

One-minute market update



FALL 2021

The economic rebound from last year’s deep recession is now behind and some of the extreme dislocations that resulted from the pandemic are moderating. While the economy is slowing, growth remains robust and consumers are well positioned to support the expansion. Bond yields remain unsustainably low and we continue to prefer equities as surging corporate profits have pushed the bull market to new highs.

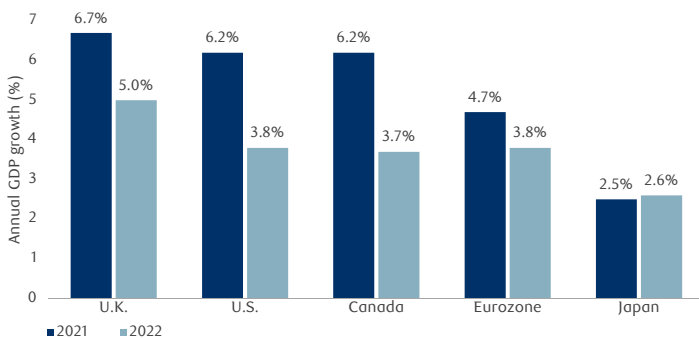
Economy

- The virus remains a key risk to the economy as the rapid spread of the delta variant is causing a rise in infections throughout the world and challenging economies.
- Tremendous fiscal and monetary stimulus was delivered during the pandemic but the need for this support is less obvious and a reversal would be a headwind for growth in 2022.
- We have dialed down our growth forecasts for 2022 and are now slightly below the consensus.
- Even with our slightly less cheerful view, economic growth is still expected to be quite good and countries that suffered deeper recessions have the potential for even stronger growth.

Fixed income

- Global bond yields fell significantly in the past quarter amid slowing growth and the expectation that central banks would maintain accommodative monetary policies.
- Our models show significant valuation risk exists in the sovereign-bond market and the odds, in our view, are tilted in favour of yields moving higher.
- Real, or after-inflation, rates of interest are deeply negative, suggesting that savers are subsidizing spenders, a situation that we don’t think can persist.
- We expect the U.S. 10-year yield to climb to 1.75% from 1.31% over our one-year forecast horizon, which would result in a slightly negative return.

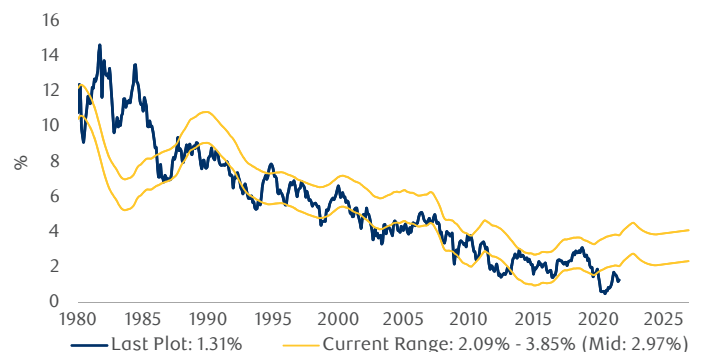
RBC GAM GDP forecast for developed markets



