RBC Global Asset Management

The Global Investment Outlook

RBC GAM Investment Strategy Committee

NEW YEAR 2021

The RBC GAM Investment Strategy Committee

The RBC GAM Investment Strategy Committee consists of senior investment professionals drawn from all areas of RBC GAM. 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

Eric Savoie, MBA, CFA
Investment Strategist
RBC Global Asset Management Inc.

Daniel E. Chornous, CFA
Chief Investment Officer
RBC Global Asset Management Inc.

Buoyed by ultra-low interest rates and fiscal stimulus, financial markets calmed and stocks rose to record levels as economic normalization drew closer and the recovery progressed.

Looking past COVID-19 to an improving outlook for 2021

The pandemic remains the key challenge for economies as we approach the New Year, with case counts and fatalities reaching near record levels. But the transmission rate is starting to slow and, while countries including the U.S. and Canada are battling a second wave, many European countries appear to be emerging from theirs. Tighter restrictions to combat the virus may lead to some economic slippage at the end of 2020, but there are reasons to be optimistic. The economic recovery has been exceeding expectations, vaccine developments are promising and markets have responded positively to the outcome of the U.S. presidential election. Although the economy may encounter hurdles in the very near term, our growth forecasts for 2021 have featured more upgrades than downgrades and are now situated modestly above the consensus.

A variety of risks threaten our base case, but upside surprises are also possible

We think the risks to our benign base case scenario are slightly skewed to the downside. The virus is still spreading and colder winter weather in the northern hemisphere could worsen the situation. It is also possible that a third wave of infections emerges in the spring as happened in the 1918 flu pandemic. Moreover, sentiment around vaccines is extremely positive, but a return to normal could be delayed should they cause unexpected side-effects or prove less effective than hoped, or should distribution complications slow the pace of inoculations. While we expect inflation to remain low, there is the potential for prices to rise faster than our forecasts, and an environment of too much inflation would be worse than not enough. Note that it is normal for the balance of risks to lean toward the downside as there are usually more ways for the economy to stumble than to outperform meaningfully. We should, though, also consider the possibilities for better-than-expected outcomes. The virus could retreat on its own or vaccines could be administered flawlessly. Other sources of uncertainty include the amount and timing of U.S. fiscal stimulus, Brexit and structural themes related to demographics, high debt loads and globalization.

Inflation gains traction but not to problematic levels

Our thinking about inflation has evolved over the past quarter. We correctly predicted inflation would be low amid the pandemic, with falling oil prices and plunging demand. More recently, though, inflation has begun to stabilize as economic conditions have normalized. Our forecasts for inflation in 2020 and 2021 point to slightly higher inflation and we recognize that a weaker U.S. dollar and the outperformance of the U.S. economy may support faster price increases in the U.S. versus elsewhere. Over the longer term, potential upside risks to inflation exist. Massive monetary stimulus, higher inflation targeting by the U.S. Federal Reserve (Fed), elevated government-debt loads and a push to support sales of American-made products are all elements that could push inflation higher than we would have thought before the pandemic. That said, we don't think inflation will rise to problematic levels as a number of structural forces such as demographics will continue to weigh on inflation pressures. All in all, any faster inflation that we do encounter is likely to be simply a return to more normal readings after decades of subdued price increases.

U.S. dollar weakness ahead

We expect a sustained U.S.-dollar decline in 2021 as structural headwinds take precedence over short-term factors that have slowed the decline of the greenback over the past year. U.S. twin deficits and the Fed's intention to boost inflation, coupled with economic and political improvements and extraordinarily easy financial conditions, should cement the U.S.-dollar downtrend. Emerging-market currencies are likely to finally shine next year, and the euro, yen and loonie should outperform the British pound.

Bond yields hover around historic lows, scope for increase is limited

Central bankers have expressed a commitment to keeping short-term interest rates extremely low to stimulate economies and financial markets even as the recovery gains traction. Longer-term bond yields have a bit more room to rise, but the scope for increases is limited by secular pressures such as aging demographics, slowing population growth and an increased desire for saving versus spending. All of these factors have contributed to declines in real interest rates (i.e. the after-inflation interest rate) and these trends are unlikely to change anytime soon. We have evolved our modelling to incorporate these elements into our real-interest-rate projections. As a result, we now look for a more gradual and ultimately smaller rise in real rates of interest. Our new modelling suggests that sovereign bond yields everywhere will drift just slightly higher over the next year, acting as a modest headwind to total returns for bondholders.

Global equities soar to new highs and vaccines trigger style rotation

Stocks surged from their March lows due to a combination of massive stimulus, a gradual reopening of economies and, more recently, the promise of imminent vaccines. The latest rally pushed the S&P 500 Index to a new record and many other markets are also showing gains this year. We recognize that optimism is elevated and, while stocks may be expensive by some measures, investors are paying up for a recovery in earnings that is just beginning. In fact, outside of U.S. large-cap stocks, markets remain attractively positioned with many below the mid-point of our fair value bands. The equity-market rally has broadened from a handful of U.S. mega-cap technology stocks to a much larger base of companies, industries and regions that are more economically sensitive, including value, small- and mid-cap stocks, as well as segments that were hardest hit by COVID-19 such as airlines, hotels, casinos and energy.

Asset mix – boosting equity overweight, sourced from fixed income

With the economy entering a period of normalization supported by low interest rates and ample fiscal stimulus, stocks continue to offer superior return potential versus fixed income. Our forecasts look for mid-single to potentially low-double digit returns from stocks over the year ahead versus low single-digit or potentially negative returns from sovereign bonds. Moreover, extremely low bond yields mean that fixed-income markets may not provide as much protection against stock declines as they have in recent decades. In our opinion, traditional views on optimal asset mix should be reconsidered to reflect the impact of structural change in the global economy on returns, correlations and risk mitigation within the universe of investment options. For many, one option may be to invest over longer time horizons and add more equities to portfolios.

Supporting our positive view on stocks is long-term price momentum, which suggests equities could be in a long lasting bull market. We continue to position our portfolios with an overweight in stocks and underweight in fixed income. This quarter, we were further encouraged by the style rotation into value from growth, the increasing breadth in small- and mid-cap stocks, international equity outperformance, the steepening yield curve and the weakening U.S. dollar, all of which are frequently in evidence in the early stages of bull markets. As a result, we added 2.5 percentage points to our equity allocation during the quarter, sourced from fixed income. For a balanced, global investor, we currently recommend an asset mix of 64.5 percent equities (strategic neutral position: 60 percent) and 34.5 percent fixed income (strategic neutral position: 38 percent), with the balance in cash.

Economic & Capital Markets Forecasts

Economic forecast (RBC GAM Investment Strategy Committee)

	United States		Canada		Europe		United Kingdom		Japan		China		Emerging markets*	
	New Year 2021	Change from Fall 2020	New Year 2021	Change from Fall 2020	New Year 2021	Change from Fall 2020	New Year 2021	Change from Fall 2020	New Year 2021	Change from Fall 2020	New Year 2021	Change from Fall 2020	New Year 2021	Change from Fall 2020
Real GDP														
2019A	2.16%		1.66%		1.30%		1.25%		0.69%		6.12%		4.47%	
2020E	(3.50%)	2.50	(5.50%)	1.50	(7.20%)	(0.20)	(10.90%)	(1.90)	(5.30%)	N/C	1.90%	0.65	(2.20%)	(0.50)
2021E	4.00%	0.60	5.00%	0.50	5.60%	2.30	6.60%	1.40	3.70%	2.30	9.00%	1.00	7.40%	0.80
CPI														
2019A	1.81%		1.96%		1.19%		1.79%		0.49%		2.90%		3.19%	
2020E	1.10%	0.30	0.70%	(0.10)	0.30%	N/C	0.80%	N/C	0.00%	0.20	2.70%	(0.30)	3.10%	N/C
2021E	1.80%	0.30	1.60%	0.10	1.00%	N/C	1.60%	0.10	0.50%	N/C	1.90%	(0.40)	2.60%	(0.30)

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

Targets (RBC GAM Investment Strategy Committee)

	Nov. 2020	Forecast Nov. 2021	Change from Fall 2020	1-year total return estimate* (%)
Currency Markets against USD				
CAD (USD–CAD)	1.30	1.27	(0.02)	2.7
EUR (EUR–USD)	1.19	1.27	N/C	5.7
JPY (USD–JPY)	104.32	99.00	N/C	5.1
GBP (GBP–USD)	1.33	1.33	(0.03)	(0.3)
Fixed Income Markets				
U.S. Fed Funds Rate	0.13	0.13	N/C	N/A
U.S. 10-Year Bond	0.84	1.00	0.25	(0.7)
Canada Overnight Rate	0.25	0.25	N/C	N/A
Canada 10-Year Bond	0.67	0.85	0.15	(1.0)
Eurozone Deposit Facility Rate	(0.50)	(0.50)	N/C	N/A
Germany 10-Year Bund	(0.57)	(0.40)	(0.10)	(2.3)
U.K. Base Rate	0.10	0.10	N/C	N/A
U.K. 10-Year Gilt	0.31	0.30	(0.10)	0.4
Japan Overnight Call Rate	(0.03)	(0.10)	N/C	N/A
Japan 10-Year Bond	0.03	0.05	0.05	(0.1)
Equity Markets				
S&P 500	3622	3800	125	6.5
S&P/TSX Composite	17190	17700	1000	6.1
MSCI Europe	129	136	8	8.1
FTSE 100	6266	6500	350	7.1
Nikkei	26434	28250	3650	8.4
MSCI Emerging Markets	1205	1300	125	10.0

*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 setting is 60% equities, 38% fixed income, 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 1980 – 2020, 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	Past range	New Year 2020	Spring 2020	Summer 2020	Fall 2020	New Year 2021
Cash	**2.0%**	1.0% – 16%	1.0%	2.0%	1.0%	1.0%	**1.0%**
Bonds	**38.0%**	25.0% – 54.0%	40.0%	39.0%	38.0%	37.0%	**34.5%**
Stocks	**60.0%**	36.0% – 65.0%	59.0%	59.0%	61.0%	62.0%	**64.5%**

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* Nov. 2020	Past range	New Year 2020	Spring 2020	Summer 2020	Fall 2020	New Year 2021
North America	**41.1%**	18% – 48%	43.8%	44.2%	42.3%	41.3%	**41.1%**
Europe	**41.0%**	32% – 56%	37.7%	37.7%	39.0%	36.0%	**41.0%**
Asia	**17.8%**	16% – 35%	18.5%	18.2%	18.7%	22.7%	**17.8%**

Note: Past Range reflects historical allocation from Fall 2002 to present.

Global Equities	MSCI** Nov. 2020	Past range	New Year 2020	Spring 2020	Summer 2020	Fall 2020	New Year 2021
North America	**67.0%**	51% – 66%	62.5%	63.6%	65.7%	65.4%	**66.0%**
Europe	**15.3%**	15% – 35%	18.6%	17.8%	16.1%	16.2%	**14.6%**
Asia	**9.4%**	9% – 18%	11.4%	11.1%	10.7%	9.8%	**10.6%**
Emerging Markets	**8.3%**	0% – 8.8%	7.5%	7.5%	7.5%	8.6%	**8.8%**

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 Nov. 2020**	RBC GAM ISC Fall 2020	**RBC GAM ISC New Year 2021**	Change from Fall 2020	Weight vs. Benchmark
Energy	2.42%	1.50%	0.42%	(1.07)	17.5%
Materials	4.48%	4.95%	5.78%	0.83	129.0%
Industrials	10.43%	10.15%	10.43%	0.28	100.0%
Consumer Discretionary	11.88%	13.29%	13.88%	0.59	116.8%
Consumer Staples	8.14%	7.28%	6.54%	(0.74)	80.4%
Health Care	13.52%	14.79%	14.82%	0.03	109.6%
Financials	12.07%	12.39%	12.07%	(0.32)	100.0%
Information Technology	21.63%	23.56%	23.63%	0.06	109.2%
Communication Services	9.22%	8.17%	9.22%	1.04	100.0%
Utilities	3.42%	2.54%	2.42%	(0.12)	70.7%
Real Estate	2.80%	1.37%	0.80%	(0.57)	28.6%

*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%	1.0%	1.0%
Fixed Income	73%	68-88%	72.0%	69.9%
Total Cash & Fixed Income	75%	60-90%	73.0%	70.9%
Canadian Equities	10%	0-20%	10.6%	11.5%
U.S. Equities	8%	0-18%	8.6%	9.3%
International Equities	7%	0-17%	7.8%	8.3%
Emerging Markets	0%	0%	0.0%	0.0%
Total Equities	25%	10-40%	27.0%	29.1%

	Return	Volatility
40-year average	8.6%	5.3%
Last 12 months	7.6%	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%	1.0%	1.0%
Fixed Income	58%	43-83%	57.0%	54.6%
Total Cash & Fixed Income	60%	45-75%	58.0%	55.6%
Canadian Equities	13%	3-23%	13.3%	14.2%
U.S. Equities	15%	5-25%	15.6%	16.6%
International Equities	12%	2-22%	13.1%	13.6%
Emerging Markets	0%	0%	0.0%	0.0%
Total Equities	40%	25-55%	42.0%	44.4%

	Return	Volatility
40-year average	8.9%	6.4%
Last 12 months	7.8%	10.0%

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%	1.0%	1.0%
Fixed Income	38%	23-53%	37.0%	34.5%
Total Cash & Fixed Income	40%	25-55%	38.0%	35.5%
Canadian Equities	15%	5-25%	14.9%	15.6%
U.S. Equities	25%	15-35%	25.6%	26.7%
International Equities	15%	5-25%	16.2%	16.5%
Emerging Markets	5%	0-15%	5.3%	5.7%
Total Equities	60%	45-75%	62.0%	64.5%

	Return	Volatility
40-year average	9.0%	7.8%
Last 12 months	8.7%	12.9%

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%	1.0%	1.0%
Fixed Income	23%	8-38%	22.0%	19.4%
Total Cash & Fixed Income	25%	10-40%	23.0%	20.4%
Canadian Equities	18%	8-28%	17.8%	18.4%
U.S. Equities	30%	20-40%	30.5%	31.7%
International Equities	19%	9-29%	20.3%	20.6%
Emerging Markets	8%	0-18%	8.4%	8.9%
Total Equities	75%	60-90%	77.0%	79.6%

	Return	Volatility
40-year average	9.0%	9.5%
Last 12 months	9.0%	15.2%

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%	1.0%	0.5%
Fixed Income	0%	0-15%	0.0%	0.0%
Total Cash & Fixed Income	2%	0-17%	1.0%	0.5%
Canadian Equities	29%	19-39%	28.3%	28.7%
U.S. Equities	38%	28-48%	37.9%	38.3%
International Equities	20%	10-30%	21.2%	20.8%
Emerging Markets	11%	1-21%	11.6%	11.7%
Total Equities	98%	83-100%	99.0%	99.5%

	Return	Volatility
40-year average	8.9%	12.1%
Last 12 months	8.7%	19.5%

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

Milos Vukovic, MBA, CFA
V.P. & Head of Investment Policy
RBC Global Asset Management Inc.

Aaron Ma, CFA
Senior Analyst, Investment Strategy
RBC Global Asset Management Inc.

The U.S. dollar proved resilient in the quarter ended November 30, 2020, amid widespread calls for a broadly weaker greenback. The U.S. dollar fell 1.4% against the Japanese yen and 0.4% against the Canadian dollar but remained essentially flat against the euro and actually appreciated 0.3% against the British pound. Diverging inflation expectations between the U.S. and Japan have widened the real yield advantage for Japanese assets, boosting the yen relative to the dollar. The loonie benefited from the belief that the Canadian economy would recover swiftly due to its higher sensitivity to global growth. Concerns about the disturbing second wave of COVID-19 in Europe belied the fundamental support for the single currency, leaving it flat against the greenback. Over a one-year period, the U.S. dollar depreciated against all four currencies, ranging from 2.2% against the Canadian dollar to 7.6% versus the euro.

All major global bond indexes posted positive returns in the latest quarter in U.S.-dollar terms. Returns on U.S. government bonds, represented by the FTSE U.S. Government Bond Index, were a lackluster 0.6% as the yield curve steepened. The yield on the 10-year Treasury bond rose 13 basis points to 84 basis points driven by the optimism around COVID-19 vaccine development. The FTSE European Government Bond Index's 2.1% gain topped other major indexes as European bond yields fell when governments implemented stricter measures to fight the second wave of COVID-19 infections. On a one-year basis, returns to fixed income ranged from 3.4% for the FTSE Japanese Government Bond Index to 12.1% for the FTSE European Government Bond Index, as yields declined in most markets and U.S.-dollar weakness enhanced returns.

Global equity markets continued to advance in the fall as promising COVID-19-vaccine test results and clarity around the U.S. presidential election stoked investor confidence. All major global stock markets that we track recorded positive returns for the quarter ended November 30, 2020, in U.S.-dollar terms. The S&P 500 Index rode a 10.8% gain to a new all-time high in November, good for the best November in the benchmark's history. However, the devastating third wave of infections in the U.S. was a drag on S&P 500 stocks in September and October, causing the index to finish the quarter in last place among major global indexes on a total-return basis with a 3.9% gain. Among the best performers were Asian stocks in countries that had relative success in containing the virus. The MSCI Japan Index and the MSCI Pacific Index returned 11.8% and 10.3%, respectively. In the year ended November 30, 2020, equity indexes recorded solid gains, especially in the U.S. and emerging markets. A notable exception was the MSCI UK Index, which sank 10.7%.

There was an important shift in size, style and sector leadership in the quarter ended November 30, 2020. As vaccine hopes grew, investors began to look beyond the pandemic to a more normal world. Large-cap growth stocks that boomed for much of 2020 began to take a backseat to the smaller, more economically sensitive stocks that had been struggling. The small-cap S&P 600 Index and mid-cap S&P 400 Index surged to a 15.5% return and 13.0% return, respectively. The Russell 3000 Value Index returned 9.7% compared with the Russell 3000 Growth Index's 2.3%.

Cyclical sectors like Industrials and Financials led with double-digit gains of around 11%, while Information Technology and Health Care lagged with increases of about 2%.The shift to cyclical sectors, while notable from a quarterly perspective, is hardly noticeable when looking over a one-year time frame: the S&P 500 led the S&P 600 by almost 12 percentage points; the Russell growth index outpaced the Russell value Index by a huge 34 percentage-point margin and the Information Technology sector outperformed Energy by a whopping 72 percentage points.

Exchange Rates
Periods ending November 30, 2020

	Current USD	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)
USD–CAD	1.2987	(0.43)	0.01	(2.23)	0.22	(0.56)
USD–EUR	0.8383	0.04	(5.96)	(7.64)	(0.07)	(2.40)
USD–GBP	0.7501	0.27	(0.64)	(2.99)	0.48	2.47
USD–JPY	104.4000	(1.43)	(3.92)	(4.62)	(2.47)	(3.24)

Note: all changes above are expressed in US dollar terms

Canada
Periods ending November 30, 2020

	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	1.02	8.27	9.43	5.10	4.93	0.58	7.00	5.33

U.S.
Periods ending November 30, 2020

	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	0.58	7.56	7.47	5.56	4.41	0.14	5.08	5.65
BBgBarc U.S. Agg. Bond Index TR[1]	0.48	7.36	7.28	5.45	4.34	0.04	4.89	5.69

Global
Periods ending November 30, 2020

	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	1.23	8.13	8.61	4.59	4.67	0.79	6.19	4.68
FTSE European Government TR	2.14	11.28	12.13	4.08	5.05	1.69	9.63	4.31
FTSE Japanese Government TR	1.73	2.89	3.35	3.32	4.75	1.29	1.05	3.55

Canada
Periods ending November 30, 2020

	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	5.37	3.80	6.66	5.32	8.88	4.92	4.28	5.56
S&P/TSX 60	4.66	4.09	6.42	5.63	9.26	4.21	4.04	5.86
S&P/TSX Small Cap	11.88	6.68	15.00	1.01	7.81	11.40	12.43	1.24

U.S.
Periods ending November 30, 2020

	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	3.89	14.02	17.46	13.17	13.99	3.44	14.84	13.42
S&P 400 TR	12.97	6.70	9.70	6.26	10.00	12.48	7.25	6.50
S&P 600 TR	15.52	2.74	5.81	4.72	9.51	15.02	3.45	4.95
Russell 3000 Value TR	9.70	(1.16)	1.60	4.93	8.33	9.23	(0.66)	5.17
Russell 3000 Growth TR	2.27	31.82	35.73	20.86	19.11	1.82	32.71	21.13
NASDAQ Composite Index TR	3.80	37.09	42.06	22.30	20.31	3.35	38.90	22.57

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

Global
Periods ending November 30, 2020

	USD					CAD		
Equity Markets: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
MSCI World TR *	5.55	11.19	14.52	9.51	10.87	4.98	11.73	9.73
MSCI EAFE TR *	8.01	3.03	6.37	3.26	6.19	7.42	3.78	3.47
MSCI Europe TR *	6.74	0.64	4.58	2.49	5.25	6.16	2.03	2.69
MSCI Pacific TR *	10.33	7.12	9.49	4.56	8.05	9.73	6.83	4.76
MSCI UK TR *	5.36	(15.10)	(10.73)	(2.53)	0.70	4.79	(12.91)	(2.34)
MSCI France TR *	11.71	1.20	4.19	3.46	7.70	11.10	1.66	3.66
MSCI Germany TR *	1.92	5.19	7.21	(0.37)	4.78	1.37	4.60	(0.17)
MSCI Japan TR *	11.78	9.95	12.24	4.88	7.85	11.17	9.51	5.09
MSCI Emerging Markets TR *	9.71	10.20	18.43	4.92	10.72	9.12	15.54	5.13

Global Equity Sectors
Periods ending November 30, 2020

	USD					CAD		
Sector: Total Return	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	3 months (%)	1 year (%)	3 years (%)
Energy TR *	5.22	(33.91)	(30.38)	(13.43)	(5.73)	4.65	(32.07)	(13.26)
Materials TR *	8.54	13.30	17.96	6.40	11.95	7.95	15.09	6.61
Industrials TR *	11.93	9.05	10.14	6.56	10.40	11.33	7.46	6.77
Consumer Discretionary TR *	6.21	29.50	33.34	16.53	14.07	5.64	30.10	16.76
Consumer Staples TR *	2.41	5.08	7.32	5.75	6.85	1.86	4.71	5.96
Health Care TR *	2.21	10.12	13.87	11.61	9.54	1.66	11.10	11.83
Financials TR *	11.35	(7.64)	(4.85)	(0.62)	5.47	10.75	(7.17)	(0.42)
Information Technology TR *	1.97	35.99	41.64	25.00	24.09	1.42	38.19	25.25
Communication Services TR*	5.47	18.59	20.92	11.22	8.66	4.90	17.97	11.44
Utilities TR *	6.66	2.81	6.81	6.94	9.45	6.09	4.21	7.15
Real Estate TR *	3.18	(7.04)	(5.97)	2.56	NA	2.62	(8.26)	2.76

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

Economic Outlook

Hope swells for 2021

Eric Lascelles
Chief Economist
RBC Global Asset Management Inc.

The pandemic that engulfed the world in early 2020 is still the dominant issue even as the year winds down. Near-record numbers of infections and fatalities continue to be logged across the world each day (Exhibit 1), though the rate of transmission is mercifully beginning to decelerate (Exhibit 2).

The status of the pandemic varies considerably depending on the nation. Some countries are still very much in the midst of an aggressive second wave, including the U.S. and Canada. Others, like many Eurozone members, appear to be emerging from the worst of that wave.

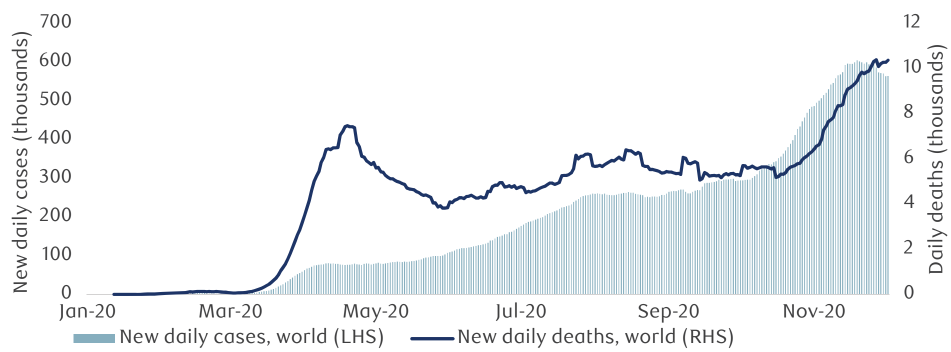
The return of stricter social-distancing rules to fight this wave are set to inflict mild to moderate economic damage at the end of 2020.

Nevertheless, on the cusp of 2021, we see four reasons for mounting optimism.

First, the economic recovery so far has repeatedly exceeded expectations, suggesting that economies could continue to outpace the normal recovery experience.

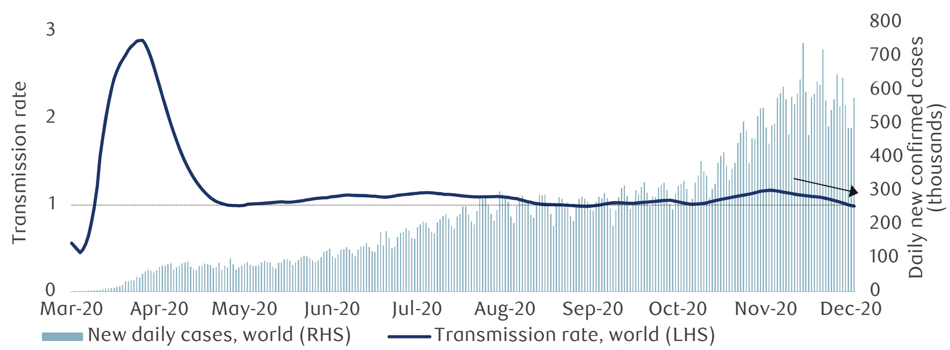
Second, vaccine-development efforts are beginning to yield big results, with high efficacy rates that point to the genuine possibility of herd immunity being achieved in developed nations.

Exhibit 1: Global COVID-19 cases and deaths still quite high



Note: As of 12/2/2020. 7-day moving average of daily new cases and new deaths. Source: CDC, Macrobond, RBC GAM

Exhibit 2: Global transmission rate declines as countries reimpose restrictions



Note: As of 12/2/2020. Transmission rate calculated as a 7-day change of underlying 7-day moving average smoothened by a 14-day moving average of new daily cases. Source: ECDC, Macrobond, RBC GAM

Third, the market is pleased with the outcome of the U.S. presidential election – a new political configuration that will last for several years. Our own analysis concurs that the outcome is likely economically positive.

Fourth, it is heartening that long-suffering European nations are starting to emerge from their especially severe second wave, demonstrating that it is possible to tame the virus even in adverse winter conditions.

As a result, and despite the prospect of a mini-economic swoon in the very near term, our refinements to the 2021 outlook have almost uniformly been upgrades rather than downward revisions, and we are now modestly above the consensus regarding the coming year. In turn, our tactical asset allocation remains tilted toward risk assets like equities.

We are not alone in expressing rising optimism, as a U.S. measure of news sentiment has been rising steadily since the summer – healing continues from the initial trauma of the pandemic (Exhibit 3).

Virus in context

This has been a pandemic without modern precedent. One has to go back to the 1918 flu pandemic to find another virus that affected the world so quickly and profoundly. While there have certainly been pandemics since, their means of transmission were either quite different (as with AIDS) or the scale of the pandemics themselves was radically smaller (as with SARS).

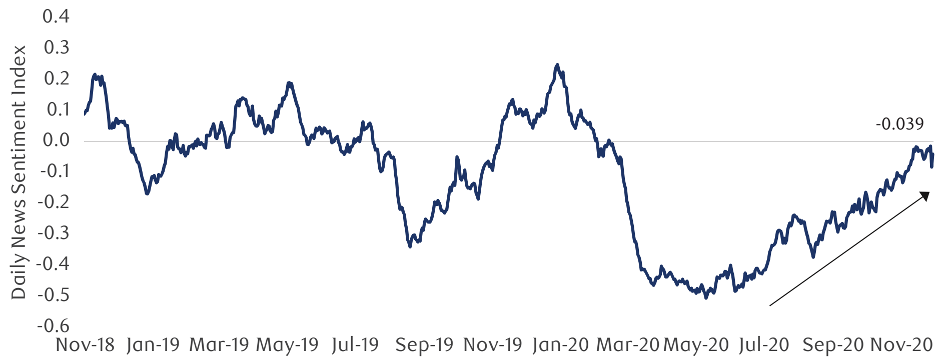
In fact, it is not unreasonable to go one step further and argue that this pandemic lacks any precedent, period. Although the 1918 flu was deadlier than COVID-19, the bulk of the developed world's population was not obliged to shelter at home for an extended period, and there was much less economic damage. As such, we have been operating without anything resembling a guidebook for COVID-19.

