

# One-minute market update



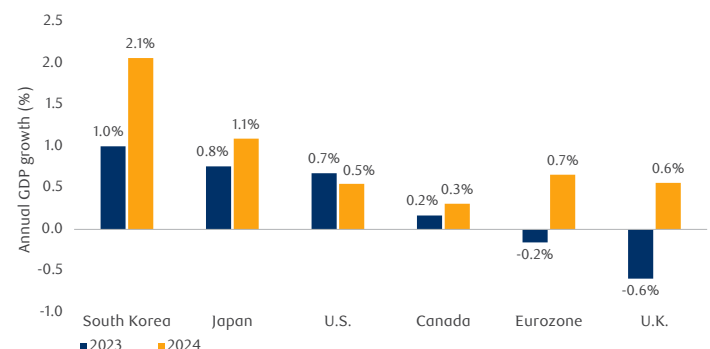
SPRING 2023

The economy has been resilient, and it has been this very strength, combined with inflationary pressures, that has pushed central banks to raise interest rates aggressively over the past year. The sudden and massive rise in interest rates, though, will likely push economies into recession. Although valuations are no longer at extremes, we recognize that risk assets could still be vulnerable should corporate profits falter and/or macro risks intensify.

## Economy

- Macroeconomic tailwinds exist in the labour market and consumer spending, China's reopening, Europe's resilience in the face of an energy shock and, until very recently, a slight easing in financial conditions.
- But due to the massive and sudden surge in interest rates over the past year, weakness is being seen in the housing market, rising goods inventories, diminished business confidence and scaled-back capital spending. Moreover, troubles have surfaced in a handful of U.S. regional banks.
- We forecast inflation to fall faster than the market anticipates, although a variety of offsetting forces could keep inflation from suddenly falling back to 2.0%.
- We still expect a recession over our one-year forecast horizon, but our GDP forecasts have been mostly upgraded for 2023, mainly due to the year's better-than-expected start, plus the fact we have pushed our expected timing of recession to the second half of the year from the middle of the year.

## RBC GAM GDP forecast for developed markets

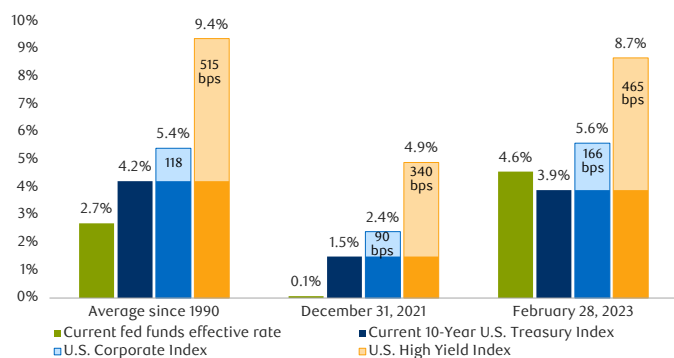


Note: As of February 22, 2023. Source: RBC GAM

## Fixed Income

- After last year's sudden adjustment in fed policy ravaged bond markets, yields are now situated at levels that are more normal in the context of history.
- Remarkably, even though fixed-income markets have suffered massive losses over the past year, yields are not at an extreme. Rather, the adjustment in markets was yields moving away from extreme lows and back to something closer to the averages of the past three decades.
- At current levels, our bond model suggests valuation risk has greatly diminished and the prospect for future returns has improved considerably, especially if we are right in our view that inflation will be coming down.

## Yield to maturity



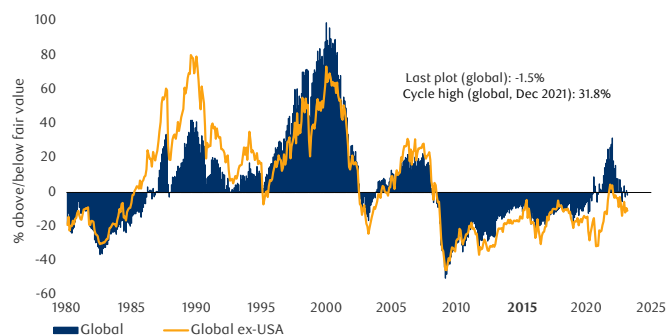
Note: Current spread as of February 28, 2023. Shaded areas within the bars indicate the yield spread versus the U.S. 10-year Treasury bond yield. Source: ICE BofA, RBC GAM

