RBC Global Asset Management

One-minute market update

NEW YEAR 2021

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.

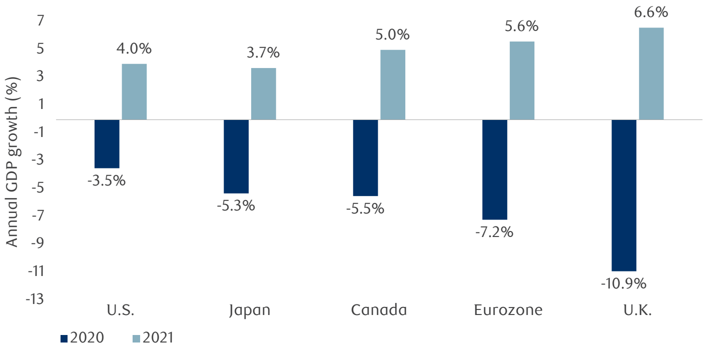
Economy

- The pandemic remains the key challenge for economies as we approach the New Year, with case counts and fatalities reaching near record levels.
- 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 economic-growth forecasts for 2021 have featured more upgrades than downgrades and they are now modestly above the consensus.

Fixed Income

- 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.
- Our new modelling forecasts that sovereign bond yields everywhere will drift just slightly higher over the next year, acting as a modest headwind to total returns for bondholders.

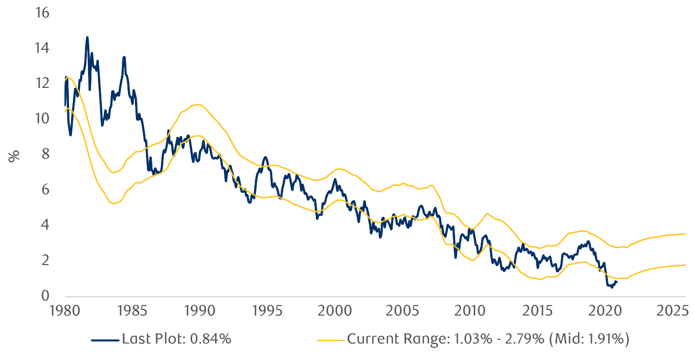
RBC GAM GDP forecast for developed markets



Source: RBC GAM

U.S. 10-year T-Bond yield

Equilibrium range



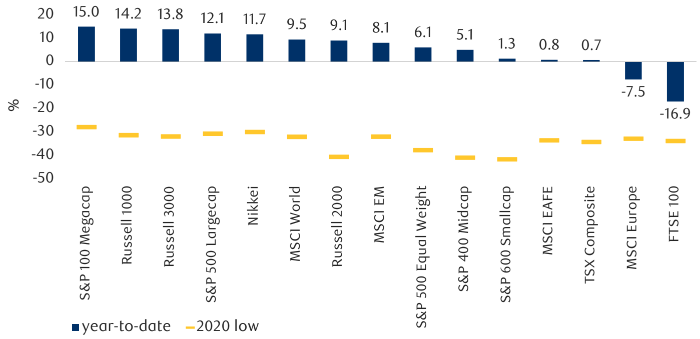
Note: As of November 30, 2020. Source: RBC GAM, RBC CM

Equity Markets

- 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.
- 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.
- 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.
- 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. As a result, we added 2.5 percentage points to our equity allocation during the quarter, sourced from fixed income.

Major indices' 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

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