The intensity of the COVID-19 experience has varied substantially by country (Exhibit 4). Adjusted for population, the U.S. has had the most intense encounter with the virus, with Brazil and a handful of European countries faring almost as badly. Conversely, Germany has done pretty well, as has Canada. A handful of superstar countries have been relatively untouched, including Japan, Australia, New Zealand and China.

Recovery story so far

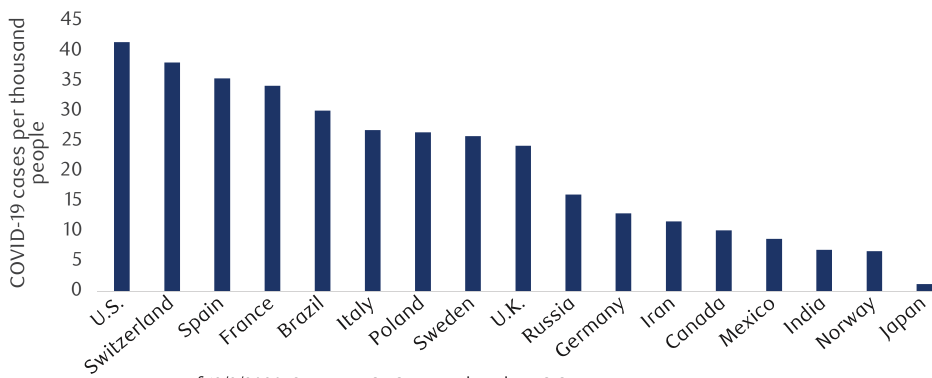
Five key factors collectively characterize the economic contours of the pandemic (Exhibit 5). Of these, three have already been resolved.

Exhibit 3: Real-time sentiment has increased substantially



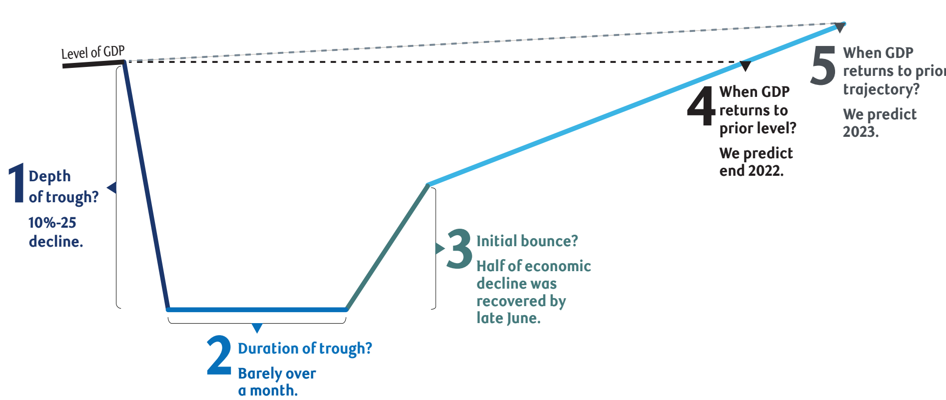
Note: As of 11/29/2020. Source: Federal Reserve Bank of San Francisco, Macrobond, RBC GAM

Exhibit 4: Impact of COVID-19 on a population-adjusted basis



Note: As of 12/2/2020. Source: ECDC, Macrobond, RBC GAM

Exhibit 5: Five key economic questions



Source: RBC GAM

First, economies initially shrank by between 10% and 25% during the worst of the spring economic collapse, with the U.S. losing 15% and Canada shedding 18%. While the magnitude of the initial economic collapse was unprecedented, it was actually smaller than initially feared. After all, given that the great majority of the developed world's workers were suddenly no longer going to work, it was easy to imagine that the economic decline might be more like 50%.

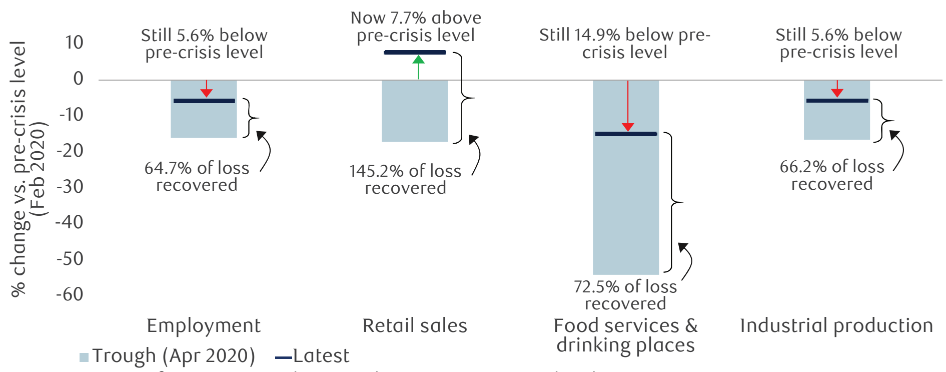
Second, the duration of this trough was actually quite short, lasting little more than a month. Economies were growing again by late April.

Third, the initial rebound proved quite enthusiastic, with half of the initial economic decline recovered within just two months – by the end of June. We estimate that around two-thirds of the original economic decline has since been undone, albeit with considerable variation by sector (Exhibit 6).

Thus, despite considerable economic damage, we have actually been pleasantly surprised by the economic impact and recovery so far. There are no guarantees that this happy trend persists, but it seems reasonably likely, as demonstrated by bellwether China's nearly complete revival (Exhibit 7) and the historic gains in financial markets. There is certainly space for above-potential growth over the coming years given the size of the output gap that remains (Exhibit 8).

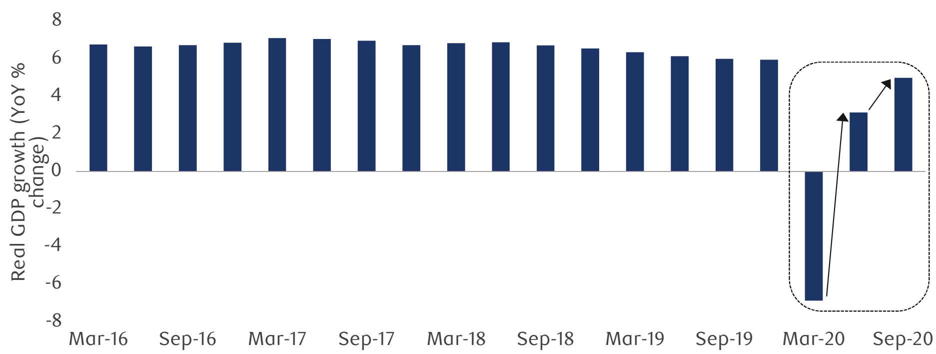
The fourth factor relates to when economies will reclaim their pre-pandemic economic peak. Our thinking has become incrementally more optimistic on this front, motivated

Exhibit 6: Traditional economic data confirms that significant U.S. recovery has already taken place



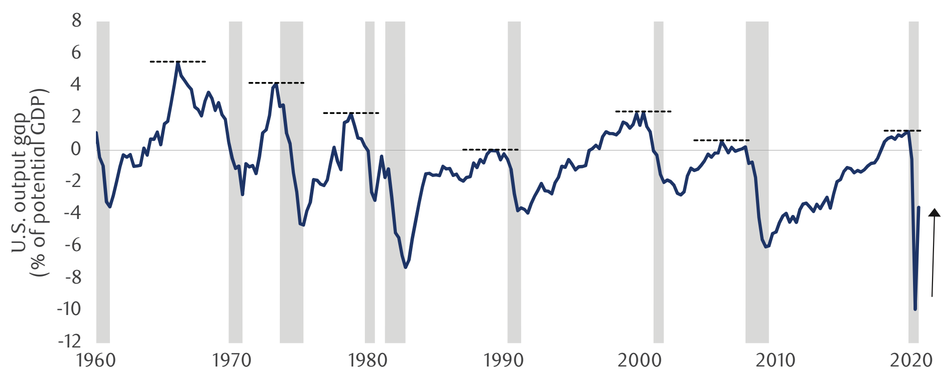
Note: As of Oct 2020. Trough since Feb 2020. Source: Macrobond, RBC GAM

Exhibit 7: Chinese economy recovering rapidly



Note: As of Q3 2020. Source: China National Bureau of Statistics, Macrobond, RBC GAM

Exhibit 8: Still considerable room for catch-up growth in coming years



Note: As of Q3 2020. Shaded area represents recession. Source: CBO, Macrobond, RBC GAM significantly by the promising vaccine developments discussed later. We now believe the U.S. and Canadian economies will achieve this goal by the final quarter of 2021, with Europe, Japan and the U.K. trailing in 2022. This nevertheless means that the rate of recovery is slowing considerably from the heady early months. The low-hanging fruit has long been plucked in terms of reopening sectors that are not particularly vulnerable to virus transmission.

Fifth, we continue to anticipate that the full return to economic normality will occur sometime in 2023. Whether this is "slow" or "fast" is entirely a matter of perspective. It is undeniably slow in the sense that the pandemic shock is set to last approximately four years, with some lingering side-effects persisting even longer. However, by the standards of past major economic shocks, this is fairly fast. It took 13 years for the U.S. economy to fully normalize after the Great Depression (and this was with a substantial boost from World War II), and around nine years for the economic slack from the 2008-2009 financial crisis to be fully absorbed.

Second wave complications

Providing a striking parallel to the 1918 Flu, COVID-19 infections have been arriving in waves. Much of the world now finds itself suffering a second wave of infections after having tamed the spring surge and enjoyed a relatively peaceful summer.

The latest wave appears to be more intense than the first in terms of the number of new infections, but this is probably a relic of insufficient testing during the first wave. Of greater relevance, the rate of fatalities has been lower in the second wave. But the latest outbreak is far from trivial, particularly for countries in which the wave has not yet crested.

What allowed the virus to reassert itself this fall? It has been a combination of incrementally more feeble government control efforts as economies were reopened (and recently reversed), declining compliance with social-distancing rules as people grow weary of their altered lives, the dynamics of colder and drier weather, the restart of physical schooling and perhaps even the many highly social events that are occurring this fall, including Halloween, Thanksgiving and the U.S. election - with Christmas looming.

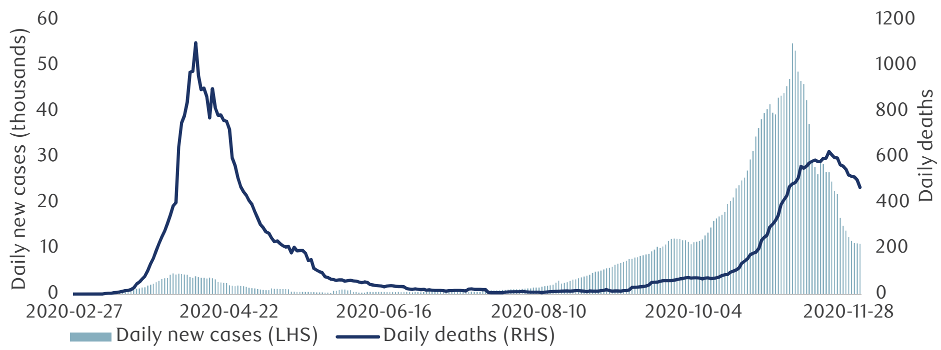
Fortunately, after considerable delay, governments have awakened to the second-wave threat and proceeded to tighten social-distancing rules again. Sectors deemed to be a high risk such as indoor restaurants, bars and gyms have been limited in the services they offer, or even shuttered. Non-economic social activity has been similarly curtailed, though this is harder for governments to control and may represent a large fraction of the spread.

In turn, we can see that countries that have implemented the most aggressive new restrictions are succeeding in taming their second waves. France had the most challenging second wave in Europe, and has now cut its daily infection rate by a factor of five (Exhibit 9). Other European countries are also beginning to improve.

The U.S., already in its third viral wave after a second bout last summer, has yet to make a concerted push to limit the spread of the virus. As a result, the U.S. daily infection numbers continue to deteriorate quite badly (Exhibit 10).

Canada lands somewhere between Europe and the U.S., with substantial

Exhibit 9: France has now passed the peak of the second COVID wave



Note: As of 12/2/2020. 7-day moving average of daily new cases and new deaths. Source: CDC, Macrobond, RBC GAM new efforts to limit the spread of the virus, but implemented later and less aggressively than in Europe.

Second wave economic damage

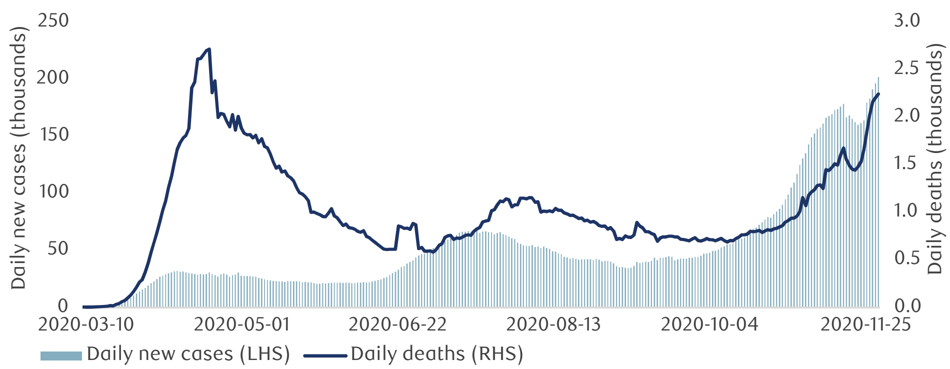
Policymakers are attempting a delicate balancing act between keeping people healthy, minimizing damage to the economy and limiting the disruption to personal lives. Each COVID-19 wave brings with it significant economic and social costs as governments respond by imposing new social-distancing rules. These have disproportionately limited service-sector activity, with tourism, entertainment, restaurants, bars, gyms and small retailers particularly affected.

The impact of the latest restrictions can be seen in our real-time mobility index, which combines Google Mobility data with Oxford University lockdown-stringency data, revealing a newly declining trend (Exhibit 11).

The U.S. second wave that occurred during the summer merely slowed the country's economic recovery. Such a benign economic outcome is less realistic this time, regardless of the country, given the greater intensity of the outbreak, fewer fiscal tailwinds and less natural buoyancy now that economies have already reclaimed so much lost ground.

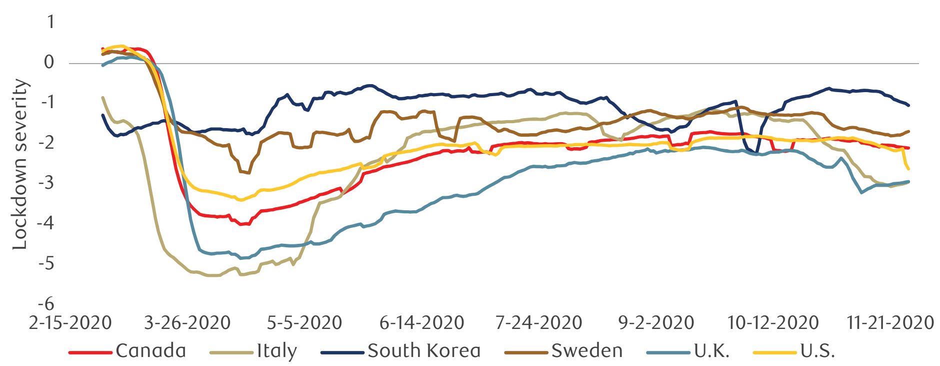
Economic damage is starting to become visible in leading indicators such as national-level purchasing manager indexes for the Eurozone and U.K., but not yet at the global level (Exhibit 12). In comparison to developed-world countries, we do not expect the same scale of new

Exhibit 10: U.S. still in the heat of the third COVID wave



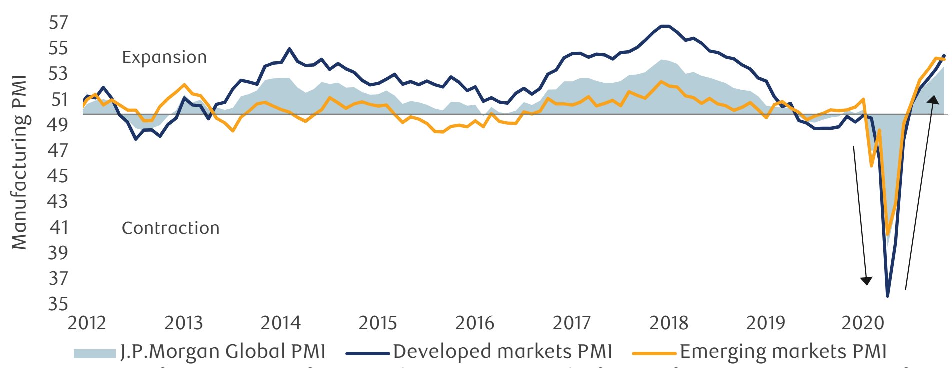
Note: As of 12/8/2020. 7-day moving average of daily new cases and new deaths. Source: CDC, Macrobond, RBC GAM

Exhibit 11: Real-time mobility declining again



Note: Based on latest data available as of 11/27/2020. Deviation from baseline, normalised to U.S.and smoothed with a 7-day moving average. Source: Google, University of Oxford, Macrobond, RBC GAM

Exhibit 12: Global manufacturing still points to growth



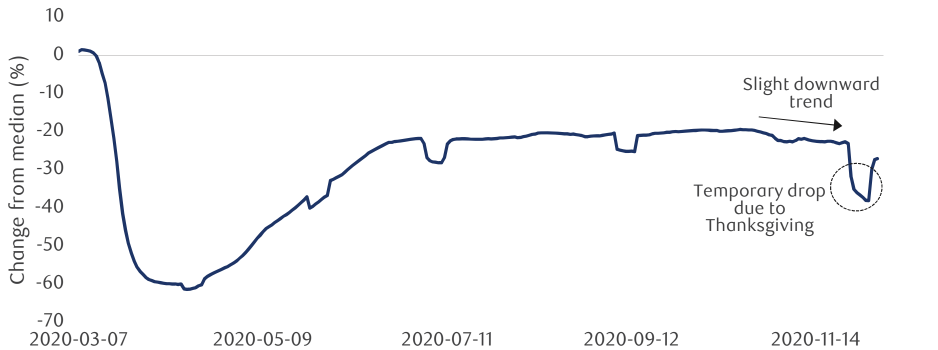
Note: As of Nov 2020. PMI refers to Purchasing Managers Index for manufacturing sector, a measure for economic activity. Source: Haver Analytics, RBC GAM restrictions or economic damage across most emerging-market nations, which are not presently recording as many new infections.

There is some tentative evidence that the U.S. is now starting to experience a pinch of economic damage itself, even as it avoids widespread new restrictions. A real-time measure of time worked by American hourly workers was edging slightly lower even before the Thanksgiving holiday sent it artificially plunging (Exhibit 13). U.S. jobless claims are no longer improving as reliably as earlier in the recovery. Our proprietary real-time economic activity indicator for the U.S. also argues that the economy is growing less enthusiastically than before (Exhibit 14).

Why is the U.S. economy affected by the latest virus wave when the country's policymakers have only minimally tightened social-distancing rules? IMF research found that a large fraction of the economic damage from the first wave came from people voluntarily limiting their mobility when they perceived the risk to be significant, not merely because their government told them to. As such, it could be that more Americans than is generally perceived are engaging in voluntary social distancing.

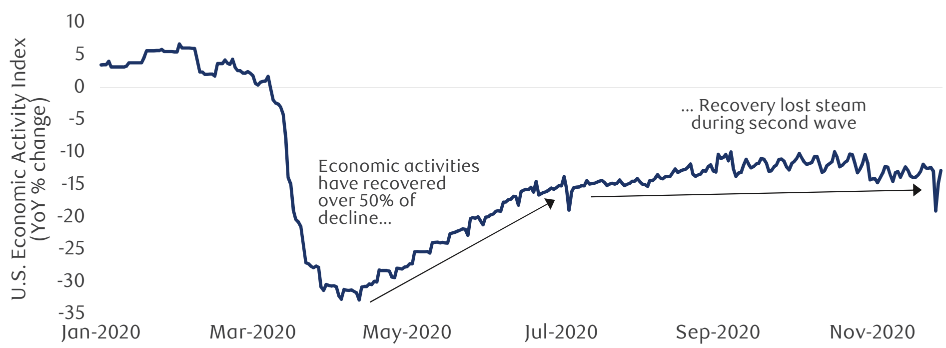
Fortunately, the economic damage from the latest virus wave is set to be far less damaging than the first wave was last spring. Whereas economic output declined by between 10% and 25% last spring, the drop should be an order of magnitude smaller this time. The European economy will probably suffer slightly more due to especially aggressive new restrictions, while the U.S. and Canada may experience less of a hit. We don't expect an outright negative print from quarterly GDP for either of the latter countries.

Exhibit 13: Hours worked by hourly workers in the U.S. have been falling lately



Note: As of 12/5/2020. Impact compares hours worked in a day vs. median for the same day of the week in January, 2020. 7-day moving average used. Source: Homebase, RBC GAM

Exhibit 14: U.S. economic activity has shifted to low gear



Note: As of 11/28/2020. Economic Activity Index is the average of ten high-frequency economic data series measuring the year-over-year percentage change. Source: Bank of America, Goldman Sachs, OpenTable, Macrobond, RBC GAM

Why is the damage set to be so comparatively limited in this wave?

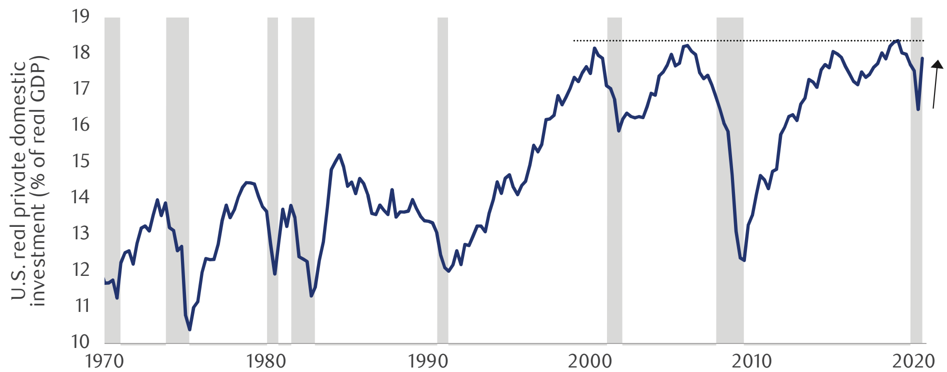
- Businesses and people are now better at operating under government restrictions;
- There is less fear and paralysis associated with the second wave given that people now understand the contours of the virus;
- The new rules are not as strict as the ones in the spring.

This last point merits some elaboration. The sectors that are targeted by the latest lockdown represent only a few percentage points of GDP. While these restrictions are extraordinarily difficult for the proprietors, employees and customers of affected establishments, the move has only a limited effect on the economy-wide level of output.

In distinct contrast to the first wave, such sectors as manufacturing, construction, real estate, mining and education are now able to continue operating at near-normal levels. These are collectively well over 10 times larger than the sectors that have been shuttered. Furthermore, any number of other sectors that were never formally restricted in the spring nevertheless suffered temporarily declines in activity as the businesses learned to adapt to a virtual working environment. That same process of adjustment is unnecessary today.

All of this is to say that some economic damage is probable over the next few months. However, we do not seriously doubt that the broader recovery remains intact. Our business-cycle analysis points toward an economy that has progressed from a recessionary footing to an "early cycle" positioning, as evidenced by reviving private investment (Exhibit 15).

Exhibit 15: U.S. private investment rebounded from trough



Note: As of Q3 2020. Shaded area represents recession. Source: BEA, Haver Analytics, RBC GAM

Vaccine optimism

The development of an effective vaccine has long been viewed as the key to eradicating the virus, or at least to downgrading it from pandemic curse to pest. Achieving this was initially thought to be something of a long shot, as vaccines historically required many years to be developed, and efforts to find vaccines for many viruses – including all previous coronaviruses – had failed.

Fortunately, the vaccine prospects now look quite promising, on seven counts:

Likelihood: Despite initial doubts, it is now virtually certain that COVID-19 vaccines will be approved given the early success of several candidates and limited emergency-use authorizations.

Timing: Emergency usage is now beginning at the very end of 2020, with standard availability as of early 2021 in major developed nations.

Efficacy: In trials, the top two vaccine candidates appear to reduce the likelihood of contracting COVID-19 by a remarkable 95%. Another reports 70% efficacy. While detailed information is still limited and some aspects of the scientific methodology have been questioned, the prospective vaccines appear to be genuinely exceeding expectations.

Duration: The duration of the protection offered by the vaccines is not yet clear. Some research suggests that those who obtained their immunity via infection could already start to lose that protection within a matter of months. This presents a distinct risk. However, at least one virus manufacturer has indicated it expects vaccine-induced immunity to last at least a year. This should suffice in terms of making vaccines a viable means of protection.

Take-up: Only time will tell exactly what fraction of the population will be willing to be inoculated, but surveys suggest around 75% is a reasonable guess. While some countries report less enthusiasm, this may yet be boosted via government payments and companies requiring their employees to be inoculated.

Production: Producing a sufficient number of shots to inoculate the world is far from straightforward given a global population of nearly 8 billion and the expectation that each person will require two doses. While manufacturers insist they can produce billions of doses in 2021, we suspect a fair portion of the emerging world will not be inoculated until 2022 or later. The majority of people in the developed world should be inoculated in the second and third quarter of 2021.

Distribution: Getting the vaccine to every corner of a country – let alone the world – is set to be quite challenging, but not impossible. Most people in the developed world already get a flu shot each year, so the distribution protocols already exist. Some COVID-19 vaccines must be kept in cold temperatures, but the requirements are proving less extreme than initially anticipated.

In short, it appears that vaccines will arrive shortly and should be quite effective. In turn, they should have a significant effect on the trajectory of the pandemic. Herd immunity is now reasonably likely based on the favourable efficacy rates reported by several manufacturers, paired with our expectation that most people will opt to get the vaccine. If 60% to 70% of a country's population can become immune to COVID-19, the virus would then struggle to continue circulating. Even if herd immunity proves elusive, the virus will still find conditions considerably less fertile for rapid spread.

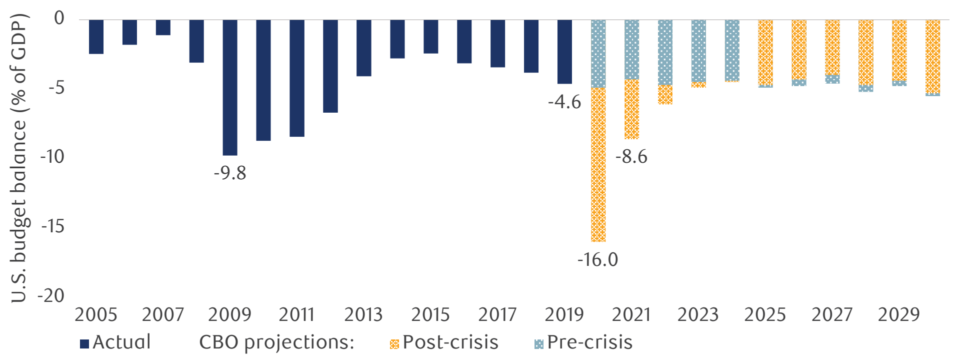
These vaccine developments have been key contributors to the recent enthusiasm of financial markets, and also to our own above-consensus growth forecasts for 2021.

Policy support

Policymakers have played an unprecedented role in supporting economies and financial markets throughout the pandemic.

The extraordinary fiscal support is now starting to fade, partially because unemployment has declined, resulting in fewer unemployment cheques. But it is also because some pandemic-relief programs have been allowed to expire. This decline has been particularly abrupt in the U.S., where partisan battles resulted in the loss of a handful of programs over the past several months.

