RBC Global Asset Management

Insights

RBC Global Portfolios

Winter 2023

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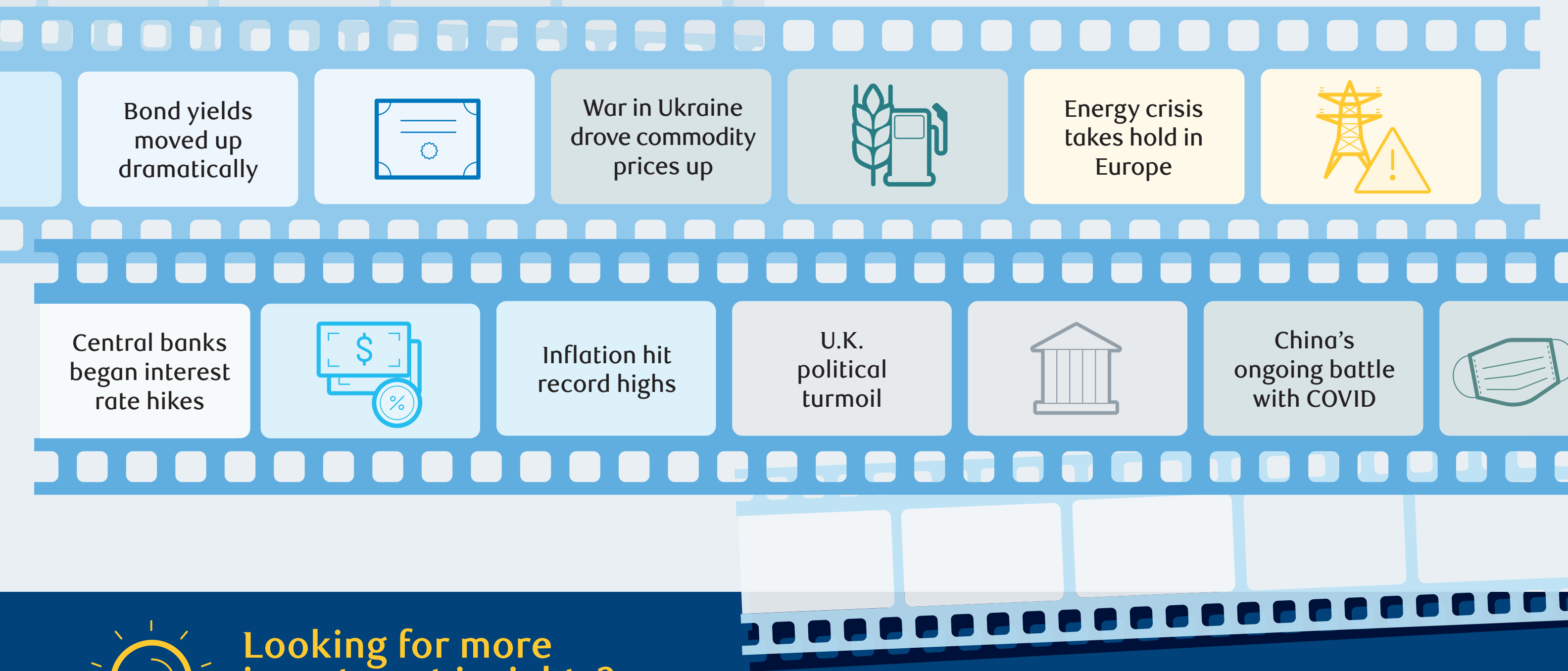
Reviewing 2022 and looking ahead to 2023

Movies can leave a significant impression on audiences. They can delight, scare, surprise and everything in between. Similarly, the twists and turns in financial markets can send investor emotions into a variety of directions. This quarter we review how markets moved in 2022 and provide an outlook for what may be ahead.

Scenes from last year



Uncovering opportunities as markets evolve

Market pullbacks can be likened to the unpleasant part of a movie. Market recoveries, however, can be the cheerful part of the film. While each stage of the market cycle has a distinct story and duration, every one unlocks unique opportunities.

2022: An unusual performance

Market turbulence is not new. However, it is rare for both bond and equity markets to weaken at the same time. The last time both bond and equity markets were negative for a full calendar year was more than 50 years ago in 1969.

Calendar years when bonds and equities were both down in past 50 years

Year	Bonds[1]	Equities[1]
1969	-5.0%	-8.5%
2022	-16.4%	-18.1%

Outside of 2022, in the past 50 years...

