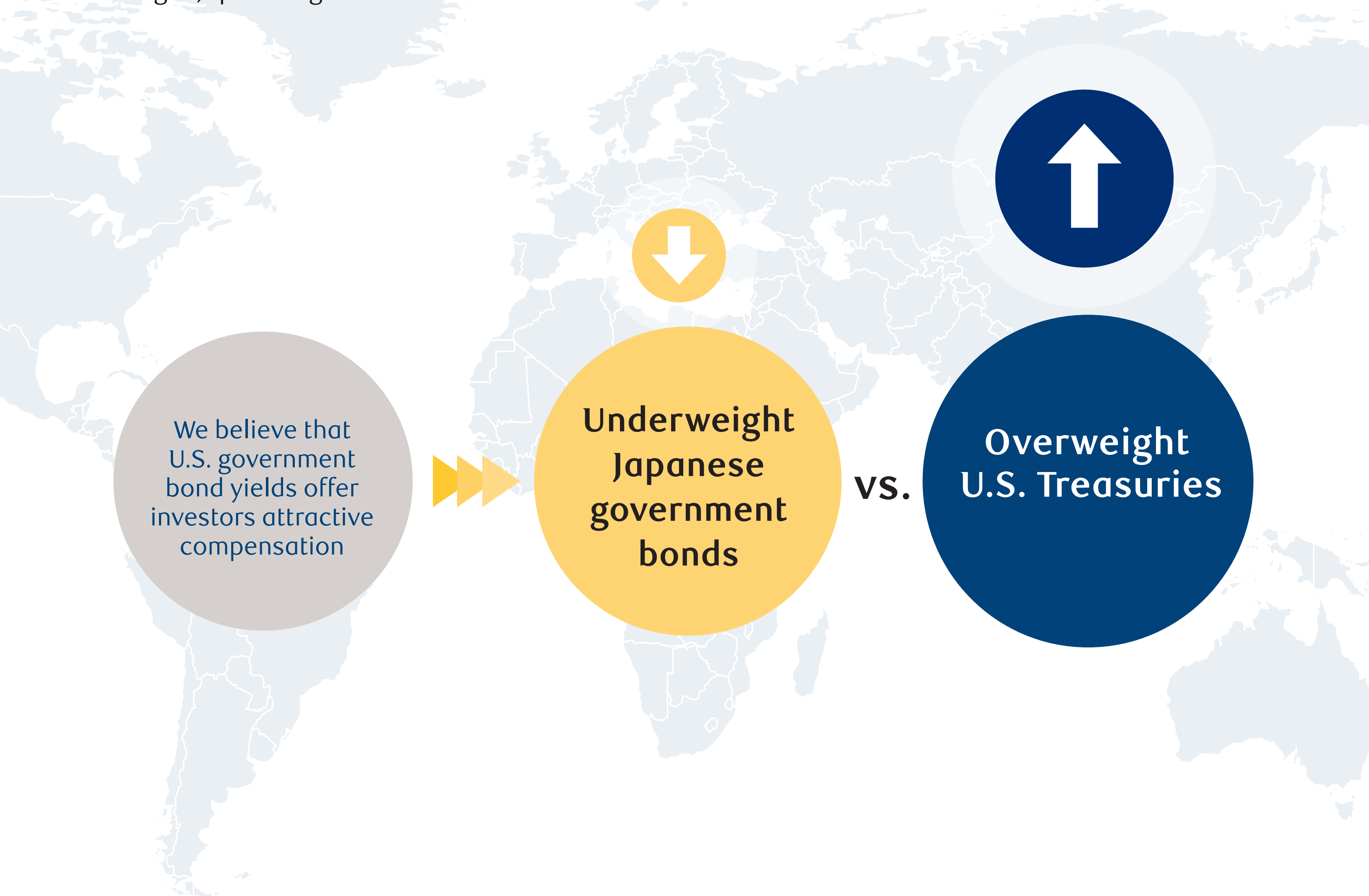
We expect the Bank of England (BOE) to pause its interest-rate hiking cycle, before starting to cut the policy rate in the second half of next year. Economic growth continues to be dismal, in part due to weak demand from the country's largest trading partner, Europe, the dampening effect of higher interest rates and fiscal restraint. Household consumption and business investment are likely to remain lackluster in the coming quarters, a lagged response to the 500 basis points of interest-rate hikes delivered since December 2022.

On the inflation front, October prices rose 4.6% compared from a year ago, a sharp deceleration from the 6.7% annual rise recorded in September. The bulk of the decline was due to falling energy prices. The slowdown in price pressures bolsters the case for the BOE to hold its policy rate steady. However, core inflation, which excludes volatility food and energy prices, is still rising at 5.7%, far above the BOE's 2% target. We believe stagflation is a real risk for the UK. Wage growth remains very high and this will make it more difficult to lower inflation from the current 5%-6% pace to 2%-3%. In view of the higher-than-average inflation risk, we think the BOE will be on hold for longer than most other central banks, at least until the economy is in a deep slowdown. We pencil in 75 basis points of rate cuts in the BOE policy rate to 4.50% from the current 5.25%, most of which will likely take place in the latter part of our forecast horizon.

Our forecast for the 10-year gilt yield to drop to 4% a year within a year, slightly below the prevailing yield at the time of writing.

Regional outlook

We believe that U.S. government-bond yields offer investors attractive compensation, and that a slowdown in the economy should lead to lower yields over the next 12 months. In contrast, Japan's transition to a post-yield-curve-control monetary-policy stance is still in its early stages and we expect further yield rises. We therefore recommend being overweight U.S. Treasuries and underweight Japanese government bonds.



Interest-rate forecast: 12-month horizon

Total-return calculation: November 30, 2023 – November 30, 2024

U.S.						
	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	4.75%	4.00%	3.90%	4.00%	4.25%	5.96%
Change to prev. quarter	0.25%	(0.10%)	0.15%	0.50%	0.35%	
High	6.50%	6.25%	6.00%	6.00%	6.00%	(2.76%)
Low	3.00%	2.85%	3.25%	3.50%	3.90%	8.99%
Expected Total Return US$ hedged: 5.4%						

Germany						
	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	3.00%	2.50%	2.25%	2.50%	2.85%	1.60%
Change to prev. quarter	(0.75%)	(0.50%)	(0.50%)	(0.10%)	0.35%	
High	4.50%	4.00%	3.75%	3.60%	3.60%	4.78%
Low	2.00%	1.75%	1.75%	1.75%	2.25%	10.26%
Expected Total Return US$ hedged: 3.1%						

Japan						
	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	0.10%	0.40%	0.50%	1.00%	1.85%	(1.16%)
Change to prev. quarter	0.10%	0.20%	0.10%	0.25%	0.15%	
High	0.50%	1.00%	1.25%	1.75%	2.50%	(9.72%)
Low	(0.10%)	0.01%	0.25%	0.50%	1.40%	5.41%
Expected Total Return US$ hedged: 3.6%						

Canada						
	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	4.00%	3.30%	3.10%	3.00%	3.20%	5.72%
Change to prev. quarter	(0.25%)	(0.45%)	(0.15%)	0.00%	0.10%	
High	5.75%	5.50%	5.25%	5.00%	4.75%	(4.05%)
Low	2.50%	2.60%	2.60%	2.75%	3.00%	7.84%
Expected Total Return US$ hedged: 5.0%						

U.K.						
	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	4.50%	4.00%	3.80%	4.00%	4.75%	4.87%
Change to prev. quarter	(0.75%)	(0.75%)	(0.70%)	(0.25%)	0.25%	
High	6.25%	6.00%	5.80%	5.75%	5.50%	(4.63%)
Low	3.50%	3.00%	2.75%	3.00%	4.00%	13.07%
Expected Total Return US$ hedged: 4.7%						

Source: RBC GAM

Currency markets

Dollar to find its way lower again

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Daniel Mitchell, CFA
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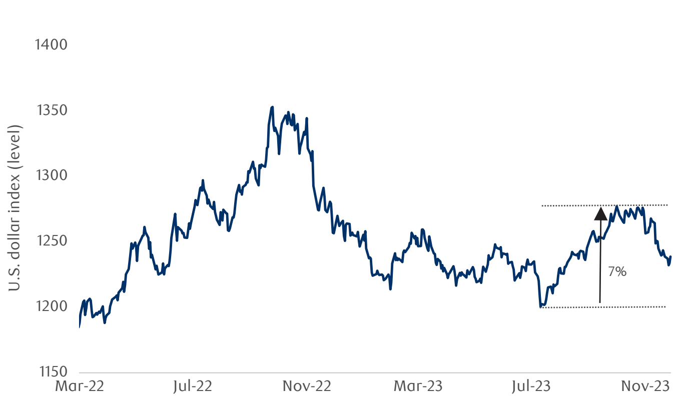
The U.S. dollar has remained elevated for longer than we had expected. Elements that were supportive of the greenback are starting to fade, however, and there are signs that fiscal concerns and a slowing economy have started to weigh on the currency, which sits more than 20% above fair value. As this process unfolds, we forecast that the dollar will weaken against major currencies such as the euro and Japanese yen. We are relatively more cautious on emerging-market currencies in the short term, though they are likely as a group to benefit over the longer term from a persistent decline in the U.S. dollar.

