RBC Global Asset Management

One-minute market update

SPRING 2022

The two-week-old war between Russia and Ukraine and the global response to the conflict are evolving rapidly, and in a way that suggests the trajectories of economic growth and financial-market performance have been significantly altered from just a month ago. Although we continue to think that the most likely outcome is for the global economy to continue expanding, we now expect slower growth and higher inflation, and we presume that the odds of recession have increased.

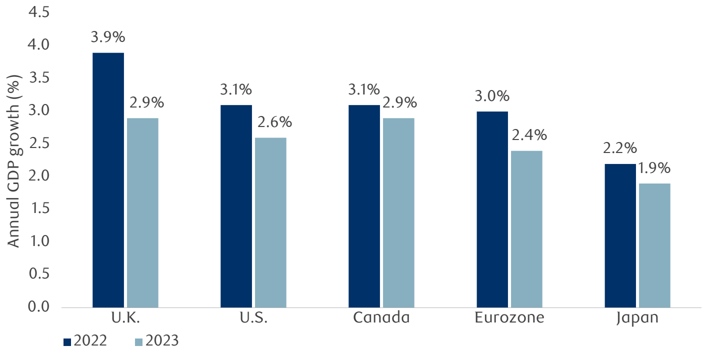
Economy

- Russia delivered on its threat to go to war with Ukraine and the invasion has opened up the possibility of a drawn-out period of uncertainty.
- Although the pandemic continues to recede and consumer and business spending is rising, their impact on growth is much less pronounced than it was a year ago.
- A tightening of financial conditions, slowing Chinese growth, reduced U.S. government spending and elevated inflation were already working to undermine the economic expansion as the Ukraine conflict began.
- Global growth is set to decelerate to 3.6% in 2022 from 6.2% in 2021. Developed-world growth should fall to 3.0% from 5.1%, while growth in emerging markets is set to slow to 4.1% from 7.3%.

Fixed Income

- Rising rates and higher inflation pushed bond yields sharply higher at the start of year but the potential hit to growth from the war boosted demand for safe-haven assets and pulled yields lower toward the end of the quarter.
- Our models continue to suggest that the long-term direction for yields is higher, mostly due to the fact that real, or after-inflation, interest rates are unsustainably low at -2.8%, their lowest level in 60 years.
- War-related risks to economic growth could temporarily limit the increase in yields but we expect higher nominal yields and low or even slightly negative sovereign-bond returns over the longer term.

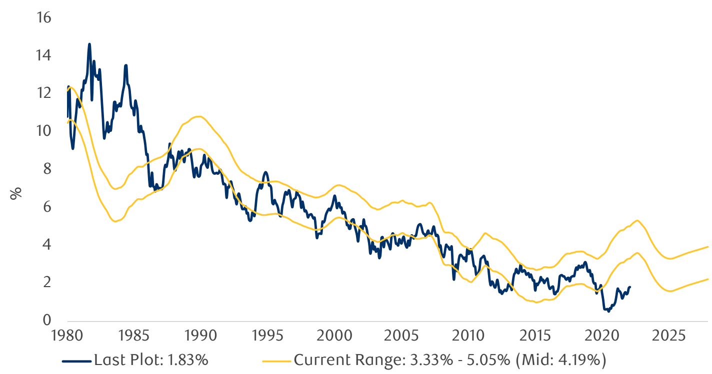
RBC GAM GDP forecast for developed markets



Note: As of March 1, 2022. Source: RBC GAM

U.S. 10-year T-bond yield

Equilibrium range

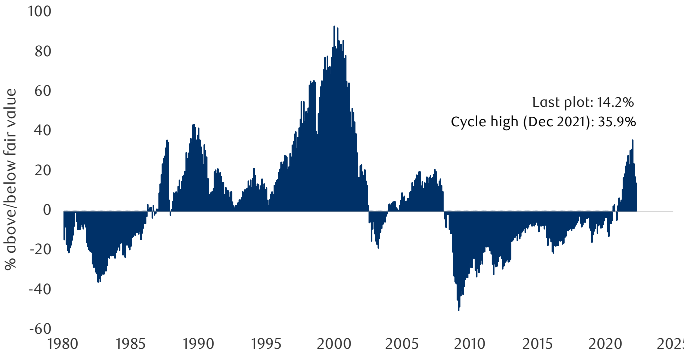


Note: as of February 28, 2022. Source: RBC GAM, RBC CM

Equity markets

- After a strong 2021, global equity markets tumbled in the first two months of 2022 as major indexes experienced declines of 10% to 20% from their recent peaks.
- The prospect of tighter Fed policy prompted a significant cut to the valuations of the market's most expensive companies, in particular.
- While the war in Ukraine is causing stock-market volatility, economic growth and earnings are forecast to continue rising, albeit at a slower pace.
- Extremely pessimistic investor sentiment and lower valuations could result in a significant positive swing in investors' attitude toward stocks should the outlook improve.

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



Note: As of March 8, 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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