RBC Global Asset Management

One-minute market update

SUMMER 2021

The latest wave of COVID-19 infections is now retreating, allowing governments to incrementally reopen their economies. Strong growth, surging corporate profits and elevated investor confidence have helped to extend the bull market and boost global equities to record highs.

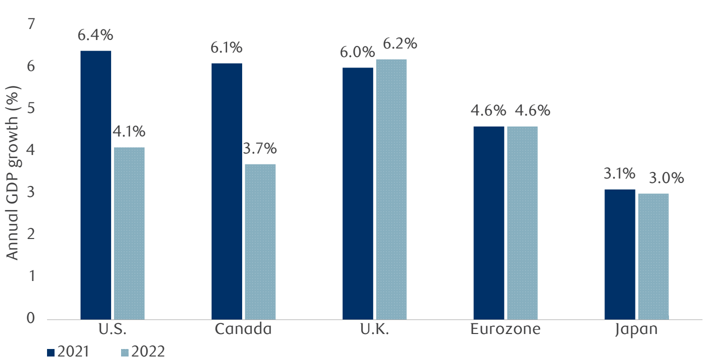
Economy

- As containment of the virus improves and economies gradually reopen, considerable pent-up consumer and business demand is being unleashed and permanent scarring from the pandemic so far appears to be limited.
- Risks that may challenge our positive base case scenario include further waves of virus infection, fiscal hangover in 2022 and the withdrawal of central banks stimulus.
- Another key risk is that Inflation has spiked higher but we believe much of the increase is temporary.
- Our economic forecasts are mostly at or slightly above the consensus, a marginally less bullish positioning than in past quarters.

Fixed Income

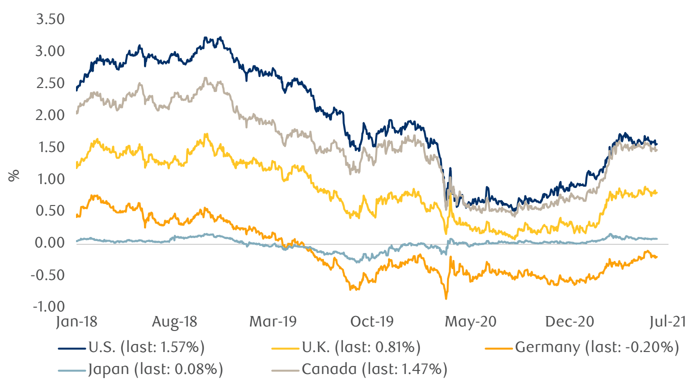
- Much of the good news related to vaccines, a reopening of economies and firming inflation was priced into the bond market in late 2020 and early 2021, and so there was little impetus for yields to rise further in the past quarter
- Our models indicate the acute valuation risk evident in the sovereign-bond market immediately following the pandemic's declaration was greatly alleviated by the rapid rise in yields over the past year.
- In the shorter term, we see 10-year U.S. government bond yields peaking around 1.75% over the next year and, as a result, expect low returns in sovereign bonds.

RBC GAM GDP forecast for developed markets



Note: As of May 27, 2021. Source: RBC GAM

10-year government bond yields



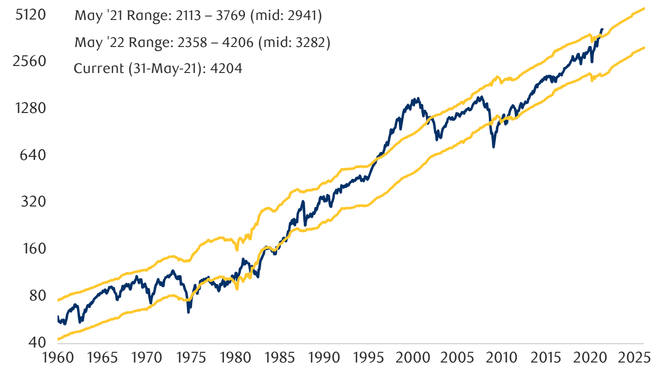
Note: As of May 31, 2021. Source: RBC GAM

Equity Markets

- Global equities extended their gains in the past quarter with most major indexes reaching record levels, and our global composite of equity-market valuations is now at its highest level since before the 2008/2009 financial crisis.
- Return potential improves as we move outside of North America to regions such as Europe, Japan and emerging markets, all of which offer more attractive valuations.
- While the S&P 500 Index may currently appear expensive, it could grow into these elevated valuations fairly quickly as a surging economy lifts revenues and earnings.
- We think a significant overweight in equities is appropriate in this environment. That said, we recognize U.S. equity valuations are now full and have therefore trimmed our overweight equity exposure by 50 basis points from last quarter, sourced entirely from U.S. equities.

S&P 500 equilibrium

Normalized earning and valuations



Note: Fair value estimates are for illustrative purposes only. The bands' boundaries capture one standard deviation of movement above and below this estimate. 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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