Exhibit 16: U.S. to record biggest budget deficit since WWII



Note: CBO pre-crisis projections made in March 2020, post-crisis projections made in September 2020. Source: CBO, Haver Analytics, RBC GAM

Until recently, the U.S. economy looked minimally worse for the wear despite the loss of fiscal support. The secret was that the prior fiscal stimulus was so enormous that much of the money was initially saved. This nest egg then kept spending going even as the stimulus faded. However, particularly for low-income Americans, these accumulated savings have now largely been eaten through. In response to this, it is likely that some additional U.S. fiscal support will be delivered once the new U.S. administration is installed next month.

The orientation of fiscal stimulus may also shift somewhat over time, paring the sometimes excessive support provided to some groups and filling previously overlooked gaps, particularly for the proprietors of businesses that were forced by government restrictions to close.

Still, large-scale fiscal support cannot last forever, as it is adding profoundly to the public debt. As such, the amount of stimulus is forecast by the IMF to decline notably over the coming year in nearly every country (Exhibit 16).

This is a prominent reason why the economic recovery should proceed more slowly from here.

Monetary stimulus has been extraordinarily supportive, allowing companies to roll over their debt, keeping the rising quantity of public debt manageable and bolstering housing markets. Although some quantitative-easing programs are being scaled back, this is primarily because the need for such support has fallen or because central banks have found a better way to provide that support, such as by extending the duration of bond purchases. With central-bank support expected to persist for several more years, interest rates should remain accordingly low.

U.S. election aftermath

The U.S. election proved a more closely contested affair than anticipated by pollsters (Exhibit 17). After a whiplash-inducing election night in which the favoured Democratic Party candidate, Joe Biden, temporarily appeared to be losing to the Republican incumbent, Donald Trump, Biden managed to hang on for the win.

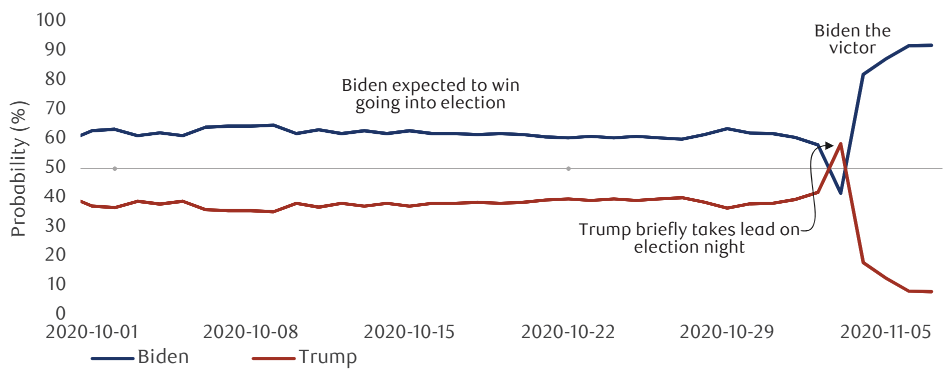
At the time of writing, two U.S. Senate races in Georgia are unresolved. Were the Democratic candidates to win both seats, they could just barely capture the Senate, achieving the Blue Wave that had been expected before the election. It is more likely that the Republicans retain the Senate, however.

These results mark the end of a chaotic four years, and risk assets rallied in relief as political and policy uncertainty should decline from here. A Biden presidency is also a positive for bond yields and a negative for the U.S. dollar.

A Biden presidency is likely a positive for economic growth. This is a nuanced argument, as businesses do not much like the threat of additional regulations or higher taxes. However, the higher taxes appear unlikely in the immediate future, in part because the Senate is likely to remain in Republican hands and in part because tax hikes would be ill-advised before the economy has recovered from the pandemic shock.

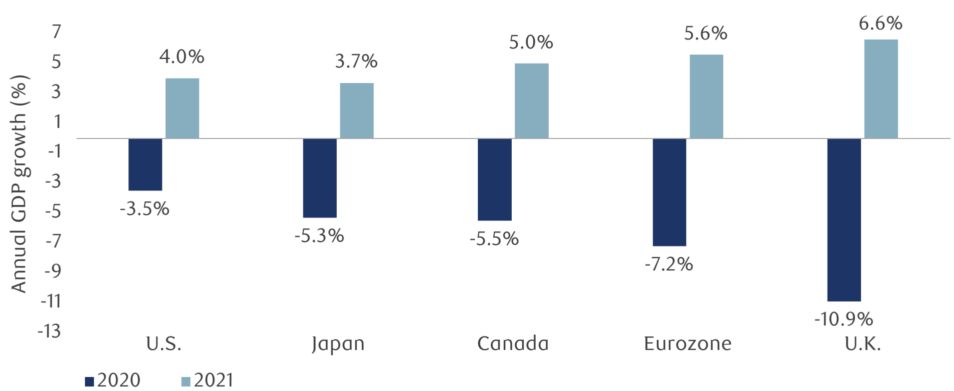
The main reason for economic optimism is that the Democratic Party has more enthusiastic fiscal-stimulus plans, though these will be constrained by the Senate and are likely to be closer to US$1 trillion than US$2 trillion (and far less than the US$5 trillion that was bandied about in the event of a Blue Wave). A Biden White House is also likely to ease immigration restrictions and partially normalize trade relations - both of which would be economic positives.

Exhibit 17: The changing fortunes of Biden and Trump



Note: As of 11/7/2020. Based on prediction markets data and RBC GAM calculations. Source: PredictIt; RBC GAM

Exhibit 18: RBC GAM GDP forecast for developed markets



Source: RBC GAM

Upgrading the 2021 outlook

All of these themes inform the economic outlook. Our revisions to 2020 GDP are quite mixed this quarter, involving upgrades to North American growth due to the surprisingly fast recovery so far, versus downgrades to the Eurozone and U.K. due to the intensity of their recent lockdowns.

For 2021, the story is considerably clearer (Exhibit 18). We have upgraded the outlook for every major developed region, due to the surprising speed of the recovery, promising vaccine developments, the favourable U.S. election result and the waning European second wave.

Eurozone and U.K. growth are expected to be fastest among developed nations in 2021, and they have enjoyed the biggest upgrades relative to last quarter. But this outperformance is really just a reflection of the fact that they lagged badly in 2020 and so have more room to catch up in 2021.

Exhibit 19: RBC GAM GDP forecast revisions

Forecast year	2020						2021					
	RBC GAM					RBC GAM vs. CE	RBC GAM					RBC GAM vs. CE
Forecast date	Q3 2020				**Q4 2020**	CE forecast as of 11/09/2020	Q3 2020				**Q4 2020**	CE forecast as of 11/09/2020
U.S.	-6.0	➔	+2.5	➔	**-3.5**	0.2	3.4	➔	+0.6	➔	**4.0**	0.2
Canada	-7.0	➔	+1.5	➔	**-5.5**	0.2	4.5	➔	+0.5	➔	**5.0**	0.2
Eurozone	-7.0	➔	-0.2	➔	**-7.2**	0.1	3.3	➔	+2.3	➔	**5.6**	0.9
U.K.	-9.0	➔	-1.9	➔	**-10.9**	0.1	5.2	➔	+1.4	➔	**6.6**	1.9
Japan	-5.3	➔	0.0	➔	**-5.3**	0.2	1.4	➔	+2.3	➔	**3.7**	1.2
Developed countries	-6.5	➔	+1.0	➔	**-5.5**	0.2	3.3	➔	+1.4	➔	**4.7**	0.7
World	-4.0	➔	+0.1	➔	**-3.9**	0.0	5.1	➔	+1.0	➔	**6.0**	0.4

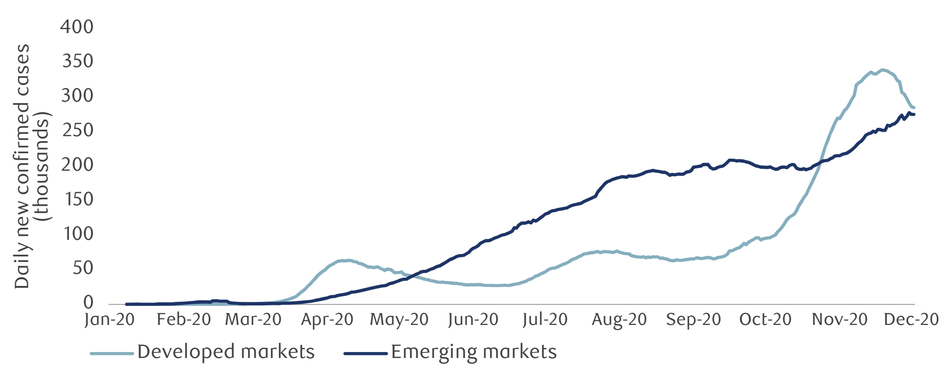
Note: RBC GAM vs. CE calculated as RBC GAM forecast minus Consensus Economics (CE) forecast. Developed countries include U.S., Canada, Eurozone, U.K. and Japan. World includes developed countries aforementioned, China, India, South Korea, Brazil, Mexico and Russia. Source: CE, RBC GAM

These new developed-world forecasts for 2021 are all higher than the consensus expectation (Exhibit 19).

Emerging-market countries are on a somewhat different trajectory. They are no longer experiencing the same intensity of coronavirus outbreak as developed nations, with a similar number of recorded cases despite containing seven-eighths of the world's population (Exhibit 20). One caveat to this optimism is that poorer countries are likely failing to detect many cases due to more meagre testing.

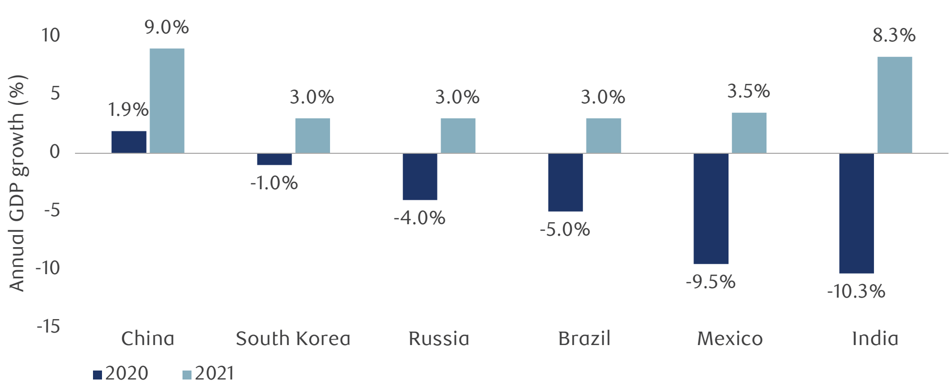
For 2021, we have raised our growth outlook for China and India, though for different reasons. In China's case, it is because the country continues to ably manage the virus and has exceeded expectations at every turn. For India, it is instead because we have had to significantly lower our 2020 outlook for the country, with the implication that any 2021 rebound can be significantly more vigorous (Exhibit 21).

Exhibit 20: Developed countries outstripped emerging markets in COVID infections growth



Note: As of 12/2/2020. Calculated as the 7-day moving average of daily infections. Source: ECDC, Macrobond, RBC GAM

Exhibit 21: RBC GAM GDP forecast for emerging markets



Source: RBC GAM

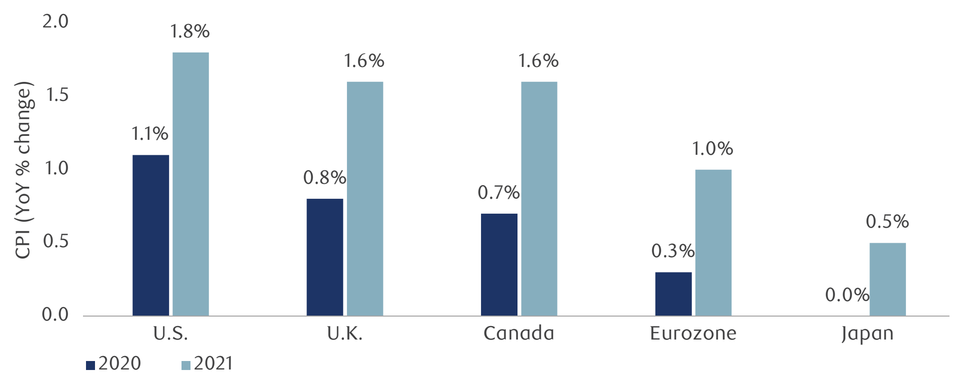
Inflation now edges higher

Our thoughts on inflation have changed little over the past quarter. We correctly predicted low inflation in the immediate aftermath of the pandemic given the enormous demand shock, low oil prices and, accordingly, low inflation expectations. As economic conditions have begun to normalize, inflation has stabilized after a precipitous drop. Our forecasts for 2020 and 2021 reflect this, and further recognize that the weaker U.S. dollar and the American economic outperformance argue for slightly higher inflation there than elsewhere (Exhibit 22).

Over the longer run, we continue to flag new upside risks to inflation. The combination of enormous and persistent monetary stimulus, a new (higher) inflation mandate for the U.S. Federal Reserve, elevated public-debt levels and efforts to bring manufacturing of key products back home all suggest that inflation could be somewhat higher than was imagined before the pandemic (Exhibit 23).

However, we stop short of predicting outright high or problematic inflation. Demographic forces remain profoundly deflationary, and nearly all pre-virus inflation forecasts assumed that inflation would struggle to achieve normal levels. In short, while more inflation is possible over the long run than was assumed a year ago, it is more likely to involve inflation returning to normal readings after a decade of underwhelming prints.

Exhibit 22: RBC GAM CPI forecast for developed markets



Source: RBC GAM

Exhibit 23: Inflation should be low in the near term, but may creep higher over longer term

Near term (1-2 years): deflationary pressures dominate	
Big demand shock	• Diminished income; high unemployment
Low oil prices	• From demand shock + price war
Low inflation expectations	• Tame expectations after decade of low inflation
Monetary stimulus	• Large amount of monetary stimulus can be inflationary
Long term (3-10 years): inflationary pressures may bubble up	
Demographics	• Aging population and slowing population growth may be deflationary
Persistent monetary stimulus	• Central bank balance sheets are likely to remain distended for many years
New inflation mandate	• U.S. Fed now willing to tolerate >2% inflation for a period of time
High public debt	• High debt creates incentive to run slightly higher inflation to erode burden
Supply chain	• COVID-19 and U.S.-China conflict incent supply chain on-shoring = higher prices

Legend: Inflationary Deflationary Note: As at 9/11/2020. Source: RBC GAM

Source: RBC GAM

Risks skew downward

The risks to our base-case economic forecast skew moderately downward, for three reasons. First, the virus is not yet under control. Cold winter weather could make the second wave more challenging to control than imagined, and there could even be a third wave in the spring, as happened with the 1918 flu.

Second, vaccine optimism is extremely high at present. While not unjustified, any unexpected side-effects, lower than expected real-world efficacy, or complications linked to production, distribution or willingness to be inoculated could delay the return to normality.

Third, there is some upside risk to inflation: the possibility that prices might advance by more than expected in our forecasts. It is not so much that this outcome is more likely than that inflation undershoots our expectations, but that it would be more consequential. Low inflation would be fairly benign, whereas relatively fast inflation could create problems, including higher borrowing costs.

For all of this, note that it is fairly standard for the balance of risks to tilt in a downward direction. There are usually more ways for a growing economy to stumble than for it to suddenly become supercharged. Furthermore, there are also upside scenarios associated with some of these risks, such as the possibility that the virus retreats of its own volition over the coming months or that the vaccine rollout is perfectly orchestrated.

Exhibit 24: Lasting implications of COVID-19 – surprisingly few implications are truly permanent

Permanent changes	Temporary (but still multi-year) changes
• More public debt / higher default risk	• Higher unemployment
• Interest rates must be lower than otherwise	• Less immigration + baby bust (= slower GDP growth / weaker housing)
• More skittish about future viral outbreaks	• Less innovation (= slower GDP growth)
• More resources for low prob./high impact risks	• Lower return on investments? Historical precedent but likely overstated
• Some supply chain on-shoring / diversification	• High density living & working ➔ Low density
• Further reduction of monetary policy independence	• Public transportation ➔ Private transportation
	• Larger government
Inevitable but accelerated changes	• Goods > services
• Brick and mortar ➔ Online	• Less socializing, physical contact, travel
• Accelerating automation	• Big business outperforms small business
• More working from home	• Loss of human capital due to school closures and unemployment
• Less business travel, supplanted by virtual meetings	• Higher inequality
	• More private debt / default risk
	• Less anti-trust pressure, fewer data privacy limitations

Source: RBC GAM

Other source of uncertainty – though not obviously skewing positive or negative – include the amount of U.S. fiscal stimulus delivered, the result of Brexit negotiations and any deviation from the structural themes discussed in the next section.

Structural issues lurk

Obscured beneath the understandable focus on the pandemic are a number of structural issues that are still relevant for gauging the long-term path ahead.

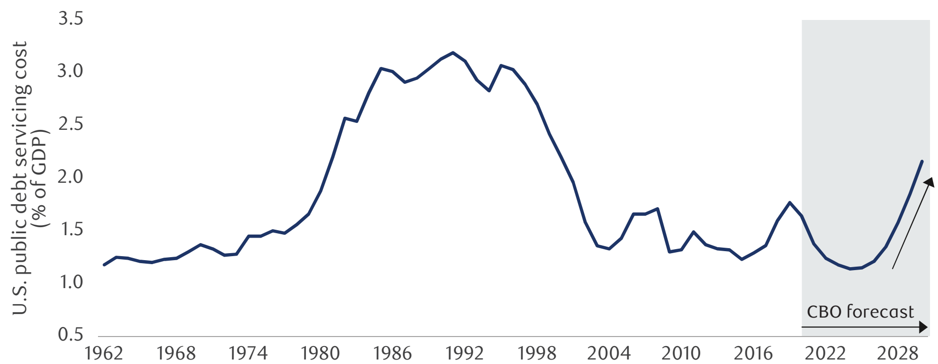
The first issue is actually COVID-19-related. Some scarring from the pandemic is likely, meaning that the economy may find itself permanently smaller than it would have been. There is certainly no shortage of long-term considerations that spill forth from the pandemic (Exhibit 24). However, we suspect that many pandemic-related changes will ultimate prove temporary, and the permanent diminishment of GDP will be considerably less than the 3.5 percentage-point hit estimated by the IMF for developed-world economies.

The demographic trajectory remains arguably the key structural consideration, and a highly predictable one. Aging societies and a slowing rate of global population growth will tend to limit the sustainable rate of economic growth, to keep inflation lower than normal, to increase fiscal deficits and to depress interest rates.

High debt loads are another structural issue, and one that is actively deteriorating as governments borrow huge sums of money. Low interest rates make this affordable for the moment and likely for the foreseeable future, but the servicing burden will nevertheless rise with time (Exhibit 25). High debt loads limit how much governments can expand the social safety net or cut taxes, and also reduce the scope for successfully grappling with future economic crises.

The geopolitical dynamic has pivoted over the past half-decade from U.S. hegemony to a multipolar world as China increasingly asserts itself. While this is partially a function of Trump-led U.S. antagonism, it would be naïve to expect a full return to the prior arrangement with a new occupant of the Oval Office. On top of its enormous population, China has become wealthier, bolder and mightier from a military perspective, and the bulk of the developed world now regards the country warily. While a Biden presidency could de-emphasize tariffs and provide for better relations on some fronts, the new leadership could create additional conflict from a human-rights or environmental perspective. We expect frictions to persist between China and the U.S. for decades to come, and multipolar eras have historically been associated with somewhat diminished growth and higher inflation.

Exhibit 25: Rising U.S. public debt eventually outweighs record-low interest rates



Note: As of Sep 2, 2020. Source: CBO, Macrobond, RBC GAM

Populism remains a potent force across much of the world. Even as it ebbs in some countries, it continues to thrive in others. While the global financial crisis is starting to fade as a catalyst for populism, the pandemic could well spur a further upswell. Periods of populist discontent are associated with a bit less growth and a bit more inflation.

Representing an extension of the prior two structural factors, globalization is no longer the force that it was. The pandemic is temporarily interfering with the flow of immigration and travel, and spurring greater interest in on-shoring. Before the pandemic, U.S. tariffs were interfering with global trade. While all of these hindrances may ultimately prove temporary, globalization was arguably stagnating even before these developments. The era of rapid trade intensification has been over for a decade, mainly because the world is already deeply interconnected and increasingly homogenous. The altered outlook for globalization removes another source of growth and trims what had been a disinflationary influence.

There is a common theme that runs through all of these considerations: each one nibbles away at the sustainable economic growth rate. Technological change is one of the touted offsets for slow growth, but it has yet to deliver sufficiently on its promise.

Canadian specifics

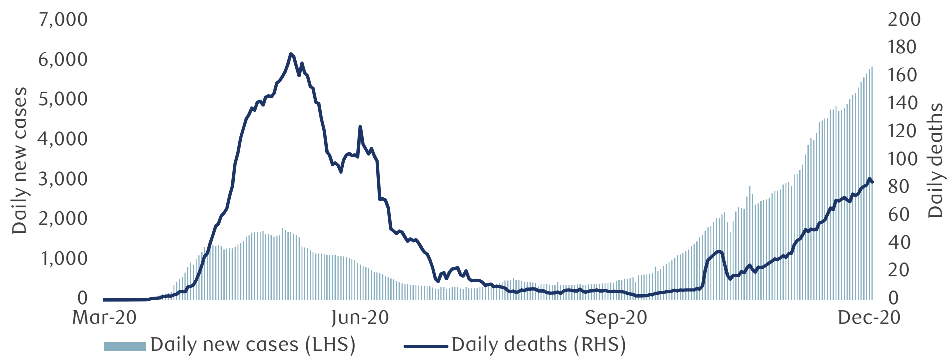
Canada's experience in the COVID-19 era has resembled that of other countries, but with a few nuances. The country is also grappling with a second viral wave, though the intensity of new infections on a per-capita basis is substantially less than in the U.S. or Europe (Exhibit 26).

The country has enjoyed a significant economic rebound, to the point that it has seemingly caught up to the U.S. after trailing moderately during the first phase of the pandemic. We estimate that the Canadian economy has recovered around 70% of its earlier losses (Exhibit 27). Although Canada's small and medium-sized businesses remain disproportionately affected by government restrictions, the majority now report being fully open for business (Exhibit 28).

Canada finds itself in an enviable position for 2021. Not only is its virus count less problematic and its economy further along in recovery, but the federal government has been extremely generous with fiscal support and has ordered more vaccine doses per capita than any other nation (though there is concern these could arrive later than in the U.S.). As a result of Canada's fiscal largesse, the IMF predicts that the country will have the smallest output gap among major nations by 2022-2023. The positive economic implications of the U.S. election should also partially spill over into Canada.

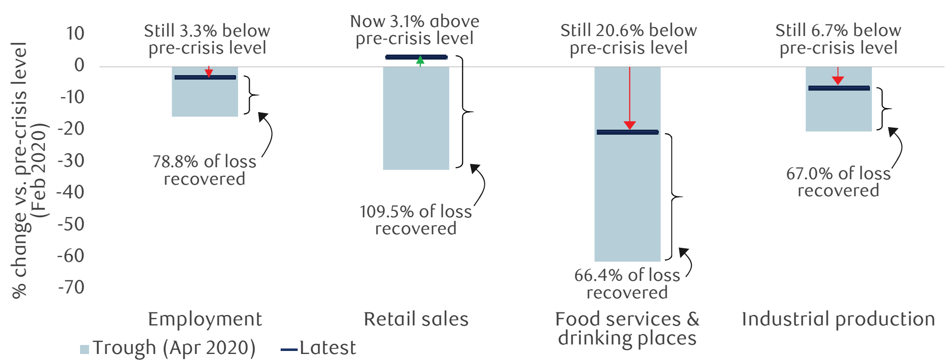
Of course, Canada has high household-debt levels and housing-market vulnerabilities. It is also worth recognizing that for all of Canada's advantages, the U.S. economy has a long history of leading the way out of recessions given its dynamism. As such, we stop short of predicting economic heroics for Canada, instead expecting that it will be a part of broader North American outperformance relative to Europe.

Exhibit 26: Second Canadian COVID wave has not yet peaked



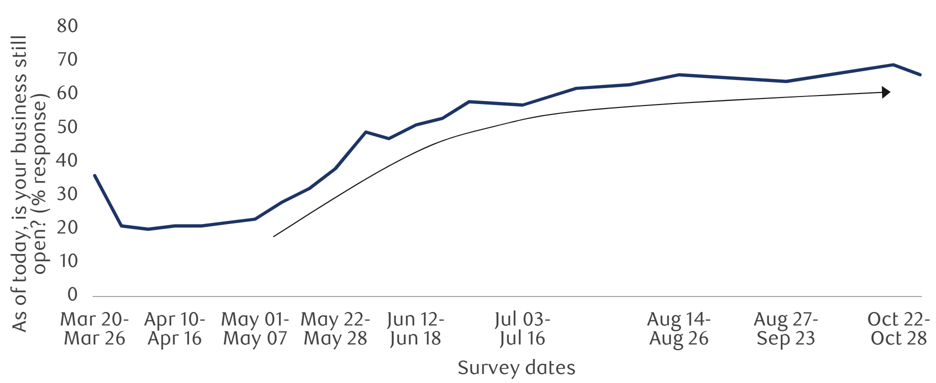
Note: As of 12/2/2020. 7-day moving average of daily new cases and new deaths. Source: CDC, Macrobond, RBC GAM

Exhibit 27: Substantial lost ground has been recovered in Canada



Note: Employment as of Oct 2020; retail sales, food services & drinking places, and industrial production as of Sep 2020. Trough since Feb 2020. Source: Macrobond, RBC GAM

Exhibit 28: Most businesses in Canada are fully open now



Note: As of 10/28/2020. Source: CFIB, RBC GAM

Economic bottom line

Financial markets have proven adept at looking past the short-term problems associated with the pandemic, recognizing that this is an inherently artificial and temporary shock and that sunnier days lie ahead.

From an economic standpoint, the global pandemic certainly remains the dominant economic issue. The latest virus wave is set to temporarily halt growth over the next few months. However, the prospect of an effective vaccine and a fairly vigorous recovery over the coming year give us hope, and we look for 2021 to be a pivotal year in restoring a degree of economic and social normality. Reflecting that, our economic forecasts are now above the consensus for the year ahead.

Market Outlook

Vaccine brings normalization into view and boosts optimism for 2021

Eric Savoie, MBA, CFA
Investment Strategist
RBC Global Asset Management Inc.

Daniel E. Chornous, CFA
Chief Investment Officer
RBC Global Asset Management Inc.

Record-low interest rates and massive fiscal stimulus continue to support an economy contending with the effects of the coronavirus, but vaccines on the horizon are bringing the end of the crisis into view and a path to economic normalization is becoming increasingly clear. Economies have shown incredible resilience through this challenging period. Lockdowns have become more targeted, the virus is better understood, and economies are managing better than they did in the initial stages of the crisis. As a result, our economic forecasts have been upgraded and are now slightly ahead of the consensus, establishing a favourable backdrop for risk assets.

This year has featured heightened uncertainty and extreme volatility in financial markets as widespread lockdowns and stay-at-home orders sent global stocks into synchronized bear markets in early 2020. Many equity markets then rebounded from the March lows to record highs in the fall and most are up significantly this year, an outcome that would have been difficult to fathom when the economy was falling into its deepest recession since the Great Depression. We recognize that optimism is elevated and that valuations are at extremes by some measures, but there is also a lot to look forward to given the imminent rollout of COVID-19 vaccines and what we expect will then be an economic recovery. Additionally, high valuations in the world's leading equity markets are dominated by specific stocks and sectors, and almost all markets except U.S. large caps actually represent attractive value.

We have in fact begun to see a rotation out of U.S. mega-cap technology stocks, which led the market higher during the COVID-19 crisis period, into value-based and economically sensitive sectors and groups. Investors, prompted by news of highly effective vaccines in November, shifted from stocks that benefited from broader trends accelerated by the onset of COVID-19 into those that stand to benefit from an imminent economic upswing in 2021 and a self-sustaining recovery beyond.

