RBC Global Asset Management

One-minute market update

NEW YEAR 2023

Global growth faces a variety of challenges including rising interest rates, high inflation and a struggling Chinese economy. Uncertainty is elevated and financial markets have been extremely volatile, but the significant adjustment in asset prices this year has diminished valuation risk and boosted return potential for investors as we enter 2023.

Economy

- Headwinds have intensified as a result of tighter monetary policy and reduced fiscal stimulus. We continue to look for a deceleration in growth in 2023, with economies likely slipping into recession in the developed world.
- We have below-consensus inflation forecasts for 2023, expecting inflation to continue softening as the four main drivers that pushed inflation to multi-decade highs reverse course.
- Economic indicators have shown more resilience in the past few months, suggesting that the probability and expected depth of recession might be lower than initially feared.
- We anticipate that global GDP will expand by 2.1% in 2023, which is less than a third of the figure in 2021, and about half the expected 2022 rate.

Fixed income

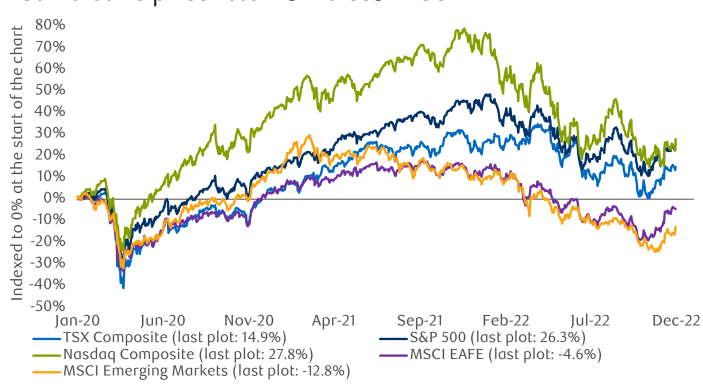
- As investors warm to the idea that inflation may have peaked and that the pace of tightening is slowing, yields on 10-year government bonds have fallen 50 to 130 basis points from their September/October highs.
- This rally in bonds started from a point where technical indicators indicated that the bond market had been oversold, and our own valuation models suggested that yields had reached relatively appealing levels.
- Structural forces such as aging populations and an increased preference for saving versus spending should ultimately limit how high real interest rates can go.
- Over the near term, inflation will likely be the factor dominating the trajectory for bond yields.

Global economic growth has been deteriorating

Note: As of December 2, 2022. Shaded area represents U.S. recession.
Source: Citigroup, Bloomberg, RBC GAM

Major equity market indices

Cumulative price returns indices in USD



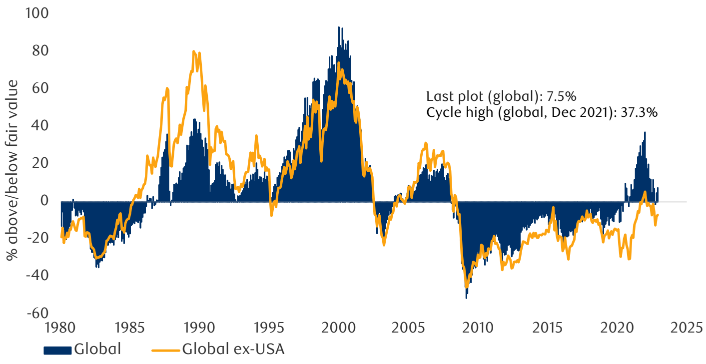
Note: As of November 30, 2022. Price returns computed in USD.
Source: Bloomberg, RBC GAM

Equity markets

- Equity markets stabilized in the past quarter but, even with the recent bounce, are still sitting at significant losses since the start of the year.
- While valuation risk has diminished and return potential has increased, stock prices could fall in the event that we enter a recession and earnings decline.
- We think corporate profit estimates are vulnerable to further downside given that earnings are still above their long-term trend and companies are facing headwinds from rising costs and slowing economic activity.
- Stock gains could be limited in the near term absent evidence that the economy is headed for a soft landing.

Global stock market composite

Equity-market indexes relative to equilibrium



Note: As of November 30, 2022. 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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