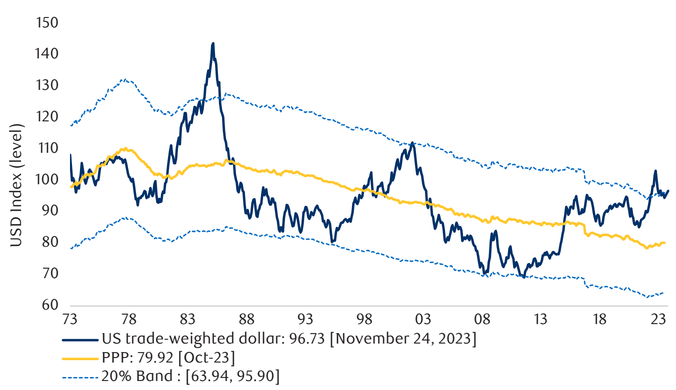
The U.S. dollar rallied 7% between July and October (Exhibit 1), recording its high for 2023 in early October and reinvigorating the debate about whether the greenback could continue to strengthen. Even before the rally, the dollar was extremely overvalued. Purchasing-power-parity (PPP) models indicate that the currency is 21% rich on a trade-weighted basis (Exhibit 2) and the overvaluation persists relative to most currencies. However, many of the factors that had recently propped up the dollar are fading. Among these was demand linked to the pandemic, as investors sought the

Exhibit 1: The U.S. dollar rallied in the fall of 2023



Note: As at November 30, 2023. Source: Bloomberg, RBC GAM

Exhibit 2: USD – Purchasing Power Parity Valuation



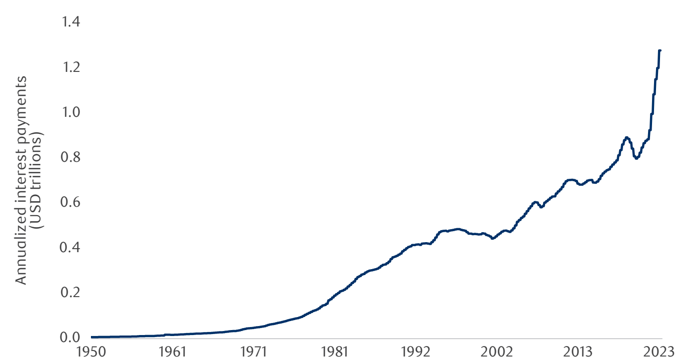
Note: Uses new Fed USD index (USTWAFE Index) from Dec 31, 2019. As at November 24, 2023. Source: U.S. Federal Reserve, Bloomberg, RBC GAM safety of high-quality U.S. assets. Also bolstering demand for the greenback were relatively high interest rates after an inflation scare prompted the U.S. Federal Reserve (Fed) to hike interest rates by more than other developed-market central banks. These factors have dissipated meaning today's lofty levels will be hard to maintain. We believe that a 10%-20% decline in the greenback within the next year or two is much more likely than a rally of similar size.

Recent events and the currency's November decline corroborate this view. The dollar fell 3% in November in response to a number of new developments:

1. **Weaker U.S. economic data**. Unexpected softness in the labour market, consumer spending and industrial production hint that the miraculous outperformance gap of the U.S. economy over its global peers is likely to narrow.
2. **Increased investor focus on fiscal policy.** The threat of another government shutdown in early November as well as debate over support for Israel and Ukraine have brought U.S. fiscal policy into the limelight. A decade of unrestrained spending and tax cuts have added considerably to the U.S. debt load and, alongside higher interest rates, the cost of financing this debt has skyrocketed in 2023. Annual interest costs have risen above US$1 trillion (Exhibit 3) – a level so obviously unsustainable that investors have become wary and rating agencies look poised to again downgrade the country's credit rating, denting perceptions that U.S. bonds are the safest securities around.
3. **Chinese fiscal stimulus**. Investor expectations of economic activity in both Europe and China are severely depressed. Chinese policymakers now seem intent on supporting the economy by loosening monetary and fiscal conditions, actions that could stem the decline in growth and surprise pessimistic investors.

For investors to truly embrace the U.S. dollar sell-off, however, they will need to see greater economic momentum in the rest of the world rather than simply a less severe slowdown. While it's true that a weaker U.S. economy will dampen prospects for the dollar, the direction and magnitude of changes in the greenback are driven to a greater extent by economic conditions outside of the U.S. (Exhibit 4). The dollar tends to weaken more when the global economy accelerates because economic optimism draws capital away from the U.S.

Exhibit 3: U.S. interest payments are going parabolic



Note: As at September 30, 2023. Source: U.S. Bureau of Economic Analysis, RBC GAM

Exhibit 4: Average weekly performance of the U.S. dollar

		Change in rest of world growth forecast	
		Down	Up
Change in U.S. growth forecasts	Down	0.82%	-1.27%
	Up	0.57%	-1.17%

		% of times USD weakend	
		Down	Up
Change in U.S. growth forecasts	Down	45%	80%
	Up	37%	53%

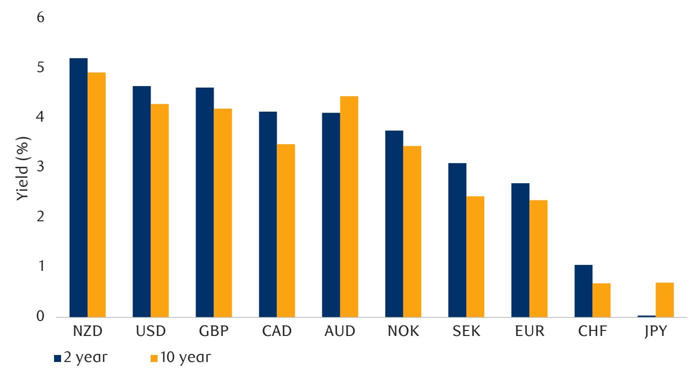
Note: Uses quarterly data since 2002. As at September 29,2023. Source: J.P. Morgan, RBC GAM

Another important consideration for foreign-exchange markets is the trajectory of bond yields. Currencies tend to take their cue from relative yields as regions offering higher interest rates are more likely to attract investments. The U.S. dollar has been the beneficiary of such capital inflows thanks to aggressive interest-rate hikes by the Fed, which made the U.S. one of the highest-yielding regions among developed nations (Exhibit 5). Looking a bit more closely at the slope of the yield curve – the difference in yield between long- and short-maturity bonds – offers further insight into how currency markets might behave. Aggressive Fed hikes over the past year caused the short end of the curve to rise, an environment usually referred to as a "bearish flattening." When short-term yields rise enough to invert the yield curve as happened in mid-2022, markets anticipate that the Fed has gone far enough in tightening policy and that a recession is on its way. What typically follows, as shown in Exhibit 6, is a "bull steepening" environment – a fall in the front end of the curve as central banks scramble to ease policy.

With the Fed widely seen to have completed its rate-hiking cycle, we expect such a transition in the bond market. This shift supports our bearish view on the dollar, as bull steepening has been found to be the most negative environment for the greenback (Exhibit 7). While investors are likely to demand higher long-term interest rates to compensate them for the deteriorating credit risk associated with high fiscal deficits, it is typically shorter-term yields that are more influential in driving capital flows in the massive US$7-trillion-per-day currency markets.

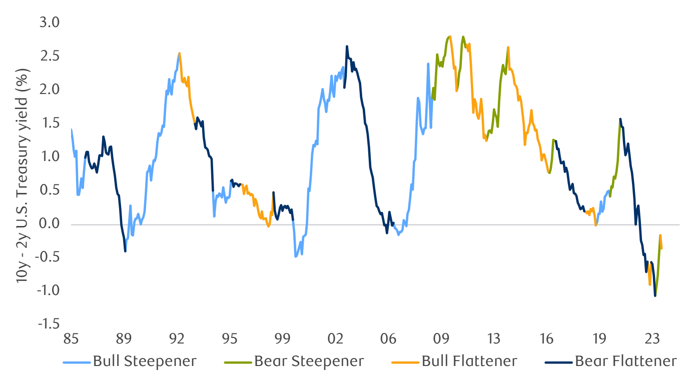
Given the extent to which emerging-market currencies have already strengthened, we expect that major developed-market currencies will be the main beneficiaries of the dollar's initial slide over the next year. We expect emerging-market currencies to resume their rise once the U.S.-dollar bear market becomes entrenched and global economic growth establishes a firmer footing.

Exhibit 5: U.S. yields among the highest in the G10



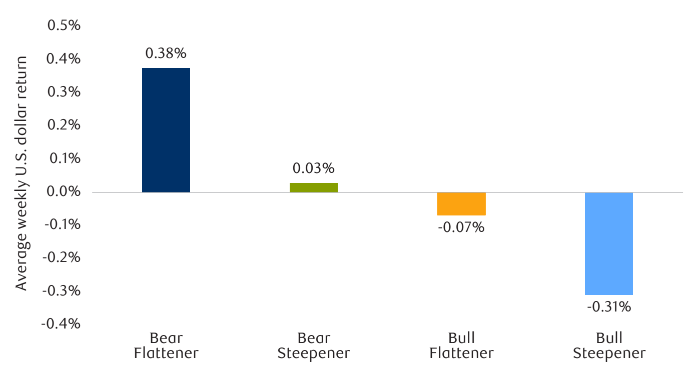
Note: As at November 27, 2023. Source: Bloomberg, RBC GAM

Exhibit 6: U.S. yield-curve regimes



Note: As at November 30, 2023. Source: Bloomberg, RBC GAM

Exhibit 7: U.S.-dollar performance in various curve regimes



Note: As at November 24, 2023. Source: Bloomberg, RBC GAM

Emerging markets

Emerging-market currencies have held up much better than most investors had anticipated in the wake of the Fed's aggressive pace of rate hikes over the past 18 months. The group has delivered total returns of 18% since the U.S. dollar peaked in September 2022, outperforming G10 currencies by an average of 8 percentage points (Exhibit 8). The stronger gains are largely attributable to higher yields in developing economies as emerging-market central banks raised rates even more aggressively than the Fed. Real yields, the rate of interest after accounting for inflation, look especially attractive for investors now that emerging-market inflation has ebbed. While investors shied away from emerging-market currencies over the summer, the capital shifts would likely have been much worse without the draw of positive real yields.

