RBC Global Asset Management

One-minute market update

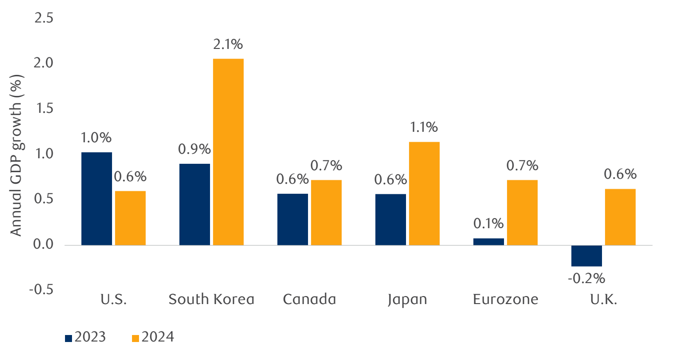
SUMMER 2023

The global economy is slowing as higher borrowing costs and tighter financial conditions weigh on activity. At this late stage in the business cycle, short-term interest rates are likely nearing their peak, bonds are more appealing than they've been in a long time, and equity markets could be vulnerable to correction should a recession materialize.

Economy

- The economy has been resilient so far this year, but the higher interest rates have increased cost of borrowing, diminished risk appetite and emerged as a root cause of banking-sector stress.
- Additional headwinds include waning business confidence, shrinking global trade, growing consumer debt and reduced government spending following the U.S. debt-ceiling resolution.
- We expect that inflation can continue falling and our inflation estimates are below the consensus but achieving the 2% inflation target could take considerable time.
- We anticipate that developed-world economies will fall into a mild to middling recession within the next few quarters.
- A mild recession could help cool inflation, prompt central banks to cut interest rates and set the stage for the next durable economic expansion.

RBC GAM GDP forecast for developed markets



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

Fixed income

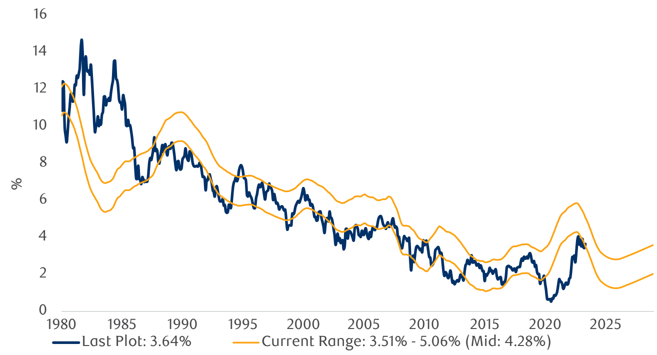
- It appears that the relentless increase in bond yields from last year has eased and investors have been conditioned to a higher interest-rate environment.
- As inflation soared, investors embedded a higher inflation premium into bonds and our models suggest the reverse will be true as inflation moderates.
- Over the longer term, we still expect real interest rates to rise slightly above zero as savers will ultimately need to be compensated for saving instead of spending.
- We look for the 10-year Treasury-bond yield to fall to 3.25% over the next year, which would generate close to a 7% total return with minimal valuation risk.

Equity markets

- The stock-market rebound since late 2022 was propelled by easing investor concerns regarding inflation and about the sustainability of economic growth.
- The rally was initially broad-based across regions but returns in recent months have been concentrated in a narrow set of U.S. mega-cap technology stocks.
- We would prefer to see expanding breadth alongside a rising stock-market index to confirm a healthy, durable, bull market.
- The bigger threat to the stock market is now the sustainability of corporate profits which have been struggling and will be vulnerable if the economy falls into recession.

U.S. 10-year T-Bond yield

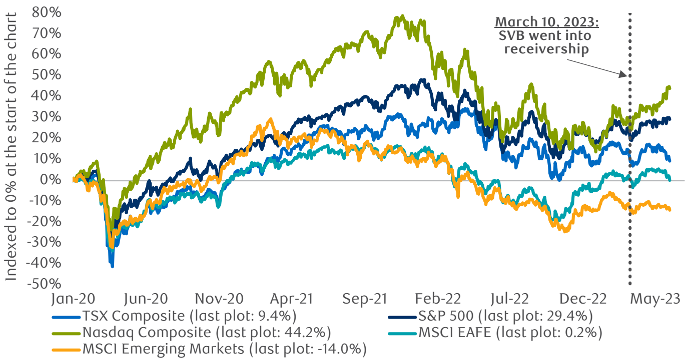
Equilibrium range



Note: As of May 31, 2023. Source: RBC GAM, CM

Major equity market indices

Cumulative price returns indices in USD



Note: As of May 31, 2023. Price returns computed in USD. Source: Bloomberg, RBC GAM

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Publication date: June 15, 2023

100757 (06/2023)