RBC Global Asset Management

One-minute market update

FALL 2021

The economic rebound from last year's deep recession is now behind and some of the extreme dislocations that resulted from the pandemic are moderating. While the economy is slowing, growth remains robust and consumers are well positioned to support the expansion. Bond yields remain unsustainably low and we continue to prefer equities as surging corporate profits have pushed the bull market to new highs.

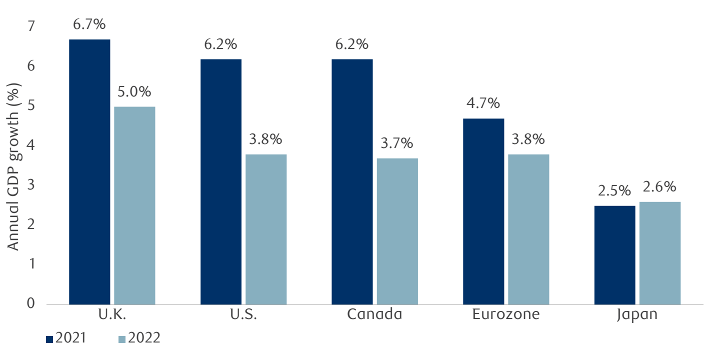
Economy

- The virus remains a key risk to the economy as the rapid spread of the delta variant is causing a rise in infections throughout the world and challenging economies.
- Tremendous fiscal and monetary stimulus was delivered during the pandemic but the need for this support is less obvious and a reversal would be a headwind for growth in 2022.
- We have dialed down our growth forecasts for 2022 and are now slightly below the consensus.
- Even with our slightly less cheerful view, economic growth is still expected to be quite good and countries that suffered deeper recessions have the potential for even stronger growth.

Fixed income

- Global bond yields fell significantly in the past quarter amid slowing growth and the expectation that central banks would maintain accommodative monetary policies.
- Our models show significant valuation risk exists in the sovereign-bond market and the odds, in our view, are tilted in favour of yields moving higher.
- Real, or after-inflation, rates of interest are deeply negative, suggesting that savers are subsidizing spenders, a situation that we don't think can persist.
- We expect the U.S. 10-year yield to climb to 1.75% from 1.31% over our one-year forecast horizon, which would result in a slightly negative return.

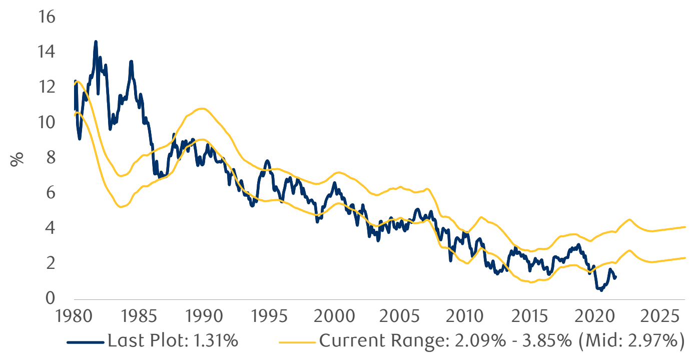
RBC GAM GDP forecast for developed markets



Note: As of August 06, 2021. Source: RBC GAM

U.S. 10-year T-bond yield

Equilibrium range

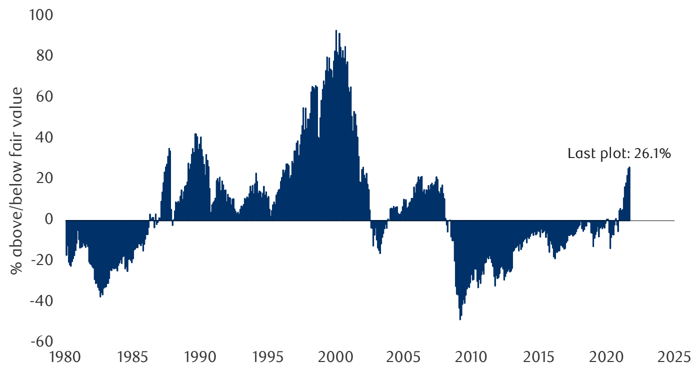


Note: As of September 1, 2021. Source: RBC GAM, RBC CM

Equity markets

- Global equities continued to march higher, rising to records on elevated investor confidence and surging profits.
- The rapid increase in stocks has pushed our composite of global valuations to its most expensive reading since the late 1990s technology bubble, but it remains considerably below the all-time peak.
- Although valuations are elevated, we think stocks can still deliver modest returns given low interest rates, transitory inflation and sustained corporate-profit growth.
- We look for mid-single-digit gains in North American equities, with slightly better return potential elsewhere over the year ahead.

Global stock-market composite
Equity-market indexes relative to equilibrium



Note: As of August 31, 2021. GDP-weighted average of RBC GAM fair value models for a variety of countries. 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. Source: RBC GAM

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