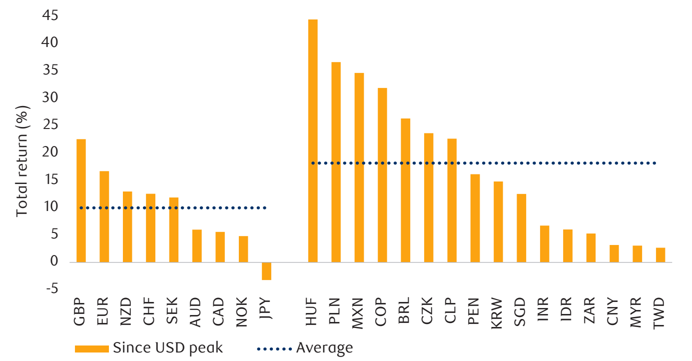
Mindful of inflation, emerging-market central banks have been especially sensitive to currency weakness that could further raise the price of imported goods. In addition to keeping interest rates elevated, many have also propped up their currencies through direct purchases. Several Asian countries, among them some of the largest holders of U.S. dollars, have used their influence to prevent disruptive currency weakness. These actions have had a stabilizing effect on the overall currency market and have limited the extent to which the greenback could strengthen.

Additional positives for emerging-market currencies include the fact that exchange rates already factor in significant geopolitical risk, that U.S. yields have room to decline, that lower oil prices help energy importers and that the market is already positioned defensively.

There are reasons why investors may temper their optimism on emerging-market currencies. These include softer global economic growth and the valuations that are no longer as cheap as they were in the middle of 2021. We also observe that several emerging-market central banks have begun to signal rate cuts, which could threaten the yield advantage that has been one of the main pillars of support for emerging-market currencies.

So, while we expect U.S.-dollar weakness to benefit emerging-market currencies in the longer term, our view has become more balanced in the short term. We suspect that emerging-market currencies may lag their developed-market peers as soft U.S. economic growth initially pulls the greenback lower. However, as the U.S.-dollar bear market becomes entrenched, emerging-market exchange rates will again gain momentum.

Exhibit 8: Developed- and emerging-market currency performance



Note: Data since September 28, 2022. As at November 28, 2023.
Source: Bloomberg, RBC GAM

Euro

Europe's macroeconomic problems are plain to see: two wars on its doorstep, a slowing economy and the threat to energy stockpiles if this winter proves to be a cold one. The relatively quick drop in prices for goods and services (Exhibit 9), while good for the consumer, may also offer a challenge for the single currency because it raises the likelihood that the European Central Bank (ECB) could cut rates sooner than the Fed. It's for these reasons that investor sentiment toward Europe has soured.

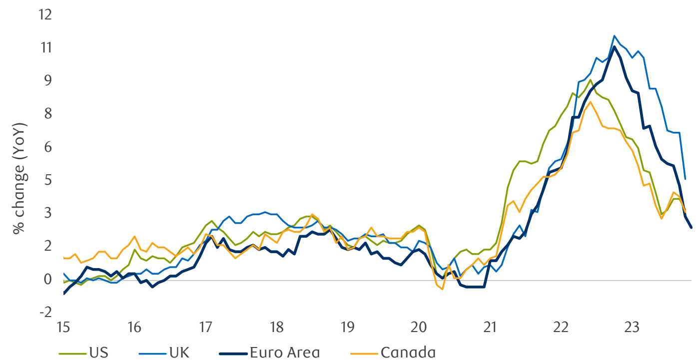
Looking a bit more closely, though, we see that key metrics of business sentiment including purchasing managers indexes have stabilized – a sign that the worst for Europe may have passed. Moreover, economic surprises suggesting a firmer economic outlook are also occurring more frequently in Europe these days in contrast to similar U.S. data (Exhibit 10). The recent softening of U.S. data has pushed U.S. 10-year yields down by 30 basis points more than those on German bunds, causing the euro to rise to US$1.10 as of November 30 from US$1.045 in early October.

The decline of European inflation also offers a helping hand to consumers amid wage gains that are typically stickier in Europe than in other regions. Economists expect inflation to fall even as wages continue to rise, translating into greater purchasing power and a higher standard of living for Europeans.

One final leg holding up the euro is the expected repatriation of the 4 trillion euros invested abroad between 2014 and 2022, when the ECB imposed negative interest rates on European savers. Only a fraction of that money has returned to Europe, but with short-term interest rates 4.5 percentage points higher than they were 18 months ago, we expect to see gradual and persistent demand for the euro as this money finds its way home. This allocation shift will accelerate as Europe's economic prospects improve relative to the U.S..

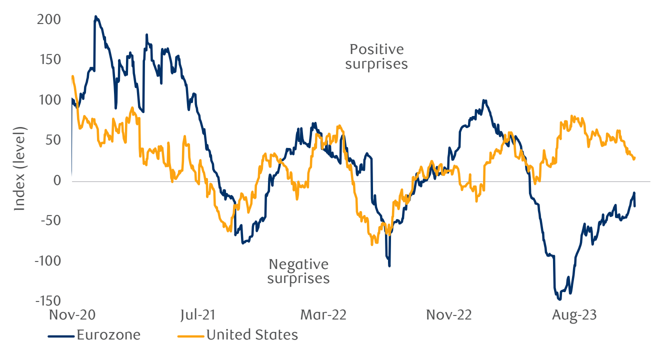
Our euro forecast of US$1.21 implies that the euro will rise 10% in 2024. This may seem aggressive compared with the narrow trading range over the past year but is small in the context of regular currency-market fluctuations and relative to the euro's average 18% annual range from the past four decades (Exhibit 11). The tailwind of a broad U.S.-dollar decline will contribute to the euro rally, and so the euro should end the year stronger even in the absence of a rosy European economic outlook.

Exhibit 9: European inflation falling faster than in other regions



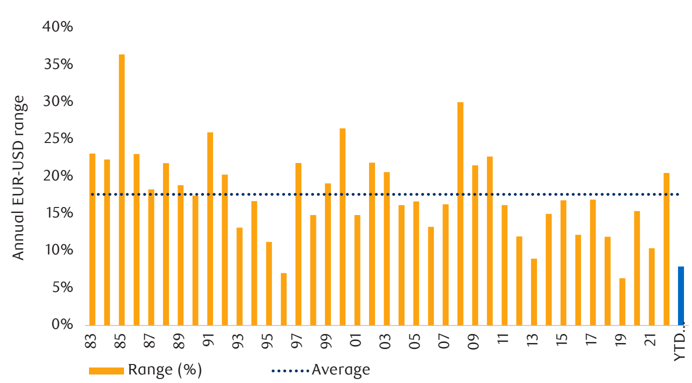
Note: As at November 30, 2023. Source: U.S. Bureau of Labour Statistics, U.K. Office of National Statistics, Eurostats, Statistics Canada, RBC GAM

Exhibit 10: Improving European data surprises



Note: As at November 30, 2023. Source: Citi, RBC GAM

Exhibit 11: Euro trading in tight range relative to history



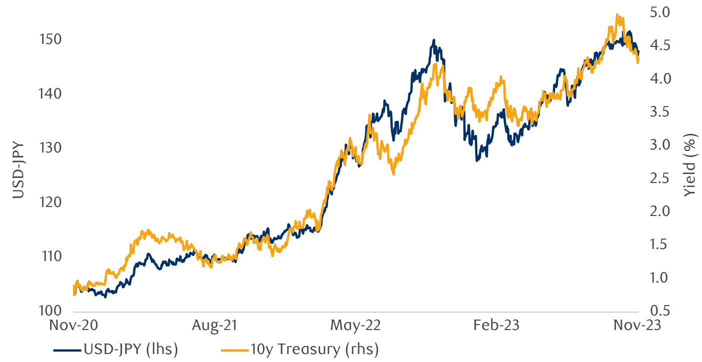
Note: As at November 29, 2023. Source: Bloomberg, RBC GAM

Japanese yen

The yen has traded as we would expect given movements in bond yields (Exhibit 12), weakening as the Fed has hiked rates and as the Bank of Japan (BOJ) remains stubbornly on hold. The move has been contained by the threat of intervention by the Ministry of Finance, which has warned that it could purchase yen to fend off excessive declines. Realistically, intervention will do little to slow the massive capital movements aiming to capture the historically wide yield differences between Japan and the rest of the world. Global bond investors have shunned Japan for better returns elsewhere and investors are still shifting funds from Japan at the fastest pace in decades and at a rate that outpaces even the country's solid income receipts from assets held abroad.

A change in sentiment toward the yen will only materialize when Japan's interest-rate disadvantage narrows, and there's scope for this to happen in two ways. The first would be via interest-rate cuts by other developed-market central banks and the second through a tightening in policy by the BOJ. We think both of these outcomes are plausible over the next 12 months, particularly the latter, as wages rise at a solid clip in Japan and as core inflation climbs to highest levels since the early 1980s (Exhibit 13). Our forecast of 130 yen per dollar, versus about 147 now, implies that the yen will be among the best-performing currencies in 2024. The forecast relies heavily on U.S.-dollar weakness and an interest-rate pivot by the Japanese central bank.