All things considered, we believe that the economic recovery can support further gains in stocks and weigh that expectation against low or even potentially negative returns from sovereign bonds. As a result, a strategic bias toward equities seems appropriate. Over the summer, we raised our strategic allocation to equities within our model asset mix for a global balanced portfolio – set at 55% for many years – to 60%. We remain overweight stocks relative to the new neutral position and boosted our tactical exposure to stocks by another 2.5 percentage points this quarter, sourced from fixed income. For a balanced global investor, we currently recommend an asset mix of 64.5 percent equities (strategic neutral position: 60 percent) and 34.5 percent fixed income (strategic neutral position: 38 percent), with the balance in cash.

"Doctor Indicators" signal improving outlook

Signs of recovery from the impact of the coronavirus are reflected in the four "Doctor Indicators," which all signal a healthy pulse for the economy and financial markets ahead. Popularized during the great financial crisis, these indicators serve as a barometer of economic progress because they are particularly sensitive to trends in global activity. Just recently, the South Korean stock market rose to a record, copper prices traded at their highest level since 2013, the Baltic Dry Freight Index was well off its lows and the Canadian dollar rose to its highest in 2 ½ years (exhibits 1 to 4). In the past, these have been reliable indicators of sustainable economic momentum and the improvement we see suggests that market participants are looking for better things in 2021.

Risk measures suggest uncertainty is fading

Other measures that indicate investors are pricing in better outcomes are narrowing credit spreads and a steepening yield curve. Exhibit 5 plots the spread of U.S. high-yield bonds over the past 35 years. Credit spreads (i.e. the difference between yields on corporate credit and sovereign bonds) soared in early 2020 as the arrival of COVID-19 potentially jeopardized

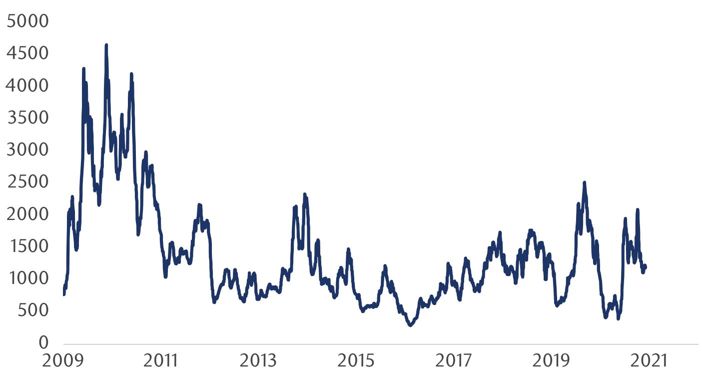
Exhibit 1: Korean stock-price index (KOSPI)

Note: As of December 7, 2020. Source: Bloomberg

Exhibit 2: Copper – COMEX U.S. cents per lb.

Note: As of December 7, 2020. Source: Bloomberg

Exhibit 3: Baltic Dry Freight Index



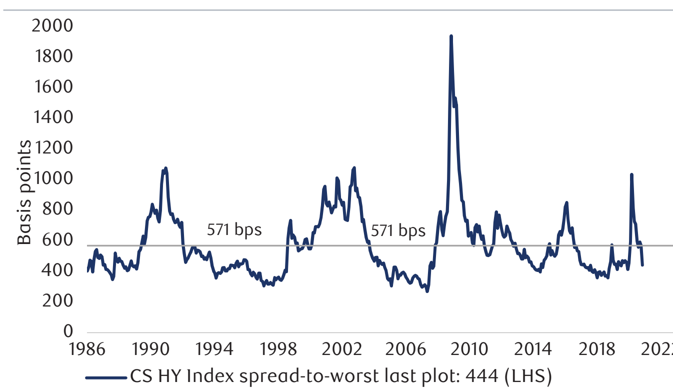
Note: As of December 4, 2020. Source: Bloomberg

Exhibit 4: CAD/USD exchange rate

Note: As of December 7, 2020. Source: Bloomberg

companies' abilities to meet their financial obligations, but spreads rapidly tumbled back below their long-term average as various backstops were put in place by central banks and fiscal authorities and as economies gradually re-opened. Moreover, the yield curve has been steepening, suggesting a period of lower volatility may lie ahead. Exhibit 6 plots the yield curve alongside the VIX. We've inverted the yield curve on the chart and advanced it by 30 months. The relationship in the lines on the chart suggests that changes in today's yield curve foreshadow market volatility with nearly a three-year lead time. The flattening in the yield curve between 2015 and 2019 was consistent with the rise in volatility experienced over the past year. But the steepening of the yield curve since late 2019 and into 2020 suggests markets

Exhibit 5: High-yield bond spread



Note: As of December 4, 2020. Source: BofAML, Credit Suisse, RBC GAM may be moving into a sustained period of lower volatility in the quarters ahead. The improving outlook is reinforced by both credit markets and the yield curve, both of which have in the past been good leading indicators of future market conditions.

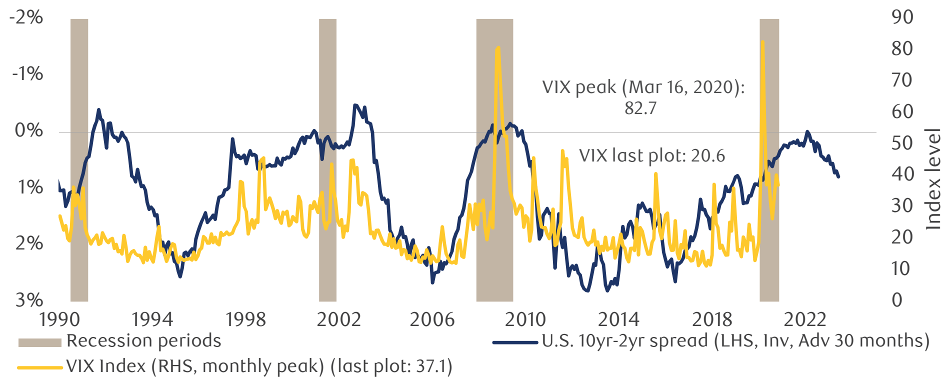
Lower rates for longer

The anticipated economic recovery is unlikely to be accompanied by interest-rate increases in short-term interest rates, as accommodative monetary policy will likely remain a macroeconomic feature for some time. Central bankers have expressed their commitment to keeping interest rates extremely low to stimulate economies and financial markets even as the recovery gains traction. The latest U.S. Federal Open Market Committee's projections, for example, look for rates to remain near zero at least until 2023, which is consistent with investors' expectations based on the pricing of futures contracts (Exhibit 7). As a result, we don't expect any short-term rate increases over our 1-year forecast horizon and likely beyond.

Government-bond yields hover near historic lows

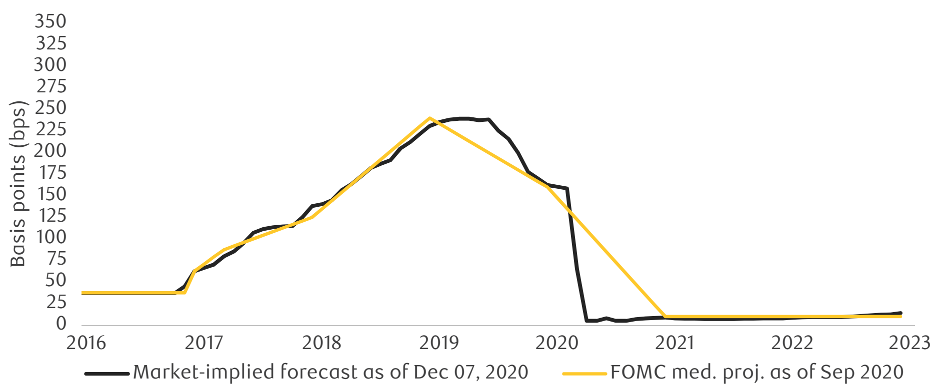
Sovereign-bond yields declined in Europe where rising COVID-19 infections triggered tighter restrictions. In North America, though, yields crawled higher. In both regions, the moves were small compared to the scale of the declines earlier in the year and yields everywhere remain near historically low levels (Exhibit 8). The U.S. 10-year yield rose as high as 0.96% during the quarter, from 0.70% at the end of August, but is still down meaningfully from 1.90% at the start of the year. According to our models, the

Exhibit 6: U.S. yield curve vs. VIX volatility



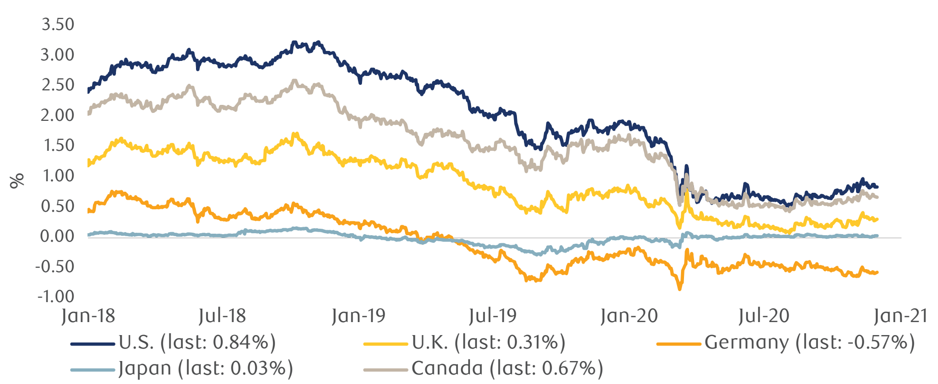
Note: As of December 7, 2020. Source: Bloomberg, RBC GAM

Exhibit 7: Implied fed funds rate
12-month futures contracts



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

Exhibit 8: 10-year government-bond yields



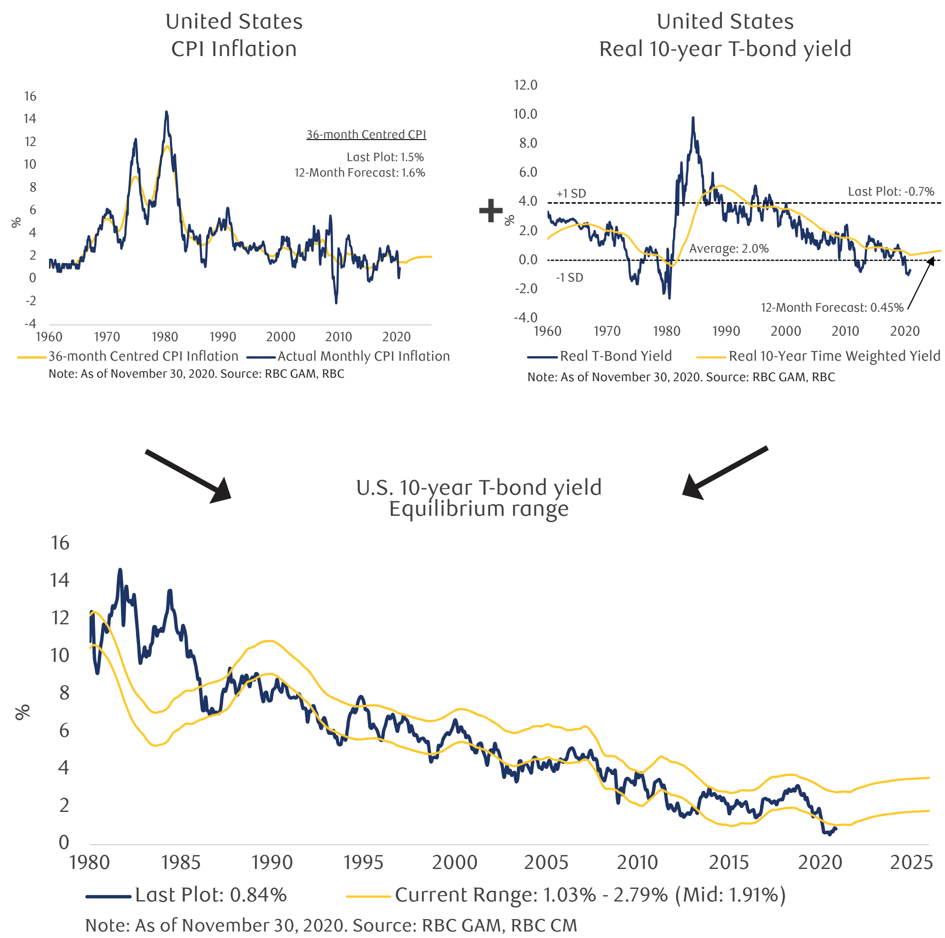
Note: As of November 30, 2020. Source: RBC GAM

outlook for sovereign bonds remains unimpressive and valuation risk is elevated (page 40).

Secular forces to limit any increase in real interest rates

Going forward, longer-term bond yields have a bit more room to rise, but the scope for increases is limited by secular pressures holding down real interest rates (i.e. the after-inflation interest rate). Aging demographics, slowing population growth and an increased desire for saving versus spending have all contributed to declines in real rates and these trends are unlikely to change anytime soon. The COVID-19 crisis has played a role in pressuring interest rates lower, but yields everywhere have already been falling for nearly 40 years. The real rate of interest is important to us as our modelling begins with the real rate and adds an inflation premium to arrive at our estimate for nominal bond yields (Exhibit 9). Inflation is unlikely to be a problem in the near term, but the real (or after-inflation) rate of interest is currently negative, which we don't think is sustainable.

Exhibit 9: U.S. 10-year bond yield
Fair-value estimate composition



Our equilibrium equations have always assumed that real interest rates would eventually rise back to their long-term norms, but we have since evolved our modelling to incorporate long-term factors, such as those listed above, into our real-interest-rate projections. The result is that our equilibrium bands don't rise as quickly or as high as they did before. Our new modelling expects real rates to drift to 0% or just slightly above over the next few years. Importantly, this is not just a U.S. phenomenon as this methodology shows a similar trend of low and gradually rising equilibrium bands for sovereign-bond yields in other regions, paced by the moribund real rate of interest (page 40). As a result, we expect only modest increases in sovereign-bond yields in all major regions over the year ahead, acting as a slight headwind to total returns for bondholders.

Stocks stage an impressive comeback in 2020

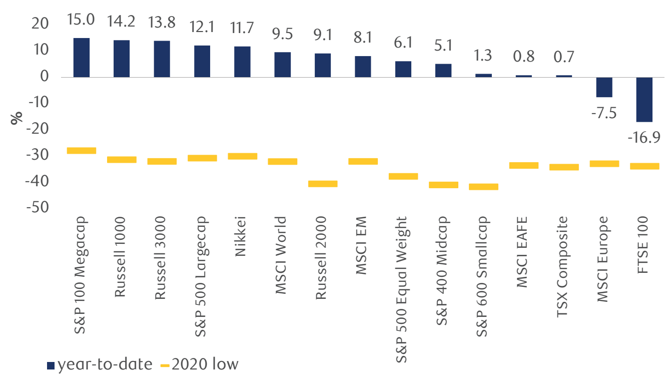
After falling into a bear market earlier in the year, the combination of a gradual reopening of economies, massive stimulus and the promise of a vaccine caused stocks to soar from their March lows. The S&P 500 plunged over 30% from the beginning of the year through March 23, but rallied an impressive 62% off the low to the end of November and set record highs along the way. The latest rally has pushed the S&P 500's year-to-date gain to 12% excluding dividends, and most other markets are also showing solid progress so far this year with the exception of Europe and the U.K.

(Exhibit 10). U.S. market leadership has been a highlight of the COVID-19 era, but others have begun catching up (Exhibit 11). In fact, our global composite of equity valuations is now at its highest point above equilibrium, or fair value, since before the financial crisis more than a decade ago. That said, it is only modestly above and not overly extended (Exhibit 12). Importantly, the increase in valuations is dominated by the U.S. market and, while the S&P 500 rests at the upper end of its fair-value band, non-U.S. markets are much more attractively positioned with many below the mid-point of our fair value bands (page 41).

Not all valuation metrics agree that U.S. equities are expensive

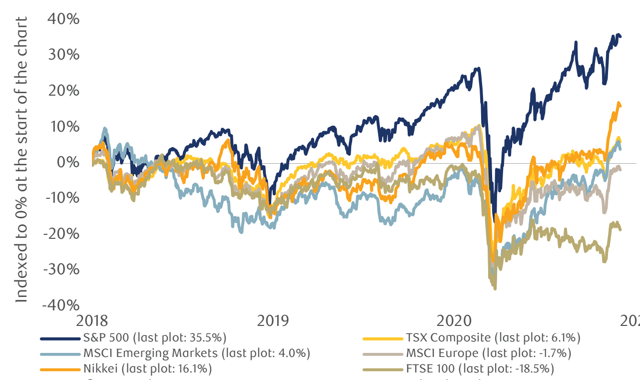
Exhibit 13 plots 10 different valuation metrics for the S&P 500 in terms of standard deviations from their long-term norms. While some metrics suggest the U.S. stock market is extremely expensive (i.e. Tobin's Q ratio, 12-month trailing P/E), others suggest the market is attractively priced (i.e. equity risk premium, Fed model). Our own fair-value model takes a multi-factor approach and now indicates the market is one standard deviation above fair value. But if we instead look at price-to-cash flow, the S&P 500 is priced at its long-term average (Exhibit 14). Contributing to the extreme readings in some of these metrics may be that GAAP accounting is still the basic business measurement tool, but may no longer be fit for purpose across

Exhibit 10: Major indexes' price changes
Since December 31, 2019



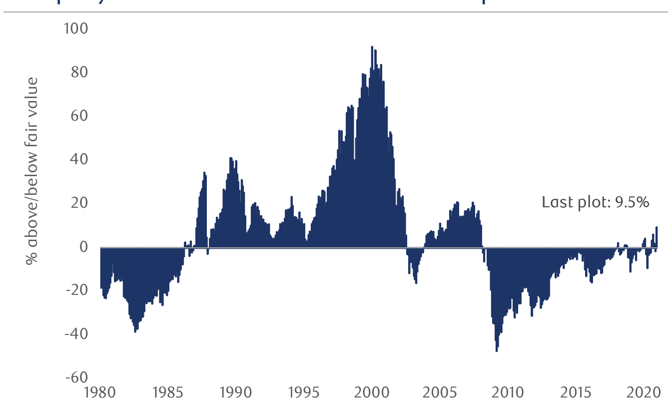
Note: As of November 30, 2020. Chart represents price changes in major indices from a December 31, 2019 starting point. Source: Bloomberg, RBC GAM

Exhibit 11: Major equity-market indexes
Cumulative price-returns indexes



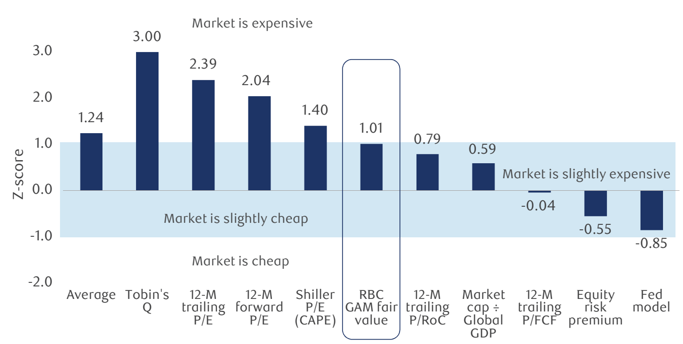
Note: As of November 30, 2020. Price returns computed in local currencies, except MSCI Emerging Markets Index, which is in USD. Source: Bloomberg, RBC GAM

Exhibit 12: Global stock-market composite
Equity-market indexes relative to equilibrium



Note: As of November 30, 2020. Source: RBC GAM

Exhibit 13: S&P 500 Index
Normalized valuation metrics

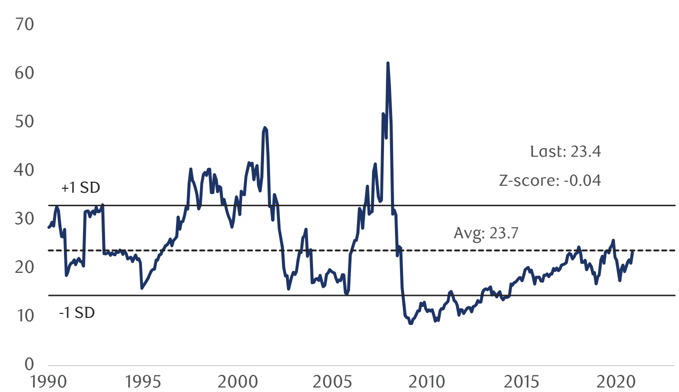


Notes: Historical data from Jan 1956 for Tobin's Q, 12-month forward P/E, Shiller P/E, 12-month trailing P/E, equity risk premium and Fed model. Historical data from Mar 1956 for market cap ÷ U.S. GDP. Historical data from Jan 1960 for RBC GAM fair value. Historical data from Jan 1990 for price to free-cash-flow and price to return-of-capital. As of November 30, 2020. Source: Haver Analytics, RBC CM, RBC GAM all companies and industries. The increasing share of intangible assets on corporate balance sheets means that traditional accounting may not capture the value of companies that are asset-light and rich in intellectual property. While there are certainly a number of metrics that suggest the stock market is expensive, we think it's worth considering that there could be other reasons to justify apparently high stock valuations.

Earnings recovery is under way

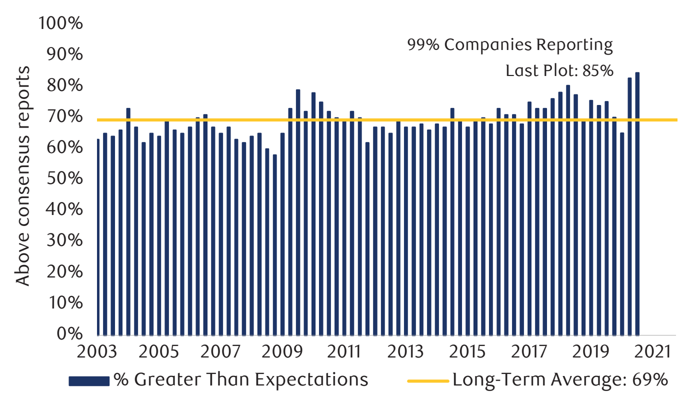
Another reason that stocks may appear expensive is that investors are paying up for an earnings recovery that is just beginning. In fact, profits did not decline nearly as much as analysts initially expected and earnings reports in the past two quarters have been beating estimates by record amounts (Exhibit 15). During the spring, the consensus was for a 25% drop in profits for 2020, but estimates have gradually been upgraded and the most recent forecasts project only a 15% drop in 2020 followed by a healthy 20% increase in 2021 (Exhibit 16). These estimates suggest that S&P 500 profits would reclaim their 2019 peak sometime next year. With price-to-earnings ratios indeed elevated, it is likely that investors are looking past the temporary drop in earnings and pricing in a rebound to a more normalized level of profits over the long term (Exhibit 17).

Exhibit 14: S&P 500 Index
12-month trailing price to free cash flow



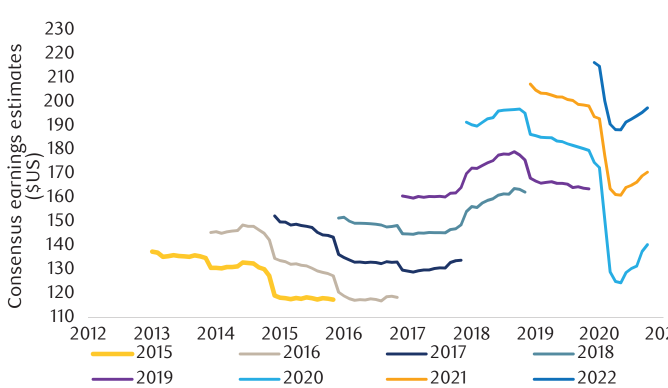
Note: As of November 30, 2020. Source: Bloomberg, Credit Suisse, RBC GAM

Exhibit 15: Companies reporting results above consensus forecasts



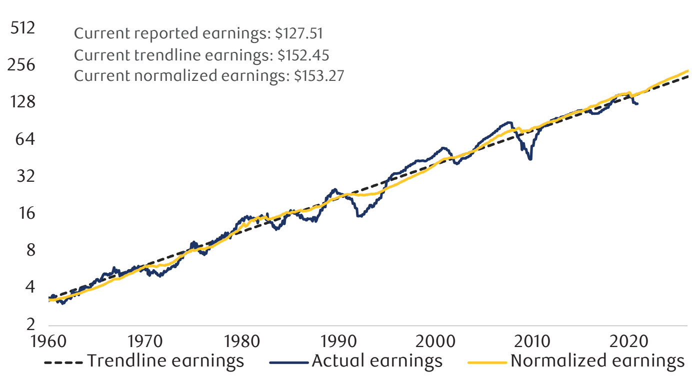
Note: As of December 7, 2020. Source: Refinitiv

Exhibit 16: S&P 500 Index
Consensus earnings estimates



Note: As of December 1, 2020. Source: Thomson Reuters, Bloomberg

Exhibit 17: S&P 500 earnings comparison



Note: As of November 30, 2020. Source: RBC GAM

Gauging potential upside for stocks

Combining various price-to-earnings ratios with earnings estimates provides a range of possible scenarios for stocks over the next two years (Exhibit 18). Given today's expected level of interest rates, inflation and corporate profitability, our models suggest a "normal" P/E (i.e. the valuation level historically consistent with prevailing interest rates, inflation and corporate profitability) is currently 18.6. Assuming the S&P 500 delivers the current consensus estimate for 2021 of US$165 and trades at an 18.6 P/E, a fair value for the index would be just over 3000. With the S&P 500 above 3600 at the time of writing, this represents a challenge for equities. However, if the market were to continue trading above our estimate of equilibrium by, say, 0.5 standard deviation or 1.0 standard deviation, the outlook for stocks improves. Looking ahead to 2022, a fair price for the S&P 500 would be around 3650, but with the P/E at 0.5 or 1.0 standard deviation above equilibrium, we could see index levels at 4100 to 4500, representing attractive return potential of mid-single digits to low-double digits over the next two years. We recognize that gains will depend on above-average valuations, but we think there is a good chance of this happening. In a world of persistently low interest rates, equity investors are faced with limited investment alternatives and, as a result, stocks should attract more capital. Investors may need to get used to a period of higher valuations.

Beneath the surface, a style rotation is taking place

The S&P 500's strong performance so far this year has been heavily

Exhibit 18: Earnings estimates and alternative scenarios for valuations and outcomes for the S&P 500 Index

		2021 Top down	2021 Bottom up	2022 Top down	2022 Bottom up
	P/E	$165.0	$170.8	$196.4	**$197.6**
+1 Standard Deviation	22.9	3775.4	3907.9	4501.2	**4528.9**
+0.5 Standard Deviation	20.7	3420.4	3540.4	4077.9	**4103.0**
Equilibrium	18.6	3065.4	3172.9	3654.6	**3677.1**
-0.5 Standard Deviation	16.4	2710.3	2805.4	3231.3	**3251.2**
-1 Standard Deviation	14.3	2355.3	2437.9	2808.0	**2825.3**

Note: As of November 30, 2020. Source: Bloomberg, Thomson Reuters, RBC GAM

Exhibit 19: Impact of excluding individual names from S&P 500 Index
One-year period ended November 27, 2020

Tickers excluded (cumulative)	S&P 500 total return (%) less exclusions (cumulative)	S&P 500 % of index return less exclusions (cumulative)	S&P 500 % of index market cap less exclusions (cumulative)
Nothing excluded	18.2	100	100
AAPL	15.2	83.2	94.1
AMZN	12.8	70.3	89.3
MSFT	11.0	60.1	84.4
GOOG	9.9	54.0	80.8
GOOGL	8.7	47.9	77.2
FB	8.2	44.7	74.8
NVDA	7.6	41.5	73.9
PYPL	7.2	39.4	73.1
WMT	6.8	37.5	71.8
QCOM	6.6	36.0	71.4
ADBE	6.3	34.5	70.7
NFLX	6.0	33.0	70.0
CRM	5.8	31.6	69.4
HD	5.5	30.3	68.5
UNH	5.3	29.1	67.5

Note: List shows top 15 tickers, sorted in descending order by their contribution to S&P 500 performance.
Source: Bloomberg, RBC GAM

Market cap of index:	$33.5 T
Market cap of top 15 contributors:	$10.9 T
Top 15 contributors' share of market cap:	32%

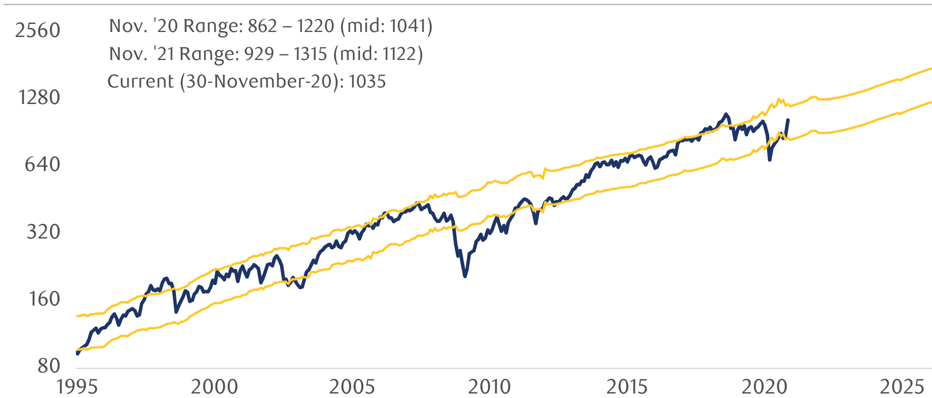
dominated by mega-cap technology stocks which benefited from lockdowns and work-from-home orders. An investor that didn't own the top-performing stocks would have lagged the market considerably. Exhibit 19 shows the S&P 500's return in the past year excluding the top 15 contributors. The top line in the table is the S&P 500's return with no exclusions, but each subsequent line removes the next largest contributor to the market's return. As of the end of November 2020, the S&P 500 delivered a total return of 18.2% over the trailing 12 month period, but if we exclude the largest contributor, Apple, the return falls to 15.2%. Removing just the top five stocks cuts the return in half to 8.2%. These top five stocks are likely familiar to most investors and have been deemed the "Fab 5" – Apple, Amazon, Microsoft, Alphabet (Google) and Facebook. All five companies have benefited from strong digitization trends that were reinforced by the pandemic and their returns have greatly supported the index so far this year.

