RBC Global Asset Management

One-minute market update

FALL 2020

Equity markets have staged a remarkable recovery as central banks provided critical backstops, economies gradually emerged from shutdown and investor confidence was restored. The economy rebounded quickly after mass quarantines, but progress has slowed as the easiest gains have already occurred.

Economy

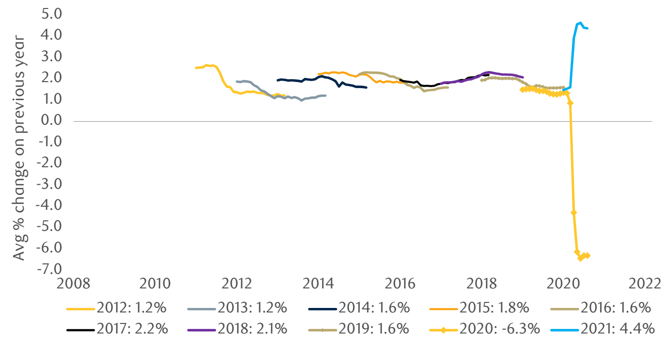
- The world is on a much better footing than a quarter ago as economic activity has substantially rebounded, the threat of COVID-19 has moderated and promise of a vaccine has grown.
- Unprecedented amounts of monetary and fiscal stimulus supported the economic recovery that began earlier than many investors expected.
- The economy continues to face a variety of challenges on the journey back to normal and suggests that the economic recovery will occur at a slower pace than what we have seen so far.
- We now forecast a contraction in global GDP of 4.0% in 2020, which represents a 0.6 percentage point improvement versus last quarter.

Fixed Income

- The weak economy and highly accommodative central-bank policies resulting from the pandemic pulled longer-term government-bond yields around the world to historically low levels.
- Our composite of global bonds suggests yields are well below our modelled equilibrium levels and represent severe valuation risk.
- However, we don't expect yields will rise by a significant amount in the foreseeable future because of structural changes related to demographics, an increased preference for saving and the maturation of emerging-market economies.
- Even a gradual increase in sovereign-bond yields would generate low single-digit to slightly negative total returns, potentially for many years.

Weighted average consensus real GDP

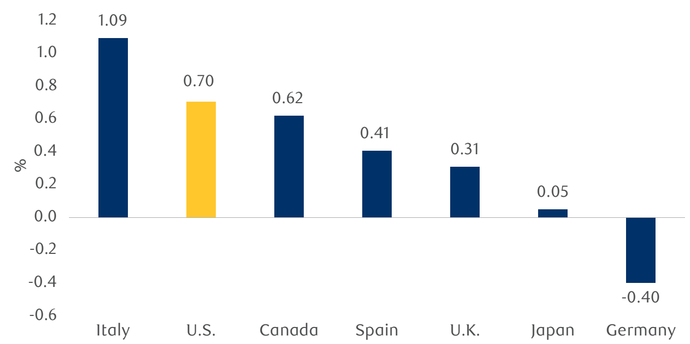
Growth estimates for major developed nations



Note: As of August 2020. Source: Consensus Economics

Global bond yields

10-year government bonds



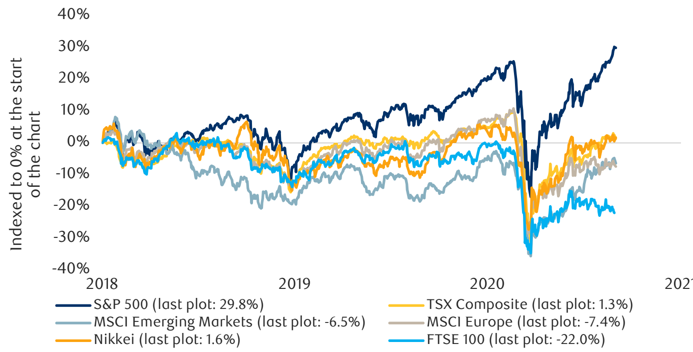
Note: As of August 31, 2020. Source: Bloomberg, RBC GAM

Equity Markets

- The equity market rally that began in March extended into the summer, with most major indexes posting double-digit gains in the past three months to fully erase or greatly minimize their prior losses.
- We recognize that elevated equity-market valuations and optimistic investor sentiment leave stocks vulnerable to correction in the near term, and that style exposures should be managed given the massive valuation gap between growth and value stocks.
- Over the longer term, however, stocks offer superior return potential versus bonds, a view supported by the still significant equity-risk premium that exists in today's low-interest-rate environment. For these reasons, we shifted one percentage point from our bond allocation to stocks this quarter, in our recommended asset mix for global balanced investors.

Major equity market indices

Cumulative price returns indices



Note: As of August 31, 2020. Price returns computed in local currencies, except MSCI Emerging Markets Index, which is in USD. Source: Bloomberg, RBC GAM

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