

RBC Global Asset Management

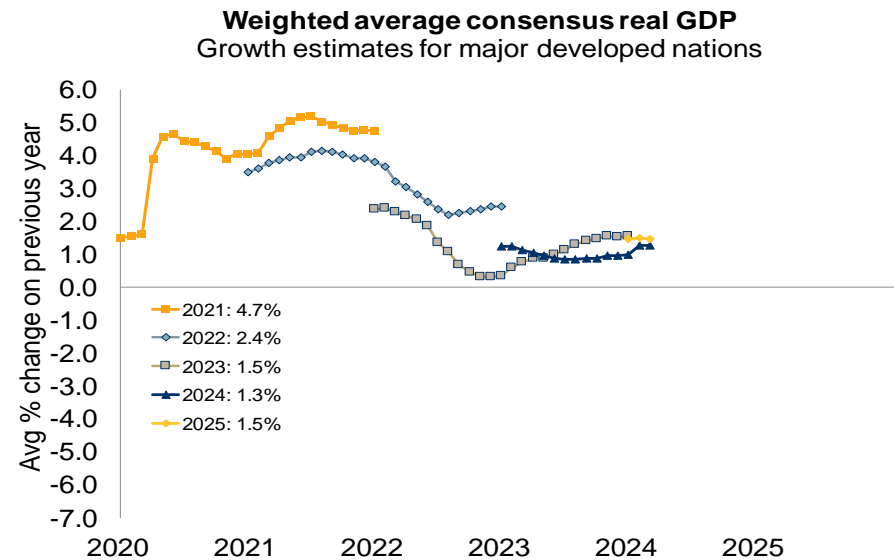
Capital markets update

April 2024

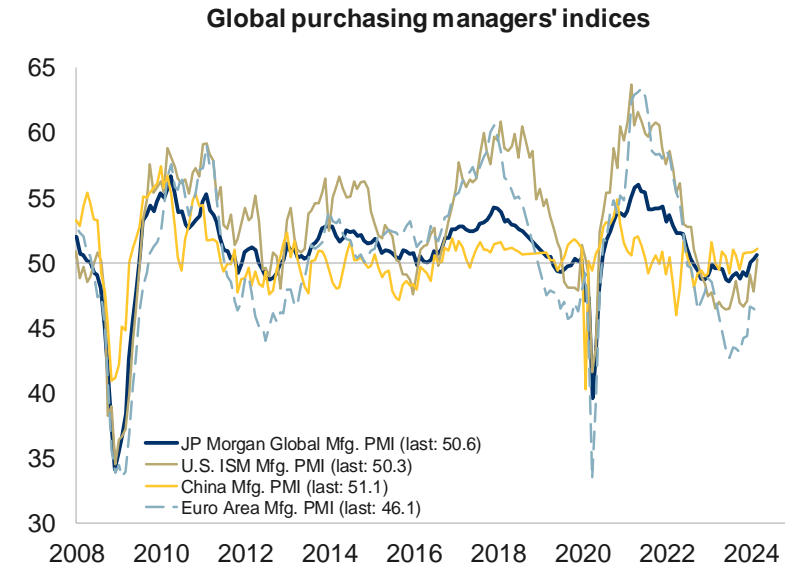


The economy

- Economic data has been resilient, recession risks have diminished, and inflation has cooled sufficiently for central banks to consider cutting policy rates at some point this year. In this environment, sovereign bonds are appealing, and while stocks have surged as investors embraced the improved odds of an economic soft landing, demanding valuations in U.S. large-cap stocks may limit upside potential.
- A variety of factors have motivated us to upgrade the likelihood of a soft landing for the U.S. economy to 60% from 40% last quarter, and we now look for modest growth in the first half of 2024 instead of recession. We have also boosted our 2024 forecast for real U.S. GDP growth to 2.4% from 0.3% and project further moderate growth in 2025 that could be even stronger if central-bank rate cuts unfold. Our 2024 growth forecasts are now roughly in line with the consensus for most countries, and even slightly above for the U.S. and Canada. For emerging markets, our growth forecasts have also been raised slightly to reflect the positive effect of healthier developed-world economies. Although the soft-landing scenario is now the most probable outcome, we recognize that a recession remains possible given that higher rates represent an economic headwind, mostly affecting regions outside of the U.S., and several important recession signals remain in place.