That said, a shift in leadership may have begun as economies regain traction and vaccinations bring hopes of a return to normal. Exhibit 20 plots the performance of U.S. growth stocks versus U.S. value stocks back to 1995 and shows that growth has outperformed since the 2008 financial crisis. The pandemic boosted the outperformance of growth stocks beyond levels seen even during the late 1990s technology bubble. That trend may now be reversing and value stocks have been leading since September, bolstered by the vaccine announcements in November. Furthermore, the rally has broadened

Exhibit 20: Growth to value relative performance
Russell 3000 Growth Index / Russell 3000 Value Index

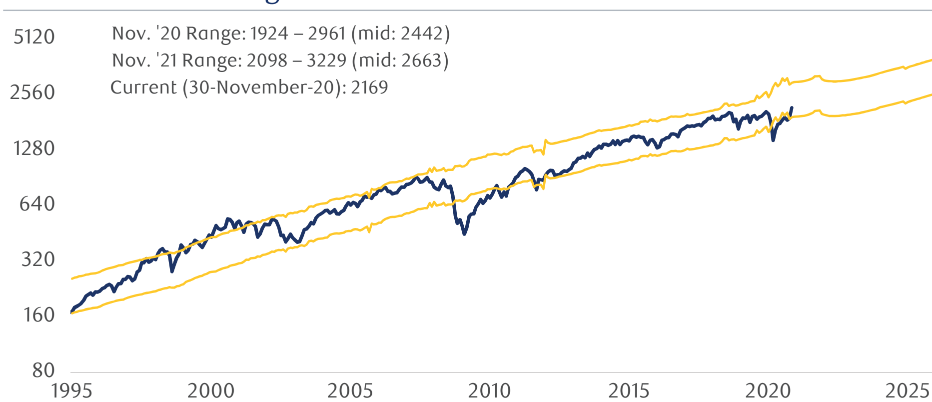
Note: As of November 30, 2020. Source: Bloomberg, RBC GAM

Exhibit 21: S&P 600 equilibrium
Normalized earnings & valuations



Source: RBC GAM

Exhibit 22: S&P 400 equilibrium
Normalized earnings & valuations



Source: RBC GAM

out from a handful of large mega-cap technology stocks to a much larger base of companies, including small- and mid-cap stocks that were near the bottom of their fair-value channels until recently (exhibits 21 and 22).

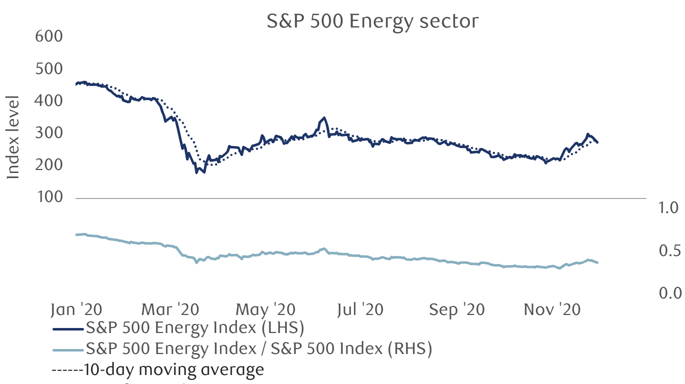
Stock market rally features encouraging characteristics

At the end of last year and prior to the COVID-19 crisis, we listed factors that we thought would lead to a sustainable bull market in stocks, and we note that all are now present. These factors are: 1) the leadership of value stocks; 2) the outperformance of small- and mid-cap stocks; 3) a steepening yield curve; 4) a shift from U.S. equity leadership to international equities; 5) a depreciating U.S. dollar. All of these have fallen into place. We know from history that the appearance of these factors are frequently consistent with the early stages of a bull market. These signals all suggest investors are now pricing in a sustainable economic recovery that should benefit a broadening list of companies, industries and regions rather than just the narrow set of U.S. mega-cap technology stocks that propelled the market through the pandemic. Furthermore, we are seeing improvement in the so-called "epicenter" stocks that were hardest hit by COVID-19. These include energy, hotels, airlines and casinos, all of which have been perking up lately and outperforming the S&P 500 since the start of November (Exhibit 23).

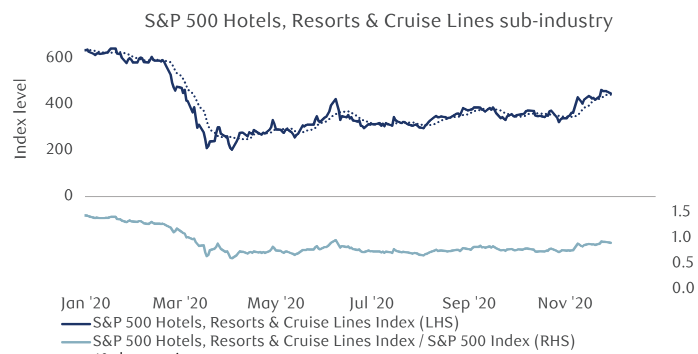
Investor sentiment reaches extreme optimism

The positive outlook for 2021 has investors feeling good about risk assets and measures of sentiment

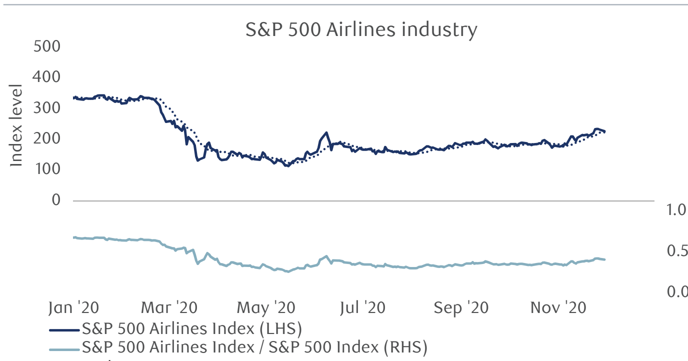
Exhibit 23: COVID-19 "epicenter" stocks
S&P 500 sector and industry index levels and relative strength



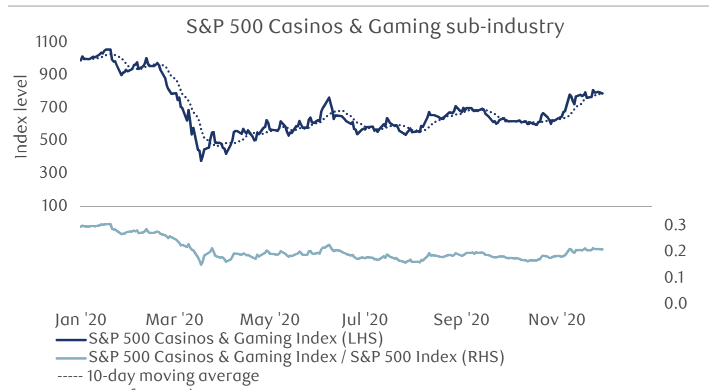
Note: As of November 30, 2020. Source: RBC GAM



Note: As of November 30, 2020. Source: RBC GAM



Note: As of November 30, 2020. Source: RBC GAM



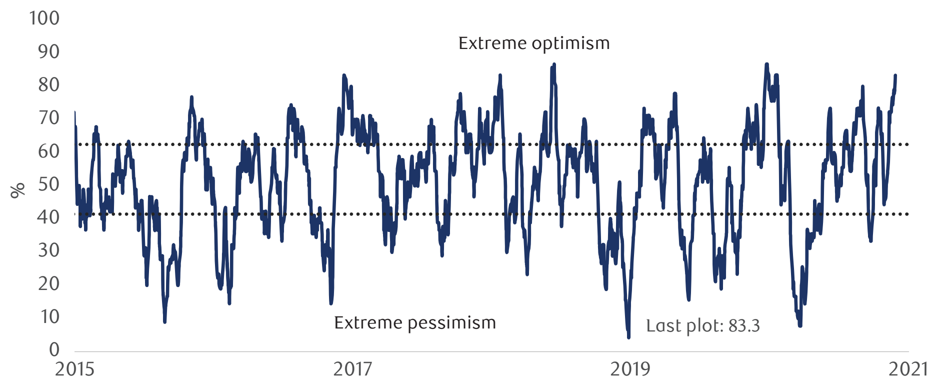
Note: As of November 30, 2020. Source: RBC GAM

have climbed to extremely optimistic levels (Exhibit 24). Sentiment measures tend to be good counter-indicators in that extreme pessimism likely bodes well for stocks going forward and vice versa. However, extreme optimism is a less effective indicator for identifying market tops than extreme pessimism is for timing market bottoms. Another means of gauging risk appetite is the measurement of stock-price momentum, which is also very strong and well off the historic lows we saw in March (Exhibit 25). But similar to sentiment, the breadth of momentum in stock prices provides much more powerful and timely indications of market reversal at a low than at a high, and widespread positive momentum (i.e. a high reading in this indicator) is rarely consistent with primary market tops. These indicators are warning signals and we should have our guard up, but they are not yet at levels that typically presage the end of a bull market.

Asset mix – boosting equity overweight, sourced from bonds

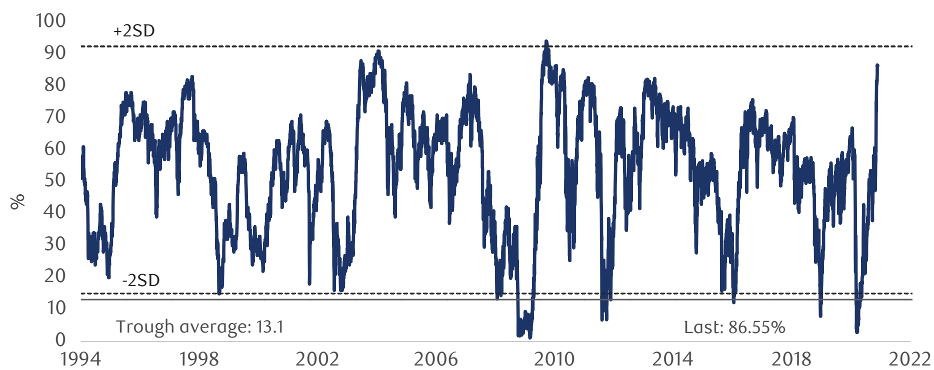
The global economy is likely entering a period of normalization and, while the transition from living with the virus to a post-pandemic world may be choppy, economies will continue to be supported by highly stimulative monetary and fiscal policies. In this environment, we expect interest rates to remain low for an extended period, with no rate hikes over several years. Our benign outlook is not without risk. The virus remains a threat and other risks include the change in U.S. government, Brexit and U.S.-China trade tensions.

Exhibit 24: Ned Davis Research Daily Trading Sentiment Composite percent bulls



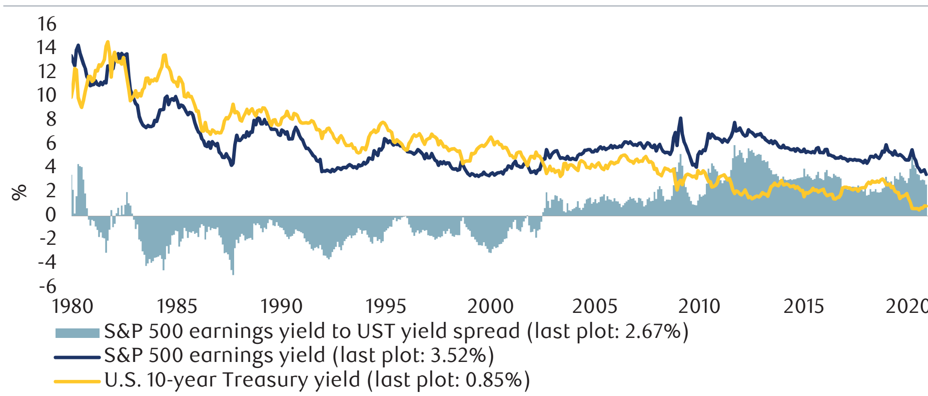
Note: As of November 27, 2020. Source: Ned Davis Research, RBC GAM

Exhibit 25: New York Stock Exchange Composite Index
% of stocks above their 200-day moving average



Note: As of November 27, 2020. Source: Bloomberg, RBC GAM

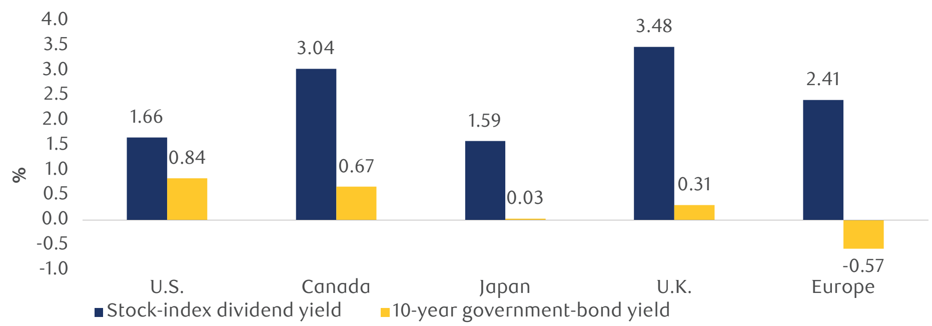
Exhibit 26: S&P 500 earnings yield
12-month trailing earnings/index level



Note: As of November 30, 2020. Source: RBC GAM, RBC CM

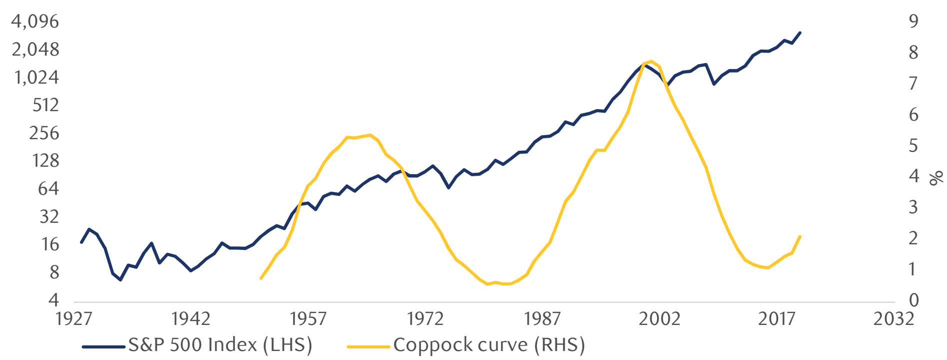
Against this backdrop, stocks continue to offer superior return potential and remain appealing relative to fixed income. In a world of low interest rates, even after the recent equity rally to record levels, stocks remain near their most attractive levels compared to bonds in the past 50 years (Exhibit 26). Moreover, the dividend income generated by equities is meaningfully higher than coupon income delivered by sovereign bonds across major regions (Exhibit 27). For these reasons we maintain a bias to equities in our positioning.

Exhibit 27: Equity versus fixed-income yields
Dividend yield versus 10-year government-bond yields



Note: As of November 30, 2020. Equity indexes used for U.S., Canada, Japan, U.K, and Europe were S&P 500, TSX composite, Nikkei, FTSE 100, and STOXX 600, respectively. The German bund was used for the bond yield in Europe. Source: Bloomberg, RBC GAM

Exhibit 28: S&P 500 Index
Supercycle price momentum



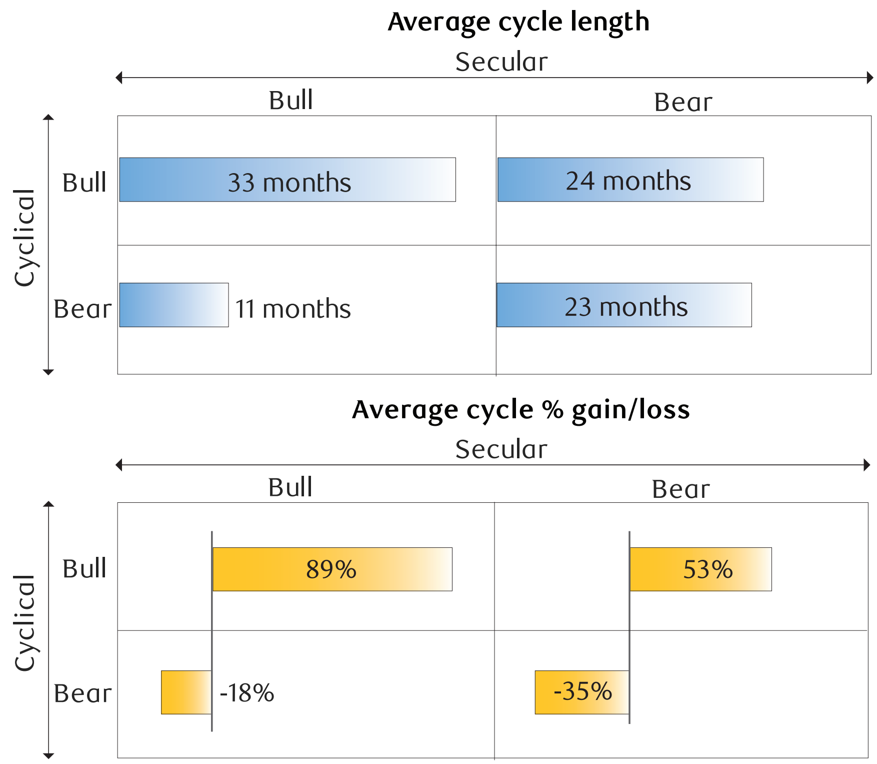
Note: Coppock curve based on yearly data as of November 30, 2020. Source: Bloomberg, RBC CM, RBC GAM

When considering our approach to managing balanced portfolios, we recognize that underlying conditions for returns have shifted significantly in the past decade and, reinforced by COVID-19, appear to have sealed in low interest rates indefinitely. In the past few decades, fixed income served as an offset for stock declines, but with yields at extremely low levels, bonds may not provide as much protection to portfolios going forward. In our opinion, traditional views on optimal asset mix must be repositioned to reflect the impact of structural change in the global economy on returns, correlations and risk mitigation within the universe of investment options. For many, one option may be to extend time horizons and add more equities to portfolios. Within fixed income, allocations can be expanded beyond sovereign debt to take advantage of additional sources of return from investment-grade, high-yield corporate and emerging-market debt. In addition to these traditional asset classes, investors can consider the addition of structured credit and absolute return fixed income strategies, and less liquid assets such as real estate, private markets and a rich set of others – all with the goal of boosting cash flows and blending assets to achieve low correlations within portfolios and protecting against downturns in equities.

Equities remain our preferred asset class going forward, and our view is supported by long-term price momentum suggesting stocks are in a rising supercycle. Exhibit 28 plots a long-term chart of the S&P 500 dating back to the 1920s, with price momentum overlaid as the smooth line on the chart. Long-term price momentum turned higher in 2016, foreshadowing rising prices over an extended period that is often measured in decades rather than years. This trend is important because bear markets tend to be shallower and shorter during supercycle bull markets, while rallies tend to last longer and be highly profitable. By contrast, supercycle bear markets feature deep and lasting declines and shorter rallies (Exhibit 29).

Taking these factors into consideration, we continue to position our portfolios with an overweight in stocks and underweight in fixed income. This quarter, we were further encouraged by the style rotation into value from growth, the increasing breadth in small- and mid-cap stocks, international equity outperformance, the steepening yield curve and the weakening U.S. dollar. As a result, we added 2.5 percentage points to our equity allocation during the quarter, sourced from fixed income. For a balanced, global investor, we currently recommend an asset mix of 64.5 percent equities (strategic neutral position: 60 percent) and 34.5 percent fixed income (strategic neutral position: 38 percent), with the balance in cash.

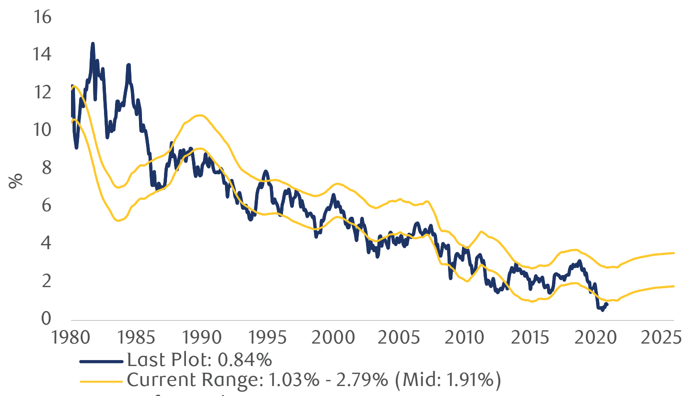
Exhibit 29: U.S. equity-market cycle statistics



Source: RBC GAM

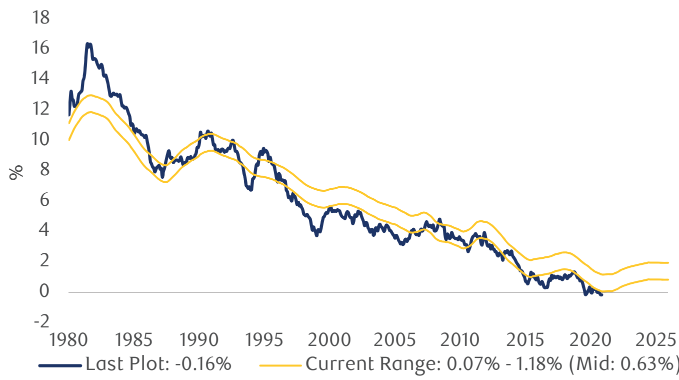
Global Fixed Income Markets

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



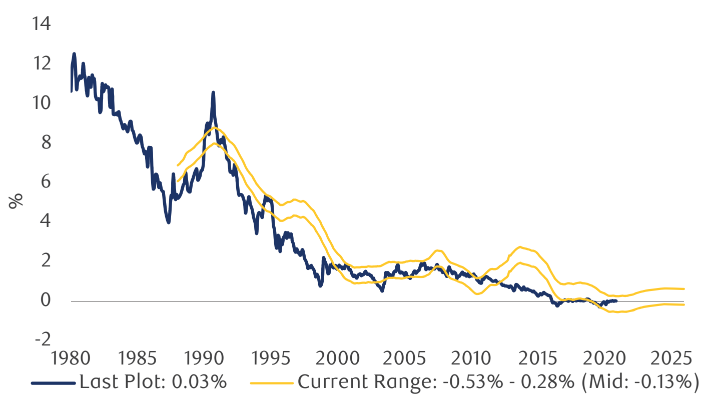
Note: As of November 30, 2020. Source: RBC GAM, RBC CM

Eurozone 10-Year Bond Yield
Equilibrium range



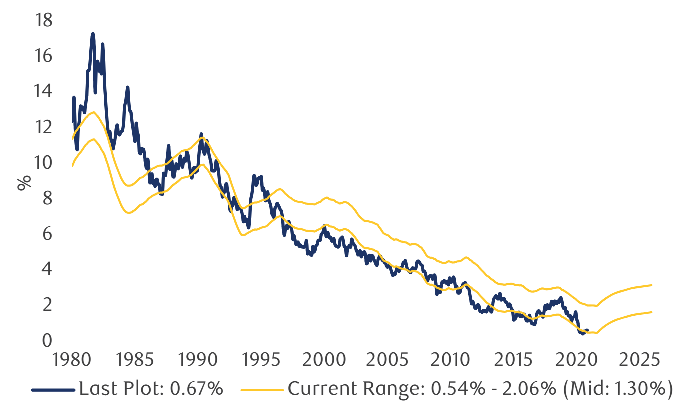
Note: As of November 30, 2020. Source: RBC GAM, RBC CM

Japan 10-Year Bond Yield
Equilibrium range



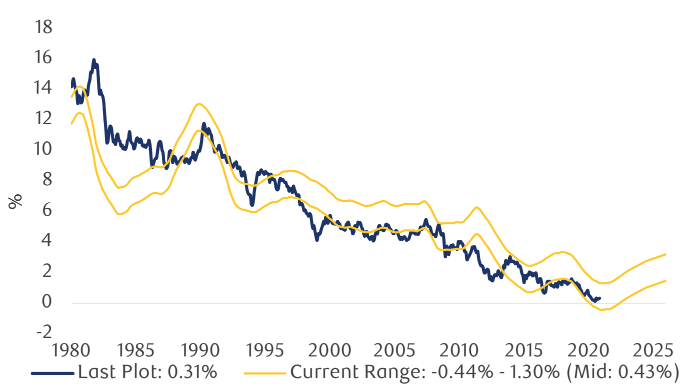
Note: As of November 30, 2020. Source: RBC GAM, RBC CM

Canada 10-Year Bond Yield
Equilibrium range



Note: As of November 30, 2020. Source: RBC GAM, RBC CM

U.K. 10-Year Gilt
Equilibrium range

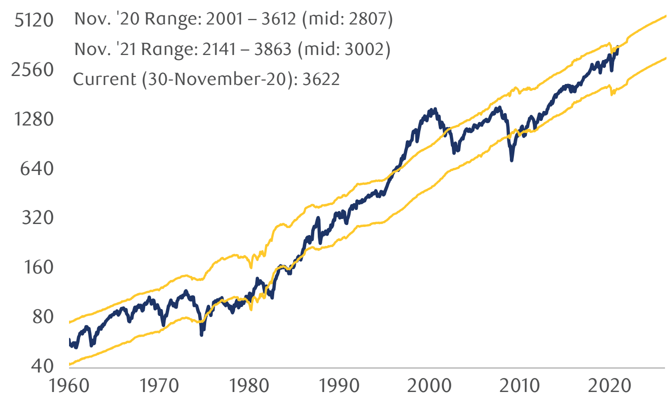


Note: As of November 30, 2020. Source: RBC GAM, RBC CM

> *"We expect only modest increases in sovereign-bond yields in all major regions over the year ahead, acting as a slight headwind to total returns for bondholders."*

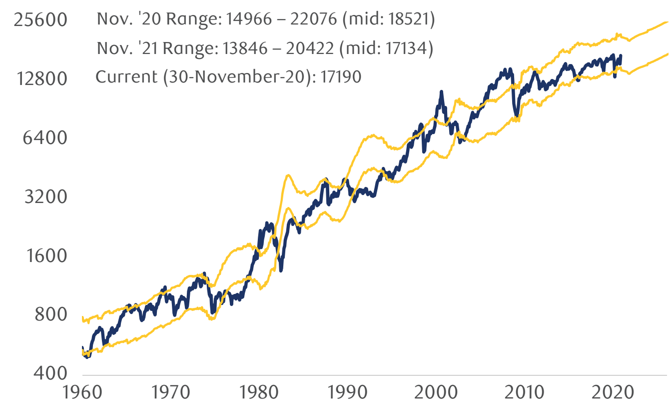
Global Equity Markets

S&P 500 Equilibrium
Normalized earnings and valuations



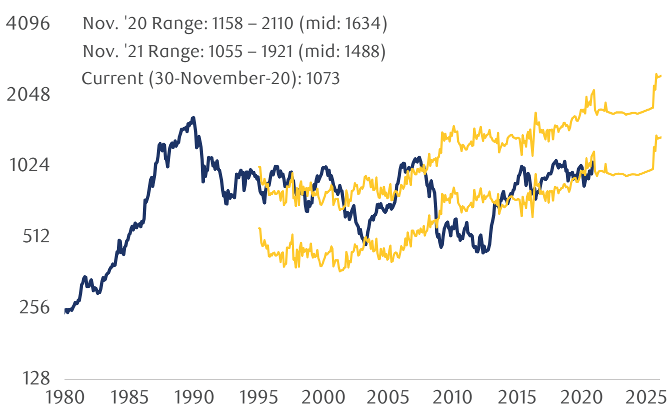
Source: RBC GAM

S&P/TSX Composite Equilibrium
Normalized earnings and valuations



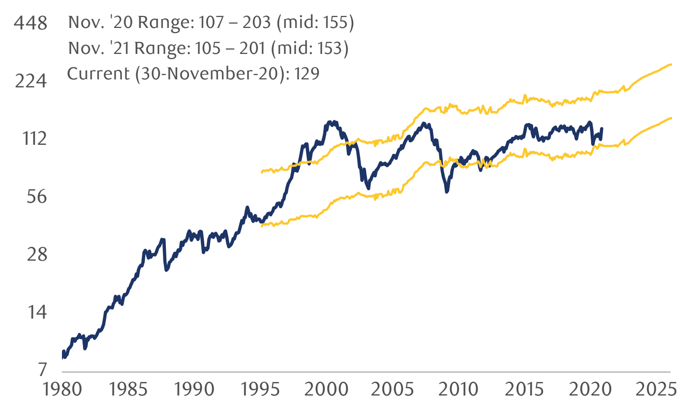
Source: RBC GAM

MSCI Japan Index
Normalized earnings and valuations



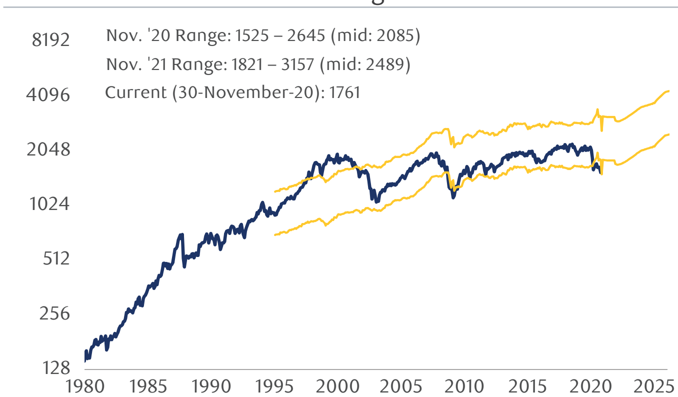
Source: RBC GAM

MSCI Europe Index
Normalized earnings and valuations



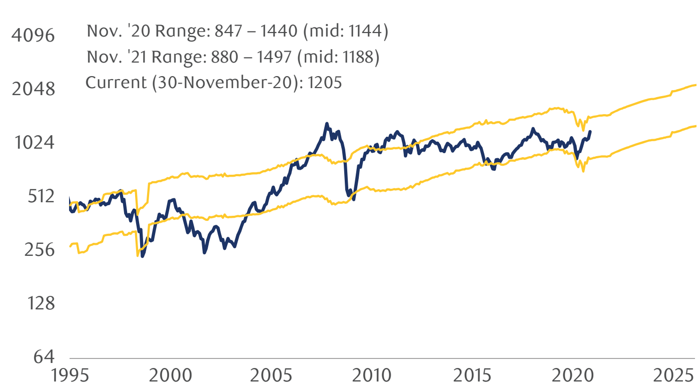
Source: RBC GAM

MSCI U.K. Index
Normalized earnings and valuations



Source: RBC GAM

MSCI Emerging Markets Index
Normalized earnings and valuations



Source: RBC GAM

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Global Fixed Income Markets

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

Suzanne Gaynor
V.P. & Senior Portfolio Manager
RBC Global Asset Management Inc.

