RBC Global Asset Management

One-minute market update

SUMMER 2020

The COVID-19 shock altered the course of the global economy and ravaged financial markets, prompting policymakers to step in quickly and with scale. Unprecedented monetary and fiscal stimulus, combined with signs of an economic recovery as lockdowns eased, triggered a rapid rebound in risk assets.

Economy

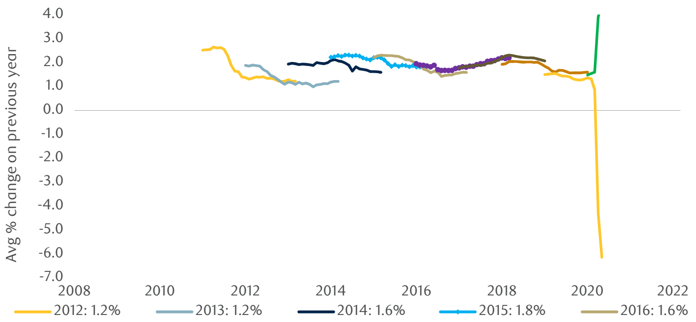
- Global economies were severely impacted by government-imposed lockdowns that shuttered businesses and curtailed consumer activity.
- As countries ease lockdown measures, the most prominent risk is that the virus regains traction and forces economies into a second closure.
- Massive global fiscal and monetary stimulus programs were announced, aimed at providing relief to households and businesses and ensuring the proper functioning of financial markets. In the U.S., the total stimulus so far amounts to more than 35% of GDP.
- We have slashed our growth forecasts and they are now mostly below-consensus. Our base case outlook for the U.S. is for a 7.1% decline in 2020 GDP, though we recognize a variety of scenarios are possible.

Fixed Income

- Global central banks supplied substantial monetary support by slashing short-term interest rates and expanding balance sheets by trillions of dollars.
- The U.S. 10-year Treasury yield fell to an all-time low of 31 basis points as investors sought safe havens and central banks ramped up bond buying.
- The current low level of sovereign-bond yields is set to deliver unimpressive returns over our 1-year forecast horizon and possibly beyond.
- Corporate bonds offer higher yields and widening credit spreads caused by the crisis have boosted their return potential. We think exposure to credit, if properly managed, could enhance portfolio yields and total returns.

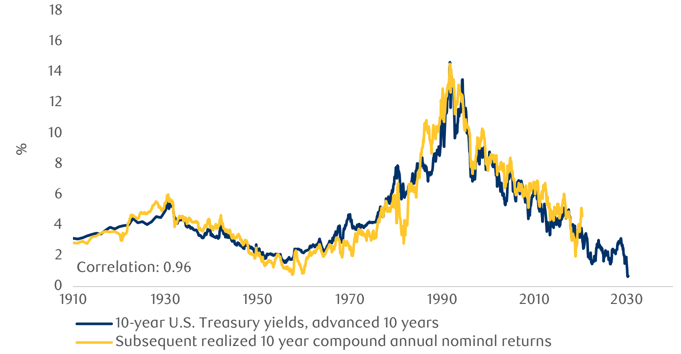
Weighted average consensus real GDP

Growth estimates for major developed nations



Note: As of May 2020. Source: Consensus Economics

U.S. 10-year Treasury note and returns



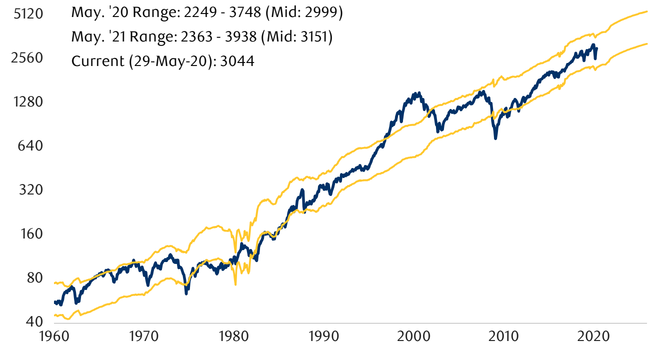
Note: As of May 29, 2020. Source: Deutsche Bank, Haver Analytics, RBC CM

Equity Markets

- Major market indexes fell more than 30% in a matter of weeks in February and March as volatility surged. Our global equity composite fell to its largest discount to fair value since 2012 but the S&P 500 Index and others have already recovered two-thirds of their losses.
- Our scenario analysis suggests further modest upside for stocks is possible as long as investor confidence stays elevated, inflation and interest rates remain low, and earnings ultimately rebound to their long-term trend.
- Our view that stocks will provide superior returns compared to sovereign bonds, and that sovereign bonds will not provide the income or risk-diversifying properties of the past 40 years have led us to adjust the strategic neutral weights in our multi-asset and balanced portfolios in favour of stocks at the expense of bonds.

S&P 500 equilibrium

Normalized earnings & valuations



Note: 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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