Note: As of March 2024. Source: Consensus Economics

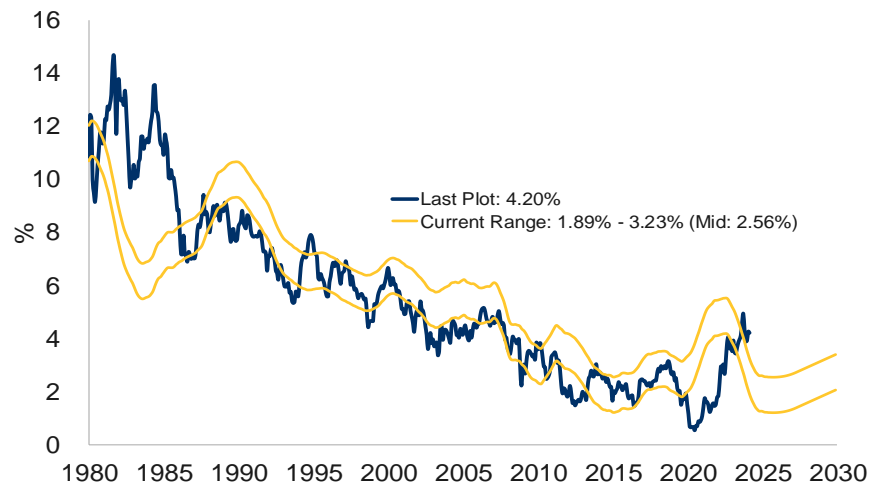


Note: As of March 31, 2024. Source: Macrobond, RBC GAM

Fixed income outlook

- The period of aggressive central-bank rate hikes ended last year, with a small but growing number of central banks, all of them in emerging markets, starting to ease monetary conditions. Major developed-world central banks are now in a position to do so for several reasons. Inflation has dropped significantly and most major economies have recorded uncomfortably slow growth over the past year. We forecast five 25-basis-point policy-rate cuts in the U.S. over the next year, although we recognize that the timing and pace of monetary-policy adjustments will ultimately be guided by the path of the economy and inflation.
- Bonds are near their most attractive levels in two decades after selling off from a state of overvaluation that had not been seen in 150 years. The fixed-income bear market of 2020-2023 rapidly pulled yields above 5% for the first time since 2007 and erased all of the overvaluation that had built up since the 1980s, which was accentuated by the pandemic. While the U.S. 10-year yield has declined from its October 2023 peak, at 4.25% it remains near the upper end of the historical range excluding the 1970s and 1980s, a period that featured extreme inflation. Our models confirm that sovereign bonds are attractive, with yields well above their equilibrium levels in major markets excluding Japan, where interest rates are still subject to central-bank efforts to suppress yields. Taking everything together, our models suggest that the appropriate level for bond yields is lower, as long as inflation continues to fall as we expect. In addition to the positive fundamental backdrop, there are a variety of bullish technical measures that suggest a solid outlook for bonds. Our own forecast is for a 4.00% yield on the U.S. 10-year bond a year from now, which would result in mid-to high single-digit returns over the year ahead and, importantly, with little valuation risk.

U.S. 10-year T-Bond yield
Equilibrium range

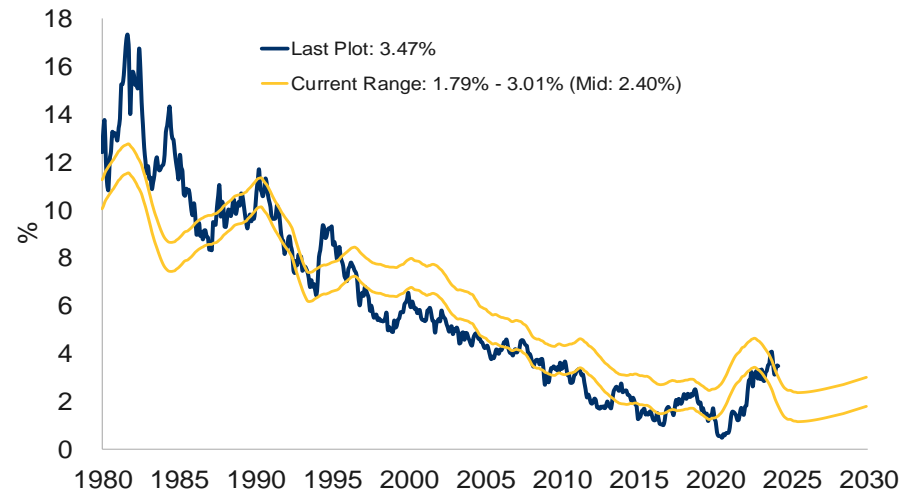


As of March 2024.

