RBC Global Asset Management

One-minute market update

FALL 2019

Financial markets face an evolving set of macroeconomic headwinds and, against this challenging backdrop, central banks are now offering support through monetary stimulus. Our base case is for continued economic growth, albeit at a slowing pace, but we recognize that the downside risks have increased. We continue to expect stocks to outperform bonds over the longer term and remain overweight equities and underweight fixed income as a result. However, we don't feel that this is the time to be running substantial risk positions so we have trimmed exposure to stocks by half a percentage point, moving the proceeds to cash.

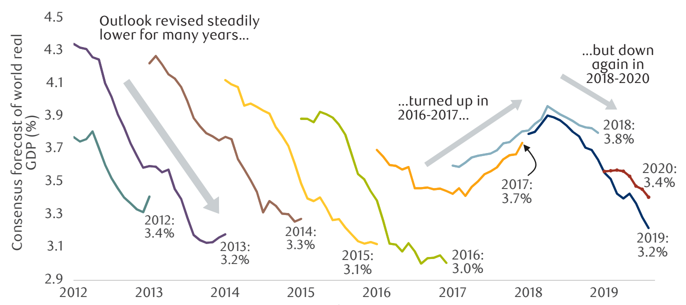
Economy

- Global growth slowed in the past quarter, hindered by manufacturing weakness, elevated uncertainty from protectionism and Brexit, fading fiscal stimulus and the slowing Chinese economy.
- Central banks are working to offset some of the negatives by cutting interest rates, and there is also the potential for additional fiscal stimulus and improved productivity growth.
- Weighing the positives and negatives, we look for slower growth in 2019 versus 2018, and for a further deceleration in 2020 in both developed and emerging markets.
- Our forecasts were downgraded slightly from last quarter and they are now in line with the consensus for 2019 and modestly lower for 2020.

Fixed Income

- Central banks have now pivoted to monetary stimulus in a synchronized fashion, with some having already delivered rate cuts and others hinting at additional easing measures.
- Global sovereign bonds extended their rally in the past quarter and our valuation models are signaling caution as yields declined to record lows.
- We expect upward pressure on real rates over time and therefore the possibility of a bond bear market, in which returns are low or even negative as yields rise for many years, cannot be dismissed.

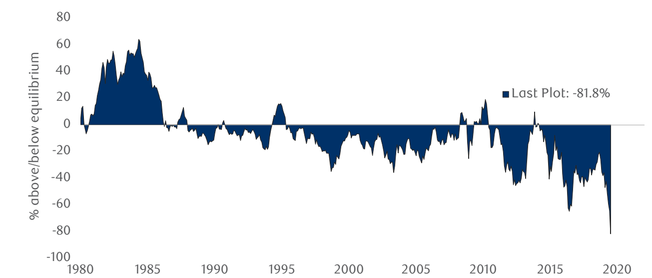
Consensus forecast revised lower



Note: As of Aug 2019. Source: Consensus Economics, IMF, RBC GAM

Global bond market composite

10-year government bond yields relative to equilibrium



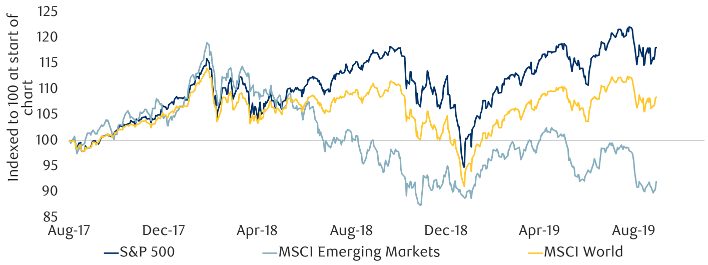
Note: As of Aug. 30, 2019.* Source: RBC GAM

Equity Markets

- Global equities rallied in June and July, but stumbled in August as trade tensions escalated between the U.S. and China.
- Our models suggest that stocks are relatively attractive outside of the U.S. However, we note that the S&P 500 Index is situated slightly above fair value, at a level that has historically been associated with lower returns and higher volatility.
- In an environment of moderate corporate profit growth, low interest rates and low inflation, stocks can deliver gains in the mid-single to low-double digits. In a recessionary scenario, however, the damage to earnings and investor confidence would send stock prices meaningfully lower.
- We continue to expect stocks to outperform bonds over the longer term and remain overweight equities and underweight fixed income as a result. However, we don't feel that this is the time to be running substantial risk positions and have trimmed our exposure to stocks by half a percentage point, moving the proceeds to cash.

Relative performance

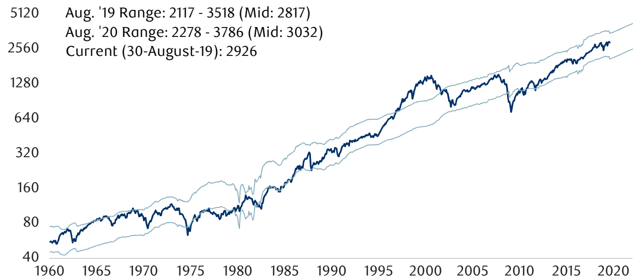
Price levels, indexed to 100 at start of the chart



Note: As of Aug. 30, 2019. Source: MSCI, Bloomberg, RBC GAM

S&P 500 equilibrium

Normalized earnings & valuations



Note: As of Aug. 30, 2019. Source: RBC GAM

Disclosure

*Fair value estimates are for illustrative purposes only. Corrections are always a possibility and valuations will not limit the risk of damage from systemic shocks. It is not possible to invest directly in an unmanaged index.

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