## Equity Markets

- Last year's bear market erased all the overvaluation that existed in equity markets, and has boosted return potential according to our models.
- Our global composite of fair-value models suggests stocks are now 2% below fair value, down from a 32% overvaluation at the time of their late 2021 peak.
- Given that stocks are now much more reasonably priced, we think the bigger risk to markets has to do with corporate profits.
- While we expect that any outright decline in profits might be less severe, we still think earnings estimates are not fully pricing in even a mild recession.

## Global stock market composite

Equity market indexes relative to equilibrium



Note: As of February 28, 2023. Source: RBC GAM

## Disclosure

This document is provided by RBC Global Asset Management (RBC GAM) for informational purposes only and may not be reproduced, distributed or published without the written consent of RBC GAM or its affiliated entities listed herein. This document does not constitute an offer or a solicitation to buy or to sell any security, product or service in any jurisdiction; nor is it intended to provide investment, financial, legal, accounting, tax, or other advice and such information should not be relied or acted upon for providing such advice. This document is not available for distribution to investors in jurisdictions where such distribution would be prohibited.

RBC GAM is the asset management division of Royal Bank of Canada (RBC) which includes RBC Global Asset Management Inc., RBC Global Asset Management (U.S.) Inc., RBC Global Asset Management (UK) Limited, RBC Global Asset Management (Asia) Limited, and BlueBay Asset Management LLP, which are separate, but affiliated subsidiaries of RBC.

In Canada, this document is provided by RBC Global Asset Management Inc. (including PH&N Institutional) which is regulated by each provincial and territorial securities commission with which it is registered. In the United States, this document is provided by RBC Global Asset Management (U.S.) Inc., a federally registered investment adviser. In Europe this document is provided by RBC Global Asset Management (UK) Limited, which is authorised and regulated by the UK Financial Conduct Authority. In Asia, this document is provided by RBC Global Asset Management (Asia) Limited, which is registered with the Securities and Futures Commission (SFC) in Hong Kong.

Additional information about RBC GAM may be found at [www.rbcgam.com](http://www.rbcgam.com).

This document has not been reviewed by, and is not registered with any securities or other regulatory authority, and may, where appropriate and permissible, be distributed by the above-listed entities in their respective jurisdictions.

Any investment and economic outlook information contained in this document has been compiled by RBC GAM from various sources. Information obtained from third parties is believed to be reliable, but no representation or warranty, express or implied, is made by RBC GAM, its affiliates or any other person as to its accuracy, completeness or correctness. RBC GAM and its affiliates assume no responsibility for any errors or omissions.

Opinions contained herein reflect the judgment and thought leadership of RBC GAM and are subject to change at any time. Such opinions are for informational purposes only and are not intended to be investment or financial advice and should not be relied or acted upon for providing such advice. RBC GAM does not undertake any obligation or responsibility to update such opinions.

RBC GAM reserves the right at any time and without notice to change, amend or cease publication of this information.

Past performance is not indicative of future results. With all investments there is a risk of loss of all or a portion of the amount invested. Where return estimates are shown, these are provided for illustrative purposes only and should not be construed as a prediction of returns; actual returns may be higher or lower than those shown and may vary substantially, especially over shorter time periods. It is not possible to invest directly in an index.

Some of the statements contained in this document may be considered forward-looking statements which provide current expectations or forecasts of future results or events. Forward-looking statements are not guarantees of future performance or events and involve risks and uncertainties. Do not place undue reliance on these statements because actual results or events may differ materially from those described in such forward-looking statements as a result of various factors. Before making any investment decisions, we encourage you to consider all relevant factors carefully.

® / ™ Trademark(s) of Royal Bank of Canada. Used under licence.

© RBC Global Asset Management Inc. 2023

Publication date: March 15, 2023