Taylor Self, MBA
Associate Portfolio Manager,
RBC Global Asset Management Inc.

Bond yields have been inching up for several months, buoyed by the results of clinical trials suggesting that highly effective COVID-19 vaccines may soon receive clearance. Their distribution would start the world on its journey toward "normal" before the end of next year. Even with a widely available vaccine, the economic hangover from the coronavirus pandemic is likely to persist for many years, and so just as a return to "normal" life after COVID-19 is a long way off, so is a return to more "normal" bond yields.

Indeed, yields remain far below their pre-pandemic levels, and we expect this state of affairs to continue over the next year. The coronavirus dealt an unprecedented shock to the global economy, and the recovery is going to be uneven and drawn-out. In this context, central banks will remain concerned with nurturing a labour-market recovery that will likely stretch over several years, and policy support is likely to be removed gradually. A huge loss in consumer demand means that inflation is likely to be muted, and subdued price increases provide another reason for central banks to keep policy accommodative. We do not expect any major central banks to raise interest rates over the next 12 months, and likely well beyond that time frame. Moreover, central banks are likely to find themselves shouldering a rising share of the burden for stimulating economic growth, as fiscal policy may become more restrained. Any decline in fiscal support should extend the period of accommodative central-bank policy, again keeping yields low.

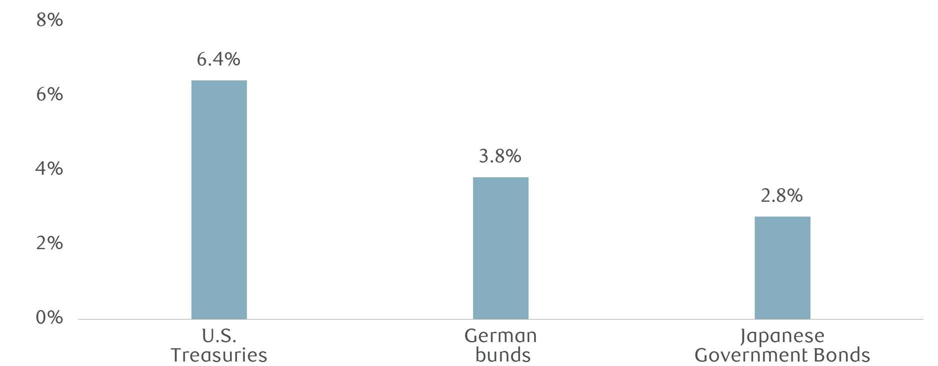
In addition to battling the effects of the pandemic, central banks are changing their policy goals in ways that will keep yields low. Earlier this fall, the U.S. Federal Reserve (Fed) announced that it would begin linking changes in interest rates and bond purchases to an average inflation rate instead of current inflation – an approach known as average inflation targeting. As a result, the Fed will allow inflation to run above 2% to compensate for periods when it trends below that level. Similarly, the European Central Bank (ECB) has signaled that it will be more tolerant of inflation exceeding 2% over time as opposed to targeting inflation "at or below 2%." These changes are significant and acknowledge a goal of higher and more variable inflation.

Should bond investors be concerned about this more enthusiastic embrace of higher inflation by central bankers? Probably not. While central banks are adept at responding to shorter-run fluctuations in the business cycle by easing financial conditions, they are relatively powerless to influence long-run economic trends over which monetary policy has little sway: aging populations, slowing productivity growth and extreme levels of economic inequality. These factors all presage slower economic growth and lower inflation, and thus lower interest rates and bond yields. Inflation has been falling for several decades and has done so in recent years in the face of historically accommodative monetary policy.

What easier monetary policies have done, and will continue to do, is fundamentally change an important feature of government-bond returns: their effectiveness at offsetting economic and financial risks. Historically, bond yields moved up and down as the outlook for the economy and inflation changed. When the economic outlook improved, usually coincident with higher equity prices, yields also tended to rise. Conversely, when the economic outlook deteriorated and equity prices declined, bonds would rally as interest rates fell. This negative correlation between bond and equity returns is the foundation of balanced portfolios. For the past several decades, bond investors enjoyed the role that government bonds served as insurance against declines in equities and the significant capital gains that bonds generated as yields steadily fell over time.

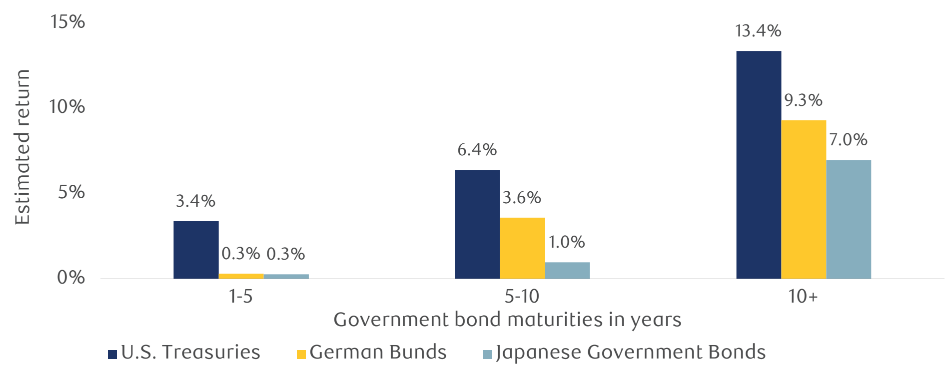
Today, the apparent determination of central bankers to indefinitely hold short-term policy rates near zero should erode confidence that bonds can fulfill this insurance role. What's more, government-bond yields are paltry. In Europe and Japan, where policy rates have been kept low for years, government bonds provided a much smaller buffer against declines in risky assets compared with the U.S. and other countries where yields

Exhibit 1: Risk diversification from government bonds
Estimated returns to government bonds when risk assets decline by 20%



Note: As of October 30, 2020. Source: Bloomberg, Bank of America Merrill Lynch Indices, RBC GAM calculations

Exhibit 2: Risk diversification from different maturity buckets
Estimated returns to government bonds when risk assets decline by 20%



Note: As of October 30, 2020. Source: Bloomberg, Bank of America Merrill Lynch Indices, RBC GAM calculations

were relatively high (Exhibit 1). We can see this even more dramatically by segmenting government bond markets into maturity buckets. For shorter-term bonds, such as those with fewer than five years to maturity, the response to equity declines is essentially nil for German bunds and Japanese government bonds (JGBs) (Exhibit 2).

For investors in government-bond indexes, the sapping of the insurance feature from shorter-maturity bonds is not trivial. Between 30% and 50% of government bonds in major indexes have less than five years to maturity. Index investors should realize that a substantial portion of their fixed-income allocations are providing little, if any, buffer against equity sell-offs. In these cases, short-term government bonds essentially become cash, earning a slight amount of interest, but of little use in a traditional balanced portfolio. Worse still, short-term government bonds, unlike cash, carry the risk of capital losses if yields rise.

Luckily, there is a significant area of the government-bond market that can still perform the insurance function in a balanced portfolio: long-maturity government bonds. This portion of the government-bond yield curve is more sensitive to changes in macroeconomic expectations, and has remained so even as central banks expanded their hold over larger shares of the front end of the yield curve. We managed this transition for years in Japan, where the problem of bonds' declining usefulness in periods of macroeconomic risks is most acute thanks to yield-curve control. For nearly a decade, we have owned no JGBs with a maturity of 10 years or fewer in our Global Bond Fund as they served no portfolio purpose that we couldn't achieve by holding cash. We instead owned a combination of longer-maturity JGBs, which continued to be sensitive to changing economic conditions in Japan, as well as currency-hedged non-Japanese bonds that would respond to changes in global risk appetite. Unfortunately, a problem that was previously restricted to Japan and increasingly to Europe is spreading around the globe thanks to the evolution of central-bank policy.

Central-bank policies are likely to continue to impair the ability of larger and larger swathes of the government-bond market to respond to changes in risky assets, and investors therefore need to be clear what purpose government bonds are serving in their portfolios. We expect that longer-maturity government bonds will continue to provide a degree of protection against equity-market declines. Shorter-term government bonds, on the other hand, will lose this ability, and investors should consider high-quality, short-term investment-grade bonds as an alternative in this area of their portfolios. In sum, bond holdings must reflect how much central-bank intervention has affected fixed income's relationship with other assets, especially risk-sensitive ones like equities.

U.S. – The U.S. 10-year bond yield has climbed steadily over the past quarter, primarily in response to rising optimism about potential vaccines for COVID-19. We caution investors not to take this increase as a start of a trend: the road back to normal is still long and the Fed will need to continue providing substantial policy support to the economy by keeping yields low. We expect no change in the fed funds rate over the next year and asset purchases are likely to continue, along with the possibility of an increase in the pace of purchases and a greater emphasis on longer-maturity bonds. With this in mind, we expect the U.S. 10-year bond yield to be around 1.00% in a year's time, near its current level. While the Democrats won the presidency and retained control of the House of Representatives, they appear to have fallen short of taking control of the Senate. Given this outcome, a large increase in fiscal spending is much less likely than would have been in the event of a Democratic sweep.

Canada – The Bank of Canada (BOC) said late last month that it does not anticipate raising its short-term benchmark interest rate before 2023, based on the bank's current economic forecast. In the near term, the rise in coronavirus cases and related business restrictions are slowing the

Interest rate forecast: 12-month horizon

Total Return calculation: November 30, 2020 – November 30, 2021

U.S.

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	0.13%	0.40%	0.60%	1.00%	1.75%	(0.2%)
Change to prev. quarter	0.00%	0.05%	0.05%	0.25%	0.45%	
High	0.13%	0.90%	1.30%	1.75%	2.50%	(5.0%)
Low	0.05%	0.05%	0.05%	0.30%	0.60%	7.4%

Expected Total Return US$ hedged: 0.44%

Germany

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	(0.50%)	(0.50%)	(0.40%)	(0.40%)	(0.10%)	(2.14%)
Change to prev. quarter	0.00%	(0.10%)	0.00%	(0.10%)	(0.09%)	
High	(0.50%)	(0.25%)	(0.15%)	(0.10%)	0.10%	(4.79%)
Low	(0.50%)	(0.60%)	(0.75%)	(0.75%)	(0.40%)	1.73%

Expected Total Return US$ hedged: (1.79)%

Japan

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	(0.10%)	(0.10%)	(0.05%)	0.05%	0.60%	0.96%
Change to prev. quarter	0.10%	0.10%	0.00%	0.00%	0.00%	
High	(0.10%)	(0.10%)	0.00%	0.20%	0.70%	(0.69%)
Low	(0.10%)	(0.10%)	(0.10%)	(0.20%)	0.25%	6.52%

Expected Total Return US$ hedged: 1.93%

Canada

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	0.25%	0.50%	0.65%	0.85%	1.40%	(1.08%)
Change to prev. quarter	0.00%	(0.05%)	0.00%	(0.05%)	(0.15%)	
High	0.25%	0.75%	0.90%	1.25%	1.60%	(3.28%)
Low	0.25%	0.25%	0.25%	0.30%	0.60%	5.64%

Expected Total Return US$ hedged: (1.71%)

U.K.

	3-month	2-year	5-year	10-year	30-year	Horizon return (local)
Base	0.10%	0.20%	0.25%	0.30%	0.80%	(0.3%)
Change to prev. quarter	0.00%	0.00%	0.00%	0.00%	0.00%	
High	0.10%	0.60%	0.75%	0.90%	1.10%	(6.1%)
Low	0.00%	0.00%	0.00%	0.00%	0.30%	8.8%

Expected Total Return US$ hedged: 0.68%

Source: RBC GAM

economic recovery and holding down bond yields. Looking into 2021, the prospects for a COVID-19 vaccine are improving, and any resulting uptick in economic growth would likely lead to higher yields. A vaccine within Canada may be available on a limited basis in a few months but probably won't be widely available until the latter part of next year.

During the past quarter, the BOC shelved many of the extraordinary market-calming measures put in place in the wake of spring lockdowns, as macroeconomic stability continued to improve. The BOC announced most recently that it would begin scaling back bond purchases to $4 billion a week from $5 billion, and that it would start to refocus its purchases on longer-term bonds, which are more tied to borrowing costs for households and businesses. This should not be considered a tightening of policy, but rather as tailoring the program better to the needs of the market to ensure its maximum efficacy. The BOC's rationale for shifting its emphasis to longer-term securities was the already low benchmark interest rate and the bank's success so far in persuading investors that rates will stay low. We expect that longer rates could drift to the higher end of the recent range.

Over the next 12 months we expect no change to the BOC's 25-basis-point overnight rate. The 10-year yield is forecast at 85 basis points.

Japan – Monetary policy in Japan has been on hold at extremely accommodative levels for many years, with little to show for it by way of increased inflation, and as the economic recovery is likely to drag on, we don't expect the Bank of Japan (BOJ) to tinker much with policy. There was no change to the BOJ's policy over the past quarter. Our 12-month forecast for the 10-year JGB yield is little changed at 0.05%, anchored by yield-curve control policy that keeps the yield between -0.20% and +0.20%.

U.K. – The Bank of England (BOE) announced further support for the economy in November, saying it would boost purchases of government bonds. Moreover, two members of the BOE's monetary-policy committee are on the record as saying they would support negative interest rates if necessary to prop up the economy. Absent a deeper downturn in the economy, however, we do not expect the BOE to cut rates into negative territory over the next year. Huge uncertainty does exist surrounding the future of the U.K.'s relationship with its largest trading partner, the EU, and this uncertainty hangs over sterling-denominated assets. We continue to expect that some sort of agreement will be reached - likely one that does not dramatically change the status quo. We expect the 10-year gilt yield to be 0.30% in a year's time and that the policy rate should remain unchanged at 10 basis points.

Eurozone – The Eurozone's decision this year to begin issuing EU-backed bonds represents a milestone in European integration. The program accomplishes two things. First, it reduces the risk of a break-up of the Eurozone, many of whose member governments are highly indebted. Second, the safety promised by jointly issued bonds would allow yields to rise in countries such as France and Belgium, with the net effect being to tighten spreads between more and less creditworthy governments in the Eurozone. As with other major central banks, the panoply of support programs announced by the ECB in response to the coronavirus is likely to continue through the end of next year. As Europe recovers from the pandemic, we expect ECB policy may ease more over the next year. We do not expect the ECB to change its overnight deposit rate from the current -0.5% over the next 12 months. However, the central bank may ease policy through increases in the size and scope of asset purchases. We forecast the 10-year German bund yield at -0.40% 12 months from now.

Regional views

We have no regional bias at this time given that monetary policies in all major regions are unlikely to change from today's extremely accommodative levels.

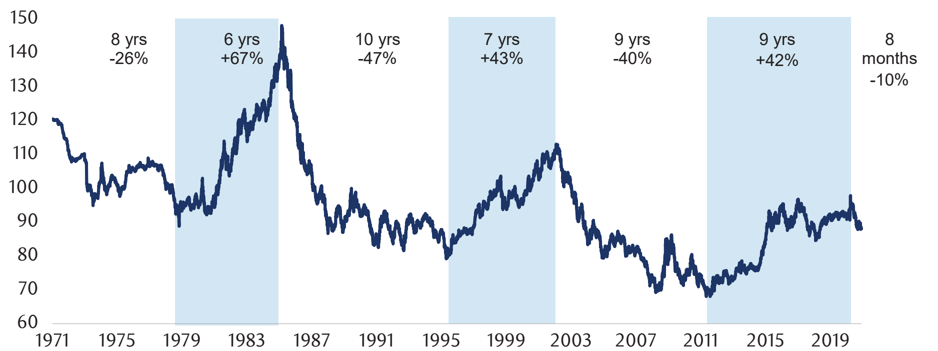
Currency Markets

U.S. dollar in decline

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

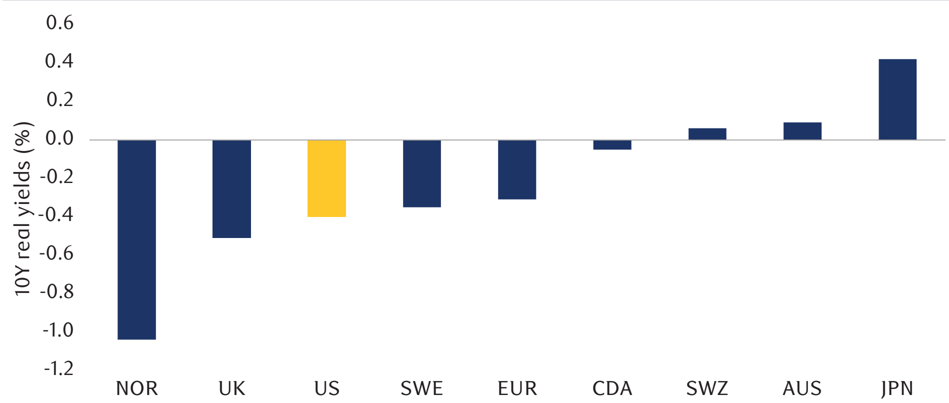
Daniel Mitchell, CFA
Portfolio Manager
RBC Global Asset Management Inc.

Exhibit 1: U.S. trade-weighted dollar



Note: As at Nov. 30, 2020. Source: Bloomberg, RBC GAM

Exhibit 2: G10 real yields



Note: As at Oct. 30, 2020. Source: Bloomberg, RBC GAM

We have just been through an unimaginable year. Had we known last December that 2020 would unfurl a global pandemic, 11th-hour Brexit talks and unprecedented efforts to throw out the U.S. election result, we would have predicted a very challenging year for global financial markets. And yet, major equity indexes are strongly positive this year. Likewise, had we known that the U.S. would end up as a pandemic hotspot, we would have expected significant weakness in the U.S. dollar. And yet the 3% trade-weighted decline so far in 2020 is mild given that this is the first year in a longer-term U.S. dollar bear market – a time in the cycle when exchange rates tend to be especially volatile (Exhibit 1)

Why hasn't the greenback fallen more dramatically? We think the reason lies in the fact that shorter-term themes such as the pandemic, Brexit and U.S. political uncertainty have left investors shying away from shorting the dollar. Arguably, each of these risk factors are nearing resolution: COVID-19 vaccines are on the way, the U.K. and the EU are nearing an agreement on the U.K.'s exit, and President Trump is showing signs of allowing an orderly transition of power to President-elect Joe Biden. As these tensions ease, longer-term factors will prevail in the market narrative, and investors will likely have more conviction in selling the dollar. While we cannot know exactly what 2021 will bring, we are increasingly confident that next year will include a weakening greenback. The continued deterioration in fundamental factors such as U.S. fiscal and current-account deficits and relatively strong economic growth in the rest of the world are among the significant headwinds that should push the U.S. dollar meaningfully lower.

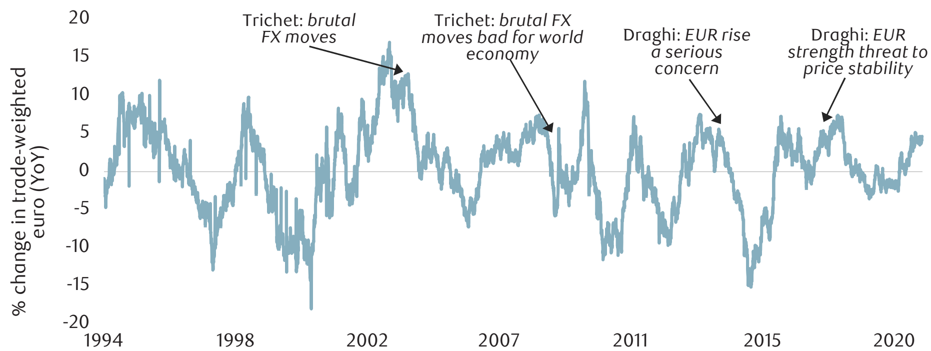
One thing we can say with some confidence is that the U.S. Federal Reserve's (Fed) approach to monetary policy is working against the U.S. dollar – a seemingly unusual assertion given that most developed nations have near-zero nominal interest rates. With limited space to maneuver short-term interest rates, the Fed has been the first major central bank to indicate that it will allow, and even encourage, a period of higher than target inflation to make up for muted price changes in recent years. Known as "average inflation targeting," the effect of this tactic is expected to boost inflation expectations and further depress real interest rates (nominal interest minus inflation expectations). Indeed, in the eight months since the end of March, real yields in the U.S. have fallen to negative levels even as nominal 10-year yields rose. This gap is a direct consequence of investors' expectations that U.S. inflation will rise and has resulted in the U.S. now having one of the lowest real yields among G10 nations (Exhibit 2).

Will other central banks follow suit by focusing on real yields? Maybe. The European Central Bank (ECB) has discussed the idea, though we doubt the governing council, which has historically been firm on its inflation target, would ever embrace above-2% inflation. To date, the ECB has been quiet about the Fed's policies and the resulting euro strength. ECB President Christine Lagarde hardly mentioned the currency at an October 29 press conference, lowering the odds that she would try to talk down the euro as readily as her predecessors did (Exhibit 3). The lack of pushback against the U.S. dollar's decline and the reluctance to follow the Fed down the inflation-stoking path indicates to us that the greenback has much further to fall (Exhibit 4).

Signs point to emerging-market appreciation

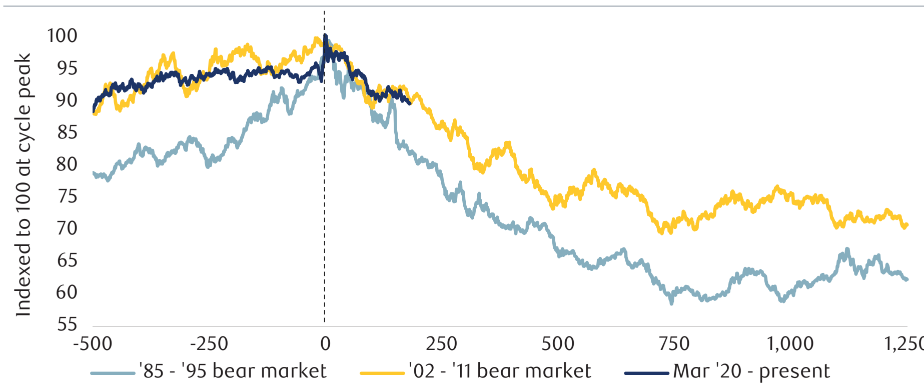
We have become more positive on emerging-market currencies and expect them to appreciate more than their developed-market peers in 2021. The shift in outlook is driven

Exhibit 3: Little opposition to USD weakness



Note: As at Nov, 30, 2020. Source: MindOnTheMarkets, Bloomberg, RBC GAM

Exhibit 4: Major USD bear markets



Note: As at Nov. 30, 2020. Source: Bloomberg, RBC GAM

predominantly by improved economic-growth prospects, not only within emerging-market economies but also in many of the export destinations they serve. China, for example, has successfully navigated an exit from pandemic lockdowns and has experienced a quick rebound in economic activity. China accounts for an ever larger share of the global economy and its influence has grown further this year as a newly inked trade deal was struck in November with 14 of its Asian neighbours.

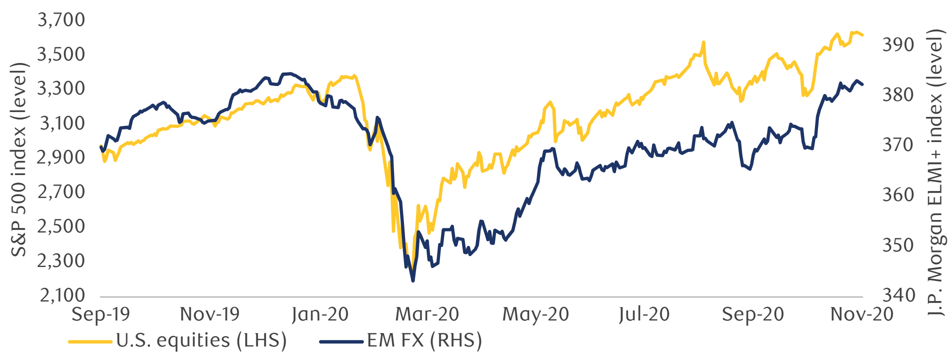
The economic improvement in emerging markets has not been limited to Asia. Measures of economic sentiment such as purchasing managers' indexes and economic-momentum indicators suggest that activity has taken a broad turn for the better across emerging markets. Moreover, the recent announcement of highly effective vaccines should lift consumer and business confidence. Low-cost and easy-to-distribute vaccines won't be rolled out in many emerging-market countries until late

2021, but investors are already starting to factor in an easing of fiscal strains and faster economic growth.