Note: As of August 06, 2021. Source: RBC GAM

U.S. 10-year T-bond yield

Equilibrium range

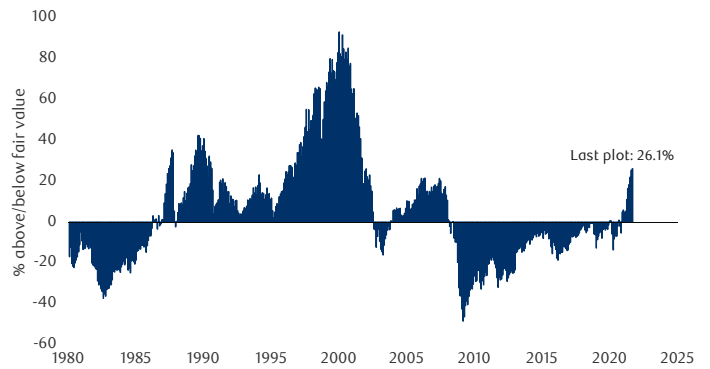


Note: As of September 1, 2021. Source: RBC GAM, RBC CM

Equity markets

- Global equities continued to march higher, rising to records on elevated investor confidence and surging profits.
- The rapid increase in stocks has pushed our composite of global valuations to its most expensive reading since the late 1990s technology bubble, but it remains considerably below the all-time peak.
- Although valuations are elevated, we think stocks can still deliver modest returns given low interest rates, transitory inflation and sustained corporate-profit growth.
- We look for mid-single-digit gains in North American equities, with slightly better return potential elsewhere over the year ahead.

Global stock-market composite Equity-market indexes relative to equilibrium



Note: As of August 31, 2021. GDP-weighted average of RBC GAM fair value models for a variety of countries. 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

Disclosure

This document is provided by RBC Global Asset Management (RBC GAM) for informational purposes only and may not be reproduced, distributed or published without the written consent of RBC GAM or its affiliated entities listed herein. This document does not constitute an offer or a solicitation to buy or to sell any security, product or service in any jurisdiction; nor is it intended to provide investment, financial, legal, accounting, tax, or other advice and such information should not be relied or acted upon for providing such advice. This document is not available for distribution to investors in jurisdictions where such distribution would be prohibited.

RBC GAM is the asset management division of Royal Bank of Canada (RBC) which includes RBC Global Asset Management Inc., RBC Global Asset Management (U.S.) Inc., RBC Global Asset Management (UK) Limited, RBC Global Asset Management (Asia) Limited, and BlueBay Asset Management LLP, which are separate, but affiliated subsidiaries of RBC.

In Canada, this document is provided by RBC Global Asset Management Inc. (including PH&N Institutional) which is regulated by each provincial and territorial securities commission with which it is registered. In the United States, this document is provided by RBC Global Asset Management (U.S.) Inc., a federally registered investment adviser. In Europe this document is provided by RBC Global Asset Management (UK) Limited, which is authorised and regulated by the UK Financial Conduct Authority. In Asia, this document is provided by RBC Global Asset Management (Asia) Limited, which is registered with the Securities and Futures Commission (SFC) in Hong Kong.

Additional information about RBC GAM may be found at www.rbcgam.com.

This document has not been reviewed by, and is not registered with any securities or other regulatory authority, and may, where appropriate and permissible, be distributed by the above-listed entities in their respective jurisdictions.

Any investment and economic outlook information contained in this document has been compiled by RBC GAM from various sources. Information obtained from third parties is believed to be reliable, but no representation or warranty, express or implied, is made by RBC GAM, its affiliates or any other person as to its accuracy, completeness or correctness. RBC GAM and its affiliates assume no responsibility for any errors or omissions.

Opinions contained herein reflect the judgment and thought leadership of RBC GAM and are subject to change at any time. Such opinions are for informational purposes only and are not intended to be investment or financial advice and should not be relied or acted upon for providing such advice. RBC GAM does not undertake any obligation or responsibility to update such opinions.

RBC GAM reserves the right at any time and without notice to change, amend or cease publication of this information.

Past performance is not indicative of future results. With all investments there is a risk of loss of all or a portion of the amount invested. Where return estimates are shown, these are provided for illustrative purposes only and should not be construed as a prediction of returns; actual returns may be higher or lower than those shown and may vary substantially, especially over shorter time periods. It is not possible to invest directly in an index.

Some of the statements contained in this document may be considered forward-looking statements which provide current expectations or forecasts of future results or events. Forward-looking statements are not guarantees of future performance or events and involve risks and uncertainties. Do not place undue reliance on these statements because actual results or events may differ materially from those described in such forward-looking statements as a result of various factors. Before making any investment decisions, we encourage you to consider all relevant factors carefully.

® / ™ Trademark(s) of Royal Bank of Canada. Used under licence.
© RBC Global Asset Management Inc. 2021

Publication date: September 15, 2021