The number of calendar years bonds have fallen more than -16%[1]

0

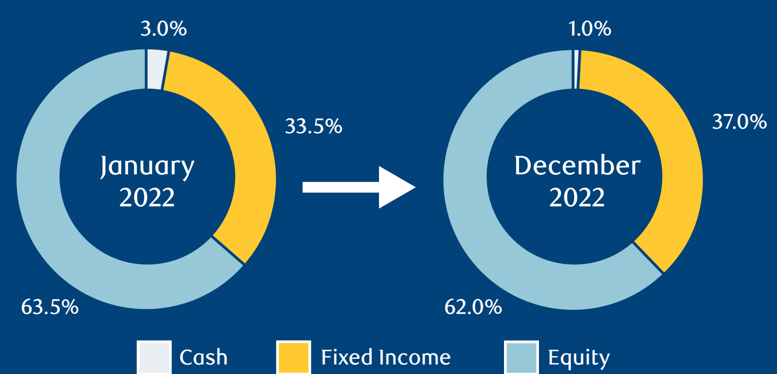
The number of calendar years stocks have fallen more than -18%[1]

3

Staying active through challenging times

2022 was a difficult environment to invest in, as bonds endured the largest sell-off in the last 40 years. But as bond prices moved lower, these challenging conditions unlocked attractive buying opportunities to add to our fixed income exposure. In our view, the higher level of current yields improves forward-looking return expectations for bonds, and enhances their ability to cushion your portfolio in the event of a downturn.

Positioning your portfolio to reflect market changes



Recommended asset mix for a balanced global investor.

[1]Source: Robert J. Shiller, RBC Global Asset Management (RBC GAM). As of December 2022. Bonds represented by U.S. 10-Year Treasury; Stocks represented by S&P 500 Total Return Index (USD).

2023: Under production

Just as movies can keep you guessing as to what's next, financial market fluctuations can leave investors on the edge of their seats. When we determine how to position your portfolio, we analyze the many different factors impacting the economy, and their effect on various asset classes. Here are some possible paths forward for the world's largest equity market based on the outlook for company earnings.

Wide range of potential outcomes for U.S. markets

Source: RBC GAM. Data from January 1, 2019 to December 15, 2022. Last price: 3,896. Outcomes based on different price to earnings and earnings per share projections.

It's all about expectations

Markets are forward looking, and expectations of future earnings influence prices. Earnings can be impacted by a number of forces including inflation and interest rates. Assessing the impact market forces may have on earnings can provide clues about economic health, and the growth of your investments.

- The base case assumes earnings meet analyst expectations, staying in line with current projections for inflation and the path of interest rates. In this case, equities move up slightly.
- The optimistic case considers earnings coming in 5% better than expected. This case assumes inflation will subside precipitously and profits will hold up well, sending markets higher.
- The recessionary case looks at earnings coming in 25% below current expectations, as is the average decline during recessions. This case assumes inflation is more persistent than thought, and interest rates have to move higher than current estimates.

With such a wide range of potential outcomes, we are positioning the portfolios closer to their long-term strategic asset mix. We view this approach as prudent as it aligns portfolios with our longer term view on economic conditions and global markets.

Stay tuned...

The factors around this pullback are different than previous times. However, it can be comforting to know that historically some of the strongest returns have followed tough periods. Although the timing of the bounce-back is unpredictable, it can be swift and have a lasting impact on your portfolio's performance. We consider a wide range of scenarios so we can keep your portfolio well-positioned at all times, including when markets eventually rebound.

For more on RBC GAM's view on the ever-evolving investing environment, please see our New Year 2023 Global Investment Outlook.

Portfolio manager viewpoint

Sarah Riopelle, CFA, Vice President & Senior Portfolio Manager, Investment Solutions

Economic headwinds have intensified as a result of tighter monetary policy and reduced fiscal stimulus. Uncertainty is elevated and there is a wide range of potential outcomes for the economy and financial markets. That said, the 2022 bear market in both fixed income and equities has meaningfully improved return expectations across all asset classes. We note that bonds, at today's higher yields, offer more ballast in a balanced portfolio should the economy enter a downturn. We believe a cautious approach to risk taking remains appropriate in this environment. Our asset mix is positioned with a small overweight in stocks and slight underweight in fixed income given our view that stocks offer superior return potential over the longer term. When stock prices were near their lows earlier in the quarter and technical indicators suggested equities were oversold, we added 50 basis points to our equity allocation, sourced from fixed income.

Markets this quarter[2]

0.1%
Canadian fixed income
FTSE Canada Universal Bond Index

-0.4%
Global fixed income
FTSE World Government Bond Index (CAD hedged)

6.0%
Canadian equities
S&P/TSX Composite Index

5.4%
U.S. equities
S&P 500 Index

15.7%
International equities
MSCI EAFE Index

8.2%
Emerging market equities
MSCI Emerging Markets Index

For our complete New Year 2023 Global Investment Outlook, please visit rbcgam.com/gio

[2] Source: Bloomberg. As of December 31, 2022. All returns are in C$ except where indicated. Canadian, U.S., International and Emerging Markets index returns are total returns. 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.

We thank you for your ongoing trust in continuing to hold RBC Global Portfolios as part of your investment plan. If you have any questions or comments, please contact us or your advisor.

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