Source: RBC GAM

RBC Global Asset Management

Canada 10-year bond yield
Equilibrium range



Source: RBC GAM



Fixed income forecasts

Policy Rates	Current March 2024	Forecast February 2025*
U.S	5.50	4.25
Canada	5.00	4.00
Europe	4.00	2.25
United Kingdom	5.25	4.25
Japan	0.07	0.10

Long-term interest rate	Current March 2024	Forecast February 2025*
U.S. 10-Year Bond	4.20	4.00
Canada 10-Year Bond	3.47	3.50
Germany 10-Year Bond	2.30	2.35
United Kingdom Gilt	3.93	4.00
Japan 10-Year Bond	0.72	1.00

Source: RBC GAM, Bloomberg. Rate definitions: U.S.= Fed Funds rate; Canada= Overnight rate; Europe = Eurozone policy rate; United Kingdom= Base rate; Japan= Overnight call rate.

* Please note that the forecasts are updated quarterly in March, June, September and December.

Equity markets

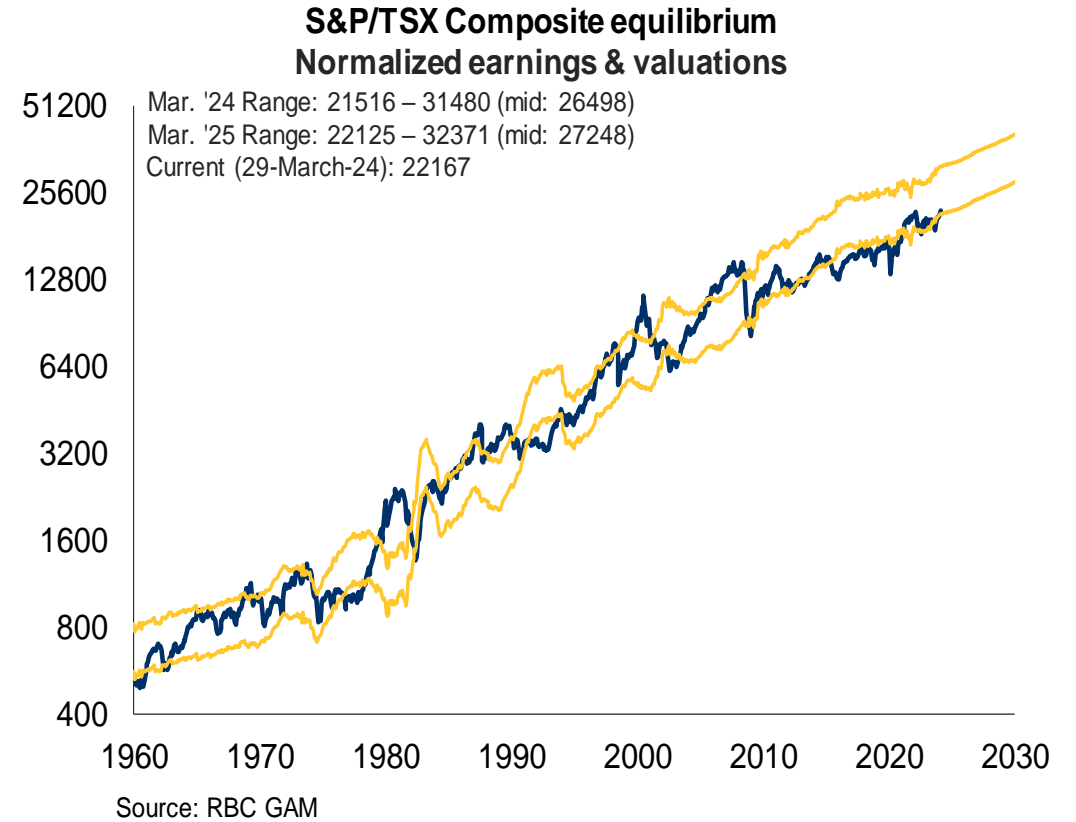
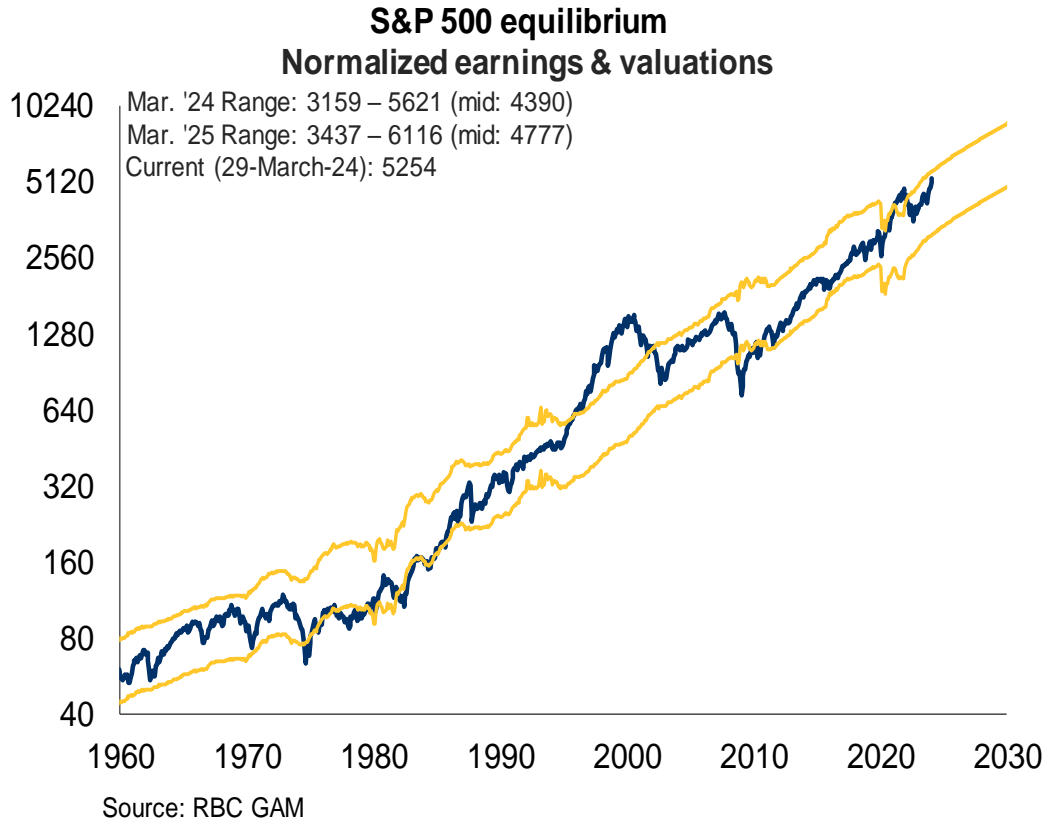
- Global equities have enjoyed a powerful rally in the past quarter, with many major markets reaching record highs. Most of the recent gains, however, have been delivered by a narrow set of mega-cap technology stocks. The “Magnificent 7” in the U.S. was up 82% last year and has risen another 10% so far this year. The equal-weighted S&P 500 Index, which neutralizes the impact of these seven stocks, was up only 11.6% in 2023 and 3% this year, which is more consistent with returns in the rest of the world.
- Given more moderate returns, most major equity markets outside of the U.S. are trading at attractive levels relative to our modelled fair value. With respect to the U.S., many investors are concerned that the “Magnificent 7” is in a bubble given the group’s extraordinary gains. We note that these stocks are benefiting from trends in artificial intelligence and are not necessarily overpriced, as long as their earnings can continue to grow at a fast pace. Our work suggests that the “Magnificent 7” would have to grow their aggregate earnings by 23% each year for the next 15 years to justify their current valuation premium versus the rest of the market. Elevated valuations in U.S. large-cap stocks in general means that achieving decent returns on the S&P 500 will now require that solid earnings growth and heightened investor confidence be sustained.