Exhibit 12: USD-JPY closely tracks U.S. yields



Note: As at November 30, 2023. Source: Bloomberg, RBC GAM

Exhibit 13: Japanese core inflation at multi-decade highs

Note: As at November 30, 2023. Source: Japan Ministry of Affairs and Communications, RBC GAM

Canadian dollar

Our long-term view on the Canadian dollar is similar to our outlook for emerging markets: The loonie may face challenges in the short term, but the long-term outook is positive.

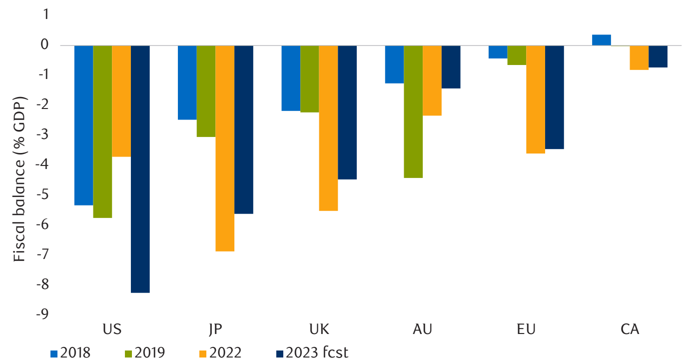
The longer-term outlook is predicated on our expectation of sustained U.S.-dollar weakness and strong social and economic factors that will promote demand for the Canadian currency. Examples of these factors include the country's inclusive society, strong banking system and wealth of natural resources, all of which establish Canada as an attractive destination for immigrants and long-term investors. We may also consider Canada's fiscally prudent stance relative to other major developed economies (Exhibit 14). Accelerated immigration, while a topic of mounting criticism for its perceived impact on house and rental prices (Exhibit 15), will boost the country's productive capacity in coming decades.

The reasons we are more skeptical in the short term are twofold. First, a cyclical slowdown in the U.S. will weigh on the Canadian economy, which sends 70% of its exports to the U.S. The possibility that oil prices will decrease due to lower global demand for energy would also weigh on sentiment for a currency that is linked to oil prices, albeit less than has previously been the case.

Second, Canadian households are financially stretched, and the impact of higher interest rates will continue to be felt well beyond the last Bank of Canada rate hike. We don't expect an imminent collapse in real-estate prices as immigration remains supportive for housing. Instead, we think that higher debt-servicing costs will erode disposable income and thus reduce demand for other goods and services.

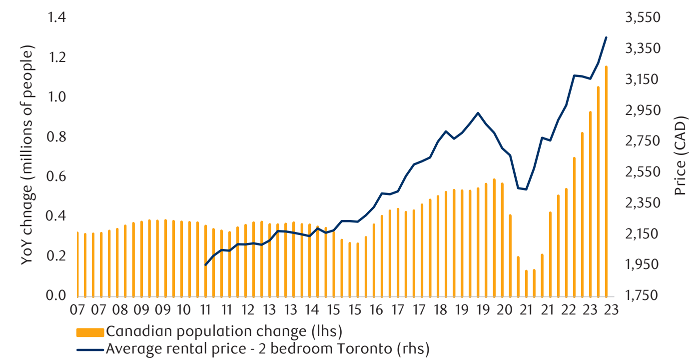
These factors do not stop us from anticipating that the Canadian dollar will strengthen over the next year. Our 12-month forecast of $1.27 per U.S. dollar attempts to look beyond the next few months as the U.S. dollar is expected to decline across the board over the next year. We do, however, see the loonie underperforming other major currencies such as the euro and Japanese yen in 2024, while it should fare better than the British pound.

Exhibit 14: Canada in stronger fiscal position than peers



Note: As at December 31, 2022. Source: Bloomberg, RBC GAM

Exhibit 15: Immigration driving rental prices higher



Note: As at October 31, 2023. Source: Statistics Canada, Toronto Real Estate Board, RBC GAM

British pound

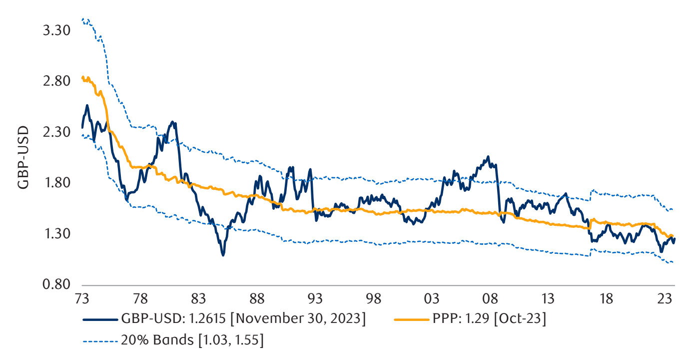
The pound has delivered a 10% total return versus the dollar so far in 2023 and has been the top-performing developed-market currency over that period. The magnitude of sterling's gains has surprised us given that, aside from the U.S. dollar, the pound has been our least favourite G10 currency. The bounce from large declines in 2022 represents a reversal of investor pessimism and so is unlikely to be repeated.

We expect the currency to lag those of other developed markets as the country contends with rising unemployment, sticky inflation and lower real interest rates than its peers (Exhibit 16). The pound also stands out in that it is among the minority of currencies that are not substantially undervalued against the U.S. dollar (Exhibit 17). At US$1.27, the currency is only slightly cheap according to valuation models and will likely become overvalued as its fair value drops in reaction to a high inflation-linked diminishment in purchasing power. We forecast that the pound will rise to US$1.31 sometime over the next 12 months, benefiting only modestly from generalized U.S.-dollar weakness.

Exhibit 16: Real 5-year UK vs. developed market yields

Note: DM yield is the average 5y real yields for USD, EUR, JPY, SEK, AUD, CAD. As at November 30, 2023. Source: Macrobond, RBC GAM

Exhibit 17: GBP-USD – Purchasing Power Parity Valuation



Note: As at November 30, 2023. PPP = Purchasing Power Parity. Source: Bloomberg, RBC GAM

Regional outlook – United States

Brad Willock, CFA
V.P. & Senior Portfolio Manager
RBC Global Asset Management Inc.

U.S. stocks, measured by the S&P 500 Index, rebounded strongly from a rough start to finish up 1.7% in the three months ended November 30, 2023. Stocks were down as much as 8% in late October, but lower-than-expected inflation triggered a decline in bond yields and ignited a broad November rally that produced the fourth-highest monthly return in 12 years. Interest-rate-sensitive and growth-oriented sectors led the way with Information Technology, Communication Services and Financials outperforming the index, while defensive sectors continued to lag, including utility companies, sellers of consumer staples and health-care providers. The Energy sector was the biggest laggard as the price of crude oil fell 22% from its late September peak. Clearly, the widely held view that a recession was on its way has faded, and investors appear to have concluded that an economic soft landing is the most likely outcome.

Let's begin our review with the big picture. The economy has been incredibly resilient, growing at a pace that was above the historical average during the first three quarters of this year – even as policy rates reached their highest in more than two decades. Historically, rising interest rates would deter companies from building factories and buying equipment, but capital spending has been particularly strong thanks to government subsidies and tax credits aimed at easing the energy transition, especially for battery and electronic-vehicle manufacturing, and the semiconductor industry. Indeed, there is a backlog of over US$500 billion of projects that should continue to support the economy for several years.

Rising interest rates typically depress consumer spending by raising borrowing costs, reducing demand for big-ticket items such as cars and houses. This cycle, however, has not been typical. The economic stimulus and zero-interest-rate setting that prevailed during the COVID-19 pandemic created a windfall for many consumers. At the end of 2022, debt-service ratios for most consumers were at 30-year lows, while debt-to-income ratios were the lowest in 20 years. There is still an unusual amount of savings on household balance sheets, and, unlike 2007, homeowners have substantial equity in their properties. The household balance sheet plays a big role in the resilience of U.S. consumers, and financial flexibility remains supportive.

The last pieces of the big picture have to do with the U.S. Federal Reserve's (Fed) purview – inflation, labour markets and interest rates. Inflation appears to be ebbing. Supply-chain pressures have eased and goods prices are actually falling. In services, the labour market appears to be loosening up. Surveys point to a weakening of the employment market evidenced by the fact that, with jobs harder to come by, fewer people are quitting. However, it is notable that unemployment claims are low and the unemployment rate, though up slightly, remains below 4%.

United States – Recommended sector weights

	S&P 500	
Energy	4.0%	1.0%
Materials	2.4%	-0.9%
Industrials	8.4%	1.1%
Consumer discretionary	10.9%	-0.4%
Consumer staples	6.3%	-1.0%
Health care	12.8%	-0.3%
Financials	13.0%	-0.1%
Information technology	28.8%	1.4%
Communication services	8.5%	1.0%
Utilities	2.4%	-0.9%
Real estate	2.5%	-0.8%

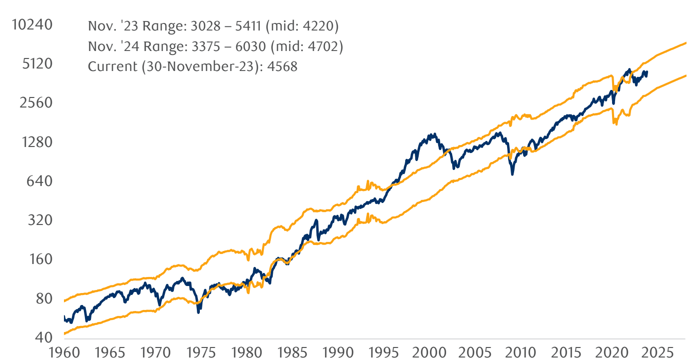
-1.5% -1.0% -0.5% 0.0% 0.5% 1.0% 1.5%

Underweight | Overweight

Note: As of November 30, 2023. Source: RBC GAM

> "We believe equity investors are anticipating a soft landing, which seems the most likely outcome, but not the only one."