Equally important for emerging-market currencies is the strength of the Chinese renminbi given the country's economic heft. A stronger Chinese currency acts to improve the competitiveness of China's trading partners because China accounts for an increasing percentage of their trade. Moreover, Chinese currency strength (up 8% versus the dollar since June) allows emerging-market currencies to strengthen versus the dollar, diluting U.S. claims that they are actively holding down the value of their currencies. Signs that Chinese policymakers are becoming more tolerant of a strengthening renminbi include the reduced use of foreign-exchange reserves to purchase dollars - historically a tool for controlling the exchange rate. China's willingness to relax its grip on this market is particularly noteworthy given the ever growing capital flows into China resulting from the inclusion of Chinese assets in major global bond and equity indexes.

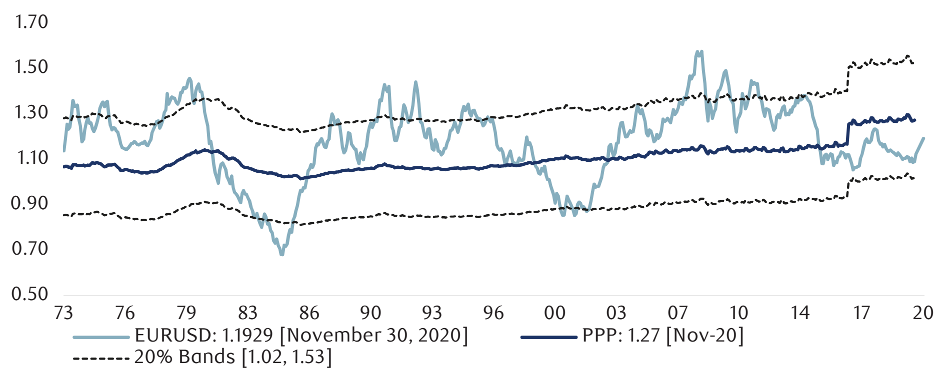
The U.S. political transition should also act to push up emerging-market currencies. For starters, Biden's big-government policies are seen as dollar-negative in that they will boost fiscal deficits. The President-elect's proposals to increase regulations, raise corporate taxes and hike minimum wages also chip away at the sizable competitive advantage that the U.S. firms have enjoyed for several years under President Trump. Second, Biden's friendlier foreign-policy stance offers relief to a market

Exhibit 5: Relative asset-class performance



Note: As at Nov. 30, 2020. Source: Bloomberg, RBC GAM

Exhibit 6: EURUSD PPP valuation



Note: As at Nov. 30, 2020. Source: Bloomberg, RBC GAM

exhausted by combative tweets and will provide a boost to the countries that had attracted the most attention from the Trump administration. While China remains an important U.S. adversary and while Biden may eventually pivot toward dealing with Russia, Iran and others – we think he has more important domestic priorities to tackle during his first 100 days in office. Leading up to the inauguration and through the 100-day period, emerging-market currencies will be the main beneficiaries of a weakening U.S. dollar. This group had been underperforming other risky investments since March, but is beginning to show more convincing signs of strength (Exhibit 5).

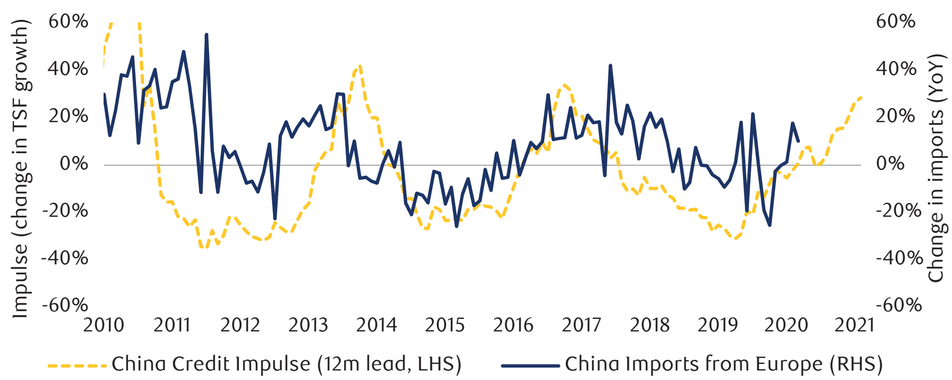
Euro

Investor attitudes toward the euro are improving. The currency broke above 1.20 per dollar recently from 1.07 in March, and we think it will continue to rally toward a seven-year high of 1.27 next year. We are bullish for several reasons:

- As the world's second-most-traded currency, the euro acts as the "anti-dollar." Many investors who shun dollars will automatically replace them with euros.
- Even with the recent appreciation, the euro is still meaningfully undervalued (Exhibit 6). Moreover, the rising fair value of the euro in our purchasing- power-parity model is a function of lower inflation in Europe than in the U.S., a trend that will likely accelerate given the Fed's inflation-tolerant approach.
- Europe as a whole enjoys a healthier balance of payments, with trade surpluses that will be buoyed by stronger links to Chinese economic growth (Exhibit 7).
- Perhaps most importantly, progress in addressing the risks of a Eurozone break-up have been very encouraging. The solidarity shown among European nations in agreeing to a joint 750 billion-euro recovery fund will be rewarded with greater demand for European debt by long term investors, including the massive US$12 trillion collectively invested by global reserve managers. These developments already seem to be having an effect: investor demand for a COVID-19-relief bond issued by the European Commission was a whopping 14 times larger than the amount of bonds being issued.

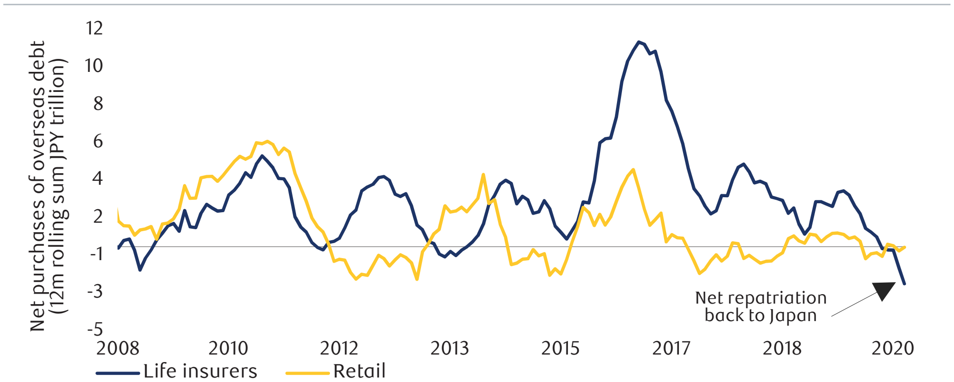
The course of the pandemic will be key in determining the pace of euro gains. While lockdowns will unquestionably dent economic activity and increase the burden on fiscal accounts, these restrictions are being slowly eased in parts of Europe in response to an improvement in reported infections.

Exhibit 7: European exports closely linked to China



Note: As at Oct, 31, 2020. Source: Bloomberg, PBOC, China General Administration of Customs, RBC GAM

Exhibit 8: Japanese buying fewer overseas assets



Note: As at Oct. 31, 2020. Source: Bloomberg, BOJ, MOF, RBC GAM

Japanese yen

There are parallels between today's environment and the years following the global financial crisis of 2008-2009 – a time when the yen rallied significantly. One similarity is that deflation in Japan has returned, bolstering real yields and boosting the attractiveness of Japanese government bonds. With lower yields abroad, Japanese investors have been showing a preference for domestic assets (Exhibit 8) and lower hedging costs have led to increased hedges on foreign investments.

The surge in demand for the yen is also reflecting foreign appetite for yen-denominated assets. China stands out as a big buyer of Japanese debt, and this reserve-diversification flow away from the U.S. dollar could also represent a lasting form of support for the yen.

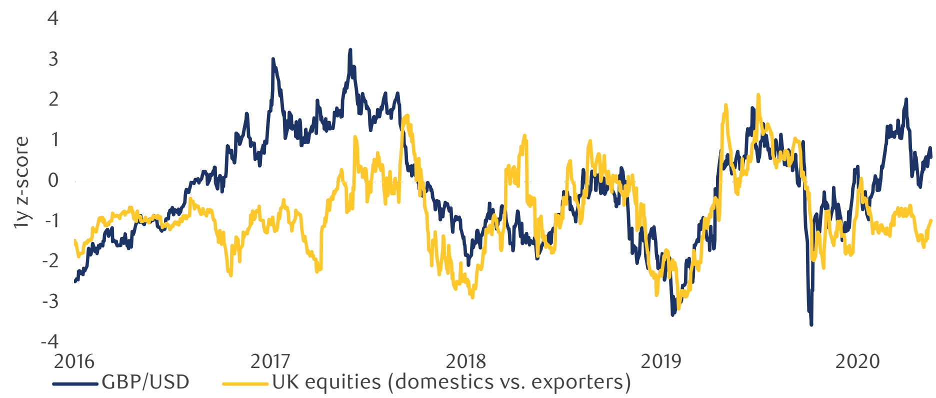
The Japanese monetary and fiscal regime under new Prime Minister Yoshihide Suga will be important for the year ahead, and, since these policies were big drivers of yen weakness during the Abe administration, we will be watching for any changes in policy. We are also waiting to see how Japan-U.S. relations proceed after Biden's inauguration in January. We expect that the yen will remain well-supported by capital inflows and forecast that it will strengthen to 99 per dollar in the coming year.

British pound

Finally. Presumably this time after four and a half years, the deadline is real. Either way, there will be a resolution to the Brexit saga in the few weeks that remain before the December 31 deadline. The pound has rallied alongside these headlines, benefitting also from U.S. dollar weakness, and is reflecting more optimism than U.K. equities, suggesting the pound may be overvalued (Exhibit 9). We remain cautious on the pound's prospects for appreciation even if an agreement between the U.K. and EU is struck.

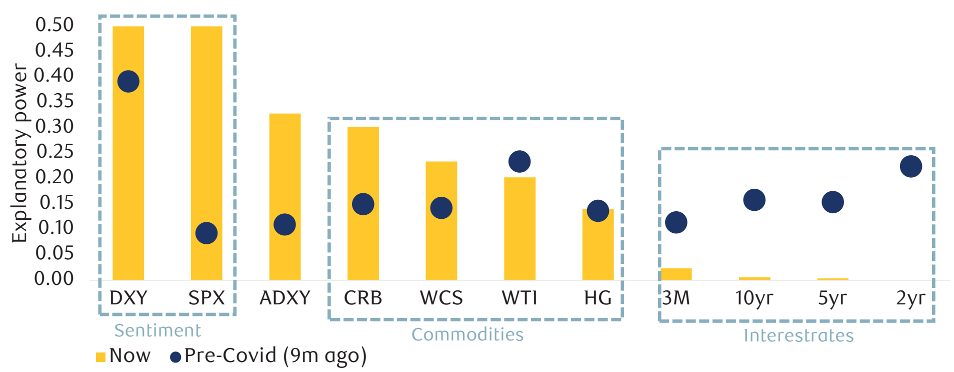
The reality is that the pound has very few things going for it. Although the U.K. may grow quickly in 2021 in an absolute sense, its underperformance in 2020 was so severe that the country is still set to lag most of its peers in the timing of its return to economic normality, a dynamic worsened by Chancellor Sunak's late-November decision to unwind pandemic-related fiscal spending. This puts more pressure on central bankers to ease monetary conditions, raising the odds that the Bank of England will follow through on a threat to impose negative interest rates next year. The year ahead also brings additional political drama as Scottish elections raise the specter of the country's exit from the U.K., should another referendum be called. Our 12-month forecast is for the pound to remain at 1.33, which would see it weaken relative to other currencies as the U.S. dollar declines.

Exhibit 9: FX market is optmistic on sterling



Note: As at Oct. 13, 2020. Source: Bloomberg, Morgan Stanley, RBC GAM

Exhibit 10: Canadian dollar drivers

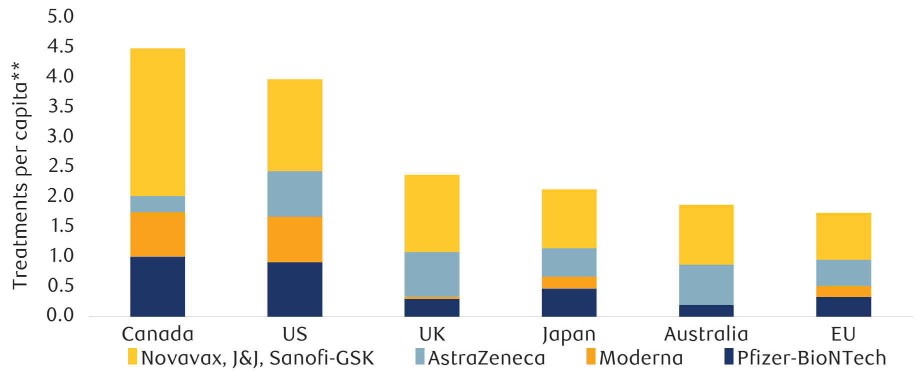


Note: As at Oct. 30, 2020. Data derived using 90d rolling correlation. Source: Bloomberg, BOC, Macrobond, S&P Dow Jones, RBC GAM

Canadian dollar

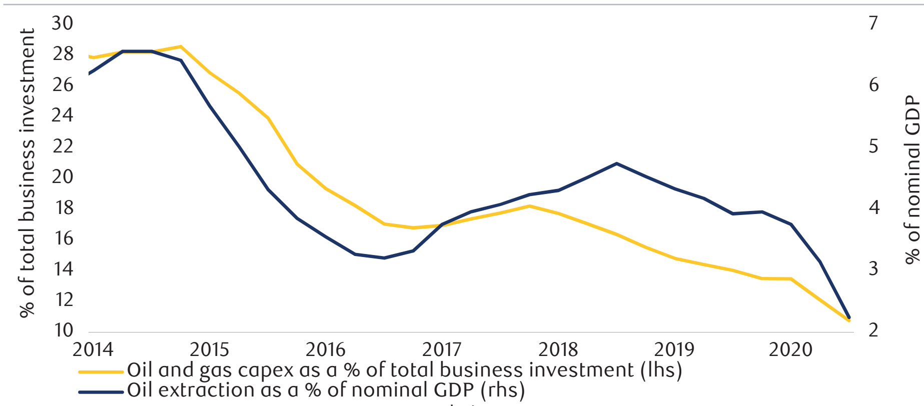
Our view on the Canadian dollar has become more positive this year as we assumed the peak in the U.S. dollar had passed once the safe-haven flows of March subsided. While investors have begun to subscribe to our view and are buying the Canadian dollar, we don't think that the currency's recent strength necessarily reflects this newfound optimism. The improved outlook for the loonie is also an acknowledgement that the U.S. dollar is in decline and that global equities are buoyant – two factors that are more important for the Canadian dollar than are commodities or interest rates (Exhibit 10). Country-specific factors are also playing a part, with investors noting that Canada is better positioned than many countries to provide the fiscal support needed to buttress the domestic economy in a post-pandemic world. Moreover, Canada has pre-ordered more vaccinations per capita than any other developed nation (Exhibit 11), which should translate into a quicker economic recovery once those doses are administered. That task may be also easier to implement in a universal health-care system than it will be in the largely private U.S. system. The approval of COVID-19 vaccines is especially important, given the economy's higher sensitivity to global growth. Finally, a return to normal might also involve faster population growth in the years to come, helping to shore up the economic growth rate as pent-up immigration materializes after borders are reopened.

Exhibit 11: Vaccine supply available*



Note: *Consists of advanced purchases and additional purchase options through 2021. **Usually 2 doses per person. As at: Nov. 30, 2020. Source:Goldman Sachs, RBC GAM

Exhibit 12: Oil is now a smaller share of Canadian economy



Note: As at Sep. 30, 2020. Source: Haver Analytics, UBS, RBC GAM

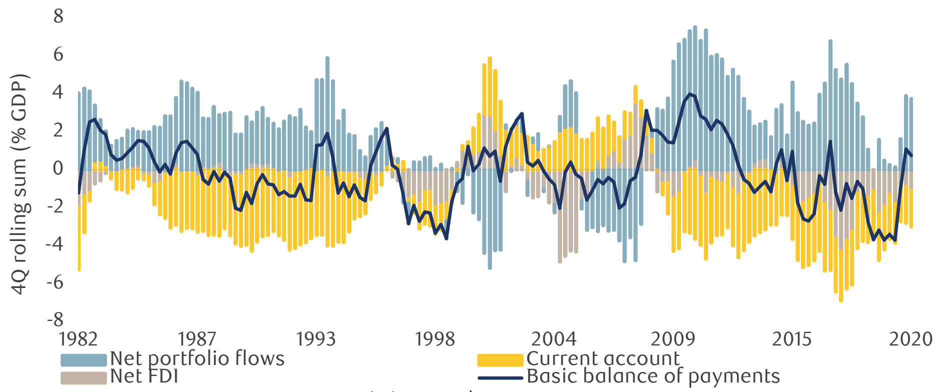
While some point to weaker crude-oil prices as a headwind for the Canadian economy, we wonder whether this might be exaggerated. Yes, the oil patch still forms an important part of the Canadian economy, but much less than it used to. Oil extraction as a percentage of GDP has dropped to 2% from 6% over the past five years, and the energy sector's share of business investment has shown a similar trend (Exhibit 12). Forced to pivot, western provinces are now looking to participate in the global race toward net-zero emissions by 2050 and political support is building for hydrogen and natural gas as the saviours of western provinces. A report released in October by the Province of Alberta outlines a plan for large investments, incentives and partnerships to reposition the economy and capitalize on new opportunities in this area. Also, a variety of non-energy commodities, including metals, lumber and wheat, together make up nearly the same weight as oil in Canada's exports. Prices for these exports have seen a decent rise over the past few months. Lumber prices, for example, saw an impressive spike over the summer and wheat futures this fall traded at levels not seen in six years.

What still concerns us about the outlook for the Canadian dollar is the fact that many Canadian-dollar negatives are being brushed off by investors. These are mostly domestic developments that, at one time, had been a concern but are now being downplayed. Political crises such as negative publicity around Prime

Minister Trudeau's ties to a charity and his government's efforts to bury what many are calling a scandal have hardly registered abroad. High levels of consumer leverage are another worry, with household indebtedness rising beyond the country's annual economic output. Yet these economic vulnerabilities have been put on ice by lower borrowing costs and pandemic-related income support. Even as unemployment soared and businesses reeled under springtime lockdowns, personal bankruptcies fell by 15% year over year and 19% for businesses. The country's balance of payments, with a decade of trade deficits and direct investment outflows, is a third cause for concern (Exhibit 13). Foreign purchases of Canadian stocks and bonds have temporarily pushed this structural problem to the back burner.

We remain moderately constructive on the loonie, thinking that it will strengthen to 1.27 per U.S. dollar from its current level of 1.31. However, we note that some Canadian-specific concerns may prevent the currency from appreciating as much as the euro, the yen or emerging-market currencies during a broad U.S. dollar decline.

Exhibit 13: Canada basic balance of payments



Note: As at Oct. 31, 2020. Source: Statistics Canada, RBC GAM

Conclusion

In sum, we expect a sustained U.S.-dollar decline in 2021 as structural headwinds take precedence over short-term factors that have slowed the decline of the greenback over the past year. U.S. twin deficits and the Fed's intention to boost inflation, coupled with economic and political improvements as well as extraordinarily easy financial conditions abroad, should cement that U.S.-dollar downtrend. Emerging-market currencies are likely to finally shine next year, as the euro, yen and loonie outperform the British pound.

Regional Outlook – U.S.

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

It has been a remarkable year for the U.S. stock market. The S&P 500 Index rebounded from the depths of coronavirus panic in March to reach all-time highs last month after word broke that at least two vaccines had been shown to combat COVID-19. November's big run, on the order of 11%, also reflected the market-friendly outcome of the U.S. presidential election. The consensus seems to be that a Biden presidency and continued Republican majority in the Senate will temper fiscal spending and block the progressive push for corporate-tax hikes and expanded public health care. On the vaccine front, late-stage clinical trials of compounds produced by Pfizer and Moderna suggested that both companies' vaccines were 95% effective at preventing COVID-19.

To determine the likely path forward for stocks, let's look at the market's leadership over the past three months. During the three-month period ended November 30, The four sectors that outperformed the broad stock market were Industrials, Materials, Financials and Utilities, while Communication Services, Energy, Consumer Staples, Consumer Discretionary, Health Care, Real Estate and Information Technology lagged. These results were significantly different from the previous two quarters, as investors sold many of the businesses that had thrived in a world of social-distancing practices such as work-from-home, e-commerce and video streaming in favour of businesses that suffered as a result of the pandemic.

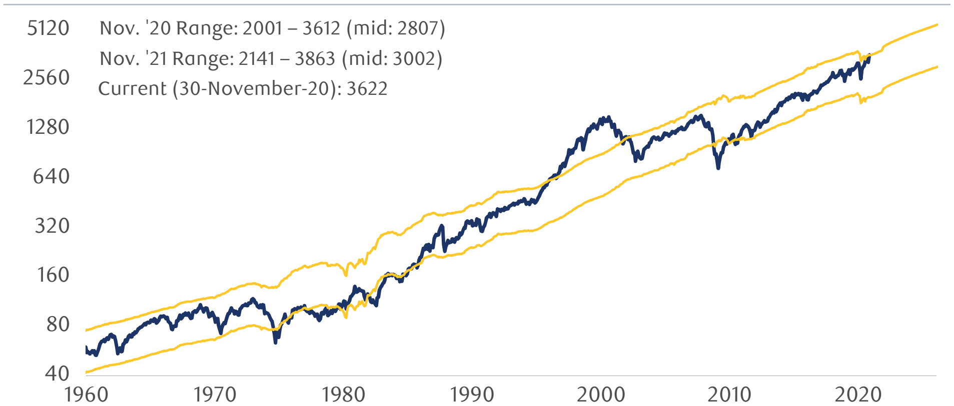
What is particularly striking was the performance of value and cyclical stocks in November, after the election result was determined and the vaccine news was announced. For example, the Energy sector jumped by about one-quarter, and Financials, Industrials and Materials gained between 12% and 17%. The underperforming sectors, by contrast, were held back by weaker performance from so-called "COVID Winners," including four of the five biggest U.S. companies by market value. For example, Information Technology was the worst-performing

United States – Recommended sector weights

	RBC GAM Investment Strategy Committee November 2020	Benchmark S&P 500 November 2020	Active risk vs. Benchmark November 2020
Energy	1.6%	2.5%	(0.9%)
Materials	3.2%	2.7%	0.5%
Industrials	9.3%	8.8%	0.5%
Consumer Discretionary	12.0%	11.4%	0.6%
Consumer Staples	5.8%	6.8%	(1.0%)
Health Care	13.8%	13.5%	0.3%
Financials	10.6%	10.6%	0.0%
Information Technology	27.9%	27.2%	0.8%
Communication Services	11.0%	11.0%	0.0%
Utilities	3.0%	3.0%	0.0%
Real Estate	1.8%	2.6%	(0.8%)

Source: RBC GAM

S&P 500 Equilibrium
Normalized earnings and valuations



Source: RBC GAM

sector in the three-month period primarily because Apple and Microsoft, which make up almost half the sector weight, were down. In the Consumer Discretionary sector, performance was hindered by Amazon, which accounts for almost half the sector. Meanwhile, in the Communication Services sector, gains in Google were partially offset by a decline in Facebook: together, they account for over half the sector. The “Fab 5” are still up an average of more than 40% so far this year. It is notable that four of the five recorded their peaks in early September when performance of the average stock in the index began to improve.

Last quarter, we mentioned that valuations of many fast-growing COVID Winners had skyrocketed to the highest levels they had ever been compared to those of “COVID Losers.” We also mentioned that the key to value-stock outperformance was for economic growth to increase and broaden out, and for long-term interest rates to rise modestly. The financial markets are forward-looking, and in our opinion are properly reflecting a high likelihood that vaccines will be approved before year-end and that we will have better growth and modestly higher long-term interest rates over the next 12 months.

Once approved, attention will turn to the logistics of disseminating the vaccines and who will be prioritized. It will be a monumental task and there are plenty of potential roadblocks, including the reticence of many Americans to get vaccinated. Epidemiologists estimate the U.S. needs to vaccinate at least 60% of the population to achieve herd immunity. If the rollout goes smoothly, the U.S. could vaccinate about 110 million people by the end of March and another 90 million by the end of June, according to U.S. officials and the vaccine makers. It should be possible to achieve herd immunity by next fall. Under this scenario, the U.S. economy would likely experience solid growth beginning in the second quarter of next year as COVID-19-related restrictions are eased, people go back to work and things gradually return to normal. We would expect there to be a great deal of pent-up demand for services such as surgical procedures, travel, entertainment, shopping and dining out driving much of the improvement in economic activity in the next year or two.

The S&P 500 is expensive at a multiple of 22 times the consensus 12-month forward earnings estimate of US$165, compared with a trailing five-year average of 18. Our read of the market is that investors are expecting imminent approval of two vaccines before year-end, that the Biden administration gets another COVID-19 relief bill passed by Congress shortly after the inauguration on January 20, and that economic activity and earnings grow slightly and exceed 2019 levels by the end of 2021. While we believe such a scenario is possible, it should be acknowledged that the market is up about 16% from a year ago and may have already discounted much of the impact of these developments. It seems clear to us that earnings will have to continue exceeding expectations to keep the stock market moving higher. In the meantime, we have continued to take money out of some of the high-valuation companies that have benefited from the pandemic and added exposure to industries such as hotels, restaurants, casinos and non-essential retail.

Regional Outlook – Canada

Sarah Neilson, CFA
Portfolio Manager
RBC Global Asset Management Inc.

Irene Fernando, CFA
Portfolio Manager
RBC Global Asset Management Inc.

The recent news of successful vaccine testing and related hopes for a powerful economic rebound in 2021 have helped the S&P/TSX Composite Index erase this year's losses. The index gained 4.9% in the three months ended November 30, 2020, and is up 3.8% so far this year on a total-return basis. The S&P 500 Index has returned 14.0% so far this year, and the MSCI World Index has gained 11.2%, both in U.S.-dollar terms. With a number of potential vaccines progressing quickly from clinical trials to distribution, forward-looking equity markets have begun to anticipate an earlier-than-expected return to normalized economic activity and corporate profitability. Inflation expectations and interest rates will be focuses in the short to intermediate term as a rapid rise in either could jeopardize the equity rally. In Canada, optimism about solid economic activity has boosted the stock market's sizeable cyclical and commodity sectors, which will continue to benefit as long as the economic recovery accelerates. In the near term, we could experience some increased volatility because the resurgence of the coronavirus in Canada has raised the potential for more lockdowns and decreased profit expectations.

