RBC Global Asset Management

One-minute market update

SPRING 2021

The pandemic is entering a new phase with vaccines at hand, case counts in decline and businesses gradually resuming normal operations. Bond yields have surged, stocks have climbed to records and a variety of market signals suggest that economies are on the cusp of a strong recovery.

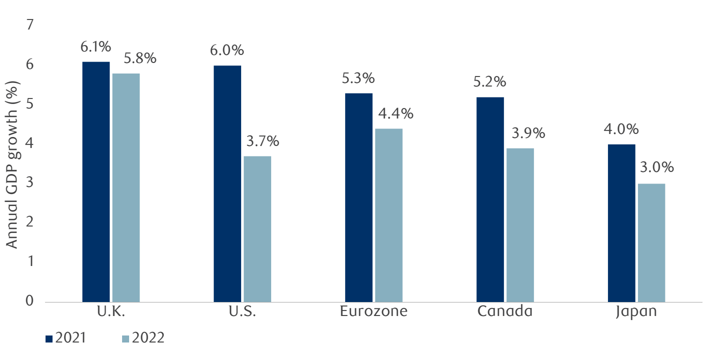
Economy

- Containing COVID-19 has been critical to the economic recovery, which is now underway and has much more room to grow supported by significant monetary and fiscal stimulus.
- There is concern that inflation could run too hot as economies reopen. Our view is that inflation will move higher but remain at low levels relative to history.
- Risks to the growth outlook include the distribution of vaccines and their efficacy against new variants and the possibility of another virus wave.
- Our base case scenario is quite constructive as economic forecasts were mostly upgraded from last quarter and remain above consensus.

Fixed Income

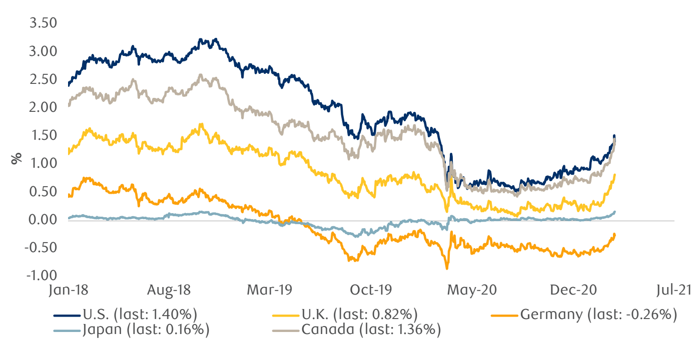
- Longer-term bond yields have surged as investors' expectations of faster inflation and better economic growth are offsetting the impact of central-bank efforts to hold rates down.
- Part of the increase was due to real, or after-inflation, interest rates rising from unsustainably low levels. Real rates could rise even higher but increases are limited by structural changes in the economy.
- The recent surge in global yields has dampened the acute valuation risk that existed in the bond market and we think that bond prices could find near-term support at current levels.

RBC GAM GDP forecast for developed markets



Source: RBC GAM

10-year government bond yields



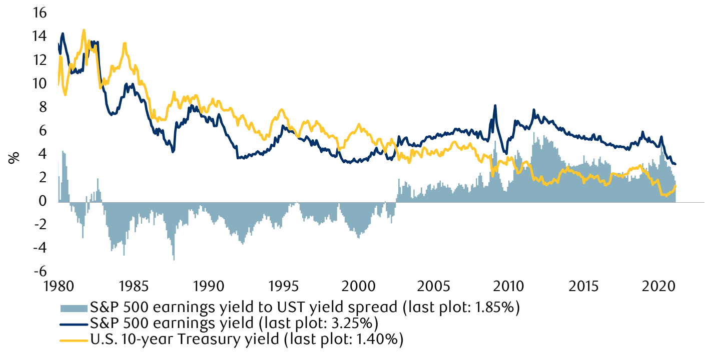
Note: as of February 28, 2021. Source: RBC GAM

Equity Markets

- Global equities rose to new highs as the pace of COVID-19 vaccinations progressed, virus counts declined and earnings exceeded expectations.
- We recognize there is froth in some areas of the market and that valuations are elevated, but our modelling suggests the possibility that price-to-earnings ratios could rise even further as fears of the crisis fade and interest rates return to normal levels.
- The economic recovery has stoked a rotation out of traditional U.S. large-cap leadership into other more economically sensitive areas of the market, driving rallies in small and mid-cap stocks, financials and industrials, and value stocks overall.
- Although the advantage of stocks over bonds has diminished somewhat as a result of rising yields, equities continue to offer an attractive risk premium versus fixed income. As a result, we are maintaining our overweight position in stocks and underweight in bonds.

S&P 500 earnings yield

12-month trailing earnings/index level



Note: As of February 28, 2021. Source: RBC GAM, RBC CM

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