S&P 500 Equilibrium
Normalized earnings and valuations



Source: RBC GAM

In our view, the labour market has moved from being extremely tight to a more normal state. This shift is most apparent in low-skill service positions, where wage growth has fallen from about 9% to 4% over the past 18 months. The Fed has hiked rates 5.25 percentage points in 20 months and financial conditions have tightened. The demand for and supply of credit is shrinking, delinquency rates for credit cards and auto loans have picked up, and housing-market activity has slowed dramatically. The economy is set to slow in the current quarter and into the first half of 2024, which in our view, means the Fed is probably done raising rates this cycle. If policymakers remain patient, inflation is likely to keep fading as the economy decelerates while households and businesses slowly adapt to the higher cost of money.

Next let's consider the outlook for corporations. Aggregate earnings per share for companies in the S&P 500 will likely increase by 1% to 2% this year. If we exclude energy from the analysis, however, EPS will likely be up 5% to 7%. In the third quarter, profit margins excluding energy were 12%, near the pre-pandemic high reached in 2018, and less than a point short of the 2021 record. Free-cash-flow margins were also 12% in the period, with those of the Information Technology sector twice that level. Of note, over half of companies reported an increase in profit margins, and earnings growth outpaced revenue growth for the first time in two years. Analysts anticipate that EPS will increase 4.5% in the current quarter and 10% next year. While those estimates may seem optimistic, 10% is actually below what earnings often turn out to be in a given year.

As has been the case all year, the performance of the index has been driven by its seven largest members, the so-called "Magnificent 7." This group, which includes Microsoft, Apple and Nvidia in the Information Technology sector; Google and Meta in Communication Services; and Amazon and Tesla in Consumer Discretionary, now comprises almost 30% of the market capitalization of the S&P 500. The group's market values have collectively increased 70% so far this year and the stocks trade at about 30 times forward earnings, while the remaining 493 index stocks have gained just 6% and trade at 16 times earnings. Analysts expect the Magnificent 7 to deliver faster growth than the rest of the index in terms of revenue (11% versus 3%) and earnings (19% vs. 10%), respectively. When we put all the pieces together, expectations for the Magnificent 7 are elevated and the risk/reward favours allocating incremental capital to other members of the S&P 500.

That brings us to where we stand today. At roughly 4570, the S&P 500 is up about 21% this year and trades at 19 times the consensus 12-month estimate for aggregate S&P 500 earnings of US$245. We believe equity investors are anticipating a soft landing, but it is not the only possibility. We have rebalanced our portfolios, adding to Financials and some defensive sectors to account for the greater-than-normal uncertainty in the outlook.

Regional outlook – Canada

Sarah Neilson, CFA
V.P. and Senior Portfolio Manager
RBC Global Asset Management Inc.

Irene Fernando, CFA
V.P. and Senior Portfolio Manager
RBC Global Asset Management Inc.

Canada's stock benchmark, the S&P/TSX Composite Index, fell 0.6% on a total-return basis over the three months ended November 30, 2023. In U.S.-dollar terms, the S&P/TSX was flat, lagging the S&P 500 Index, which advanced 1.7%, and the MSCI World Index, which gained 1.6%. Over the 12-month period ended November 30, the underperformance of the S&P/TSX relative to global markets was more pronounced. The S&P/TSX was up 1.4% over the past year in U.S. dollars, while the S&P 500 gained 13.8%. Canadian underperformance resulted from the sector composition of the two markets, with U.S. equities supported by seven large-cap technology stocks that represented, at one point, 28% of the S&P 500. All had recorded hefty returns in part due to optimism about their exposure to artificial intelligence. The Information Technology sector was also Canada's best-performing sector but makes up only 7% of the index. In October, stocks fell amid economic worries after yields on Canadian and U.S. 10-year government bonds climbed to the highest levels since the financial crisis 16 years ago. Interest rates retreated into November, and Canadian equities rebounded 7.5% that month, further aided by strong corporate earnings.

Inflation continues to moderate but remains above targets set by central banks. Lower gasoline prices have helped lower inflation to 3.1% in Canada, partially offset by housing costs pulled higher by rising mortgage rates and rents. The Bank of Canada (BOC) held its benchmark interest rate at 5% in October, noting that the rapid rise in long-term interest rates had tightened financial conditions and should aid in slowing economic growth. The BOC is projecting that inflation will remain close to 3% for the next two years given persistently tight labour markets, and higher energy and housing costs. Adding to inflationary pressures, Canada has added about 1.2 million people to its population over the past year, contributing to an increase in consumer spending and housing demand.

Economic data continues to weaken in Canada and many forecasters expect the economy to slip into a recession next year. Growth forecasts reflect the lagged impact of tighter financial conditions, with Canada's GDP expected to grow only 0.6% in 2024, compared with forecast growth of 1.2% for the U.S. The BOC has also decreased its growth forecast for 2024, pointing to weaker consumer spending and housing. While a persistently tight labour market has supported the economy since the pandemic, recent data suggests the excess demand for workers is waning. A more expeditious return to 2% inflation will allow central banks to stop hiking interest rates and presumably lower them at some point next year.

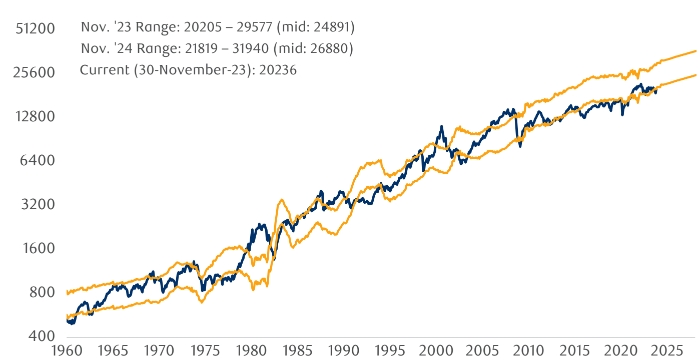
Canada – Recommended sector weights

Sector	S&P/TSX Composite	Underweight / Overweight
Energy	17.6%	1.4%
Materials	11.1%	-0.7%
Industrials	13.7%	0.8%
Consumer discretionary	3.7%	-0.2%
Consumer staples	4.3%	0.4%
Health care	0.3%	-0.3%
Financials	30.3%	-0.6%
Information technology	8.6%	0.0%
Communication services	4.0%	-0.3%
Utilities	4.0%	-0.3%
Real estate	2.4%	-0.4%

Note: As of November 30, 2023. Source: RBC GAM

> “The main challenge is Canadian consumers facing higher interest rates, and many homeowners could have trouble affording their mortgages when their contracts come up for renewal over the next two years.”

S&P/TSX Composite Equilibrium
Normalized earnings and valuations



Source: RBC GAM

The Information Technology sector, led by Shopify, was up 8% over the past three months. The recovery in Shopify shares was the biggest contributor to the sector, returning 68% so far this year. Shopify accounts for almost half the weight of Canada's Information Technology sector.

Continued economic resilience, robust growth expectations and a potential for productivity and profits to benefit from artificial intelligence have supported technology stocks this year. The Consumer Staples and Consumer Discretionary sectors have also performed well this year. The rapid rise in interest rates continues to weigh on equities in the Real Estate, Utilities and Communications Services sectors. The Financials sector, dominated by the big banks, declined as investors remain concerned that the negative impact of higher interest rates on the economic outlook will require banks to set aside more capital for credit losses.

S&P/TSX earnings expectations for 2023 reflect a 5% decline over the prior year, mainly due to lower commodity prices and weaker bank earnings. Investors expect earnings growth to rebound to 10% next year, as financial results improve in the Financials, Energy and Materials sectors. This outlook will likely prove optimistic should a recession materialize. The S&P/TSX currently trades at 12.9 times forward earnings, below its long-term average of 14.5, with the largest sectors in the index valued at discounts to their historical averages. Given the differences in market composition, the S&P/TSX is trading at a wide discount to the S&P 500, a situation that is likely to persist.

The large six banks currently trade at 10 times forward earnings, representing a 10% discount to the historical average and a notable drop in expectations since May 2022. Analysts' estimates for next year's bank earnings have come down 14% since the beginning of this year, indicating the substantial impact of higher interest rates on their business models. The existing operating environment is marked by reduced demand for loans, higher funding costs, increased expenses and provisions for credit losses. The consensus estimate is for flat EPS in fiscal 2024, followed by a 5% increase the following year. These projections consider a return to pre-pandemic levels of credit losses but assume the economy avoids a recession.

The main challenge is Canadian consumers facing higher interest rates, as many homeowners could have trouble affording their mortgages when their contracts come up for renewal over the next two years. Banks are being forced by regulators to maintain high levels of capital, potentially impeding growth. The possibility of an economic soft landing could support bank stocks, but the sector is likely to trade at a discount to historical norms given the subdued outlook for EPS growth.