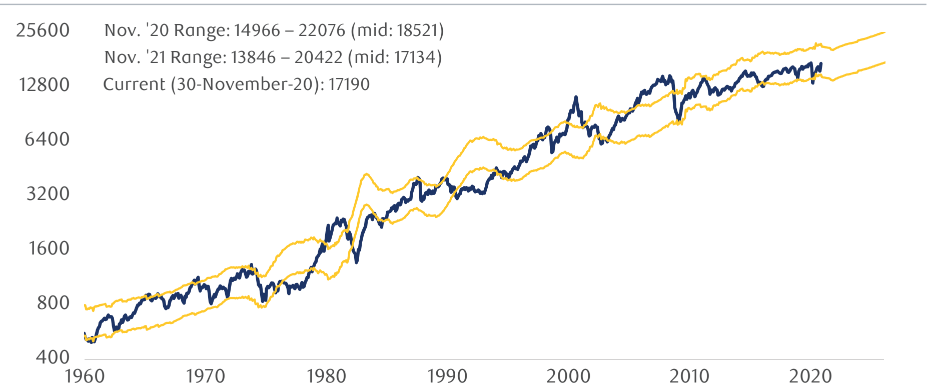
Consensus forecasts call for Canada's GDP growth to drop by 5.6% in 2020, much better than the decline of almost 8% originally forecast in the spring. Forecasts foresee the economy expanding 4.7% in 2021 and 3.2% in 2022. The Bank of Canada (BOC) now predicts that GDP will drop by an amount close to the consensus in 2020, and grow by 4.0% in both 2021 and 2022. Much of Canada's performance will depend on things we cannot know, such as the pace of global economic growth and the extent to which stimulus can be applied both domestically and in the U.S. Inflation will likely remain contained given persistently low energy prices and slack in the economy. The BOC has maintained its overnight interest rate

Canada – Recommended sector weights

	RBC GAM Investment Strategy Committee November 2020	Benchmark S&P/TSX Composite November 2020	Active risk vs. Benchmark November 2020
Energy	11.3%	11.7%	(0.5%)
Materials	14.0%	13.4%	0.6%
Industrials	13.0%	12.2%	0.8%
Consumer Discretionary	4.8%	3.8%	1.0%
Consumer Staples	4.0%	3.9%	0.1%
Health Care	0.8%	1.2%	(0.5%)
Financials	31.5%	30.6%	0.9%
Information Technology	8.5%	9.7%	(1.2%)
Communication Services	5.0%	5.1%	(0.1%)
Utilities	4.5%	5.1%	(0.6%)
Real Estate	2.8%	3.3%	(0.5%)

Source: RBC GAM

S&P/TSX Composite Equilibrium
Normalized earnings and valuations



Source: RBC GAM

at 0.25% and indicated that monetary stimulus will continue to support the recovery until inflation returns to its 2% target, which the bank expects to occur in 2023. Meanwhile, the Trudeau government's support for individuals and companies had until recently significantly softened the blow of the spring's COVID-19-related shutdowns. Consumer spending has recovered from the April lows and shown resilience in the face of rising COVID-19 case counts this fall, and Canada's housing market continues to heat up, with home resales hitting records and average prices gaining 10% nationally year over year. However, recent employment data shows that the pace of employment growth is slowing, and especially so among restaurants and small retailers that are suffering under coronavirus-related restrictions in Ontario and other provinces.

Given continued government support, an uptick in commodity prices and swift action by companies to lower expenses, analysts have moderated their expectations for the year-over-year drop in S&P/TSX 2020 earnings to 27% from 30%. The decline will come largely from the Energy, Financials and Industrials sectors. Analysts expect earnings growth of 35% in 2021 and another 13% in 2022 as economic activity improves. The Financials sector, the biggest in Canada's equity index, is expected to drive a significant amount of this growth along with the cyclical, commodity-related sectors.

The S&P/TSX is currently trading at 23 times 12-month trailing earnings, heralding a full recovery in index profits by late 2021. However, the Canadian index remains at a significant multiple discount to the S&P 500, which is valued at 28.5 times trailing earnings, the largest valuation differential between the two benchmarks in 20 years. The S&P/TSX could close the valuation discount in a recovery scenario, given the significant weighting of Financials, Energy and Materials in the earnings composition.

The good vaccine news and optimism for a return to normal have caused a shift in relative sector performance, as stocks and sectors most hurt by virus-related slowdowns have begun to reflect the possibility of a return to profitability. This shift to more cyclical and economically sensitive segments of the market benefits the S&P/TSX given its significant weighting in sectors that respond best when economic growth is recovering or accelerating. Canada's equity benchmark has little exposure to Information Technology relative to the U.S. technology sector, which was flat in the latest quarter after surging 70% for the year as a whole. The Health Care sector has performed well recently thanks to rising valuations for cannabis companies on an anticipated easing of U.S. regulations.

While the Financials sector is down slightly for the year, an economic recovery should alleviate credit-related concerns. The outlook for bank earnings is improving as investors take note of receding fears over loan quality, consistently solid capital positions and cost-cutting. Moreover, even modest rises in longer-term interest rates spurred by a robust economic recovery would bolster interest income and returns on lending.

Gold prices have fallen about 10% from their all-time highs in August, as the promise of vaccines and an economic recovery reduce near-term demand for safe-haven assets. We are confident, however, that ample free cash flow and reasonable valuations will continue to draw investors to gold equities. The Energy sector has been a significant beneficiary of the renewed positive outlook for the economy, with Energy stocks gaining 20% in November alone. The outlook for oil prices has improved as global demand for transportation recovers, OPEC limits supply and a period of low prices slows non-OPEC production growth. Oil prices are likely to remain-range bound in the near term given elevated global inventories.

Regional Outlook – Europe

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

European equity markets have been fairly range-bound since June, lagging on a global basis since that time given the region's lower weighting in technology and higher exposure to the Financials sector. However, European equities rallied strongly in November, with some markets up well over 20%, and bank stocks advanced even more. This recovery has heralded an improvement in Europe's performance versus the rest of the world, and while the rapid bounce could lead to some near-term consolidation, we believe the supportive backdrop will remain.

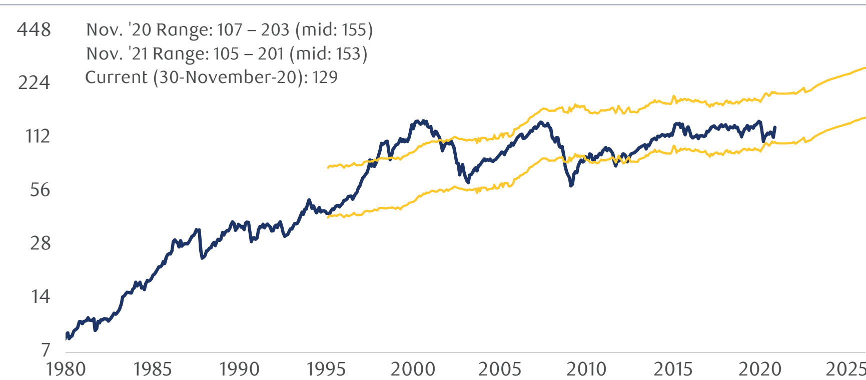
How does the earnings outlook fit into this picture? It was clear that the initial improvement in earnings-per-share revisions seen in the summer was likely to stall, as PMI measures of business confidence were not strong enough to support the profit picture. The halting outlook was exacerbated by new lockdowns across Europe in response to a second wave of COVID-19 infections. Entering next year, the chances are that earnings will pick up again, perhaps by as much as 45%, along with what we expect will be a quickening pace of economic activity considering the favourable vaccine news over the past number of weeks. Positive earnings revisions are generally good news for equity markets, and stocks, with their strong recent gains, have clearly begun to factor this in over the course of the next year.

Europe – Recommended sector weights

	RBC GAM Investment Strategy Committee November 2020	Benchmark MSCI Europe November 2020	Active risk vs. Benchmark November 2020
Energy	4.0%	4.5%	(0.5%)
Materials	8.4%	7.9%	0.5%
Industrials	14.9%	14.6%	0.3%
Consumer Discretionary	12.0%	11.2%	0.7%
Consumer Staples	13.5%	13.7%	(0.2%)
Health Care	14.6%	14.6%	0.0%
Financials	15.9%	15.8%	0.1%
Information Technology	7.8%	7.2%	0.6%
Communication Services	3.5%	4.0%	(0.5%)
Utilities	4.5%	5.0%	(0.5%)
Real Estate	0.9%	1.4%	(0.5%)

Source: RBC GAM

MSCI Europe Index Equilibrium
Normalized earnings and valuations



Source: RBC GAM

In the economic recoveries of 2003 and 2009-2010, Eurozone earnings per share climbed on the order of 40% to 45%. In this context, the consensus projections for 2021 don't particularly stand out. The median EPS growth-rate expectation for 2021 in Europe is a much more reasonable 14%. Outliers can skew the picture at the aggregate level, but the earnings recovery will be pronounced in any case.

Now that the results of the U.S. presidential election are known, and in a way that may offer the country a clearer roadmap out of the pandemic, the biggest remaining risk is Brexit. We cannot add anything of value to the Brexit debate because negotiations will either result in a final agreement that is amenable to equity markets – or there will be no agreement. We note that we have seen heavy discounting in many U.K. domestic stocks, suggesting the possibility of upside in the event that an accord is achieved. We think the biggest moves, no matter the outcome, will be seen in the currency markets.

Further risks that we need to monitor would revolve around the nature of the global rollout of coronavirus vaccines. The pace of distribution and the eventual effectiveness of the vaccines will have a material impact on the shape of the recovery in 2021 as persistent lockdowns will pose risks to economic forecasts through the first quarter of next year. We are also watching the policies of the new U.S. administration and the prospects for more stimulus. Europe made a step toward fiscal integration with the adoption of a joint recovery fund, but the region must ensure that deflationary pressures, aging populations and high debt levels do not result in the "Japanification'"of the region.

We recognize the need for a more "balanced" portfolio at this stage of the equity-market gains and economic expansion, as we will see some big recoveries in stocks that have been severely damaged during the COVID-19 crisis. However, our general industry exposure hasn't changed drastically. We still favour capital-light, high-return businesses that have the ability to expand their asset base quickly, and thereby compound returns for shareholders at a much higher rate than the wider market over a long period.

Within the consumer sectors, we still see huge brand value and large barriers to entry in luxury goods. Europe is a global leader in luxury, and we have seen in this area some of the most high and stable return-on-equity metrics in decades. It is difficult to make inroads against entrenched luxury brands, and these companies have been in the forefront with respect to e-commerce. This backdrop leads us to believe the luxury-goods companies will offer investors significant shareholder value over the medium to long term.

Another area of interest for us has been the development of digital payments in recent years, including ancillary services such as credit-checking, vouchers and software. It is clearly an area of growth, and one that has been dominated by U.S. businesses. However, some European companies have begun to compete effectively on the global stage through a combination of industry consolidation and organic growth.

We tend to shy away from capital-heavy industries, and those subject to heavy regulation such as banks, telecommunications and utilities. Our view, however, is that valuations are now low enough to make select companies extremely attractive. Any weighting increase in these areas to cater for a more "balanced" portfolio will likely be temporary as we struggle to find many companies with the ability to generate superior shareholder returns over the long run.

One area where we have been reducing exposure is the Health Care sector, as we have concerns about the sector's ability to maintain prices, as well as the general pressure on returns that we have witnessed over the past decade. Our preference is for companies focused on therapeutics in areas where they are clear global leaders.

We have emerged from the worst global recession since the Great Depression and the quickest bear market, and now find ourselves in the midst of a historic bull market characterized by huge variances in performance across sectors and industries. In this environment, our efforts to manage risks are tied to monitoring the individual factors linked to performance.

Regional Outlook – Asia

Chris Lai
Analyst, Asian Equities
RBC Global Asset Management(Asia) Limited

Asian equities continue to recover from their March lows and many regional indexes have reached pre-COVID-19 levels. We expect GDP growth in Asia to improve in the second half of 2020, rebounding from the plunge in this year's second quarter, but the pace of recovery will vary by country. Recovery signs are especially strong in China, Taiwan and South Korea, where the outbreak is under control and economies have almost fully re-opened.

Governments across Asia have continued to provide fiscal stimulus and liquidity measures to support the economy, but tourism and consumer spending are areas that continue to be hurt by the pandemic. Tension persists between the U.S. and China over multiple issues, and this situation weighs on investor sentiment periodically. The recovery of the real economy in Japan will be gradual given the more cautious nature of Japanese consumers and the fact that inflation is slowing further from already minuscule levels.

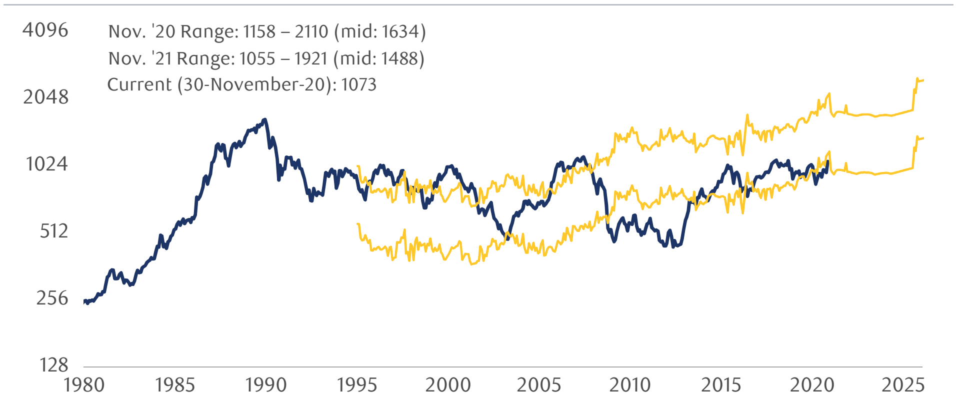
The best-performing markets during the quarter were China and South Korea, which as emerging markets benefit from investor flows, and the Philippines, whose equity market has a large number of outperforming value stocks. Malaysia and Indonesia lagged the benchmark. The best-performing sectors were Consumer Discretionary, Information Technology and Communication Services, while Utilities, Energy and Consumer Staples underperformed.

Asia – Recommended sector weights

	RBC GAM Investment Strategy Committee November 2020	Benchmark MSCI Pacific November 2020	Active risk vs. Benchmark November 2020
Energy	2.0%	2.3%	(0.3%)
Materials	5.9%	5.8%	0.1%
Industrials	10.0%	10.7%	(0.8%)
Consumer Discretionary	18.6%	18.3%	0.3%
Consumer Staples	5.6%	6.0%	(0.4%)
Health Care	8.4%	7.6%	0.8%
Financials	16.3%	16.3%	0.0%
Information Technology	17.1%	16.6%	0.5%
Communication Services	10.7%	10.2%	0.5%
Utilities	1.7%	1.9%	(0.3%)
Real Estate	3.7%	4.2%	(0.5%)

Source: RBC GAM

MSCI Japan Index Equilibrium
Normalized earnings and valuations



Source: RBC GAM

Japan

We do not expect new Prime Minister Japanese Prime Minister Yoshihide Suga and his cabinet to make significant changes in economic policy or for monetary policy to shift at the Bank of Japan (BOJ). We expect consumer inflation to continue to decelerate, with year-over-year deflation of 0.5% forecast through the first quarter of next year given weak oil prices. The renewed risk of deflation and U.S.-China tensions, which increase safe-haven demand for the yen, has raised the specter of further currency appreciation.

As elsewhere, Japan's economic recovery was swift, with inflation-adjusted GDP rebounding to 5.3% in the third quarter of 2020 from a decline of 8.3% in the second quarter. However, consumer confidence remains weak, and households and businesses are bracing for a sluggish economic recovery. We expect inflation to stay muted given that the pandemic will continue to weigh on confidence, both regionally and globally. The BOJ continues to call attention to the risks that the economy will not recover strongly for some time. Based on the central bank's recent comments, we expect the BOJ to maintain its accommodative measures.

In sum, the economic outlook for Japan remains soft. Employment has been holding up surprisingly well, but if the recoveries in other countries stall, or if the spread of COVID-19 in Japan re-accelerates, the unemployment rate may turn up again.

Asia Pacific ex-Japan

Economies in Northeast Asia have rebounded faster than Southeast Asia and India due to COVID-19 containment and a resilient technology cycle. India, Indonesia and the Philippines are vulnerable given higher infection rates and more limited policy support. Pent-up demand exists in almost all countries, but concerns persist about the quality of bank assets and economic fragility linked to reliance on small and medium-sized enterprises and their impact on hiring. We expect further interest-rate cuts in Malaysia, the Philippines and India.

China's economy has staged an impressive comeback since mid-March, driven by recovering consumer demand and a related rebound in production, as well as a surge in exports of medical and work-from-home products. We expect a further, albeit gradual, recovery in the services sector into 2021, a steady improvement in retail sales and elevated investment growth in factories and infrastructure. Headwinds remain, as consumer demand will likely lose some steam, and exports of medical product exports may have peaked. Moreover, Beijing is determined to cool property markets, while social-distancing measures in China and rising U.S.-China tensions could dent China's exports and manufacturing investment. Beijing will continue to focus on sparking domestic growth by encouraging internal manufacturing and consumption of locally made products. Meanwhile, China's central bank will put off any changes to monetary policy through the remainder of this year. Against this backdrop, we expect annual real GDP growth to fall to 2.1% this year from 6.1% in 2019, before rebounding to the range of 8% to 9% in 2021 from 2020's low base.

We expect South Korea's economic-growth momentum to improve in the fourth quarter on exports and business investment given the steady re-opening of the global economy, which has supported exports. Areas that have recovered the most include information technology, automobiles, health care and rechargeable batteries.

In India, the number of COVID-19 cases has come down encouragingly fast, but the risk of a flare-up has led the government to extend strong fiscal and monetary support. We also note that the labour market remains weak, as do the balance sheets of both banks and non-financial companies. Overall, we expect year-over-year GDP growth to decline over the next three quarters but with sequential improvements.

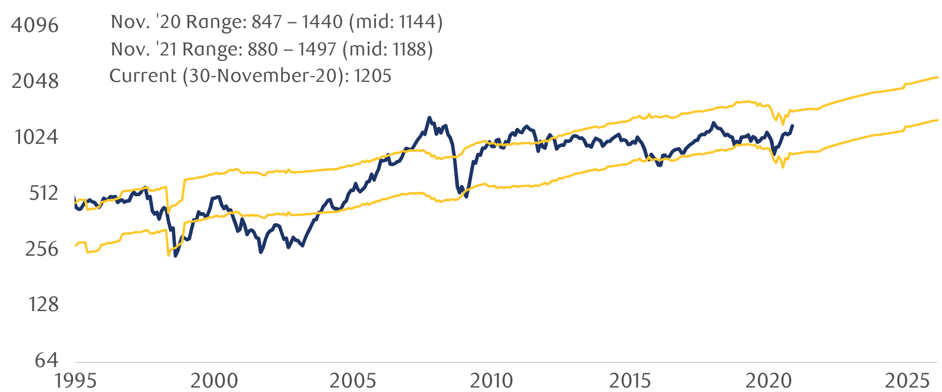
Thailand is in the throes of unprecedented political protests demanding reform of the country's monarchy and government, which has instituted measures that limit free speech on the internet. The demonstrations have been largely peaceful, but the risk of unrest will rise as time goes on. Rising political risks will weigh on the already weak growth outlook in the absence of tourism.

We see a bumpy road ahead for Australia, where unemployment is set to climb while inflation remains subdued. The Reserve Bank of Australia in early November delivered monetary-easing measures including a drop in the short-term benchmark interest rate, first-time purchases of bonds with maturities of between 5 and 10 years, and promises to keep short-term rates near record lows. The longer-term outlook remains characterized by conflicting forces: Chinese economic-growth momentum appears to be intact, while Australia-China political tensions are rising; bulk commodity prices remain high, but the Australian currency has stayed relatively strong; household savings rose sharply in the second quarter but wage growth slowed sharply. We expect unemployment to rise given the expiration of some wage subsidies and unemployment benefits introduced to counter the COVID-19-related recession.

Regional Outlook – Emerging Markets

Veronique Erb
Portfolio Manager,
Emerging Market Equities
RBC Global Asset Management (UK) Limited

MSCI Emerging Markets Index Equilibrium
Normalized earnings and valuations



Source: RBC GAM

The emerging-market equities team has been focused on two aspects of index performance and their impact on the outlook for stocks. The first is the increasing concentration of Chinese stocks in the MSCI Emerging Markets Index and the second is the extreme underperformance of emerging-market value stocks relative to growth stocks.

The concentration of the benchmark has become a much discussed topic, as the inclusion of China A shares means that China's weight in the MSCI equity benchmark has surpassed 40% and is set to reach 57% in 2027, according to MSCI forecasts. In addition, the weight of the 10 largest constituents in the 1,400-member emerging-market benchmark has increased from below 15% in 2015 to over 30% today, with eight of them being Chinese. Investor discussions continue about the creation of an emerging-market benchmark that excludes Chinese stocks.

The second development that we want to point out is the huge variation in performance among emerging markets this year. While markets in China and Taiwan have risen about 30% so far in 2020, Brazil and Chile are down about 30%. Moreover, traditional growth sectors such as Information Technology, Consumer Discretionary (the sector that e-commerce calls home) and Health Care have outperformed significantly versus traditional value sectors such as Energy, Materials and Financials. As a result, emerging-market value stocks have underperformed growth by 40%. If valuation history is any guide, it is likely that value stocks will perform strongly going forward.

While we can make a strong case for value stocks, we believe the market will continue to move back and forth between the growth and value styles depending on where we are in the recovery. In addition, we feel that the outperformance of growth can be ascribed to fundamental reasons such as earnings growth and balance-sheet strength. For example, in the past decade, index-level earnings for the MSCI emerging-markets benchmark have been flat, and all the growth in earnings has come from technology stocks.

In emerging markets, it is clear that the stock markets of countries that have done a good job controlling the coronavirus are outperforming. China, Taiwan and South Korea, which account for two-thirds of the emerging-markets index, have all but eliminated the virus within their borders and are reaping the benefits of superior stock returns relative to equity markets such as those in India, South Africa and Brazil. Given that emerging markets have as a whole spent less than 5% of GDP on coronavirus-related fiscal stimulus compared with about 30% for developed markets, there is the potential for fiscal stimulus should it be required.

Clearly we might now be about to see a major reflation as deglobalization and higher fiscal expenditures likely result in faster inflation and GDP growth after decades of falling money velocity. During periods of reflation, equities tend to outperform bonds and emerging markets generally outperform developed markets. Also during times of reflation, we can expect classic value sectors such as Financials, Materials and Energy to perform solidly.

E-commerce and health care are key industries that have benefited from the COVID-19 pandemic. Consumer behaviour changed irrevocably and we can expect long-term trends in place before the pandemic to accelerate their earnings.

While e-commerce has clearly taken off, adoption accelerates when the percentage of retail transactions handled online reaches 5%. China and South Korea already have online adoption rates in the range of 35%, and many emerging-market countries are about to enter this hyper-growth phase in e-commerce. India, Mexico, Russia and Brazil have much lower levels of penetration, but all have reached the 5% threshold.

Furthermore, trends in the emerging-market Health Care sector are very supportive as emerging markets as a whole spend 5.6% of GDP on health care, compared with 12.5% in developed markets. We expect, therefore, that the rising affluence of expanding emerging-market middle classes will bolster further outperformance in the sector.

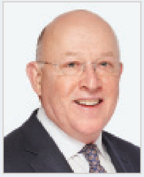
We expect emerging-market earnings to rebound over the next two years after three years of weakness.

Earnings projections are hard to forecast at the moment, and we therefore prefer to look at price-to-book (P/B) as a valuation measure. On this metric, the MSCI Emerging Markets Index is trading at 1.7 - in line with the historical average and at a 35% discount to developed markets.

Emerging-market earnings tend to rotate between long periods of under- and outperformance, largely based on broad U.S.-dollar trends. Emerging-market stocks generally rise when the U.S. dollar declines, and vice versa, correlations we can see in four periods dating to 1988. We are just coming out of a decade of underperformance for emerging-market equities and U.S.-dollar strength, and we believe this is about to reverse. We can see the case for a weaker U.S. dollar, which is positive for emerging markets as they have US$5.4 trillion of debt denominated in U.S. dollars and other developed-market currencies. Supporting emerging-market currencies are strength in the Chinese renminbi, inventory restocking, a relatively low oil price and an upswing in technology usage.

RBC GAM Investment Strategy Committee

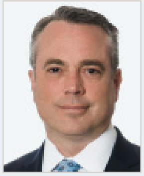
Members



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

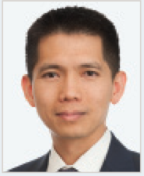
Dan Chornous is Chief Investment Officer of RBC Global Asset Management Inc., which has total assets under management of approximately $538 billion*. Mr. Chornous is responsible for the overall direction of investment policy and fund management. In addition, he chairs the RBC Investment Strategy Committee, the group responsible for global asset-mix recommendations and global-fixed income and equity portfolio construction for use in RBC Wealth Management's key client groups including retail mutual funds, International Wealth Management, RBC Dominion Securities Inc. and RBC Phillips, Hager & North Investment Counsel Inc. He also serves on the Board of Directors of the Canadian Coalition for Good Governance and is Chair of its Public Policy Committee. Prior to joining RBC Asset Management in November 2002, Mr. Chornous was Managing Director, Capital Markets Research and Chief Investment Strategist at RBC Capital Markets. In that role, he was responsible for developing the firm's outlook for global and domestic economies and capital markets as well as managing the firm's global economics, technical and quantitative research teams.

*AUM in CAD as of November 30, 2020



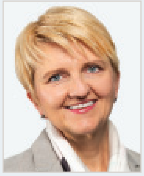
Stephen Burke, PhD, CFA
Vice President and Portfolio Manager
RBC Global Asset Management Inc.

Stephen is a fixed-income portfolio manager and Head of the Quantitative Research Group, the internal team that develops quantitative research solutions for investment decision-making throughout the firm. He is also a member of the PH&N IM Asset Mix Committee. Stephen joined Phillips, Hager & North Investment Management in 2002. The first six years of his career were spent at an investment-counselling firm where he quickly rose to become a partner and fixed-income portfolio manager. He then took two years away from the industry to begin his Ph.D. in Finance and completed it over another three years while serving as a fixed-income portfolio manager for a mutual-fund company. Stephen became a CFA charterholder in 1994.



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 level 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.

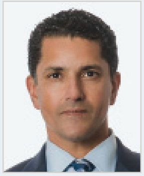
Stu co-leads the North American Equity team and is a member of the RBC GAM Investment Strategy Committee, which is responsible for establishing the firm-wide global asset mix for mutual funds and for institutional and high net worth private clients. Stu began his career in 1996 with RBC Dominion Securities 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 early 2011, Eric spent six years at a large Canadian securities firm, the last four as the Chief Economics and Rates Strategist. His previous experience includes positions as economist at a large Canadian bank and 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 PH&N Canadian Income Fund and the PH&N Monthly Income Fund. 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 15-year 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.

Sarah Riopelle, CFA

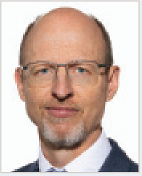
Vice President and Senior Portfolio Manager
Investment Solutions
RBC Global Asset Management Inc.

Since 2009, Sarah has managed the entire suite of RBC Portfolio Solutions. Sarah 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 a member of the RBC Wealth Management Diversity Leadership Committee. Sarah joined RBC Global Asset Management in 2003 as a Senior Analyst within Investment Strategy. From there, she moved to the Canadian Equity team as an analyst and then a portfolio manager. 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.



Jaco Van der Walt, DCom

Vice President and
Global Head of Quantitative Research & Investments
RBC Global Asset Management Inc.

Jaco is Vice President and Global Head of Quantitative Research & Investments at RBC Global Asset Management Inc. He joined RBC GAM in 2019 to ensure that systematic investing thrives at the firm and to help futureproof the quant business in a world of rapidly evolving technologies and alternative data. Prior to joining, Jaco held an executive role at one of Africa's largest financial services companies, leading the Investment Management Office and working across pension funds, insurance, banking, and wealth management. He also chaired the boards and investment committees of several pension plans and has a track record in driving transformational change. He obtained a Doctor of Commerce (Economics) in 1997 from the University of Pretoria and a Masters of Arts in Economics in 1994 from the University of Toronto.

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. He is a board member of both the Canadian Buy-Side Investment Management Association and the Canadian Advocacy Council for Canadian CFA Institute Societies, and recently joined IIROC's Market Structure Advisory Committee.

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.

Global equity advisory committee

> **Philippe Langham**
> Head & Senior Portfolio Manager,
> Emerging Market Equities
> RBC Global Asset Management (UK) Limited

> **Brad Willock, CFA**
> V.P. & Senior Portfolio Manager,
> North American Equities
> RBC Global Asset Management Inc.

> **Mayur Nallamala**
> Head & Senior V.P., Asian Equities
> RBC Global Asset Management (Asia) Limited

> **Martin Paleczny, CFA**
> V.P. & Senior Portfolio Manager,
> Asset Allocation & Derivatives
> RBC Global Asset Management Inc.

> **Dominic Wallington**
> Head, European Equities &
> Senior Portfolio Manager,
> RBC Global Asset Management (UK) Limited

Global Fixed Income & Currencies advisory committee

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

> **Soo Boo Cheah, MBA, CFA**
> Senior Portfolio Manager,
> Global Fixed Income & Currencies
> RBC Global Asset Management (UK) Limited

> **Suzanne Gaynor**
> V.P. & Senior Portfolio Manager, Global Fixed Income & Currencies
> RBC Global Asset Management Inc.

> **Eric Lascelles**
> Chief Economist
> RBC Global Asset Management Inc.

Disclosure

RBC Global Asset Management

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