Equity market	Current March 2024	Forecast February 2025*
S&P 500 Index	5254	5200
S&P/TSX Composite Index	22167	22000
MSCI Europe Index	172	175
FTSE 100 Index	7953	7925
Nikkei Index	40369	41450
MSCI Emerging Markets Index	1043	1085

Source: RBC GAM. An investment cannot be made directly into an index. The above does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower. Past performance is not a guarantee of future results. Return data as of March 24, 2024. “Magnificent 7” refers to Meta, Apple, Alphabet, Microsoft, Amazon, NVIDIA, Tesla.

* Please note that the forecasts are updated quarterly in March, June, September and December.

Equity markets



Data as of March 31, 2024. The fair value calculation is the product of the equilibrium price/earnings ratio and the current estimate for normalized earnings. The resulting price level is then standardized by a factor representing the historic relationship of the actual market to its equilibrium level. This generates the “fair value” estimate or mid-point of the band. The bands’ boundaries capture one standard deviation of movement above and below this value. Fair value is the minimum price level consistent with mild inflation/low interest rates in a growing economy. Above-average price appreciation remains a possibility in an environment where ‘normalcy’ is restored. Moreover, opportunity exists as valuations in some big markets still lie below their minimum expected levels. Corrections are always a possibility and valuations will not limit the risk of damage from systemic shocks, but the outlook for equity market returns is generally superior when stocks lie below fair value at the bands’ midpoint. An investment cannot be made directly into an index. The above does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower. Past performance is not a guarantee of future results.



Asset mix

- Balancing the risks and rewards, we are maintaining an asset mix close to our neutral allocation, with a bias to fixed income. Our base case expectation is for the U.S. economy to continue to expand at a moderate pace and for inflation to continue falling at a rate that will allow central banks to cut interest rates at some point this year. Falling interest rates should be supportive of fixed-income assets and, importantly, at higher yield levels, bonds provide greater ballast against equity-market volatility within a balanced portfolio. For these reasons, we have added to our fixed-income allocation over the past several quarters as yields rose, closing our prior underweight position and ultimately moving to a slight overweight as the U.S. 10-year yield approached 5% in the fall of 2023.
- While we remain constructive on stocks over the longer term, we recognize that in the near term, sentiment is extremely optimistic and valuations are demanding such that investors are not being sufficiently compensated for the risk of an adverse outcome.
- As a result, we are maintaining a neutral allocation to stocks. For a balanced global investor, we currently recommend an asset mix of 60.0 percent equities (strategic neutral position: 60.0 percent) and 38.5 percent fixed income (strategic neutral position: 38.0 percent), with the balance in cash.

Global Asset Mix	Benchmark	Past Range	Spring 2023	Summer 2023	Fall 2023	New Year 2024	Spring 2024
Cash	2.0%	1%-16%	1.5%	2.0%	2.0%	1.5%	1.5%
Bonds	38.0%	25%-54%	37.5%	38.0%	38.0%	38.5%	38.5%
Equities	60.0%	36%-65%	61.0%	60.0%	60.0%	60.0%	60.0%

Source: RBC GAM
Actual fund or client portfolio positioning may differ depending on individual investment policies.



Disclosure

This has been provided by RBC Global Asset Management Inc. (RBC GAM) and is for informational purposes, as of the date noted only. It is not intended to provide legal, accounting, tax, investment, financial or other advice and such information should not be relied upon for providing such advice. RBC GAM takes reasonable steps to provide up-to-date, accurate and reliable information, and believes the information to be so when provided. Past performance is no guarantee of future results. Interest rates, market conditions, tax rulings and other investment factors are subject to rapid change which may materially impact analysis that is included in this document. You should consult with your advisor before taking any action based upon the information contained in this document.

Information obtained from third parties is believed to be reliable but RBC GAM and its affiliates assume no responsibility for any errors or omissions or for any loss or damage suffered. RBC GAM reserves the right at any time and without notice to change, amend or cease publication of the information.

This report may contain forward-looking statements. The words “may,” “could,” “should,” “would,” “suspect,” “outlook,” “believe,” “plan,” “anticipate,” “estimate,” “expect,” “intend,” “forecast,” “objective” and similar expressions are intended to identify forward-looking statements. Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events. The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors.

For fixed income, yield stated is yield to maturity unless stated otherwise.

Publication date: April 3, 2024

® / ™ Trademark(s) of Royal Bank of Canada. Used under licence. © RBC Global Asset Management Inc. 2024