Canadian energy stocks were flat over the past three months, remaining resilient as investors have gravitated to the sector's strong cash flows in the face of a 15% drop in crude-oil prices. Global demand for crude oil has finally recovered from the COVID- related economic slowdown, and supply has equally recovered, leading to a balanced market. Prices are also supported by OPEC production cuts announced earlier this year. In a recession scenario, demand for crude oil is likely to wane and prices would likely pull back. Energy producers have benefited from oil prices above US$75 per barrel, and they have used this money to reduce debt, and boost share repurchases and dividends. We expect two major energy-infrastructure systems to come online by mid-2024: the $48 billion LNG Canada export facility in British Columbia, a Shell-led complex that prepare shipments of Canadian liquified natural gas to Asia; and the federal government's $31 billion Trans Mountain Expansion pipeline, which will transport Canadian crude oil from Alberta to the West Coast. These projects are expected to bring increased demand for the country's petroleum resources and could spur consolidation among producers as they try to lock up resources.

Gold prices recently surged above US$2,000 an ounce in November amid falling Treasury yields and related U.S.-dollar weakness, the growing expectation that interest rates will fall next year and geopolitical turmoil. Gold-related companies make up close to 7% of the S&P/TSX index and in our view do not fully reflect the recent move up in prices.

Regional outlook – Europe

David Lambert
Senior Portfolio Manager and Head
RBC Global Asset Management (UK) Limited

The drop in stocks over the summer reduced equity valuations to levels that we consider reasonably attractive and that are usually followed by rallies in value stocks. At the trough, a majority of European stocks traded near 10-year lows measured by price to book value. Even with the strong bounce since the beginning of November, equity valuations in Europe remain low.

The cheapness of value stocks is throwing up a dilemma for investors given that the European economy is weakening. The proportion of stocks at historically low valuations generally peaks into an economic slowdown, not ahead of one, and the current set-up indicates stock valuations could come under even more pressure if the economic contraction deepens.

The late stage of the economic cycle would suggest that we favour stocks with high and stable returns on capital, so-called "quality" stocks. However, these "safer" equities are carrying a bit more risk because their valuations are high versus "cheap" stocks. The valuation gap between quality and value is not as wide as it was in early 2022, but it remains elevated going back 40 years. In this environment, we think stock selection should move to the fore as we need to find the right balance of value, quality and momentum in specific equities.

Simply buying value stocks is dangerous at times when there has just been a big run-up in interest rates and the potential for an economic slowdown is increasing. Plenty of cheap stocks may be cheap because they reflect the risk of high debt loads and the likelihood of a squeeze on profit margins should revenues plunge. We note that, in Europe, just 42% of the cheapest quintile of stocks have sufficient cash flow to cover earnings before interest and taxes (the fixed-charge ratio).

In a low-interest-rate world, the funding gap might have been papered over easily enough through access to cheap debt. With that option in jeopardy or forestalled, however, tapping into equity markets may be the only way these companies can raise capital in a pinch. Even growth companies whose valuations are based mostly on future cash flows are no longer the golden goose they've been for the past 15 years. We must be more discerning in the stocks we buy, and in making sure we do not take on too much exposure to any one sector.

European leading Indicators declined in October for the fifth consecutive month, suggesting the threat of a looming recession. Against such a backdrop, the best bet for investors has often been high-quality, large-cap value stocks. Investing

Europe – Recommended sector weights

	MSCI Europe	
Energy	5.8%	1.0%
Materials	7.1%	-1.1%
Industrials	15.6%	1.4%
Consumer discretionary	10.8%	0.5%
Consumer staples	11.7%	-0.7%
Health care	15.2%	0.8%
Financials	18.1%	0.2%
Information technology	7.3%	0.7%
Communication services	3.2%	-0.7%
Utilities	4.4%	-1.1%
Real estate	0.9%	-0.9%

-1.5% -1.0% -0.5% 0.0% 0.5% 1.0% 1.5%

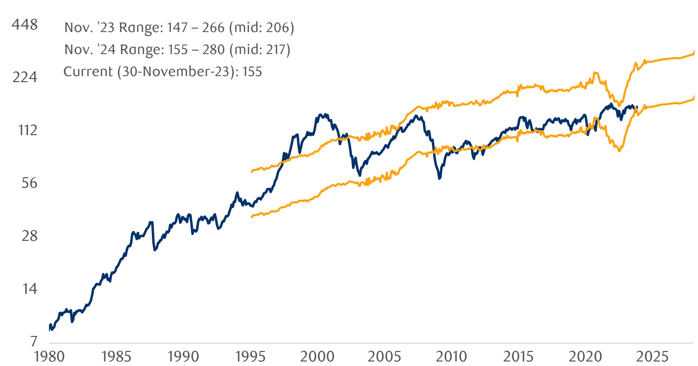
Underweight | Overweight

Note: As of November 30, 2023. Source: RBC GAM

> “Going forward, we think that an extended period of higher interest could benefit European stocks on a relative basis.”

MSCI Europe Index Equilibrium

Normalized earnings and valuations



Source: RBC GAM

in businesses whose returns are high and stable, and which can grow their asset base is usually a long-term winner provided that there is a margin of safety on valuation. However, valuations for these types of stocks have soared since the global financial crisis 15 years ago, eliminating much of that margin of safety.

European equity markets have underperformed versus the U.S. since the financial crisis, as historically low interest rates drove investors to pay higher valuations for the fast-growing companies that are more common in the U.S. Going forward, we think that an extended period of higher interest could reverse that process, benefiting European stocks on a relative basis. We are already seeing this trend unfold within Europe, where the valuation gap between the most expensive and cheapest stocks is beginning to close. We would never argue that European valuations should be on par with those in the U.S., but we do think the long-term discount should be closer to 20% rather than the 30% where it currently sits.

We also wonder whether investors are underestimating changes in the composition of the stocks in European benchmarks, as faster-growing, higher-quality industries like technology and luxury goods make up an increasing percentage of the benchmark at the expense of old-economy stocks such as telecommunications providers and banks. This shift has occurred in many regions, but Europe had lagged.

We hasten to add that this scenario does not rule out many traditional large-cap businesses. Europe may, in fact, be on the verge of a resurgence in capital expenditures involving energy and food security, infrastructure and defense, after the pandemic and Russia-Ukraine war exposed supply-side vulnerabilities. Such a shift could benefit Europe's higher weighting in Industrials, Materials and Energy.

We expect overall European earnings to fall 2.5% in 2023 due to particularly weak year-over-year numbers in the Energy and Materials sectors. Excluding these sectors, earnings gains should be in the low single digits, rising to 7% in 2024 – a little below average growth of around 10%.

Regional outlook – Asia

Chris Lai
Portfolio Manager
RBC Global Asset Management (Asia) Limited

Asian stocks were essentially unchanged during the three months ended November 30, 2023. Equity markets were flat in September and fell in October, with the decline due primarily to the potentially negative economic impact of the Israel-Hamas war and rising global interest rates. Equities recovered in November, as investors judged that the war would not expand and as U.S. interest rates started to fall. Exports for countries such as Japan and Taiwan remained solid, and domestic consumption was healthy across many Asian economies.

Within the region, notable underperformers included Thailand, Hong Kong and China, the latter of which was hurt by a moribund Chinese housing market and reluctant consumers. Taiwan, Japan and India outperformed, while Japanese stocks were aided by corporate-governance reforms aimed at encouraging companies to focus more on shareholder value. India was a strong performer given robust economic growth, relatively benign inflation, pro-business government policies and ample bank credit.

Across the region, the Information Technology, Financials and Materials sectors outperformed the benchmark, while Industrials and Real Estate underperformed.

Japan

The outlook for the Japanese economy has improved over the course of 2023, with the most recent GDP forecast rising to 1.8% from 1.3% at the beginning of the year. The economy has been helped by rising auto exports and declining use of imported liquified natural gas as more nuclear power comes online. We expect a pickup in domestic consumption from a low base and demand for services in the coming months to offset any drop in demand for exports.

Inflation remains under control, with 2023 CPI forecast at 3.0% for 2023, falling from a 3.6% rate in the first quarter, which was the highest since the 2010s. We expect inflation to be sustained above the 2% level given higher import costs, the weakest yen in more than three decades, higher oil prices and wage hikes.

The Bank of Japan (BOJ) continued to loosen its grip on long-term interest rates in October, taking another step toward ending its massive yield-curve-control stimulus program. Further adjustments will depend on the strength of Japanese consumption and the pace of inflation. In addition, the U.S. economic outlook is an important factor for the BOJ given the importance of exports.

Asia – Recommended sector weights

Sector	MSCI Pacific	Recommended weight
Energy	2.9%	0.6%
Materials	7.2%	-0.7%
Industrials	12.1%	0.9%
Consumer discretionary	15.0%	0.5%
Consumer staples	5.2%	-0.6%
Health care	6.2%	-0.7%
Financials	19.3%	-1.3%
Information technology	18.7%	1.3%
Communication services	8.1%	0.9%
Utilities	2.0%	-0.5%
Real estate	3.4%	-0.4%

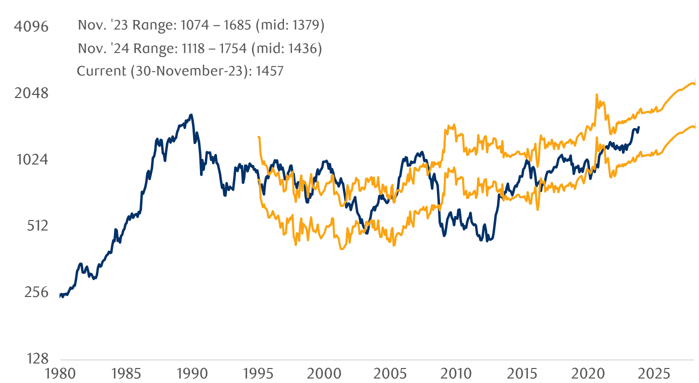
-1.5% -1.0% -0.5% 0.0% 0.5% 1.0% 1.5%

Underweight | Overweight

Note: As of November 30, 2023. Source: RBC GAM

> "…slowing economic growth around the world, and especially in China, remains a headwind to keep in mind."

MSCI Japan Index Equilibrium
Normalized earnings and valuations



Source: RBC GAM

Rest of Asia

China's economy is showing signs of stability, but we remain cautious on whether the bottom has come, especially in the areas of property and services. China's CPI has turned positive, suggesting that consumer prices will firm after a deflation scare. Economists have dropped GDP forecasts from earlier in the year but appear to be confident that the decrease in expectations has passed. The People's Bank of China continues to support the economy via rate cuts, and the government is taking steps to support the property market. Mortgage rates have fallen and curbs on home purchases have been lifted in Beijing, Shanghai, Shenzhen and China's other megacities.

In Hong Kong, retail-sales growth has remained strong, but private investment continues to face headwinds due to high interest rates. Hong Kong's currency peg means that monetary policy follows the actions of the U.S. Federal Reserve (Fed), and the Fed's decision to pause interest-rate hikes in September provided a bit of relief to investors and consumers. Hong Kong's government recently announced a cut in the duty imposed on stock purchases and property taxes to stimulate demand for equities and housing.

We expect GDP growth in India to slow to 6.2% in 2023 from 7% in 2022. India remains one of the faster growing economies within Asia. Inflation has fallen more quickly than expected from a high of 7% in July 2023 to 5% in October, driven mainly by lower food prices. The lower inflation rate allows the Reserve Bank of India to keep its policy rate unchanged. Fixed investments remain strong driven primarily by the public sector.

Inflation in South Korea is higher than we expected due to rising crude-oil and agricultural prices. The recent economic data showed a strong recovery in manufacturing, especially amid a bounce-back in exports. Semiconductor production has become the key driver of growth as there is solid demand for artificial intelligence-related products and sustained demand for PCs and smartphones.

Recent economic data suggest that inflationary pressures are easing in Australia as a result of higher interest rates and easing supply-chain pressures. The Reserve Bank of Australia (RBA) indicated that it's assessing the impact of prior monetary tightening on the economy, and the governor of the central bank has left open the possibility of further tightening. Our view is that the RBA is probably done with the current round of rate hikes given the weakening macroeconomic environment and the possibility of a recession. We expect the RBA to begin lowering its policy rate as early as the second quarter of next year. The longer-term outlook for Australia remains positive given strong population growth and modest fiscal expansion. However, slowing economic growth around the world, and especially in China, remains a headwind to keep in mind.

Regional outlook – Emerging markets

Christoffer Enemaerke
Portfolio Manager
RBC Global Asset Management (UK) Limited

Central banks in many emerging-market countries were fast to react to rising inflation following the pandemic and started tightening monetary conditions in advance of developed-market central banks. We are now entering an unprecedented situation where policy rates in emerging markets are converging with developed-market rates and poised to drop below them for the first time. Inflation-adjusted interest rates are at historically high levels in emerging markets, making it easier for them to reduce nominal rates. Policy rates have already been cut in Brazil and Chile, and we would expect more emerging-market countries to follow suit over the coming months.

The early tightening cycles in many emerging markets brought down inflation, and policy rates and bond yields now appear to have peaked in many markets. As a result, emerging-market bonds denominated in local currencies significantly outperformed developed markets in recent years. In contrast to bonds, emerging-market equities extended their decade-long underperformance versus developed markets. Much of the relative weakness has been driven by China, which accounts for almost a third of the MSCI Emerging Markets Index.

One of China's main issues following the pandemic has been consumers' lack of confidence in the economy, leading to increased savings rates and anemic consumption. China already has one of the world's lowest ratios of consumption to GDP, and unlocking consumer potential will be a key for long-term economic growth. Lower consumption is also explained by the fact that China has a less developed social safety net, which means Chinese families must keep more savings in reserve to pay for medical care, old age and education.

The Chinese government has started to introduce more stimulus measures in recent months, including rules loosening down-payment requirements for mortgages, in an attempt to boost the residential-property market. This step is important as property is one of the main drivers of consumption in China. We expect more consumption-boosting measures in the form of social-welfare spending.

The rise in geopolitical tensions between the U.S. and China, which has imposed non-tariff trade barriers such as quotas, has led China's trade partners to diversify their supply chains. China's share of U.S. imports peaked at 21% in 2018 and has since fallen to 14%. However, China has a highly skilled labour force, a complete industrial ecosystem, strong infrastructure and a large domestic consumer market. So while China's share of U.S. imports has decreased, its share of value-added exports continues to rise, reflecting continued improvement in export competitiveness. One example of this evolution is China's environmental supply chain, which has helped offset the loss of market share in the electronics supply chain.

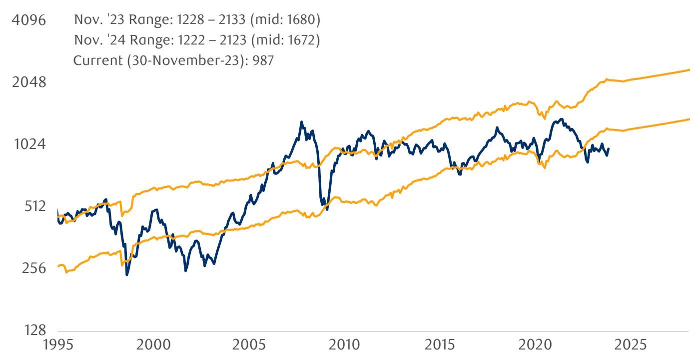
There have been four major cycles of emerging-market equity performance over the past three decades, with durations ranging from six to 12 years. Two of the cycles were characterized by strong relative performance versus developed markets and two cycles by weak performance. The most important long-term predictor of emerging-market returns versus developed markets has been earnings growth measured in U.S. dollars. The most recent of the cycles has now lasted 12 years, with zero annual earnings growth in emerging markets over this period, and has coincided with significant underperformance relative to developed-market equities.

We would expect the decline in emerging-market interest rates over the next year to occur faster than any declines in developed markets, and for the drop in emerging-market rates to bolster the earnings of emerging-market companies. The improved emerging-market earnings outlook in turn suggests better relative performance for stocks in emerging markets.

An important driver of GDP growth for emerging markets in the long run has been urbanization. Typically, we have seen per-capita GDP increase as the percentage of the population moving to cities has climbed. For example, China's GDP per capita rose exponentially over the past 30 years along with surging urbanization. Some of the largest emerging-market countries outside of China, including India and Indonesia, still have strong potential for urbanization to drive long-term economic growth.

From a valuation perspective, emerging-market equities continue to look particularly cheap in comparison with developed-market equities. Emerging-market stocks trade at a 45% discount to developed markets based on price-to-book value – close to the lowest level in 20 years. Another indicator that suggests emerging markets are attractively valued is the Shiller CAPE Ratio, which is based on average inflation-adjusted earnings over a 10-year period. Emerging markets trade at a CAPE Ratio of 12.5x, half the 25x figure for developed markets. While valuation levels are generally unreliable as predictors of performance over short-term periods, the long-term relationship between returns to equities and valuations is robust. Against this backdrop, current valuations of emerging-market equities look relatively attractive.

MSCI Emerging Markets Index Equilibrium
Normalized earnings and valuations



Source: RBC GAM

RBC GAM Investment Strategy Committee Members

Daniel E. Chornous, CFA
Chief Investment Officer
RBC Global Asset Management Inc.
Chair, RBC GAM Investment Strategy Committee

Dan Chornous is Chief Investment Officer of RBC Global Asset Management Inc. (RBC GAM), the Royal Bank of Canada's wholly-owned investment management subsidiary. The firm manages assets nearing (CAD) $559.7 billion for institutional, high net worth and individual investors in fixed income, equity and alternative mandates in Canada and around the world. Since joining RBC GAM in November 2002, Dan has been responsible for the overall direction of investment policy and asset management across the firm's global investment platform. Prior to that, Dan was Managing Director, Capital Markets Research and Chief Strategist at RBC Capital Markets.

Dan joined the RBC Global Asset Management board immediately upon his arrival at the firm. In December 2010, Dan joined the board of BlueBay Asset Management following its merger with RBC GAM. He also sits on the board of RBC Global Asset Management (UK) Ltd., is a member of the RBC Pension Investment Strategy Committee and chairs the RBC GAM Investment Strategy Committee (RISC) among others. For many years, Dan has been active in the Canadian investment community. He served on the board of the Canadian Coalition for Good Governance from 2008 to 2020 and as its chair from 2012 to 2016. In addition, he is a member of CFA Society Toronto Advisory Council, a past member of the Toronto United Way major giving cabinet, a former Director of the Toronto Society of Financial Analysts and of the Winnipeg Society of Financial Analysts.

Dan is a graduate of the University of Manitoba (B. Comm, Honours, 1980) and is a member of The Associates, Asper School of Business. In 1985, Dan was awarded the Chartered Financial Analyst designation.

*AUM in CAD as of November 30, 2023

Soo Boo Cheah, MBA, CFA
Senior Portfolio Manager
RBC Global Asset Management (UK) Limited

Based in the U.K., Soo Boo is responsible for managing global fixed-income allocations. He specializes in assessing the impact of central bank policies and global macroeconomic trends on developed-market bonds. In his role as a senior portfolio manager, he integrates a wide range of investment strategies involving interest rates, currencies, and derivatives. Soo Boo started his career in the investment industry in 2000 and holds an MBA from University of New Brunswick.
Soo Boo has been a CFA charterholder since 2002.

Dagmara Fijalkowski, MBA, CFA
Head, Global Fixed Income & Currencies
RBC Global Asset Management Inc.

As Head of Global Fixed Income and Currencies, Dagmara leads a team of 40+ investment professionals in Toronto, London and Minneapolis with almost $100 billion in assets under management. In her duties as a portfolio manager, Dagmara leads management of several bond funds, including the RBC Bond Fund, and manages foreign-exchange hedging and active overlay programs. She leads the Fixed Income Strategy Committee, which determines appropriate levels of risk taking given market opportunities. Dagmara is a member of the RBC Investment Policy Committee, which determines the asset mix for balanced products; and the RBC Investment Strategy Committee. In 2016, she was appointed to the RBC GAM Executive Committee. Dagmara, who began her investment career in 1994, holds an MBA from the Richard Ivey School of Business at the Western University in Canada and a Master's degree in economics from the University of Lodz in Poland. Dagmara has been a CFA charterholder since 1997.

Stuart Kedwell, CFA
Senior Vice President and
Senior Portfolio Manager
RBC Global Asset Management Inc.

Stu co-leads the North American Equity team and is a member of the RBC GAM Investment Strategy Committee, which is responsible for establishing the firm-wide global asset mix for mutual funds and for institutional and high net worth private clients. Stu began his career in 1996 with RBC Dominion Securities in the firm's Generalist program, a two-year internship in which participants rotate through different areas of the firm. In 1998, he joined the RBC Investments Portfolio Advisory Group, which provides investment ideas and recommendations to RBC DS Investment Advisors. He was also a member of the RBC DS strategy & focus list committees. Stu has been with the firm since 2002 and is a CFA charterholder.

Eric Lascelles
Chief Economist
RBC Global Asset Management Inc.

Eric is the Chief Economist for RBC Global Asset Management Inc. (RBC GAM) and is responsible for maintaining the firm's global economic forecast and generating macroeconomic research. He is also a member of the RBC GAM Investment Strategy Committee, the group responsible for the firm's global asset-mix recommendations. Eric is a frequent media commentator and makes regular presentations both within and outside RBC GAM. Prior to joining RBC GAM in 2011, Eric led a team of economists and fixed income strategists at another large Canadian financial institution. He began his career as a research economist for a federal government agency.

Scott Lysakowski, CFA
Vice President and Senior Portfolio Manager
Head of Canadian Equities (Vancouver)
RBC Global Asset Management Inc.

Scott is Head of the Vancouver-based Canadian Equity Team. He is primarily responsible for overseeing equity research and portfolio management of the firm's core Canadian equity strategies. Scott also serves as lead manager for the Canadian income strategies. Scott began his investment management career with the firm in 2002 as a senior research analyst and portfolio manager within the Toronto-based Canadian Equity Team. He transitioned to the Vancouver team seven years later and assumed his current leadership role in 2012. During his tenure with the organization, he has conducted research for and managed a broad spectrum of Canadian equity portfolios, specializing in dividend and income mandates.

Hanif Mamdani
Head of Alternative Investments
RBC Global Asset Management Inc.

Hanif Mamdani is Head of both Corporate Bond Investments and Alternative Investments. He is responsible for the portfolio strategy and trading execution of all investment-grade and high-yield corporate bonds. Hanif is Lead Manager of the PH&N High Yield Bond and Alternative strategies, including a multi-strategy hedge fund. He is also a member of the Asset Mix Committee. Prior to joining the firm in 1998, he spent 10 years in New York with two global investment banks working in a variety of roles in Corporate Finance, Capital Markets and Proprietary Trading. Hanif holds a master's degree from Harvard University and a bachelor's degree from the California Institute of Technology.

Bryan Mascoe, CFA
Senior Portfolio Manager
Co-head, Fixed Income (Vancouver)
RBC Global Asset Management Inc.

Bryan is co-Head and a senior portfolio manager on the PH&N Fixed Income Team. He co-manages the investment-grade credit research effort. As part of this role, he manages our dedicated corporate bond portfolios and is responsible for performing credit analysis on investment-grade issuers. He also assists with the strategy and trade execution of corporate bonds held in broader short, universe, and long fixed-income mandates. Bryan has a Bachelor of Commerce degree from the University of British Columbia and is a Leslie Wong Fellow as a graduate of the UBC Portfolio Management Foundation. He has been a CFA charterholder since 2005.

Sarah Riopelle, CFA
Vice President and Senior Portfolio Manager
Investment Solutions
RBC Global Asset Management Inc.

Since 2009, Sarah has managed the entire suite of RBC Portfolio Solutions which totals $180 billion in assets. She is a member of the RBC GAM Investment Strategy Committee, which sets global strategy for the firm, and the RBC GAM Investment Policy Committee, which is responsible for the investment strategy and tactical asset allocation for RBC Funds' balanced products and portfolio solutions. In addition to her fund management role, she works closely with the firm's Chief Investment Officer, ensuring that all aspects of the investment management function at RBC GAM are running smoothly. She is co-chair of the RBC Wealth Management Diversity Leadership Committee – Canada, as well as a member of the Dean's Advisory Board for both the Telfer School of Management at the University of Ottawa and the Faculty of Management at Laurentian University.

Sarah joined RBC Global Asset Management in 2003 and held roles in Investment Strategy and Canadian Equities before assuming her current responsibilities in 2009. Prior to joining RBC GAM, Sarah worked at RBC Capital Markets in both the Quantitative Research and Investment Strategy groups. She began her career in the investment industry in 1996 after graduating from the University of Ottawa with a Bachelor of Commerce degree, majoring in Finance and International Management. She was awarded the Chartered Financial Analyst designation in 2001.

Martin Paleczny, CFA
Vice President and
Senior Portfolio Manager
RBC Global Asset Management Inc.

Martin Paleczny, who has been in the investment industry since 1994, began his career at Royal Bank Investment Management, where he developed an expertise in derivatives management and created a policy and process for the products. He also specializes in technical analysis and uses this background to implement derivatives and hedging strategies for equity, fixed-income, currency and commodity-related funds. Since becoming a portfolio manager, Martin has focused on global allocation strategies for the full range of assets, with an emphasis on using futures, forwards and options. He serves as advisor for technical analysis to the RBC GAM Investment Strategy Committee.

Kristian Sawkins, CFA
Vice President and Senior Portfolio Manager
PH&N Fixed Income
RBC Global Asset Management Inc.

Kristian is co-Head and a senior portfolio manager on the PH&N Fixed Income team, specializing in universe and short-term bond mandates. He is also a member of the PH&N IM Asset Mix Committee. Kristian joined Phillips, Hager & North Investment Management in 2002 as an associate analyst with the Canadian Equities Team and moved to the Fixed Income Team in 2005. Prior to joining the organization, Kristian spent three years at a major investment bank in New York across a few different roles. Kristian has a Bachelor of Commerce degree from the University of British Columbia and is a Leslie Wong Fellow as a graduate of the UBC Portfolio Management Foundation. He has been a CFA charterholder since 2002.

Jaco Van der Walt, DCom
Vice President and
Global Head of Quantitative Research & Investments
RBC Global Asset Management Inc.

As Head of Quantitative Investments, Jaco leads an experienced team that is driven to continually innovate across all its capabilities, including research, portfolio management, data and systems to leverage the combination of human and machine in investment decision-making. He previously held an executive role at one of South Africa's largest financial services companies, leading the Investment Management Office, with experience spanning pensions, insurance, banking and wealth management. As asset owner, he also chaired the boards and investment committees of several of the company's pension plans, promoting investment excellence and driving transformational change to ensure members reach their retirement goals. Jaco began his investment career in 1996 and holds a Master's degree in Economics from the University of Toronto and a Doctorate from the University of Pretoria.

Milos Vukovic, CFA
Vice President, Investment Policy
RBC Global Asset Management Inc.

Milos, who joined RBC in 2003, oversees investment-management activities including new-fund launches, performance analytics and trade-cost analysis. He is also responsible for developing and monitoring investment mandates and implementing tactical asset allocation for the RBC GAM investment solutions. Milos earlier worked for a Big 4 accounting firm and two top-tier securities firms. He earned an MBA at the Schulich School of Business and has held the CFA designation since 2004.

Brad Willock, CFA
Vice President and
Senior Portfolio Manager
RBC Global Asset Management Inc.

Brad Willock joined RBC Global Asset Management in July 2002 and is a Senior Portfolio Manager and CFA charterholder. In his current role, Brad has responsibility for RBC Global Asset Management's core and income-oriented U.S. equity strategies. He joined RBC in May 1996 after receiving a bachelor's of commerce degree with distinction from the University of Calgary. Prior to that, Brad obtained a bachelor's of science degree at the University of British Columbia and represented Canada at the 1992 Barcelona Summer Olympics in volleyball.

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Disclosure

RBC Global Asset Management

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